
European Commission
Systems Thinking for European Structural and Investment Funds management
Guide to process evaluation and lean fund management
Technical Dossier no. 5
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DIRECTORATE GENERAL FOR EMPLOYMENT, SOCIAL AFFAIRS AND INCLUSION

Contents

SUMMARY

This guide to process evaluation and lean fund management outlines the perspective of Systems Thinking in the management of EU Structural and Investment Funds (ESIF). It is based on practical experience of applying the approach described in this volume, accumulated mainly in the Czech Republic. While the operational programmes process vast quantities of information from both applicants and beneficiaries, there has never been a major evaluation of the process of administrating ESIF either in the Czech Republic or in similar countries.

This publication takes inspiration from the methodological recommendations articulated by John Seddon and his colleagues, known as the *Vanguard Method*. The approach is client-driven. Its core idea is that when the functioning of service organisations is designed, an analytical phase should precede decision-making. The *Vanguard Method* makes it possible to identify which of the organisation's characteristics have an impact on aspects such as relations with clients, administrative burden and performance.

Beyond introducing the analytical steps as such, this publication provides examples of pilot tests of this method in the Czech Republic as carried out under the Human Resources and Employment and the Technical Assistance operational programmes (OPs). These programmes are, to the authors' knowledge, rather similar to many OPs in the cohesion countries.

The *Vanguard Method* compares the management approaches commonly used in Western countries. These very often include elements of two entirely different and often contradictory sets of assumptions about how organisations should work. Key elements of both sets of assumptions were initially developed by the motor industry. The "command and control", management thinking that is widely used in Western countries originated in the Ford automotive company. It is now one of the main management methods used by large companies in a number of sectors including IT and telecommunications. It has made its way to public organisations through the *New Public Management* thinking. Another type of management thinking was adopted by the Toyota motor company based on entirely different assumptions about the organisation's functioning. Where "command and control" management thinking is applied, it is very difficult to adapt to variation in demand. Yet varying demand is typical in the service sector. Seddon's *Vanguard Method* enables organisations to better understand variability in demand, and respond to it more effectively.

The cornerstone of the method discussed is an analytical phase called "check" which builds on six basic methodological recommendations. Once all six steps are taken, a "planning and introducing the changes" phase follows. It is then necessary to repeat the analytical phase. The method is cyclical and relies on a never-ending process of learning.

The first step of the analytical phase consists in defining the purpose of the organisation from the client's perspective. A proper definition of purpose provides an answer to the question of why the organisation exists and to whom and how it brings added value.

The method looks at the organisation "from the outside in". It is therefore essential to continuously monitor the nature of demand. What do clients expect from the organisation? What matters to them and what is the maximum added value they can get from the organisation? What, on the other hand, are the clients dissatisfied with? How often do situations occur when they are dissatisfied and what is the cause of this? The second analytical step provides answers to these questions.

The method's third step consists in extracting useful information from the already available data. It offers the possibility to reassess what needs to be measured and how to do it purposefully. Measurement generally leads to actions within the organisation and improves the organisation's capability. It is therefore necessary to measure what matters to clients and what helps employees provide a better service.

After assessing the usefulness of the measures designed in the organisation, the next step is to analyse the work carried out. From the client's perspective the only work that matters is that which contributes to fulfilling her/his requirements. Organisations also carry out activities that are unrelated to what the clients require from them. The performance of these activities produces neither a product nor a service, and takes up a significant portion of the organisation's resources that could be used for activities

important to clients instead. An ideal situation is when the organisation does exclusively what matters to the client and the service is provided seamlessly with no unnecessary administrative burdens.

The analytical findings of the previous steps have to be interpreted in the light of the system conditions of the organisation. The system conditions – which include job allocation, decision-making powers, the allocation of tasks, the setting out of rules and measures and the allocation of resources – directly influence the features of the organisation examined in the previous steps. The organisation can increase its performance when it successfully identifies the system conditions that are crucial determinants of current performance.

The last step of the method consists in identifying the management assumptions that were used to create the organisation's system conditions. This step is absolutely necessary. Without it only partial improvements can be achieved within the existing management assumptions. The *Vanguard Method* suggests a switch in focus from the clients' assumptions to those of management. This makes it possible to identify the assumptions in management thinking that need to be changed for the organisation to bring more added value to its clients.

After the analytical "check" phase comes the "plan" phase. Planning means thinking about the redesign of the organisation's system conditions based on new management thinking assumptions. The goal is to plan how to eliminate any identified wasted work and how to redesign the organisation so that demand is met in a more purposeful way.

The last phase before the whole cycle starts again is the "do" phase. The new plan created during the previous phases is incorporated into everyday work and the changes become the norm. There is no ideal state for the organisation to be in for number of reasons, for example because of constantly varying demand. After the implementation of the plan, the organisation that really wants to stay in business needs to go through the check phase again and take the cyclical approach of the *Vanguard Method*.

This method is suitable for organisations that deal with regular and predictable demand, but is not limited to these conditions. ESIF organisations regularly process project applications, monitoring reports and applications for payment, and their volume of work can be roughly predicted. We believe that the method can increase the capability of organisations administering the ESIF to fulfil their challenging role. Ultimately the aim is to enhance the benefits of European money for European citizens.

FOREWORD

The purpose of this guidebook is to introduce the Vanguard Method and elements of Systems Thinking to an audience of ESIF management organisations. It is the product of close to two years of studying and testing the method. Pilot studies were carried out within two operational programmes in the 2007–2013 programming period: the Technical Assistance OP and the Human Resources and Employment OP. The first edition of this publication, entitled *Guidebook to Process Evaluation – Toyota Production System for (Public) Service Organisations*, was written mainly for the Czech ESIF implementing structures by a team working within the ESIF National Coordination Authority at the Ministry of Regional Development. The guidebook was discussed and well received by the members of the ESF Transnational Network on Public Administration and Governance in May 2016 in Sofia, Bulgaria. This was, together with the presentation of the topic at the 2017 Annual ESF Transnational Platform conference, the impetus for the authors to update the guidebook to reach a wider European audience and share their inspiration on how to move towards lean fund management.

Before entering into detail, we would like to point out some key aspects that should be kept in mind when using the method.

This publication aims to inspire its readers to move towards systems thinking in ESIF organisations, to ensure that decisions about system setting (the way work is organised in these organisations) are based on useful and valuable information. The publication includes a number of tips, tricks and practical examples, which readers can test in their own organisations. As with every other instrument, it is necessary to avoid certain pitfalls when using the method.

It is absolutely necessary that any team using the Vanguard Method in an organisation also includes managers with decision-making power over how work is done. These managers have to be part of the analytical team. They need to be passionate about the knowledge they can gain using the method. The weight of understanding the organisation from a systems perspective cannot rest solely on the shoulders of the regular employees. If managers merely demand reports with conclusions for their decision-making, the organisation will never significantly increase its organisational capability. The assumptions present in management thinking need to be addressed in order for the changes to be effective. If these assumptions stay untouched, the core problems that the organisation faces will remain the same.

Managers need to study the method and then learn by applying it. The method cannot be understood without testing it in one's own organisation. For the easier part – studying – we offer this publication, which is a short introduction to the method. To gain more inspiration, we recommend visiting the Vanguard Ltd webpage http://vanguard-method.net/ or using the resources listed at the end of this guide.

We hope this guide will inspire and energise readers to gain a deeper understanding of their own organisations and turn it into something more purposeful than it is now.

Vladimír Kváča and Richard Kokeš

1. INTRODUCTION

The European Structural and Investment Funds (ESIF) strongly promote a culture of evaluation. In some EU Member States they are a key instrument in instilling evaluation practices and thinking through the regular evaluations that take place. The European Union legislation for the 2014–2020 programming period puts a stronger emphasis on outcome evaluations. Nevertheless, sound assessment of the processes in the organisations responsible for ESIF remains useful, simply because processes can significantly influence an organisation's capability to achieve the desired results. With this is mind the Evaluation Unit of the Czech National Coordination Authority drew up this *Guidebook to Process Evaluations through Systems Thinking*, also known as the *Vanguard Method* and hereinafter referred to as the VGM.

The guidebook you are now holding in your hands should first and foremost inspire you and evoke questions. Many of these questions are essential for the performance of service organisations. Yet they are not often asked, let alone clearly answered with respect to the ESIF.

The VGM helps provide answers to questions such as:

- Who are the clients of the Managing Authority or the Intermediate Body? The applicants and beneficiaries? The respective ministry or the government?
- What is the actual purpose of the Managing Authority? To ensure the absorption of funds? To create the right conditions for aid beneficiaries so that they can improve the quality of life of EU citizens? Or to take decisions that are safe from an audit perspective and to respect deadlines?
- What do the applicants and beneficiaries actually want? What do they contact the implementation structure for, when, and through what channels? Are some of their suggestions and enquiries pointless? Why is that?
- To what extent is the implementation structure capable of responding to project applications, monitoring reports or applications for payment?
- Which part of the Managing Authority's activities has a true added value for the applicants and beneficiaries of the individual programmes? What is unnecessary in the implementation of the ESIF and blocks the administrative capacity? Why does the system of funds administration look as it does? What should change to improve the ESIF environment?

This publication offers pointers on how to ask the right questions and how to answer them. Finding the answers to these questions is key to improving the performance and quality of service organisations and adding value for the service user.

We are convinced that the VGM is a tool for evaluating ESIF implementation processes and can also serve as a starting point for their continuous improvement. Process improvement should be one of the main objectives of the technical assistance part of the funds. In this respect, the "process" evaluation acts as the outcome evaluation of the technical assistance priority axis. Technical assistance funds are used by the implementation structure to meet its own needs. But even these funds should be used for activities which generate true added value. This handbook will help readers assess the effectiveness of funds spent under technical assistance. The impact of technical assistance lies in its contributing to the effective implementation of the material parts of the programme. It is desirable to change the perception of technical assistance from a minor part of the programme deserving little attention… (Figure 1)

… to a concept of technical assistance which, through its added value, increases the effectiveness and efficiency of the other priority axes and helps them bring positive changes to the quality of life of European citizens (Figure 2).

Figure 1: **Conventional concept of technical assistance – technical assistance as a parallel activity under the operational programme**

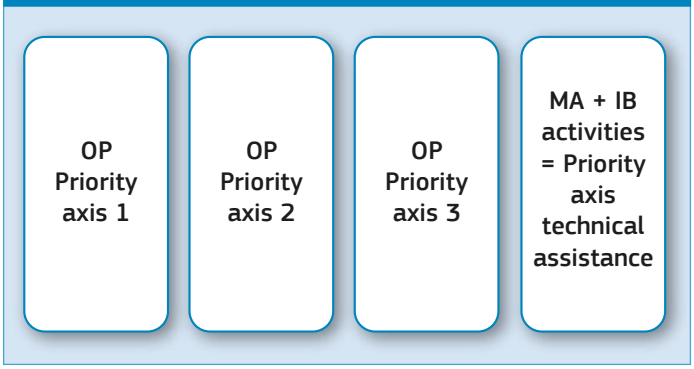
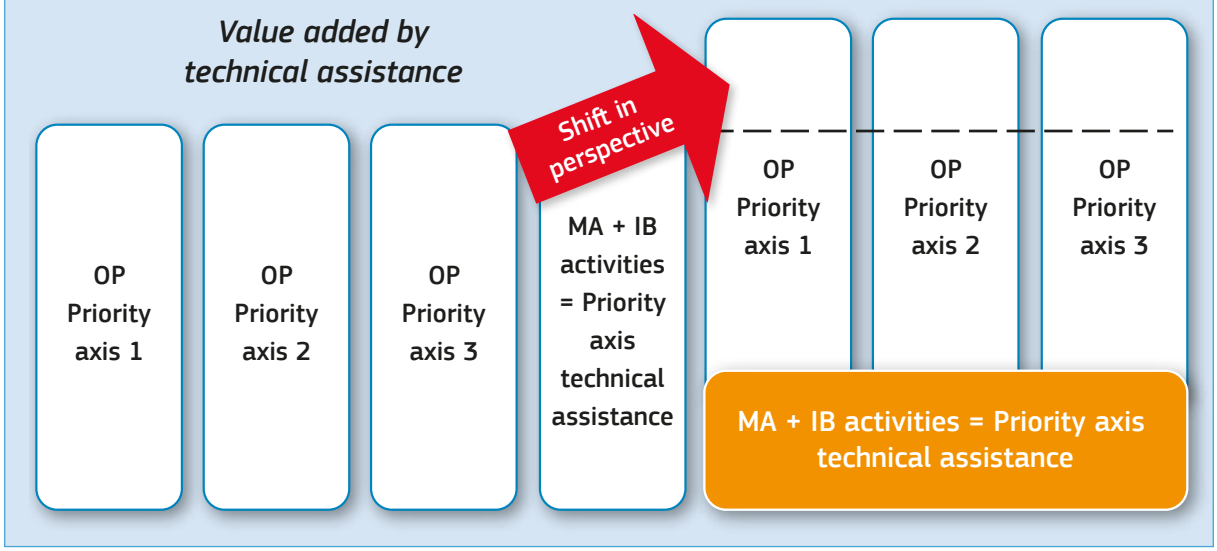


Figure 2: **Technical assistance adding value to activities under the other priority axes**



1.1 Structure of the document

This publication aims to inspire the reader to look at work from a new perspective – one which brings positive changes for the organisation and its employees. The *Systems Thinking* perspective stems from an extremely rich and fascinating theoretical base on which its methodological recommendations are grounded. Nonetheless, this document has been designed as a practical introduction, which is why the theoretical roots are only covered briefly.

