



HM Revenue
& Customs

Evaluation of PaceSetter Lean, Senior Leadership & Operational Management within HMRC Processing

Summary Report September 2007

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Background to the Study

HM Revenue and Customs (HMRC) Processing Directorate is implementing Capability Delivery Projects, as part of the Pacesetter Programme, aiming to achieve £5 million of efficiency gains by March 2008. These projects focus on Lean implementation, Operational Management (OM), Senior Leadership (SL) and the Model Office.

The remit of this evaluation was to focus on Lean implementation, OM and SL (OM/SL). The evaluation was undertaken by AtoZ Business Consultancy between January and June 2007, assisted by experts from Warwick Business School. Both are independent, external organisations.

The aim of this summary report is to outline the main findings from visits to National Processing Centres, Self Assessment Centres and the Capability Delivery Projects Office. The report includes staff understanding of Lean and OM/SL, the impact of the Lean implementation and the OM/SL events and the benefits obtained from the implementation.

Evaluation Methodology

The method of data capture used during the evaluation included:

- Site visits to 10 HMRC sites, which had undertaken a combination of Lean implementation and delivery of OM/SL events. The sites included 5 large processing offices (LPOs), 2 distributed processing offices (DPOs) and 3 national processing centres. Two members of staff from HMRC accompanied the evaluators on these site visits. There was also a visit to the Pacesetter Programme Office in London.
- Over 70 individual semi-structured interviews and approximately 30 focus groups with HMRC staff of varying grades using an interview schedule that was tailored to the different grades of staff.
- Collection of documentation and material including Pacesetter overview, Lean implementation plans, training materials and data on performance over time.

Background to Pacesetter and Capability Delivery

Pacesetter has been developed by HMRC to improve efficiency and customer service by delivering a 30% improvement in productivity, reduce backlogs and inconsistencies and ensure that HMRC Processing is amongst the best UK processors and becomes the UK Government's Processor of choice. Capability Delivery is one theme of Pacesetter focusing on Lean and OM/SL.

Lean has its origins in the manufacturing sector. Its principal aim is to reduce waste in a process by defining value from a customer point of view and focusing on developing and implementing a smooth flow of information and material through a process, that delivers to customers just-in-time. Within HMRC, Lean is a three pronged approach that will transform HMRC by:

- Redesigning service delivery processes so as to eliminate waste and variability and maximise flexibility. This will improve productivity, quality and reduce lead time.
- Changing current management processes to create appropriate management infrastructure to sustain improvements.
- Changing mindsets and behaviours of leaders and front line staff to support the new systems and deliver continuous improvement.

Lean is currently being implemented in strategic HMRC sites, which are larger sites that will incorporate the work of smaller sites over time using Lean as the way of working. To implement Lean across these sites, there are a number of dedicated Central and Local Lean Experts based in offices, supported by external consultants.

OM/SL aims to ensure leadership successfully address cultural and behavioural challenges as a key to the ongoing sustainability of Lean. It focuses on performance improvement through developing management capability, fostering new leadership behaviours and engaging staff. The key components of OM/SL include:

- Kick off Events: to establish an operational performance focus with leadership teams.
- Performance Improvement Events (PIEs): leaders engage front line staff in activities to address front line issues.
- Deep Dive Events: leaders prioritise and focus on a few performance issues.
- Launch Events: leaders launch their own programme driven by local needs.
- PIE training: a programme to develop capability to run local PIE events.

There are also off-site workshops for senior managers focusing on process mapping, problem solving, coaching skills and a competence framework for leaders. The OM/SL events are driven by senior managers on site, using the Projects Office and external consultants to facilitate events. To facilitate PIE events, there are a number of trained Advocates based in offices.

Pacesetter has a top-down and bottom up approach to improving performance and the Lean and OM/SL elements are very linked together. Lean drives performance from the processes up into the wider organisation. OM/SL drives performance from the leadership team down into the wider organisation.