The main part of the document is chapter 3, which presents *Systems Thinking* as applied by the UK-based company "Vanguard". Its staff has developed methodological recommendations on how to analyse an organisation in six basic steps. Chapter 3 describes the individual steps as they are presented in the VGM handbooks. The methodological description is supplemented by observations and experiences of this method as applied to the EU structural funds.

In addition to information on the theoretical background of each analytical step, the manual also offers recommendations on what procedure should be adopted when conducting analyses in the workplace. It also includes lessons learnt during previous attempts to apply the method.

Although this manual is not a comprehensive VGM handbook, its authors will appreciate it if its readers are motivated to find out more about the method, whether through further studies or through practical application.

2. ORIGIN AND BASIC PRINCIPLES OF THE VANGUARD METHOD (VGM)

VGM was developed by John Seddon and his team in the United Kingdom. Their basic principle was to adapt the approach used by the Toyota motor company for the provision of services, including public services. The VGM offers managers of service organisations a different perspective for improving the performance and quality of their organisation.

Comparing the two main management lines from the world of the motor industry may seem strange for public administration practitioners, but the original American approach (Ford, Taylor etc.) and the development of management in industry significantly influenced the shape of management in general, including in public administration, in Western countries. Toyota, the Japanese car manufacturer, came up with an alternative vision and has become the largest and most successful car manufacturer in the world despite the challenging conditions that existed in Japan after World War II. John Seddon has exploited the strengths of the *Toyota Production System.* Using information from its application in practice, he developed the so-called *Toyota Production System for Service Organisations*, later renamed the Vanguard Method, which is very suitable for applicable in the world of public services.

A brief comparison of the two schools of thought serves as an introduction to explain the difference between the *Toyota Production System* approach and the traditional Western industrial management approach. Both approaches are currently applied in service organisations, including public services. They are applied through such frameworks as the *New Public Management* on the one hand and the *Vanguard Method* on the other.

2.1 Two different approaches to management in organisations

2.1.1 Fordism/Taylorism

Henry Ford and Frederic Taylor, his senior management strategist, are among the most famous pioneers of management methods. Together, they brought the Ford Motor Company to an unprecedented level of expansion. The aim was to build a factory able to mass-produce goods at low cost. To that end, the production process was broken down into individual activities and specific rules were created for the fulfilment of each activity. Workers no longer needed to know the whole process. They had to specialise and carry out repetitively only one single activity. They needed a skill set for that activity only and everyone responsible for the same activity had to fulfil it in a uniform way. The decision-making was strictly separated from the production. The managers designed, supervised and controlled the whole process. They were responsible for devising the most appropriate production process, so as to increase the quality and reduce the cost. Simple and repetitive tasks were standardised and compliance with those standards was closely supervised.

This approach worked very well at that time. The wages in Henry Ford's factories kept rising and the production costs kept falling. The repetitive aspect of the work, however, meant that the working conditions were unbearable and on average workers only lasted three months in the same job. What made this method a success was the fact that there was little variety in production. As a matter of fact, only one identical model of motor car was manufactured at a time in a given factory. The sales department then made sure to sell the cars and empty the warehouse using discounts and other marketing tools when sales were slow (for more see Seddon, 2005:12-15).

This management model – based on standardised work, supervision of workers to ensure they kept to the standards and a decision-making process separated from work and based on fulfilling pre-defined indicators tied to financial budgets – was then scaled up and applied to Western European companies of the 20th century, as well as to service-oriented companies (examples being the ISO 9001 standard,[1] SMART goals, defined standard periods for various activities, fragmentation of the system of organisations into functional units and so on).

2.1.2 The Toyota Production System as a response to a new type of demand

Taiichi Ohno, who was Toyota's managing director after World War II, looked into how Toyota could develop. He

1 It is a little-known fact that the ISO 9001 standard was based on the older British standard BS 5750 developed to ensure observance of safety standards in the war industry (e.g. in munitions factories). ISO 9001 is more about the safe and consistent implementation of processes than their effectiveness.

compared what he had seen in the Ford factories in the US with the ideas of W. Edwards Deming. Deming, an American, initially failed to have his thoughts put into practice by American companies. His alternative vision of management was, however, taken up by Taiichi Ohno (for more see Seddon, 2005:19-24).

Owing to Japan's economic situation in the post-war period, Toyota was simply unable to apply the American production method, since it required high initial investment. In the US, car manufacturers produced large quantities of the same cars which were stocked to be customised and then sold later on. Toyota introduced a production method that responded directly to demand. The production of a specific car was launched only after an order had been received. There was, therefore, no need to hold massive stocks. The key element in the case of Toyota is the speed at which the whole car is produced – i.e. the order is received from the buyer and the car is produced and supplied as quickly as possible. Put simply, Toyota reduced to a minimum the time between the receipt of the order and the delivery of the car.

The number of car owners increased dramatically after World War II and this had an effect on the number of different specifications which were demanded. Contrary to the American and German car manufacturers, which broke down production into individual functionally specialised steps and gradually made car manufacturing more efficient, Toyota looked for a way to rearrange the production line as fast as possible and concurrently reduce the time between the receipt of the order, the production of a car tailored to the customer's requirements and its final delivery.

Over the years, Toyota developed a number of methods to achieve this goal. The basic tool for improving the quality of production was to delegate a great portion of decision-making powers to the workers who actually made the cars and who at Toyota were not so narrowly specialised. Toyota's workers are not bound by rigid standards; on the contrary, they are encouraged to learn how to do their work better. Managers are, among other things, tasked to collect information on potential improvements from the workers on the production line. They then use this information to change the work load for the better. Toyota works on the assumption that those who actually do the work understand it the best. This approach had a number of advantages compared to the American way, including higher employee satisfaction and more innovation potential. Thanks to this, by the 1950s Toyota was able to rearrange its production line in ten minutes, whereas it took American car manufacturers ten days (Seddon, Caulkin, 2007:13). By the end of the 1980s, Toyota needed less time to produce an entire Lexus (Toyota's luxury brand) and have it ready to be delivered to the client than German car manufacturers needed to rework an already produced standard luxury car to meet a customer's specific needs. (Seddon, 2005:15).

Toyota's head start brought about by a different managerial way of thinking is still evident today. Toyota cars have consistently been the most reliable and best-selling cars. Approximately ten million Toyota cars are sold annually, similar to the number of cars sold by the German car manufacturer Volkswagen. Toyota, however, achieves this result with nearly half the number of employees (594,000 at Volkswagen vs. 345,000 at Toyota) (Statista, 2014, Toyota, 2014).).

2.1.3 The traditional management approach vs. Systems Thinking in service organisations

The two different approaches to industrial management have also made their way to service organisations (particularly corporations). Systems Thinking offers an approach which reflects more strongly the nature of services in the early 21st century. Service organisations are usually faced with a wide variety of client demands, since their services are inevitably co-produced in the interaction between the service provider and the client (Osborne, Strokosch 2013:37). This variety is precisely the aspect that the Ford management method had difficulties with, resulting in services that were of poor quality and inefficient.

The traditional management approach originates in the industrial setting and is known as "command and control". Managers who adhere to the traditional way of working tend to break down the organisation's work into smaller tasks down to the so-called "last screw", while the staff is asked to specialise and perform simple tasks over and over again. Particular attention is given to the supervision of the employees' tasks. The idea is that increasing the performance of individual employees also increases the performance of the organisation as a whole. This segmentation of tasks, however, has a downside. There are transaction costs on information transfer and on the actual flow of intermediate outputs through the system (hand-overs) among functionally specialised workers. As products flow through the system, problems may arise with respect to the compatibility between individual intermediate outputs.

This increases the likelihood of defects and decreases the likelihood of detecting them early on and identifying their causes. Other issues that might arise include the possible rivalry between individual sections or problems being shifted from one section to another.

Traditional management views the organisation as a hierarchical structure where decision-making roles and work performance are strictly separate. The idea is that some employees do the thinking and take decisions on how the work should be done, while the others follow procedures and stick to manufacturing the products or providing the services. Measures serve to monitor whether the managerial decisions are followed by employees. Thus, measurement often takes the form of standards with target values. The managerial staff ensures that the objective set out is achieved and manages subordinates to this end. Reaching the objectives is commonly delegated to the level of the individual, with each employee having his own performance standard based on the assumption that by adding up the performance of individual employees the objective set out by management will be accomplished.

Motivation of employees is external and their performance is assessed arbitrarily in a "top-down" manner which checks the fulfilment of measures laid down by management. This system fails to reflect the abilities of the individual. In case of poor performance bonuses, sanctions or other typical external motivation tools are linked to the target values. These types of organisations find it hard to open up to the external environment and have a limited ability to respond to it. They run with a predefined plan and issues are dealt with in a reactive manner. This is because the objectives are set hierarchically, i.e. by top managers who are detached from the everyday contact of the organisation with the external environment. These managers are far from the so-called "front line".

"Our organisational roles are based on command-and-control thinking. We think of our organisations as top-down hierarchies, we separate decision making from work, we expect managers to make decisions with measures like budgets, standards, activity and so on. We teach managers that their job is to manage people and manage budgets. These are the principles and practices that constitute command-and-control management." (Seddon, 2005:8)

Traditional management is not the right approach for organisations that provide services aimed at satisfying complex human needs because it does not allow them to keep pace with the external environment. Traditional management limits the ability of the frontline employees directly providing the service to satisfy the extremely varied demands and needs of individual clients. This type of management lacks flexibility, and limits the organisation's ability to detect changes in the external environment and respond to them. Managers who are far removed from the external environment take decisions based on information that is not pertinent as it only relates to how workers respond to requirements placed on them by their managers. The VGM provides an answer to these issues.

The ***Toyota Production System*** and the ***Vanguard Method*** approach organisational management in a completely different manner. An organisation is no longer perceived as a hierarchy of specialised tasks that produces a standard output, but rather as an organic system which exists to respond to external demand. Demand is an initiative of the external environment, requiring a response by the organisation and an output with appropriate characteristics. In the case of services, the output can be the satisfaction of a particular need. The perspective of the organisation changes from "top-down" to "outside-in".

The *design of processes* within the organisation is, unlike the traditional functionalist concept of management, determined by:

- understanding the nature of the demand to be satisfied by the organisation
- identifying the type of work needed to satisfy the demand
- monitoring the performance aspects that matter most to clients

Decision-making is integrated with work. This means that decision-making powers are predominantly left to those who directly provide the service (the "front line"). Measurement is a way to obtain information to learn about one's own performance. The idea is to monitor what customers expect from the organisation and how the organisation responds to this. It is about evaluating the organisation's ability to fulfil its purpose, i.e. to what extent the organisation brings added value to its customers' other activities. It also measures the work that does not contribute to fulfilling the organisation's purpose; this could include waiting for approval and unnecessary hand-overs of the file, where too many people spend time reading information or reporting information that is never used for any further steps.

An ESIF example of such waste work could be taken from the Technical Assistance OP. Here the beneficiaries of the programme are various ministries, formally represented by a particular minister. When the government changes, all projects have to formally announce to the Managing Authority the change of the representative of the beneficiary. Thus, each project issued a formal announcement of this change, and each announcement had to be formally checked by the Managing Authority. The substance of these steps is that one ministry is informing other ministry about a publicly known event. This type of document constituted 14% of all project changes in this OP. This could easily be replaced by a simple procedure whereby the Managing Authority makes the necessary change in the monitoring system on its own initiative. The work described in this example is unnecessary, has no value added and should be reduced.

The VGM approach to management relies on the internal motivation of workers to use this information to improve their work. It is therefore necessary that workers are endowed with sufficient autonomy, so that they can use all their abilities in their work.

Managers are there to enable and facilitate the analysis and design of the organisation in such a way that it offers a high-quality service to customers. Managers give less importance to the supervision of rank-and-file employees. Instead, employees who provide the service or make the product are encouraged to share their insight as it is recognised that they are the ones best suited to understand the pros and cons of the processes of which they are a part. The role of managers is to empower the "front line" employees to provide the highest possible quality service for the specific client, to help them improve their performance, and ensure that good working conditions are in place to guarantee employee job satisfaction. The approach points out the benefits the organisation can reap if the "front line" employees are given sufficient autonomy. The organisation can be more open to the external environment, can respond to it with more flexibility and can absorb much greater variability (diversity) of requirements associated with processing the demand.

2.2 Management thinking in public administration

In public administrations, management has traditionally been based on "command and control" thinking. A conventional Weberian public administration system puts the emphasis on the hierarchical arrangement and depersonalisation of individual work positions for the sake of the "honest and fair" performance of duties (Hood 1991:12). Officials are responsible for observing the rules and following clearly defined procedures, the fulfilment of which is controlled. The principles of "command and control" management were reinforced as a result of the implementation of the New Public Management principles in public administration practice all over the world. Managers measure and, based on the measurements, manage and decide – without getting involved in the direct provision of the service. This is supported by the data collected. Decision-making and actual work performance are thus clearly separated. The emphasis on the target values of measured indicators and control of workers in terms of achieving the target values are typical examples of externally-driven motivation. Moreover, the negative effects

Table 1: ***Different principles of traditional "command and control" management thinking and "systems thinking"***

Principles of Command and Control		Principles of Systems Thinking
Top-down, hierarchy	**Perspective**	Outside-in, system
Functional specialisation	**Design**	Demand, value, flow
Separated from work	**Decision-making**	Integrated with work
Outputs, standard objectives related to budget	**Measures**	Capability and variation, related to purpose
Contractual	**Attitude to customers**	What matters?
Contractual	**Attitude to suppliers**	Cooperation, partnering
Manage budgets, manage people	**Management ethic**	Act on the system
Extrinsic	**Motivation**	Intrinsic

Source: Presentation by Alan Marot (Vanguard Ltd, Prague: January 2015)

described in the previous chapter contribute to decreasing internal motivation.

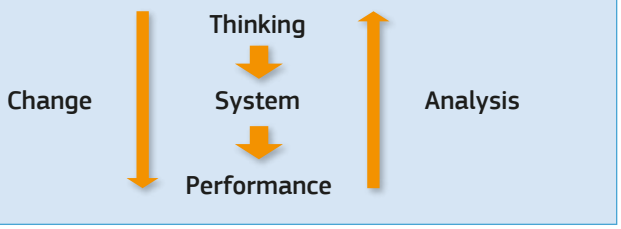
2.3 Application of the *Vanguard Method* to analysis of processes designed for service provision

The VGM perceives the organisation as a system. This holistic perspective assumes that the quality of the organisation is higher than the sum of the qualities of its individual parts. Alternatively, the VGM considers that the performance of the system does not depend solely on its elements (quality of people), but also significantly on their interrelationships and on the system's governing principles. It is therefore necessary to concentrate effort on the system, directly influencing people's behaviour. To perceive the organisation from the input through to the output in an overall manner and to avoid any distortions by focusing only on selected parts.

Where an organisation applies the VGM principles continuously, its ability to adapt and learn increases. Its trust in front-line employees increases, which leads to greater autonomy for them. These employees provide valuable information to their managers in terms of what is important to clients and what the organisation should focus on if it wishes to improve the quality of its services.

Managers are tasked to design the system so that it can cope with the variety of demand. They also monitor where in the organisation the added value is created for customers and what activities have nothing to do with the customers. This information of analytical value is used to identify the system conditions that have an influence on the features of the services provided. However the method does not end here. Each system is constructed based on assumptions concerning the functionality of its specific design. If, however, these assumptions are wrong, a simple redesign of the system will not bring about the desired effects. It is always necessary to go a step further. To be successful managers need to identify and possibly rethink the assumptions on which the organisation's system and the services it provides are based. Only a change in thinking and assumptions can really result in a significant change of the system and its performance. (Figure 3).

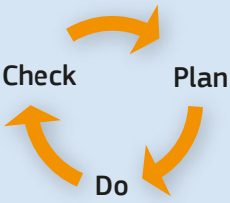
Figure 3: **Basic chart of the Vanguard Method**



Source: Presentation by Alan Marot (Vanguard Ltd, Prague: January 2015)

Once the system is redesigned, data on performance is once again collected and there begins a continuous, never-ending process of learning about one's own performance and what influences this performance (Figure 4). The VGM offers a procedure to approach the analysis of the organisation's performance. Any change to the system, based on redefined assumptions, requires a thorough analysis. After the changes have been implemented, another assessment is needed to establish whether those changes have met the expectations or whether new issues have emerged. Only after a thorough analysis are changes to the system planned, based on the redefined assumptions. After the changes have been put in place, they are assessed again to establish whether they have fulfilled the expectations or whether new issues have emerged. Every cycle carried out is thus conducive to improving the services provided. Nonetheless, one cannot learn the VGM from books. One learns by applying it. Each executed cycle results in improving and specifying the data collection and increases the ability to understand the system conditions and assumptions on which the organisation operates.

Figure 4: **Vanguard Method cycle**



Source: Presentation by Alan Marot (Vanguard Ltd, Prague: January 2015)

The *Vanguard Method* is based on a thorough understanding of the clients' demand. Getting to grips with what really matters to the clients is key in terms of organisational performance. When it comes to operational programmes, the direct clients are the project applicants and the project promoters. Target groups, although not in the direct sphere of influence, should also be seen as clients. More generally, the general public is a client too. Managing Authorities need to understand project promoters as much as possible so they can both address their needs and support their behaviour. This will lead to benefits for those clients not in the direct sphere of influence, like target groups and citizens of individual Member States. To put it simply, when Managing Authorities understand project promoters better, it enables them to influence their behaviour in a way that will benefit target groups.

3. CHECK!

The VGM starts with an analysis of the design of the current system of the organisation. The analysis can either dig deep to achieve a robust understanding of the organisation as a system, or make do with a quick perusal for easy gains. The main idea is to obtain useful data for the results produced and the operation involved, in order to come to an informed decision about the changes that are needed. Decision-making in public administration too often relies solely on the subjective experiences of managers. These are important of course but managers will contribute more to the quality of decision-making if their contributions to the decision-making process are accompanied by supporting analytical materials. Too often changes to the design of an organisation's processes are carried out without an in-depth analytical phase. The risk is that decisions taken without analysis will fail to bring about the expected changes due to the fact that the assumptions behind these decisions are not challenged.

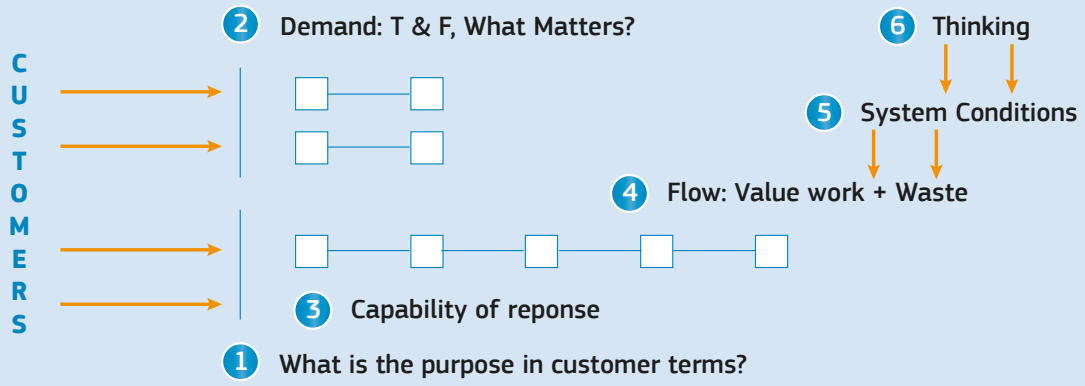
The VGM looks at the purpose of the organisation from the customers' perspective. This step is essential since the following steps of analysis monitor those aspects of the organisation related to the fulfilment of the purpose. The VGM defines the capacity of the organisation to fulfil its purpose as the sum of valuable work and waste (Figure 5). "Waste" represents the activities that do not go towards fulfilling the organisation's purpose and therefore limit its capacity to fulfil its objectives. Waste is generated in two ways. The first is when the organisation has failed to meet the initial demands of the customers and now has to deal with the fact that they come back to get their problems solved. Secondly, waste (unnecessary work) can also be a result of the internal design of the system. An example of this type of waste is the need to complete unnecessary forms for internal purposes. It is common for organisations to spend over 50% of their capacity dealing with waste. The result is that less time and less capacity is then left for truly valuable work. Managers often seek to deal with this by hiring more employees rather than look at what in the design of the system is causing failure demand and waste (unnecessary work).

Figure 5: **Organisational capacity as envisaged by the Vanguard Method**

Organisation capacity = value work + waste

The VGM always starts by launching the broadest possible analytical phase to find out if the organisation is fulfilling customer expectations. It also establishes how much waste the organisation has to process. Next it identifies the system conditions that are causing the waste. These system conditions are always built on a certain background idea of why they should work. A critical assessment of these ideas and their potential rethinking is the key precondition for the success of the system redesign (Figure 6).

Figure 6: **Chart of the Check! phase of the Vanguard Method**



Source: Presentation by Alan Marot (Vanguard Ltd, Prague: January 2015)

Box 1: Who is the ESIFs' client?

The term 'client' can be understood in different ways; here we use it generally for a person, who for his or her own activities uses added value provided by someone else.

The authorities managing ESIF operational programmes have a fairly specific position in the public sector. Their role is to channel the ESIF funding to strategically defined social outcomes. They themselves, however, do not provide any services which would directly influence the life of citizens. They achieve their objective by supporting activities carried out by project promoters. Therefore, Managing Authorities have two types of clients: European citizens, whose quality of life should improve thanks to the ESIF funding, and the project applicants and beneficiaries, without whom the programme objectives could not be achieved.

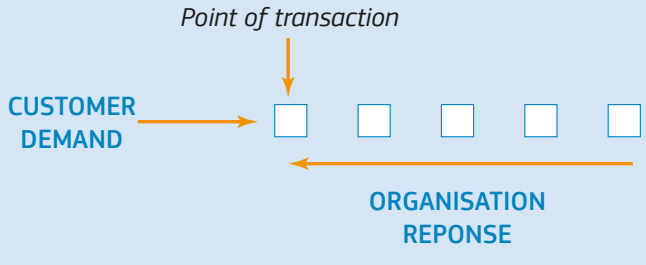
The main task for the organisations administering the operational programmes is therefore to encourage and guide project promoters to accomplish the objectives linked to the everyday life of citizens. Crucial for this task is the ability to identify the aspects of their own performance that help or hinder project promoters to achieve their goals.

3.1 Purpose of the organisation (from the client's point of view)

The application of the VGM is directly related to service organisations. The purpose of a service organisation is basically to satisfy certain needs of its clients. A functioning organisation, and one that is sustainable in the long run, is an organisation that is able to satisfy the needs of its clients. If an organisation cannot plan its future effectively and cannot meet its clients' expectations, it will not last and customers will turn to the competition. When there is no competing organisation, which is often the case in public services, the service fails to address the social issue to address which it was set up.

A primary principle of organisations in public administration is to serve the public interest, instead of particular interests in society. That is why they have more than one client – particular citizens (the unemployed), service providers (for example ESIF beneficiaries), other public organisations like the Public Employment Service, and so forth. Thus most service organisations, whether public or private, have a number of different customers and provide different types of services. This means that their purpose is viewed differently depending on the customer. It is therefore appropriate to design the organisation with each type of customer or each type of service on offer in mind.

Figure 7: **"Outside-in" perspective of the organisation**



Source: Vanguard, 2001a:38

Even when a public organisation does not have citizens as direct clients, it still has their well-being as the ultimate objective. The purpose of organisations of this type is to enable other organisations to bring added value to citizens' lives.

Without considering if a public organisation at least helps other organisations to add value to citizens, such an organisation can easily be a source of waste in the form of complications for clients, a useless administrative burden, etc.

The functioning of a service organisation can be illustrated through three building blocks (Figure 7). The starting point is those people with needs they cannot satisfy on their own. They therefore contact the organisation which they have identified as best placed to help them. They do this through the transaction points designed for that purpose (telephone, counter or e-mail). Once the client has placed his/her request the organisation responds, ideally by satisfying his/her needs. If at the point of transaction the organisation does precisely what matters to the customer, it has delivered a quality service while also ensuring the optimum cost-effectiveness of the system. Thus, the purpose of the organisation is to focus on providing an ideal service (i.e. a service that does what is important to the client) at the point of transaction.

Defining the general purpose of an organisation from the customer's point of view is a never-ending process. Just as the external environment keeps changing, so the customers' needs are constantly evolving. The organisation needs

Box 2: What might a useful approach be for identifying the purpose of the organisation/ the purpose of the process?

Managers need to initiate a reflection on the purpose of the organisation and subsequently the purpose of individual processes. As many employees and clients as possible should get involved in defining the purpose. Employees will be given room to communicate their opinion on why they go to work every day and what makes their work meaningful to them. Continuous mapping of the clients' ideas on the purpose of the organisation helps the organisation keep up with the environment. The VGM authors recommend the following actions (Vanguard, 2001c:59, supplemented with the author's observations):

1. Approach individual employees and ask them what in their opinion is the purpose of the organisation for which they work

How would employees describe what their organisation brings in terms of added value to clients? What particular services add value?