Main Findings and Lessons Learnt from Pacesetter and Capability Delivery

The main findings from the implementation are outlined below. These findings focus on; the understanding, perceptions and attitudes of staff; the impact of Lean and OM/SL; the views of staff on the OM/SL events undertaken and; the training provided and transfer of knowledge undertaken to assist the implementation of Lean.

Staff understanding, perceptions and attitudes

- There was a direct correlation between the engagement of the senior manager and senior leadership teams and the attitude of staff towards Capability Delivery and Lean in particular. Sites with more committed and engaged senior leadership teams had more positive attitudes to Lean in particular.
- Senior managers had a better understanding of Pacesetter, Lean and OM/SL, compared to front line staff. The perception of Lean amongst front line staff was influenced by union documentation. To overcome this negative view, communication should have been managed better and success stories associated with the implementation disseminated.
- There was a good understanding of Lean across all sites and main principle of Lean was seen by many staff to be customer focus. Although not all staff linked this with the improved quality and productivity. There was less of an understanding of OM/SL across the sites, especially amongst front line staff. However, where staff did have a good understanding of OM/SL, the OM/SL events were better received and better prepared the site for changes associated with Lean.

- Teams working a Lean process had a series of targets to achieve including productivity targets, quality targets and lead time targets. The productivity of individuals on teams was recorded hourly and the progress of individuals was aggregated to a team status. This led to a concern amongst front line staff that targets would be used to monitor individual performance. A better understanding of the reasons why these key performance indicators are required and how they can be used to drive improvement should have been clearly communicated to front line staff.
- Whilst staff acknowledged that customer focus was the most important element of Lean, there was a mixed understanding amongst front line and some senior staff as to who the customer was. Many staff did not associate the people, whom HMRC delivers a service to, to be customers because they had no choice of provider. To support Lean, there needs to be a better understanding of the customer and what they require. This implies asking the customer about their requirements, disseminating the results across the organisation and the ensuring that these requirements can be achieved through the Lean processes, so that they deliver value for the customer.
- The processes in LPOs and DPOs are owned by a strategic site and have a process owner, which has rotated over the past 18 months. However, the perception amongst front line staff was that processes were owned by the Projects Office and they were difficult to change. However there were examples of where processes had been changed and improved. Further dissemination of this procedure is needed in overcoming this perception.

Impact of the Lean implementation and OM/SL events

- Lean and OM/SL have impacted upon tools, structure, practices and behaviours. This has improved quality and productivity, made processes and practices clearer and led to new ways of working. However there is a need to continue investigating and developing some processes so that they have the flexibility to absorb variety. Additionally new ways of working can be further assisted by introducing core hours at sites so that work schedules and meetings can be managed more proactively.
- Lean has resulted in an increase in the quality of the work at all sites. Quality has partly improved due to the quality checks being undertaken by quality managers who then provide immediate feedback to staff to resolve errors before the work leaves the team. Over the longer period however, there is a need to develop quality in the process through better awareness of the impact of error and the introduction of Statistical Process Control and/or pokayoke. There is also the need to develop a plan which removes the reliance on quality inspection, so that front line staff become responsible for quality.
- There is a more structured approach to problem solving, which was welcomed by many staff, but was seen to be frustrating when actions were not followed through. The impact of problem solving should be further developed by creating a better understanding of the tools used in problem solving, supported by monitoring the outcomes, to help illustrate that the changes have taken place.
- Staff had become more accountable regarding the way that they manage and many senior staff were more visible. Lean has made the managers manage by collecting statistical information, looking at productivity and challenging performance. There were also more channels than before that allowed front line staff to speak to managers. This was welcomed by many staff.
- Teamworking was generally acknowledged to be better under Lean and there was a better team spirit in many teams. At some sites there was evidence of increased cooperating within teams, problem solving within teams and team responsibility for collecting and presenting information related to targets. The next step for these teams is to increase cooperation between teams to further drive improvements and stimulate competition.