2. Assess the data collected

To what extent are the employees' opinions identical or diverse? What do they stress the most? Do employees define the purpose from the point of view of the customer, or from the point of view of the organisation?

How do the purposes the employees give to the processes of which they are component parts relate to the general purpose of the organisation?

3. Get data on the purpose of individual processes from the clients' point of view

In order to understand what matters to clients, it is necessary to start discussing the services with them while avoiding one's own bias. The data collection should focus mostly on assessing the services from the user's point of view.

Examples of questions to ask clients concerning service quality:

- *What problems would you face if we were unable to provide you with the service you currently use?*
- *Which of our activities do you consider the most useful/useful for your activities?*
- *In addition to the service you require, are we providing you with elements which you do not want and which complicate other activities of yours?*
- *Can you identify what would be helpful when using our service that we are currently not offering you?*
- *Can you identify the cases when we caused problems to you?*
- *How challenging is it to cooperate with us, and why?*
- *Rate our service on the scale from 1 to 10 (10 is the best). If you do not give a ten, why is that?*

4. Define the organisation's purpose and processes from the clients' perspective

Information gathered from employees and clients can serve as a top-quality foundation for defining the purpose of the organisation and of individual processes. Nonetheless, it is essential to view the purposes as fairly dynamic. They will certainly change, based on either a better understanding of the customers' demands, or on ideas emanating from employees, or on changes to the external environment.

to continually question its purpose as this allows for an ongoing reflection on the relevance of the organisation's design. Gathering data on a regular basis on what matters to clients in terms of service provision and how to provide the best customer service is equally important. This allows the organisation to detect changes in the environment and to adapt to them. Another important aspect is to ensure that the organisation's employees are involved in defining its purpose. In this way the organisation reflects what matters to the employees and motivates them in their everyday activities. This promotes teamwork, sharing the purpose and the feeling of mutuality. Once the purpose is defined it becomes the starting point for all decision-making in the organisation. If the employees are not involved in discussing the organisation's purpose they will come up with their own interpretation of their role in the process, which then determines their behaviour in a potentially problematic way. Determining the purpose also makes it possible to identify those activities and the type of work which contribute to the overall objective of the organisation – and those that are in fact unnecessary.

3.2 Value and failure demand: how to understand your work from the client's point of view

The second step of the Vanguard Method is partly a routine and partly an analysis of the relationship between the clients of a particular service and the service organisation. The VGM offers two analytical perspectives

Box 3: Our comments on seeking the purpose of organisations active in the ESIF environment

Managing Authorities and Intermediate Bodies are organisations whose declared purpose is "to approve eligible projects which are in the public interest". Sometimes this purpose is elaborated into more broadly articulated mission statements or visions:

"We feel that the purpose of our work is not only the smooth administration of EU funds. We also feel we are co-responsible for the implementation of quality projects that bring benefits to citizens and visitors of the Czech Republic. (Integrated Regional Operational Programme, 2014)

"We successfully develop and manage programmes that use ESF resources. We support meaningful projects that contribute to a better employability of people on the labour market, the adaptability and competitiveness of enterprises, and a higher quality of public services. We focus on the long-term effects of programmes and projects, we manage the programmes by results. We consistently train a qualified, stable and motivated working team. (...) We are open, transparent, communicative." (Czech Ministry of Labour and Social Affairs, 2011)

"Based on permanent partnership thinking the PMO [programme management organisation] challenges – with EU and national resources – organisations to initiate actions that sustainably improve the functioning of the labour market. The PMO acquires and shares the knowledge to contribute to solutions for today and tomorrow." (Vision for the ESF Agency Flanders, in Wauters, 2012:81).

In practice, the positive objective of the organisation is reduced to the de facto purpose of "justifying decisions (vis-à-vis auditors), following deadlines and maximising absorption". Despite the efforts to create a common meaningful organisational vision, in practice the mission statement does not influence employee behaviour. This is often caused by the fact that no further steps follow on from the vision. For example, criteria which are measured and reflected may be unrelated to the mission statement, such as the quantity of funds absorbed. None of the declared visions of Czech organisations state as a criterion the absorption of all available funds. Yet in reality it is the measure most frequently monitored and high-level meetings dedicate a lot of time to discussing absorption. Thus, the visions are in contradiction with what is really considered important. Such visions are not present in everyday decision-making and do not have the desired positive effects on the organisation›s operation. On the contrary, attempting to promote a vision that is in contradiction to daily practice is a sure way to create cynical and demotivated staff.

on the expectations and demands of clients. The first zooms in on the qualitative and continuous monitoring of aspects that matter to clients in terms of service and what is the added value they expect from that service. The second is a quantitative analysis of demand, i.e. the clients' suggestions on the response they expect from the organisation.

3.2.1 Service from the clients' perspective

The VGM views the organisation as a system that is built in response to a demand, the satisfaction of which is achieved by producing certain outputs.

The more the output satisfies the clients' expectations, or offers them added value, the higher the output's quality. Quite often, and especially in organisations following the "command and control" approach, the nature of the service is designed from the top. Based on their experience, managers design the rules for the service provision, and subsequently check how employees comply with the rules. They assume that they are capable of designing a service that responds to the clients' demands. This approach, however, is not adequate when those top managers face clients with more complicated needs. Service users often have diverse needs in terms of time, quality and quantity. A service that is designed top-down tends to assume that clients have homogenous needs and therefore does not reflect the variability of demand. The client then fails to receive a service matching his specific situation. Detailed knowledge of the needs and demands of the customers to whom the service is provided is the key prerequisite of a customer-driven organisation.

To address this it is important, when collecting data, to focus on two aspects. Firstly, what features of the service matter most to clients in a particular interaction (e.g. what do the beneficiaries expect from the Managing Authority when they submit a project proposal)? Secondly, understanding the added value the

Box 4: A useful procedure to generate data for understanding client needs and demands

Data collection

The quality of service is defined by the client, and different clients may have different qualitative criteria. It is crucial that data is collected through discussions with customers. This discussion should be an integral part of the organisation's standard operation and should be held by front-line employees as they are closest to the customers. When receiving the demand it is useful to collect information about what matters to the clients in terms of service delivery. Clients should also be asked about the added value of the service and why they are asking for it.

It is also appropriate to hold a specific meeting with clients (e.g. applicants or beneficiaries) dedicated to this issue as it allows for an open discussion. Experience shows that it is a mutually beneficial process. Apart from generating important information on service quality, the meetings allow for both parties to get a better understanding of the prevailing conditions.

When it comes to employees managing the operational programmes and beneficiaries, the quality of their relation is of major importance. The beneficiaries represent the only opportunity for the operational programmes to improve the target groups' quality of life. The partnership makes it possible to implement better quality projects.

A questionnaire survey is not always suitable for this type of data collection. It is too rigid and structured and therefore limits the collection of information with its pre-defined questions. It is pivotal to give room to the client and his perspective.

The data collection can include questions such as: "What makes our service useful to you?", "What does our service enable you to do and how can we modify it to make it even more useful?", "Which of our actions matters most to you when you are using our service?".

2. Data evaluation

The managers should use the data collected to identify those aspects of service quality that clients mention most frequently. Subsequently, measures should be created to produce quality service provision from the clients' perspective. When clients state that it matters to them how fast the service is provided, it is appropriate to monitor the time it takes to provide the service from the moment the client places the demand until the moment he/she is satisfied with the service. To put it simply, the data obtained serves as a basis for developing the satisfaction rate indicators.

It is essential that the process of data collection and evaluation is repeated in cycles to reflect the changes in the external environment as well as the changes in the clients' perception of the quality of service. Monitoring these indicators and the factors influencing them is one way to consistently improve the quality of the service provided.

Warning: It is dangerous to set target values for indicators. These values are determined by the organisation itself, and do not take into account the abilities of individual employees. Standards and target values destroy the indicators' ability to serve as a tool for learning and enhancing performance.

Tools for understanding the character of client needs and demand are also useful for relationship building. A better relationship (meaning for example higher trust) enables Managing Authorities to influence the behaviour of their beneficiaries more significantly.

Beneficiaries are those who directly add value to target groups, which is what the Managing Authority is interested in. It would be useful for ESIF if Managing Authorities could support the demand-driven thinking of beneficiaries. Beneficiaries would be able to provide better-quality services with more added value to target groups.

service brings the clients. In other words, it is finding out what service would bring the maximum added value to the client's particular situation and what it should look like (e.g. What does a perfect project consultation of a project idea look like?). The ability to understand the results and impacts of the service provided helps to better design the service. The organisation does not concentrate on what the service is like, but on what the customer gets out of it (Vanguard, 2001a:65-66).

A traditional question asked by managers is: "How well are we doing?" The answer is based on the understanding within the organisation. When the question is reworded to reflect the customers' perspective – "How does the service help you?", "What do you do with it?", "What matters to you with respect to our service?" – the feedback is totally different. (Vanguard, 2001a:68). This type of data helps the organisation understand how well it is doing with respect to its purpose.

Box 5: What we learnt from meeting with the HRE OP beneficiaries ("focus group")

In order to discover what beneficiaries thought of their experience of working with the Human Resources and Employment Operational Programme, the Managing Authority held a focus group with ten beneficiaries. The meeting had a positive effect on the relationship between the Managing Authority's employees and the beneficiaries. It also allowed the authority to gather a significant amount of information on what matters to the beneficiaries and how they understand the service provided.

Timing was identified as one of the most important features of the service provided. Beneficiaries stated that the format of the preparatory training courses suited them but the dates did not. The training courses on monitoring reports were held half a year before the beneficiaries actually worked on monitoring reports, and as a result a lot of important information was lost. The timing of other services like payments or receipt of funds is also expected to be important for many beneficiaries.

It emerged from the discussion that beneficiaries do not fully understand the role of the monitoring reports and that the Managing Authority failed to sufficiently inform them of their added value. Beneficiaries said they viewed the Managing Authority as a controller looking to find an error at any cost so that it could impose a sanction. The Managing Authority believes its role is to provide a service ensuring that monitoring reports are correct. This is to prevent any serious problems emerging from audit control.

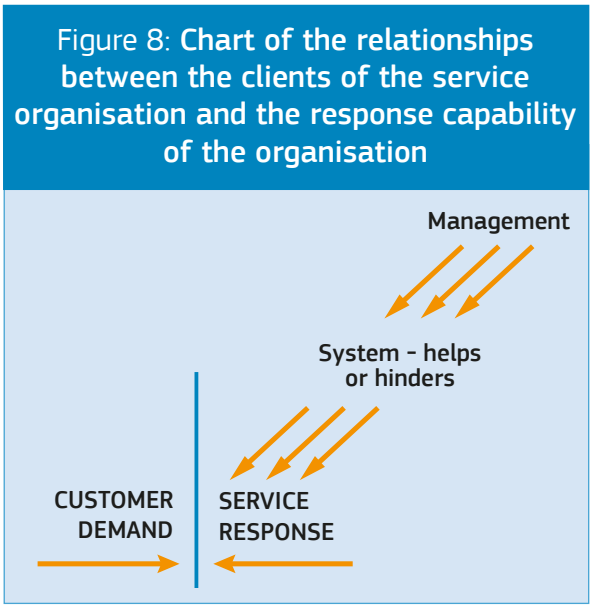
Beneficiaries were inclined to hide errors. This practice unnecessarily increased the risk of sanctions and limited the abilities of the Managing Authority to assist beneficiaries in implementing the project.

Generally speaking the meeting had a very positive effect as it encouraged closer cooperation and mutual understanding between parties. One of the outputs of the meeting was the identification of certain problematic aspects encountered in the management of the operational programme.

3.2.2 Value and failure demand

Examining the nature of demand is the key step of the VGM. Demand is the fundamental input triggering the response of the organisation. The principle underlying the VGM is that the organisation is not primarily structured as a hierarchy, but as a system responding to demand (Figure 8). The analysis of value and failure demand explores the points of transaction, i.e. the places where clients demand a response from the organisation. The analysis seeks to understand the nature of demand from the perspective of the person who has made it. Many organisations look at demand from their point of view rather than from the customer's point of view. These organisations classify demand based on what is done with it rather than on the customer's requirements. Demand is understood as "what we do with it" and "where we send it" (Seddon, 2009:2). The fact that the customer is dissatisfied and asks what is happening to his demand is often perceived as something which is part and parcel of the organisation's operation and a common occurrence. Thus, there is no learning involved on how to better understand the demand and better respond to it.

Figure 8: **Chart of the relationships between the clients of the service organisation and the response capability of the organisation**



Source: VGuide, 2001a:38

This approach can be illustrated in a simple model (Figure 8). A customer's demand reaches the organisation through a given point of transaction. The employee at the receiving end of the demand has access to all information available relating to this demand. His/her response will depend on how the organisation's system is designed. This means employees are only able to satisfy the customer's demand to the extent to which the organisation makes it possible. This state of affairs boils down to management's (in)ability to grasp the variability

and diversity of the demands of each individual customer. Indeed, management rarely comes into direct contact with the client. When it does, it is from a totally different position than a front-line employee. Since the organisation provides services targeting complex social needs, it needs to collect useful information from the employees who are closest to that need. This is where the analysis of value and failure demand becomes instrumental.

Types of demand: value and failure demand

Depending on the response of the organisation each individual demand can be classified as either value or failure demand. Value demand refers to those demands placed by customers on service provision that are directly related to the purpose of the organisation. Satisfying these demands is the raison d'être of the organisation. The nature of value and failure demand is specific to each organisation and particular service and has to be defined based on the findings of the analysis of demand as such. Failure demand occurs when the organisation fails to satisfy the customers the first time round or at the right time or fast enough. Failure demand can also refer to the poor performance of a service having an impact on the provision of another service. This leads to new demands being introduced by customers asking for explanations of what happened to the value demand and complaints about an unsatisfactory service provision. These new demands bring no added value to the organisation. In public administration organisations failure demand can account to up to 80 % of all customer demand. Removing failure demand has great potential to reduce waste while increasing the organisation's capacities to satisfy value demand (Seddon, 2009).

John Seddon (2009) states three underlying prerequisites for understanding demand:

1. To understand **what customers want from the organisation** in customer terms. To understand what

Box 6: Analysing demand

1. Selecting the service to be analysed and identifying the points of transaction

Organisations commonly provide a plethora of services. To test the method, one needs to choose a service and identify the different points of transaction (e-mail, telephone, information system, one-to-one meeting and so forth) through which clients get in contact with the service.

2. Collection of data at the points of transaction

Then one should thoroughly analyse the demands coming through the selected points of transaction. Large organisations often collect data which is already in their information systems. This data, however, often lacks information from the customer's point of view and is only usable as control data to indicate changes in the system's behaviour. To a lesser extent this data indicates the causes of the changes in the system's behaviour. During the cycles, and over a certain period of time, it is important to collect detailed information on demand at the points of transaction and on what causes failure demand.

Collection is done by:

a) managers spending time in the front office and listening to the customers' demands
b) front-line employees recording every demand received and classifying it based on what the customer demands and what response he expects

3. Type and frequency of demand

The data collected can then be arranged by category of demand and frequency. This step helps to obtain information on what the customer expects from the organisation. Usually, apart from demand aimed at obtaining added value (e.g. "I would like to buy a new phone"), lots of demands are caused by the failure of the first service provision (e.g. "there were no instructions for use attached to the phone"). The categories can thus be divided into two types:

a) Value demand – clients demand the service which is embedded in the purpose of the organisation and in the purpose of the process, the aim of which is to provide the service. The organisation exists in order to satisfy this demand.
b) Failure demand – clients demand a response from the organisation to rectify the previous substandard service provision, or the failure to provide the expected service ("it does not work", "I do not know where to look for the information", "what is happening to my demand", etc.)

4. Looking for the causes of failure to handle demand

The last and cardinal step is looking for what in the system causes failure demand. The aim is to find the elements in the system design which lead to customers regularly failing to receive the service they expect. Based on the information obtained from the analysis of the demand, changes can be made to the system design. This will ensure capacities are released to better handle value demand.

Source: Vanguard, 2001c:70-74

points of transaction customers use to place value demands. To understand when the demand is caused by a failure of the organisation to do something before, or a failure to do it right (failure demand).

2. The second step is to understand the **regularity and predictability of demand**. To identify the typical day, week and month when demands are received by the organisation; how many of them are related to the purpose and how many are related to the necessity to remedy previous failures. If there is a pattern in failure demand received regularly by the organisation, then this part of failure demand can be removed by changing the system. Irregular ones are exceptional events and not caused by system design.[1]
3. Finally, the third aspect of understanding the demand is identifying the **system conditions** that directly influence the nature of demand. By examining everyday demands over a certain period of time it becomes

1 The Vanguard Method is only suitable for organisations that exist to satisfy a regular or predictable demand. When it is impossible to predict what the clients will want or need and in what amount and when, the organisation should opt for another approach.

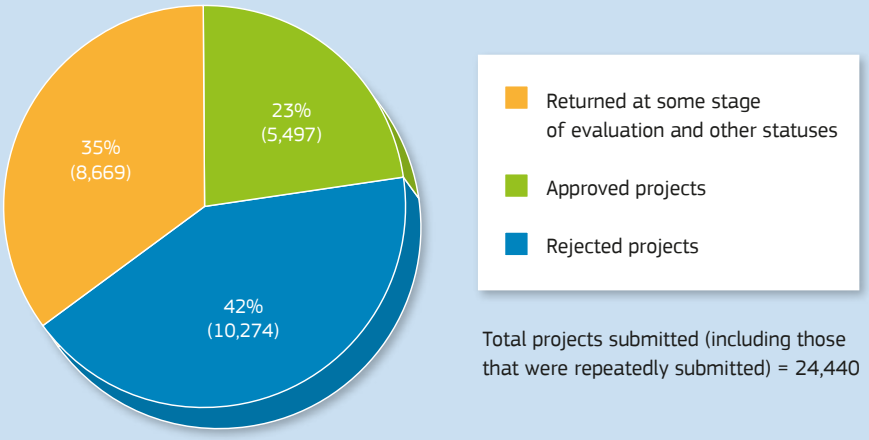
Box 7: What have we learnt from the process of approving project applications?

The process of approving project applications is the basic tool for getting projects on board that will accomplish the objective of the OP. Project applications (the demand) trigger a control process (the response) from the body administrating the operational programme.

Besides checking project applications as such, the bodies administering the programme also carry out a range of activities preceding the check that directly influence the nature of the project applications submitted, in particular building absorption capacity, quality analysis, information on intentions, clarity of announced calls, etc.

Value demand in the process of approving project applications is projects that can be supported (they are eligible), because only approved projects have the potential to help accomplish the objectives of the operational programme. Failure demand is all project applications that are not approved because the work involved in developing them is not offset by added value from activities improving the quality of life of people in the community. In this case, the failure demand constitutes a significant administrative burden and means a lot of wasted time by applicants and the body administering the programme. In the Czech Republic the monitoring data from the 2007-2013 period shows that a significant number of project applications were not supported (over 50% in some operational programmes). This is why the analyses should aim to identify the causes behind the generation of those projects that cannot be supported and reduce their numbers. This would release capacity to achieve the objectives of the operational programmes. A question that arises is to what extent the benefit of the operational programmes would change if the time spent on rejecting the project applications was instead spent on activities preceding the control process.

STRUCTURE OF TOTAL DEMAND IN THE PROJECT APPROVAL PROCESS IN HRE OP



Total projects submitted (including those that were repeatedly submitted) = 24,440

clear that the majority of failure demands are of similar nature and come in to the organisation regularly. These regular failures are clearly caused by the design of the organisation. Changing the design and system conditions will lead to a reduction in the volume of failure demand the organisation will have to deal with. The following chapters will describe how the VGM suggests the system conditions can be identified.

3.3 Response capability

The third step of the VGM is the construction of measures. They serve as a tool for generating valuable data to improve service provision. On top of monitoring customer satisfaction, the VGM also includes a tool for measuring the indicators that highlight the features of the service that matter to clients. The client is a person who determines the measures by which the quality of service is assessed. In case of changes in the system design, these are manifested in the measures relating to service quality and the impact of which the organisation can therefore monitor (Vanguard, 2001b:106).

To ensure that measuring the features of the service provided from the client's point of view is of value for the organisation's ability to learn and to improve its performance, it is important that the measures are not standardised or used for the financial or other evaluation of employees. If the target values are set, the indicators become a tool for monitoring the competency of individuals who in such a situation cease to pursue the interest of customers, and start to pursue their own (see Seddon, 2005).

Understanding how regularly and predictably the system handles various types of demand, which of the demands it handles better or worse and why, makes it possible to design the system optimally ensuring the response is stable and shows a long-term performance improvement. Introducing measures to monitor the response capability provide information to both the organisation as a whole and to individual employees. This allows them to identify the causes of their performance and provide feedback to managers on how the system helps or hinders them in their jobs. The response capability is measured "from the outside in", i.e. measuring the capability of the organisation to respond to the demand. It differs from "top down" measurement which provides information on the competencies of subordinates to meet the requirements of their superiors. To put it simply, the aim of the measure is to learn, not to demonstrate competences.

3.3.1 What to measure?

It is essential to measure the features which matter to clients during the provision of a service. If it matters to

Box 8: Measuring organisational features that matter to clients

Permanent measures

Since measurement is a continuous process, it should focus on quantifiable indicators, reporting on specific features identified in the previous steps. Altogether, measurement should not constitute a major burden, and the data already collected can often be reused. Permanent measures monitor the system stability, and indicate the effects of changes on service quality Examples of this type, of measure are (Vanguard, 2001b:106):

a) **It matters to customers that they receive all the necessary information during the telephone call so that they do not have to call again.**
b) **It matters to customers that the service outputs are provided by the organisation by the agreed deadline.**
c) **The total time of service provision matters to customers**

Temporary measures

Interim measurement is used to monitor the performance features directly influencing the value of permanent measures, i.e. the quality of service, for a certain period of time. Some intense analytical activities should be dedicated to discovering these features and then examining them thoroughly. A quantitative and qualitative measurement and examination of the organisation's rules are needed. Particular attention should be given to the structural causes of performance and how they impact on performance. A proper understanding of performance markedly increases the likelihood that the changes introduced in the organisation will be successful.

Generally, both measures refer to those characteristics of performance that will make a difference to the final quality of the service from the point of view of the clients (both direct and final). Measures must be linked to the purpose of the organisation.

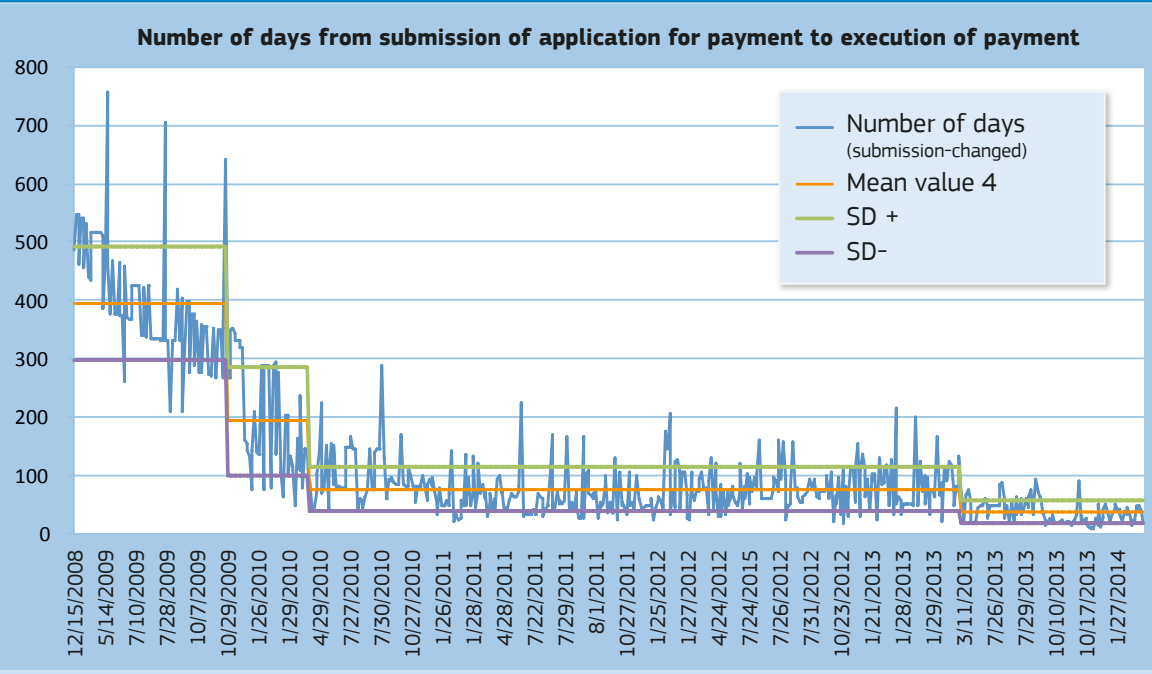
Box 9: Response capability – how long does the beneficiary have to wait before he finds out about the decision on his project?

In the Czech Republic the monitoring systems used in the 2007-2013 period include data on the duration of individual administrative processes. From the point of view of most beneficiaries, it is the total duration of the service provided that matters, not the duration of its individual parts. It usually matters to the applicant/beneficiary how long it will take before he receives the final information regarding the approval of his project. I.e. how long it takes after the application for payment is submitted for the money to arrive. The performance of the bodies administering the programme in terms of the time necessary for the final decision to be issued can easily be monitored through the so-called "control charts". These are charts that show the individual cases representing individual demands with the total handling time from the applicant's/beneficiary's point of view. The individual cases can help derive the average duration and the deviations of the mean value which show how the time needed to handle the individual demands can differ. The system perspective assumes that the variability (or diversity) in the speed of handling the demands depends on the system design. This means that the best way to reduce the variability and mean value is through a change in the system design.