- Managers were undertaking more meetings on a daily and weekly basis to review performance, compared to before Lean. This was very useful for further stimulating teamworking and for spreading information within and across teams. However these meetings focused on what output had been achieved and on why targets had not been achieved, rather than focusing on how improvements could be made. Reassessing how the time is spent in meetings and developing clearer guidelines and training should enable these meetings to look at improvements in greater detail.
- Front line staff felt that it was more obvious to see who in the team worked well and who did not. This led in some sites the better performers in the team trying to compensate for their colleagues who did not perform so well.

Views of OM/SL events

- There was a mixed reaction to the OM/SL aspect of Capability Delivery. In many cases, only those sites that fully understood and embraced OM/SL obtained any benefit from the events. Additionally these sites were aware of the connection between OM/SL and Lean and understood that OM/SL was crucial for implementing and sustaining Lean over the longer period.
- Staff, at all levels, appreciated the engagement associated with OM/SL events. However there was a difference between sites in their responses to these events, which was determined by the reaction of the senior management team to OM/SL. Some sites fully embraced the opportunities offered by these events, and had therefore started to change behaviours and culture. In some sites though, senior leadership teams did not follow through on outcomes from the different events. This would lead to frustration by those front line staff that had participated in PIEs.
- A significant number of sites had carried forward action plans resulting from their OM/SL events. In addition, several sites had also witnessed improvements that had originated from PIEs. In these events front line staff were responsible for defining an improvement opportunity and implementing the improvement within ninety days of the event. Sites that had successfully implemented actions from PIEs obtained several benefits. Senior managers were able to spot staff whom they considered to have potential managerial capability. Additionally the opportunities for undertaking these implementations was recognised and appreciated by the front line staff that had attended PIEs.

Training and transferring of knowledge to support Lean implementation

- Central and Local Lean Experts were required to attend training programmes called Lean Academies, in order to improve their ability to support Lean implementation. There were three Lean Academies and in general they were seen as useful by many of these experts but the response to the content was mixed. Furthermore, the Lean Experts would have benefited from a better understanding of capacity planning and control and demand. Over the longer period, training in these elements should be provided. Also, in order to discuss experiences and spread good practice across and outside HMRC, there should be more formal processes for Lean Experts to meet.
- It was noted that the roles and tasks of many staff had changed. Specifically front line managers were performing more appropriate managerial duties under Lean. However, whilst some support was given to learn the new ways of working, no skills analysis had taken place to evaluate what staff development was needed to support the change. Thus staff did not always have the required skills to perform the tasks required to implement Lean. This should be remedied by developing stronger links between HR/ Learning and Lean, supported by skills matrices for all levels of staff to ensure the required skills are present. Furthermore, training should be developed for front line staff that is more relevant to their situation.

- Targets were set to drive up productivity, increase quality and reduce lead times. Some staff felt the productivity targets were unachievable, but in practice many teams were achieving them. However there was little evidence of transferring learning on how to achieve targets across the teams within sites. The transferring of learning within sites depended on senior managers from different processes discussing best practice at their daily meetings. There was also very little transferring of learning between sites, although attempts are being made by some of the larger LPOs to discuss issues such as quality.

Critical Success Factors for Implementing Change

The success factors that are important for implementing a programme of change in any organisation include organisation culture, organisational readiness, managerial commitment, adequate resources and clear communication. The evaluation highlighted how HMRC Processing is addressing these success factors.