To speed up the administrative processes one should start by identifying what causes the extreme cases, i.e. those that exceed three standard deviations of the mean value, or represent approximately 1% of cases with an extremely high or low duration. The "control charts" are also suitable for monitoring the impact of changes to the system. The actual impact of the change on the design or on changes in behaviour, i.e. in the duration of the monitored process, can be observed (in the example above one can see three change points where the mean falls sharply). It is important to realise that variability is natural. Individual demands on service provision vary as do their complexity and their wording. Setting out the target values of indicators largely results in ignoring this fact.

The example below: In the TA OP a paradoxical situation was identified. When all relevant processes were set out in the so-called "control charts", it was clear that the most significant improvement in the handling speed occured in applications for payment. Since the TA OP beneficiaries are government agencies, the speed at which the control of the applications for payment is dealt with does not really matter to the customers since it is only an administrative act of converting euros into Czech crowns. This demonstrates that a top-down approach is used (what matters is meeting the absorption obligations vis-à-vis the EC).

Process of approval of application for payment, Technical Assistance Operational Programme (TA OP)



customers that the service is provided immediately when they contact the organisation, the organisation should be able to find out during the first contact with the client whether the need was satisfied. If it is the speed with which the service is provided that matters to the customers, then the organisation should measure how much time is needed to satisfy the client's demand. Reacting within the standard 30 days (typical of the public sphere) does not ensure that customers get the maximum added value from the use of this service. The 30-day deadline is typically determined "from the inside" by managers. If the time of receipt of the output really matters to customers, then a much better measure than meeting an arbitrary target time is to measure the end-to-end time (from demand to delivery) from the client's perspective and understand what is causing variability in this measure. Thus the organisation is able to find out whether it achieves the purpose of its existence, or if it leaves a lot to be desired.

Measures should be either temporary (intensive) or permanent (cost-effective). The purpose of temporary measures should be to explore the causes of performance, whereas the permanent measures monitor the performance in terms of the organisation's objectives. The VGM builds on the assumption that the prevailing majority (over 90%) of performance variability is influenced by the system. This means that even if different value indicators are used in each individual case, their variability will always remain almost the same (as long as the organisation's system is not in a state of disorder and does not change).

If the measure and its role within the organisation is not properly designed, multiple perverse effects may appear. These are associated especially with cases where measures are also used to evaluate employees and where the target values are arbitrarily set. Where an employee is unable to fulfil the indicators, so-called "gaming" occurs, i.e. numbers are tampered with so that the employee is not considered incompetent. There is also the risk of "creaming" – choosing to address only those matters that are simple and guarantee the best evaluation result, while avoiding the challenging issues.

3.4 Design of processes: value work and unnecessary work (waste)

This is about the work carried out by the organisation and the result of management decisions on the process design. Managers decide on the distribution of roles, responsibilities, fulfilment of tasks, etc. The processes within the organisation can be broken down into two types, the "core" processes (client-oriented) and the "support" processes (client-oriented processes).

Activities performed within these processes will be evaluated depending on their purpose. In "core" processes activities will be measured according to their ability to satisfy the needs of customers. For "support" process the evaluation will depend of the ability to improve the quality of core processes. (Vanguard, 2001a:93).

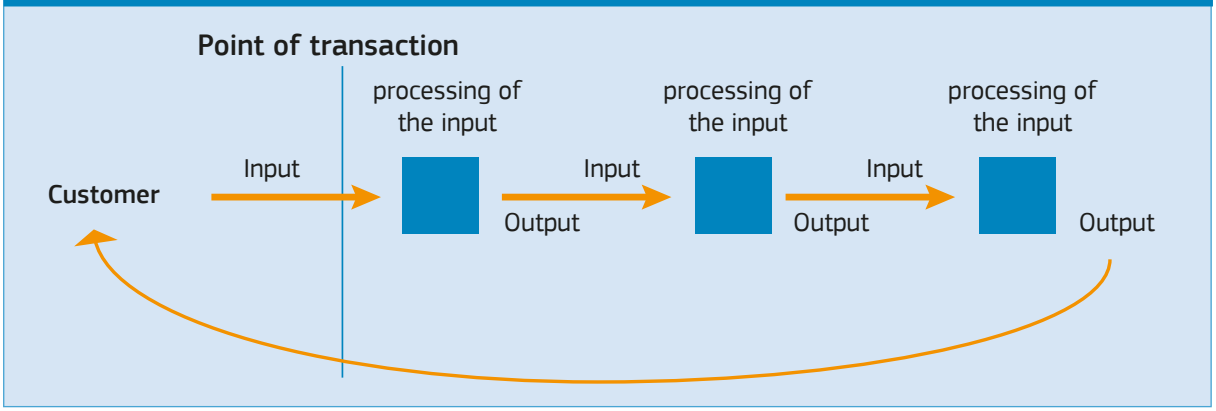
Activities within individual processes should be classified as either "value work" or "waste". Value work is the work which adds value to the fulfilment of the process, whereas waste is unnecessary work which provides no added value to the process. To identify the "waste" or the unnecessary work means discovering how to increase the organisation's capacity. Limiting the unnecessary work means more capacity for the value work which can therefore be performed better. There are three types of unnecessary work (waste):

a) If this type of work stops will be no consequences (while this is the easiest type of work to remove, there is a limited amount of it which means there is only a limited potential for increasing capacities);
b) This work can only be stopped by changing the rules and internal procedures (a more difficult type of waste to address but the organisation still has the capacity and authority to change the conditions itself);
a) This type of work can only be stopped provided the rules are changed with the support of external actors (the organisation itself does not have the authority and decision-making power to change the rules or the process design).

In order to define both the core and support processes, it is important to keep looking at the organisation's features from the outside. There is always a risk of approaching the analysis from an internal and functional perspective. While this makes it possible to increase the effectiveness of the processes it does not reflect its meaningfulness. In order to minimise this risk the following have to be kept in mind (Vanguard, 2001a:97):

- The starting point for looking at the design of processes is always the customer' point of view (i.e. the point of view of the person for whom the processes will bring added value);
- Processes should be analysed from beginning to end,

Figure 9: **Flow of demand through the organisation up to the output for the client**



Source: Author, inspired by Vanguard, 2001a

i.e. from the moment the customer first places the demand until the moment his demand is fully satisfied;

- Processes are measured in terms of their added value – how each part of the process helps produce the output the customer expects;
- Processes are analysed by monitoring the flow of demand through the system. Each step of the demand is analysed in the light of two aspects: to what extent it brings added value to the customer (quality of value work) and to what extent this activity is done efficiently (amount of waste);
- In process analysis it is useful to break down the processes into core and support processes;
- Core processes are characterised by the fact they direct work immediately towards demand i.e. towards providing service to the customer;
- Support processes are internal processes that aim is to provide added value to the core processes.

3.4.1 Procedures during the analysis of process design

Metaphorically, the features of process design can best be examined when demand is "pinned to the chest" and it is possible to follow its every move through the organisation until the final output that satisfies the client. The process design can be described as monitoring the handling of the demand step by step until it has been fully processed and the features of this process (input, processing and handover of the output) have been recorded (Figure 9).

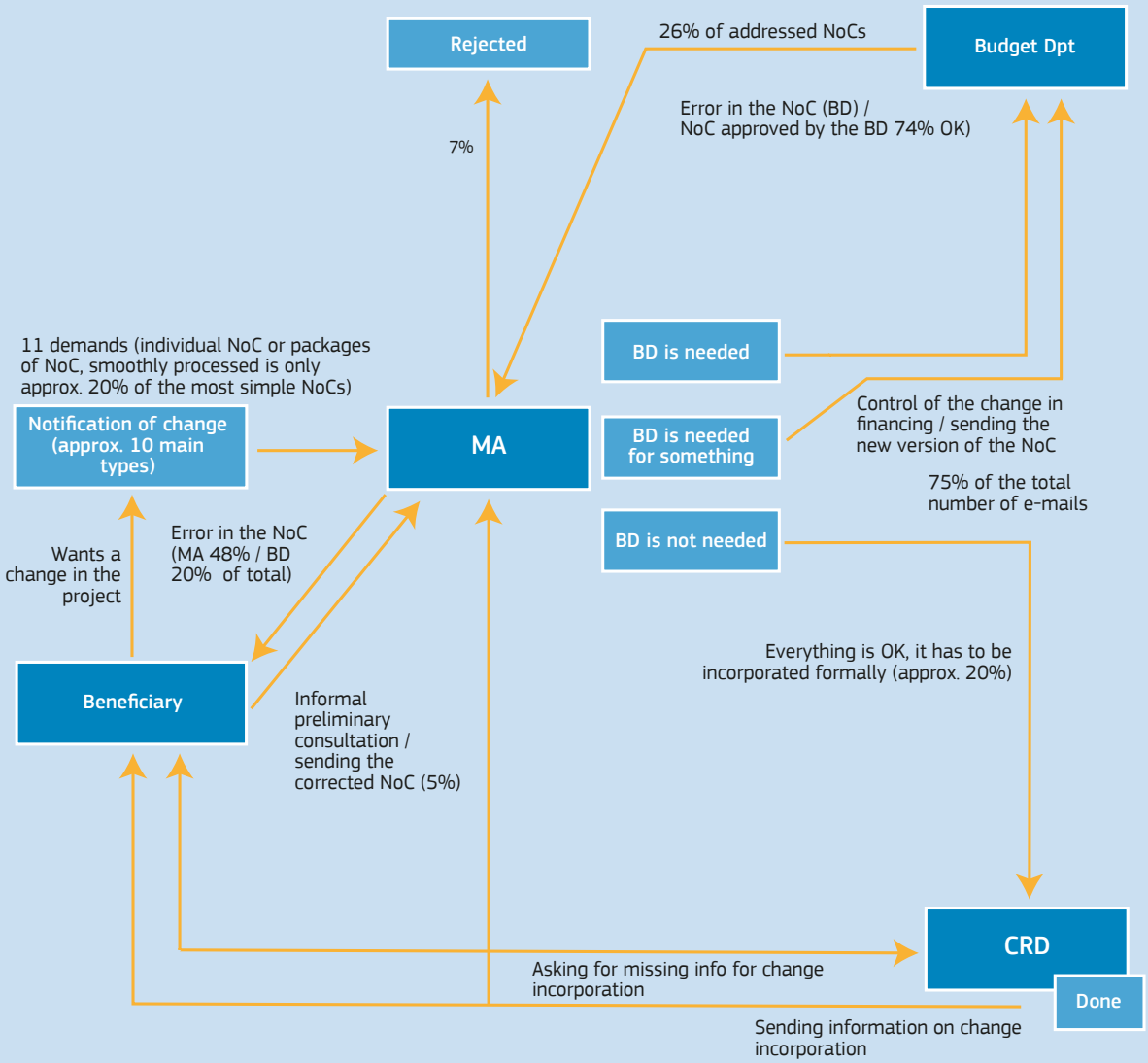
Box 10: Tips for the analysis of process design

1. **Collection of data to provide a clear picture of the activities performed within a particular process (Vanguard, 2001c:92)**
   Questions concerning the inputs: Is this the input which we need to process? Is the input ready for processing, or is something lacking? How do the inputs in the process differ? How often do the individual types come in? What should be done with them?
   Questions concerning the work with the inputs: What is done with the input? How many people work on the input before it becomes an output? How many times is it necessary to correct something? How often is it checked? How long and how often does someone wait before he can do his part of the work? Does each individual action performed lead to pulling the input towards the output? Does everyone know what to do? What is the difference between the time spent on processing the output and the time from the receipt of the input to handover of the output to the client?
   Questions concerning the outputs: Where is the output moved to? Does it satisfy the requirements of the user? How long did it take to provide it? Is it necessary to rework it?
2. **Identification of waste**
   Once the various bits of information regarding „what work is done" and „how" are collected, discussions can start. Individual actions can be divided into two types: value work, which means added value for the client, and waste, which only hinders the performance of value work.

Box 11: **Tips for creating a process map**
(Vanguard, 2001c:105)

1. The previous activities should have resulted in a fairly large quantity of information on the process of service provision and how it is designed, i.e. how many individual steps are there, where is the waste, how many and what inputs are involved in every step of the processes, what outputs are produced by the process and so forth.
2. Make a list of the individual steps, from the point of transaction to the service provision, that lead to the client's output.
3. Add the various values you were able to measure. For example the type and quantity of inputs in the process or its parts.
4. For each step of the process write down the waste identified and classify it into individual types. Describe the nature of the categories created and try to identify how often they are performed and under what conditions.
5. For each step of the process write down the impact of the activity/waste on the resulting service provided to the client, or on the client's satisfaction with the organisation's output.