- **Organisation Culture:** Developing a culture of continuous improvement in which staff are willing to accept initiatives and develop a sense of ownership, is a key factor in the successful implementation of change. There was evidence that in some sites the OM/SL events were laying the foundation for this to happen. However in many sites, the events had not inspired senior leadership teams to change and this had impacted upon the implementation of Lean.
- **Organisational Readiness:** Organisational readiness implies generating a vision of a fully-integrated Lean organisation from the outset; being realistic about the timescales involved in the implementation; helping staff to understand how Lean may impact upon the organisation; developing an understanding of capacity and demand; and evaluating the degree to which a process and customer view already exist within the organisation. The evaluation highlights that the pace of change in HMRC Processing over the last two years has been rapid allowing many of these elements to be developed, but further embedding is needed.
- **Management Commitment:** Senior management, in particular, are a critical element in giving full recognition to any change programme which helps to shape progress and success over the longer term. A failure to commit leads to lack of attendance at events, partial engagement in the change process and a visible reluctance to implement. The evidence from the evaluation was that in those HMRC Processing sites where there was more senior leadership commitment, there was more of a desire to change working practices.
- **Adequate Resources:** The most successful implementations of improvement and Lean programmes required considerable resource in terms of staff time and, in some cases, financial resource to employ management consultants to assist with Lean process. HMRC Processing has committed a large amount of financial and internal and external staff resources in order to implement Lean, which has been recognized by staff. Without this input, neither Lean nor OM/SL would have had any impact. There is a need to continue with this investment over the longer period to ensure that changes are embedded and sustained.
- **Clear Communication:** Clear and effective communication is important to ensure the successful implementation of Lean. It is clear from the evaluation that more is required from HMRC Processing to communicate messages to staff across all sites, disseminate success stories of Lean and facilitate the transfer of best practice within and between sites. Through meetings, intranet, workshops and awareness-raising sessions, staff can become both engaged and aware of the results of Lean which, in turn, generates support for the process and builds a culture of continuous improvement.

Conclusions

Is HMRC Processing a Lean organisation?

HMRC Processing currently is not applying all the principles of Lean and still has a long way to go before it can describe itself as a Lean organisation. However, this does not mean that Lean is not working. Rather, that there is some way to go on the journey with the evidence indicating that HMRC Processing is moving in the right direction. Lean is driving a process view, improving quality and productivity, removing waste and addressing problems through a structured approach. Time, support and commitment for culture and behaviours to be embedded is required, with better communication and the benchmarking of practices in other process and service organisations. Only when cultural and behaviours are significantly more customer focused can HMRC Processing truly become a Lean organisation.

Have the OM/SL events facilitated the implementation of Lean?

The OM/SL element of Capability Delivery engaged and challenged people but it was not the foundation for Lean it was designed to be across several sites. Some sites acknowledge that participation in the OM/SL events has made the changes brought about by Lean easier to implement or would have made the changes easier to implement had the OM/SL events taken place before the Lean implementation. Therefore there may be potential for the OM/SL element to re-engage and achieve some of its initial aims.

Can Lean be effective in HMRC Processing?

Lean can generate improvements within HMRC Processing, conditional upon an effective approach to implementation. The theory outlines that HMRC Processing can use Lean to develop more seamless processes, improve flow, reduce waste and develop an understanding of customer value and demand. Lean also gives front line staff a better understanding of the end-to-end service delivery process, which increases morale and motivation, and improves customer focus. Lean can also contribute to a culture of change. However, Lean should be used to achieve greater output, faster with higher quality with the same resource rather than a method of cost reduction to release cash or reduce headcount.

Is HMRC Processing suitable for Lean?

To ensure greater successes, HMRC Processing requires an awareness or realisation of the need for improvement, the capacity to deal with change and an organisational culture receptive to making changes to processes as a result of customer demand. Staff should also be engaged in the changes and thereby encouraged to make improvements to the process in which they work. It is still very early in HMRC Processing's Lean journey, but the evaluation highlights that some of sites have the potential to achieve a sustained Lean implementation and embed a culture of improvement.

How can Pacesetter be sustained over the longer term?

To develop and sustain Pacesetter, Capability Delivery and therefore Lean and OM/SL, there is a need for; greater senior management commitment, developing an understanding of the process, linking the improvements to strategy and developing a stronger link and understanding the customer view. Importantly Pacesetter should not be seen as a quick fix with resources and finances committed only in the short to medium term. There is a need to continue the support over the longer term, until behaviours are more firmly embedded and stable processes have been created.

If you would like to know more about the evaluation please email Dr Zoe Radnor at Zoe.Radnor@wbs.ac.uk

If you are interested in receiving another copy of the report or would like to know more about PaceSetter please contact pacesetter.programme@hmrc.gsi.gov.uk

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