AN EXAMPLE OF A PROCESS MAP (PROCESS OF NOTIFICATION OF A CHANGE UNDER THE TA OP, JULY-AUGUST 2014)



Approx. 5% of the demand needs consultations, 48% wrong at the MA, 20% at the BD, 20% is ok, 7% is rejected.

Box 12: **Work type 1, work type 2 and monitoring**

There are two types of value work. *Work type 1* means a standard operation, handling the demand from its receipt to the provision of the output to the client. The client can either be from the external environment with respect to core processes, or from the organisation itself with respect to support processes. *Work type 2* denotes activities aimed at improving the quality of work type 1. This work type 2 is very important because only work type 2 on quality guarantees that the organisation keeps pace with the dynamic external environment.

An example of *work type 2* in the ESIF environment is monitoring. Collecting data on the implementation of the operational programmes represents value *work type 2*. However this is only the case when monitoring actually helps improve the quality of the implementation processes. If monitoring has no impact on the regular operations, it can be considered waste.

Examples of waste (Vanguard, 2001c:93)

- The necessity to repeat (or correct) certain actions because they have not been done right the first time (often management IT systems require someone to control and correct the data inserted from different parts of the organisation as the numbers do not fit together!).
- The duplication of effort (when a document has to be studied by more than one person)
- Doing things which have absolutely no added value to the customer
  - Completing useless forms and documents
  - Waiting for the appropriate supporting documents/equipment
  - Work based on inadequate/unreliable information
  - The necessity to remedy problems caused by a failure to perform tasks thoroughly earlier in the process
  - Fire-fighting – resolving the consequences of the problem rather than its causes
  - Attending useless or badly chaired meetings

As the demand flows through the organisation, it is mapped and recorded to establish to what extent each step brings added value to the final output. It is about establishing which steps help the process and which steps cause problems. For example the following questions are appropriate: "How often does this happen?", "How many people are affected?", "How long does the analysed step last?" etc.

Subsequently, a so-called "flow chart" should be built to track the individual steps taken by the task as it comes in from the outside. Each step records the "measured" features – for example how long the demand spends in each department, how many activities actually add value to the customer, how many activities are not related to the client's demands, etc. Following this, the process can be presented to the employees involved in the process and a discussion can then take place on whether the data obtained is valid or typical. A visual presentation can also help increase the interest of employees in these issues as well as facilitate thinking on the different features of the process. (Vanguard, 2001a:99).

To recap, it is important to think about the following questions (Vanguard, 2001a:99):

- What is the purpose of the process? What is it trying to deliver to the customers?
- What is the value work? What matters to the customers?
- What is the flow? What are the steps the demand goes through before the customer's needs are satisfied?
- Where and when is the added value to the client, i.e. where and when is the value work done which directly creates the added value satisfying the customer's need? What else is being done and for what purpose?
- What helps or hinders the organisation in adding value to the outputs? What hinders the smooth flow?

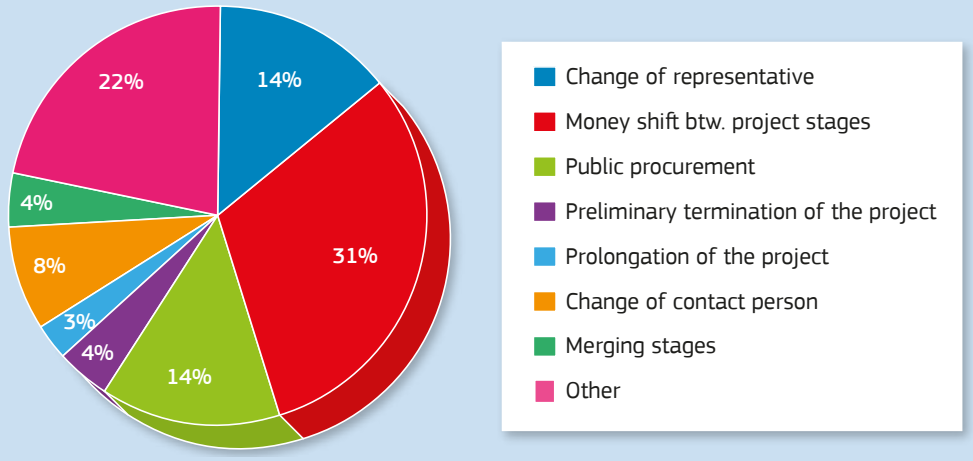
3.5 System conditions

How many value and failure demands does the organisation receive? How capable is it of responding to them? How much unnecessary work (waste) is carried out in the process? All this is, to a large extent, determined by the so-called system conditions. These are particular elements in the organisation's system that are able to influence both the actions and the way in which the work is done in the organisation. These include the design of organisational units and the relationships between them, the roles and responsibilities, the tasks and the superior-subordinate relationships, and also the presence

Box 13: **Waste in the Technical Assistance Operational Programme (TA OP)**

In the Technical Assistance Operational Programme, the process that gets most attention is when a submitted project notifies a change. The Managing Authority needs to process the notification so that project can run differently from the original one. According to the analysis, however, a single system element caused a fairly large amount of waste. Out of 340 projects that notified a change, 48 were caused by a change of the statutory representative of the beneficiary. Since the TA OP beneficiaries are government agencies, namely the Ministry of Regional Development and the Ministry of Finance, in 48 cases the notification of a change was triggered by a change of the minister, a piece of information that one usually gets from newspapers. The number of notifications would be reduced by 14% if a change in the project's statutory representative in government agencies could take place without the need to launch the whole process of notification of a change.

TYPE OF PROJECT CHANGE ANNOUNCEMENT 2013-07. 2014



of values generally recognised in the organisation, the observance of which is requested from its members, as is adherence to the formalised rules. Equally important are the habits which manifest themselves, for example, in the way of fulfilling similar or repetitive tasks. These habits are often depersonalised, which means that they do not depend directly on the particular person, but are linked to the roles present in the organisation over a long period of time. The members of the organisation teach the newcomers about these habits, ensuring they continue.

Let us now engage in more detail in the following elements: work design and structure, measures, roles, information and policies (VGM, 2001a:111).

Process design and structure is about how the organisation is divided and into what working units, how the relationships between these units are designed and so on. Public institutions have traditionally been viewed as very hierarchical and are thus seen from a top-down perspective. The VGM turns this perspective into an "outside-in" perspective. An analysis from this perspective divides the organisation's processes into "core" and "support" and monitors the added value of the work done in these processes against the organisation's purpose. An analysis will also reveal the internal horizontal aspects of public organisations since it relates all the activities to a single purpose, and defines roles leading to its achievement. It is then possible to observe to what extent each unit in the organisation contributes to the common purpose and to what extent it performs activities which on the contrary hinder its achievement.

Measures are of a similar nature. They show what matters to the organisation, i.e. what the organisation

considers valuable and which calls for a lot of information gathering. If measures are poorly designed they can become a serious threat to the actual performance of the organisation. In particular, two aspects of the design of measures tend to have significant unintended effects.

The first issue is taking the measures into account in the evaluation of employees. In other words, managers can motivate employees by introducing a series of measures that will check their performance. However, several problems arise in this context. Employees start to take care of fulfilling the measured indicators in a narrow sense rather than paying attention to other aspects of the purpose of the service. If an employee is unable to demonstrate to his/her superior that he/she can appropriately fulfil the measured indicators, so-called "gaming", or "creaming" occurs (see above). Conversely, those employees who have no problem achieving the target values set by their manager can slow down. The issue here is that target values of measured performance are set arbitrarily, without taking into account the abilities of individual employees.

The second issue is how managers monitor the values and performances of smaller units (individual working units or sections) regardless of how they contribute to the overall functioning of the organisation. The measures are not set for the system as a whole, but only for its individual parts. Hence, the individual units seek to achieve the best possible results for the monitored indicators and shift the problems that could make their results worse further down the system. This increases the amount of waste and reduces the overall performance.

Roles are associated with the tasks that the employees in a certain position are expected to perform. The system may be designed to include more specialised roles, which fragment the work, or on the contrary the organisation may prefer employees to cover a broad agenda. The VGM suggests reconsidering the different roles in a given organisation. First of all, organisations should bring together two types of work in each role: core work for the production or delivery of a service (work type 1) and work needed to improve and develop the core work (work type 2). Work type 1 is a direct responsibility of the front-line staff. It is the managers' responsibility to set the system conditions which will make it possible to also carry out the work type 2. Those who directly perform the activities are the ones best able to identify the shortcomings of these activities and they need to be part of the team identifying the shortcomings. Managers should collect information on the causes of the shortcomings in the system design from the employees actually handling the demand. Depending on the findings they will take action with respect to the design of the system.

Information and its transfer in the organisation is a very important point influencing the way work is done and decisions are taken. It is about ensuring that employees have the information they need at the right time. Information technologies (IT) are key for this as they have the potential to ensure the information is available. It is often the case, however, that complex IT structures provide useful information but also a lot of unnecessary information. It can also happen that they are used to collect huge amounts of data that are subsequently not exploited. IT should always be used keeping in mind the added value they can bring to their users. Not all IT adds value. Just like with other tools, it all depends on the particular organisation and the demand it handles.

Internal policies are also extremely important for the nature of the work done since they embed certain rules governing the work performance. They are often difficult to change, which is why careful thought is needed before their introduction. Policy content and its effects should be seen in light of the extent to which they will enhance the organisation's capability to achieve its purpose. For example, the policy representing the connection between the assessment of employees and their performance according to certain criteria may lead to unintended perverse effect in employees' behaviour, e.g. so-called "gaming" or "creaming".

A number of other system conditions also have a substantial impact on operations within the organisation. When system causes are sought, it is appropriate to constantly ask the question: "Why does the work look like this?" or "Why is this done this way?" In cases where system conditions are not identified, efforts to improve performance will bring about only very limited outcomes. Making changes to how work is carried out while maintaining the system conditions has the potential to bring about limited improvements. However this will not influence the actual meaningfulness of the activities performed. Problems are often perceived as a lack of resources, too many priorities, growing costs, increasing expectations from those around, too strict rules, and ever-growing pressure on employees. Typical solutions to this are increasing the number of employees, setting indicators with more precise target values, working overtime, prioritising work and so on. The

Box 14: System conditions under the TA OP – management of the operational programme

One of the system conditions of the TA OP 2007-2013 was the design of the implementation structure, which included three units – the Department of the Managing Authority (at the Ministry of Regional Development), the Budget Department (at the Ministry of Regional Development), and the Intermediate Body (at the Centre of Regional Development agency). This complex structure for such a small programme also lacked a strong hierarchical arrangement. This meant that a number of fairly minor issues had to be discussed on an almost weekly basis with the managers of the implementation structure during the so-called tripartite meetings. Reaching a decision in this way is an example of unnecessary work (waste) with high transaction costs and little flexibility in terms of decision-making.

This system design was probably the result of an idea of the top managers responsible for the design of the TA OP implementation structure (which is not written down in any document) that it is risky to concentrate responsibility in a single unit. Such decisions are also often supported by the Taylorist type of thinking that each function should be put in a specialised unit. Thus, the TA OP structure was designed with a perceived need for a balance of power, which negatively affected its performance.

VGM offers a different approach which is characterised by identification of waste and failure demand, identification and change of system conditions from which the findings about actual performance are derived, and finally challenging the assumptions based on which the current system of work was originally expected to meet its purpose.

3.6 Identification of management thinking: assumptions shaping the performance of the organisation

Step six is crucial. It is about revealing the assumptions on which the system of the organisation is built. These are often managers' assumptions that are not explicitly articulated, nor written down in documents. These are the assumptions on the basis of which the management considers that its decisions concerning the design of the system are correct and will work well. These assumptions are implicit and managers often do not realise how these drive the decision-making process. Since these assumptions are undeclared and not accompanied by any thorough analysis, the unintended consequences that ensue are often not identified. Thus, the system becomes trapped in single-loop learning and is unable to achieve a change in the quality of performance since the unintended consequences of rigid management assumptions are still present.

The system conditions identified in step five are built on certain assumptions concerning their functionality. For example, the design of measures shows what is emphasised in the organisation. The design of the system of measures is based on the manager's assumptions that certain features are crucial for the performance of the organisation. The organisation will then aim at its purpose in the way this purpose is measured. As H. Thomas Johnson put it: "What you measure is what you get." This kind of process of changing consequences by not only changing behaviour but also by changing the assumptions behind the behaviour is in organisational theory known as double-loop learning (see Argyris, Shön, 1978).

This idea is depicted in three alternative wordings in Figure 10. Assumptions determine our actions which lead to

Figure 10: Double-loop learning, change of performance as a result of change of thinking

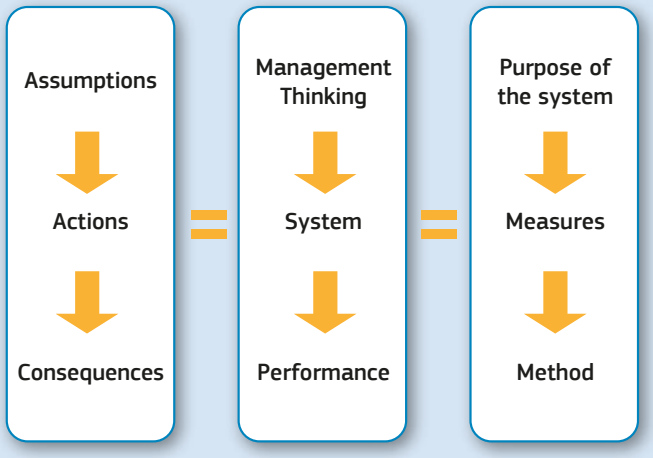


Table 2: ***Selected principles present in managers' thinking: differences between "command and control" and "systems thinking"***

Principles of Command and Control		Principles of Systems Thinking
Top-down, hierarchy	**Perspective**	Outside-in, system
Functional specialisation	**Design**	Demand, value, flow
Separated from work	**Decision-making**	Integrated with work
Outputs, standard objectives related to budget	**Measures**	Capability and variation, related to purpose
Extrinsic	**Motivation**	Intrinsic
Manage plans, budget and other monitored criteria and manage employees	**Management ethic**	Act on the system
Contractual	**Attitude to customers**	What matters

Source: Vanguard, 2001a:125

consequences. The management thinking determines the system which then set the limits of performance. If the measures are derived from the purpose of the system, then these will allow the work methods that fulfil the purpose. In single-loop learning the organisation tries to improve its performance within the given system. However, as we try to explain in this publication, the performance is substantially determined by the system. Thus, in order to improve its performance the organisation has to change its system of work and this requires challenging the managerial assumptions behind the system. This is called double-loop learning and is necessary to achieve real boosts in performance.

In the ESIF situation, as long the most incentivised measures are financial indicators and error rates, the method of work will support the hidden de facto purpose "get rid of money quickly in an audit-proof way".

At the end of the chapter on the Vanguard Method's "check" phase, a short comparison between assumptions in traditional management and systems thinking is provided based in Vanguard, 2001a:124-142. Even though each organisation is built on different assumptions, it is likely that some of the reflected assumptions of "command and control" management listed below are also present in your organisation.

The **top-down perspective** of viewing the organisation is characterised by the meaning of quality being set from the top by the managers. The individual parts of the organisation work in the way the managers consider appropriate. Organisations with this management perspective lack the flexibility needed to respond to the outside environment since decision-makers are only in indirect contact with it. The **outside-in perspective,** on the other hand, assumes that it is the customer who determines what the organisation's outputs shall look like. The main principle is to develop the understanding of how the customers pull value from the organisation and how the organisation can increase its capability to meet the clients' demands. To put it simply, there is a difference in assumptions as to who knows best what the organisation shall produce – the managers or the clients**.**

Work design in organisations with a traditional hierarchical management is **functionally structured**. In other words, the organisation is divided into specialised working units carrying out partial tasks. At the same time, the organisation defines performance criteria for the individual functionally separated working units. The performance of these units is then monitored and optimised so that managers can check the organisation's performance. Problems arise with respect to the separation of individual units from the production of the organisation as a whole. Usually, it becomes a key challenge for managers of the functional units to achieve the performance measures. Therefore, there is the risk once again that problematic cases are shifted further down the system so that performance indicators can report a positive value even though the necessary work was not carried out.

The **system perspective**, on the other hand, focuses on demand and on how it is pulled through the system up to the moment when the client's demand is satisfied. It focuses on the highest possible performance of the "end-to-end" process. What is essential is not exerting pressure to increase the functional units' performance, but ensuring that the system design makes it possible to handle the demand as fast as possible and delivers a high-quality output. The traditional assumption is that dividing tasks into multiple simple actions leads to the faster execution of those actions and a better performance. The system perspective, on the contrary, assumes that the system as a whole creates a higher value than the mere sum of its parts. It therefore only divides the task into actions when a better flow of the demand is guaranteed through the "end-to-end" system.

Decision-making in a **traditionally managed organisation** is viewed as a task for managers and is therefore separated from the work that is actually carried out to produce the output. The managers decide the manner in which the work will be done and the employees act accordingly. **System management** puts more stress on integrating the decision-making process with the work carried out. It enables the employees, who often perform complex tasks, to take decisions case by case in order to adapt their behaviour to the demand as best they can. This increases their capability to respond to the variability of demands from the external environment. The assumptions of individual management thinking differ regarding the extent to which the employees are considered inept and untrustworthy and the extent to which, on the contrary, their activities as creators of added value for the clients are considered important. Reinforcing the integration of decision-making with work also has positive effects on the job satisfaction of employees, by offering more room for self-fulfilment and influencing the quality of the output.

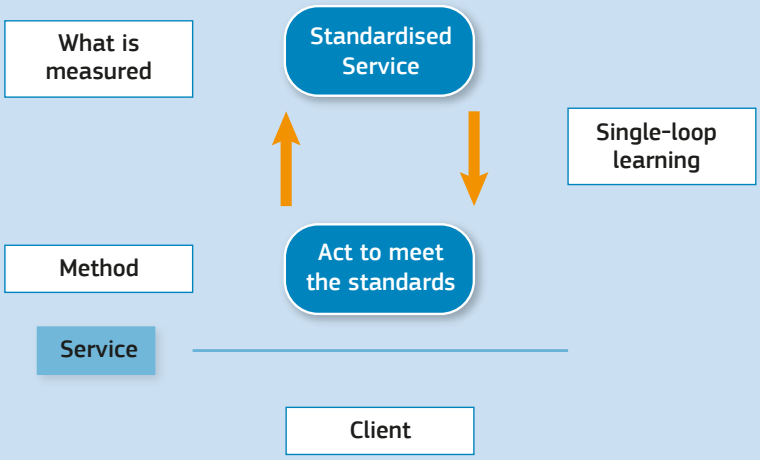
Measures in **traditional management** are related to supervising the employees and the extent to which they adhere to standard procedures and outputs. The measures focus primarily on checking the budgets and how the funds are spent. Productivity, as well as the degree of achievement of the planned values, both financial and performance-related, are monitored. Traditional measures are troublesome because they fail to reveal why organisations do what they do in the way they do it. Conversely, an organisation adopting **system management** uses measures specifically to learn more about its own performance. The organisation gathers information on the bottlenecks and on the issues that require attention. Attention is given to the reasons behind high costs as well as to the organisation's capability to meet its purpose and address the features of the performance which directly influence this capability. Regularly obtaining information from customers allows the organisation to continuously adapt to their demands and to the external environment. It is more important to measure what helps the employees provide better services than to measure just for the sake of checking employee performance and pressing for it to increase.

Box 15: **Preparation of projects under the ESIF**

The specific, usually unexplained management thinking can often be seen in the undeclared assumption that the highest-quality projects can best be achieved by allowing **free competition** among the applicants. This is usually done by announcing time-limited calls for the submission of projects, in which the **applications commonly exceed the available allocation of funds**. The organisation that manages the programme then supports the projects that have been identified as the best by an expert evaluation. Surprising in this respect can be the fact that the canonical version of methodology – Project Cycle Management (see e.g. EC, 2004) – includes a different "management thinking". PCM works on the FIFO principle – the donor receives a pre-feasibility study. He then encourages cooperation and interaction between the applicant and the provider to maximise the quality of the study. This approach minimises the volume of work spent on project applications that end up not being supported and represent failure demand. The hypothesis that free competition without the considerable support of the organisation managing the programme leads to a higher quality of selected projects has not been confirmed. Likewise there is no certainty that evaluators are truly able to select the best projects. Frequently they complain that "I have no reason to deduct points from the score of this project, formally the project is right, but it lacks the right spirit".

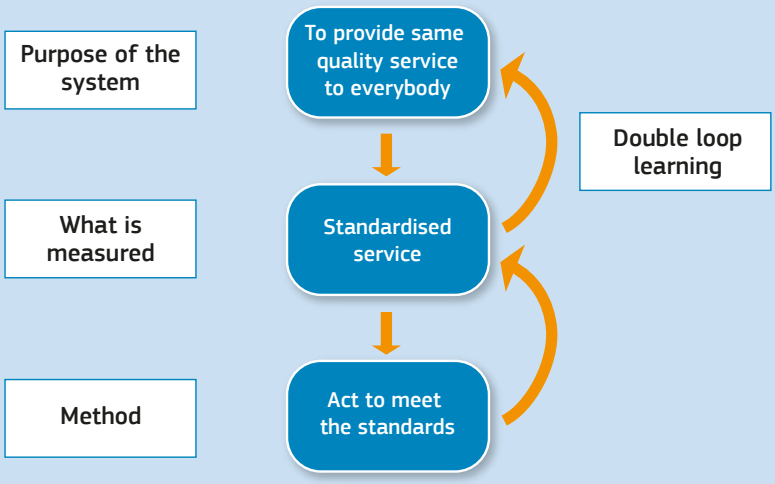
Box 16: **Uncovering management assumptions: measuring standards**

The system illustrated below aims to meet the pre-defined standards of efficiency, quality of services and so on. If a more detailed analysis finds that the service is of poor quality and the standards set do not meet their purpose, the standards' design should be changed over and over again. "If you are doing the wrong thing, then doing it better makes you wronger, not righter." (Caulkin). The fundamental issue is that this system is designed in such a way that it is not possible to criticise the thinking behind it. This is so-called "single loop learning" characterised by its inability to substantially improve the quality and functioning of the system.



Closely related to the above is the statement "you are what you measure" (see e.g. Hauser, Katz, 1998). In order to think about how to do the right thing rather than doing the wrong thing better, it is necessary to reveal the level the thinking behind the measures set up to monitor system performance.

The system oriented at achieving quality through standardisation meets the purpose of "providing the same quality service to every client". Nonetheless, the standard service is not necessarily one that satisfies the clients' needs. The need is not the same as the standard. Needs are far more comprehensive, variable, broader and of a more qualitative nature, whereas standards are of a quantitative and necessarily simplifying nature. It will be extremely difficult for a system designed in this way to identify when it meets the substance of the service since it will be busy identifying whether the services are standard.



In case of a change to the purpose of the system to "provision of services perfectly reflecting the requirements of our clients" the measurement structure would probably acquire a different nature.

Traditional management relies on the externally-driven motivation of the employees. Specialisation and measuring performance of individual units against the standard values defined by management lead to a growing pressure on the capability to achieve the measured values. Such organisations often motivate their employees with bonuses when the set values are achieved, or with sanctions where indicators are not fulfilled. The problem is that the employee does not control the situation and merely obeys. **Motivation** comes from the outside, from incentives and threats. The system perspective tries to present tools to enhance the internal motivation of employees. The integration of decision-making with work strengthens employee autonomy, learning is encouraged, and the system is aimed at helping employees achieve self-fulfilment and mastery in what they do (see e.g. Pink, 2011). It is assumed that internal motivation is stronger than external motivation and for this reason the employees' performance improves in a more natural way.

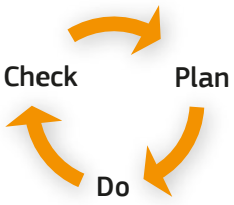
Attitude to customers is **traditionally** perceived as contractual. It assumes that the clients want a certain amount of the same service. The managers assume that they are able to define that service and subsequently monitor the implementation of their own ideas. The **VGM** highlights what matters to clients and assumes that their needs and desires differ substantially. Such thinking leads to the provision of services of better quality since the service is more flexible and results in more satisfied clients.

In the **traditional style** of people management **the management ethic** consists in increasing performance, accomplishing the plans, concerning the budget set from the top and so forth. The role of managers in the **system perspective** lies especially in the ability to collect information on actual performance and in acting on this information vis-à-vis the system, or in modifying the system conditions in order to increase the performance. Systems thinking assumes that the organisation's performance is mostly driven by system conditions, not by people.

4. THE PROCESS OF CONSTANT LEARNING

The analytical phase should answer the following key questions:

- How does the organisation work as a system?
- What are the key assumptions on which the organisation's system is created?
- What is the potential for improvement?
- What should the organisation focus on in the new design?



It makes sense to plan an experiment to find the answers to those questions. The *Vanguard Method* usually leads managers and workers to think of radical change in the set-up of processes. This set-up may be tested without hesitation on a small part of the organisation. The test will establish what works and what does not, and what is useful and verified can be transferred to the overall functioning of the organisation. One then has to start again from the beginning with an analysis that is either quicker or more thorough. This is the only way for the organisation to keep up with the changing environment.

The purpose and assumptions can never be perfect. Just as the external environment keeps changing, so does the experience and perception of the external environment by the organisation's employees evolve as well. The VGM cycle offers an approach thanks to which the purpose of the organisation can be made more accurate, and ever better assumptions for management decisions on the design of system conditions can be found. Equally the organisation continuously improves its ability to generate a high-quality basis for management decisions. The VGM offers a way to foster a continuous learning process which ensures that the organisation remains true to its original raison d'être.

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