

# Serco's approach to: Continual Improvement

Competitive pressure creates a continual challenge to generate fresh ideas to win and retain contracts. The challenge is to create an environment and culture that recognise the need for continual improvement and innovation in the way we develop our service throughout the lifecycle of every contract.

Over the years we've developed robust processes to achieve continual improvement. These are not bolted-on but integrated into the framework within which we manage and operate all our contracts. The thought and decision making processes required to embed and sustain an environment for continual improvement are informed by the management information generated by our performance measurement system. These processes form part of Serco's management system and are complemented by our culture and values, thus ensuring that they form part of 'the way we do things around here'.

## Contract lifecycle

Continual improvement is an important element of the way we manage every contract throughout its lifecycle. Experience has shown us that this lifecycle typically follows four key stages once operational. Each stage has a particular focus and priority. These periods are not exclusive and may overlap and reflect the way customer expectations evolve as our relationship with the customer evolves and strengthens. The four stages illustrated here comprise:

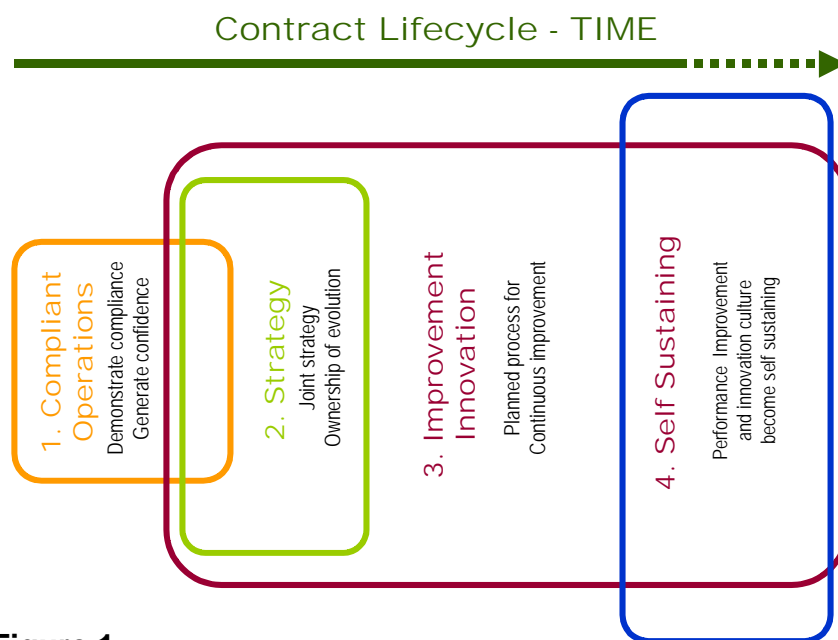


Figure 1

- Achieving compliant operations – this is the initial bedding down of a contract and will be driven by the bid solution. The outcome is customer confidence and trust that we can deliver the promises made and meet their expectations in relation to service delivery and value. This is a period of consolidation, ensuring appropriate devolvement of responsibility and adoption of Serco's values and management style to achieve a co-operative relationship with customers and suppliers. At this time we will establish contractual performance measures to demonstrate compliance. This is a prerequisite for the improvement stage.
- Establishing a strategy for the contract – transfers the contract from a solution driven scenario to one that is driven by the contract team who then assume full responsibility for meeting future requirements and achieving business success. The aim is to evolve customer relationships from co-operation to collaboration and build strength in the Serco team through common understanding of goals and appreciation of where the contract is going. This will require clarity of vision from both customer and Serco perspectives. With this understanding, improvements and innovations to the operation can be considered.
- Improvement and innovation – will be driven by the selected strategy. This will enable a collaborative relationship with the customer to be developed, creating buy-in and commitment to work together for common objectives. The strategy provides the framework within which new ideas, innovation and development opportunities can be assessed. There is a need for relevant performance information, knowledge sharing and networking to validate the decisions taken and proposals presented to the customer
- The final stage of creating a self-sustaining operation reflects a shift of focus onto exceeding customer requirements and meeting future requirements rather than compliance. Improvement and innovation therefore become a way of life where processes/activities are continually challenged and re-engineered.

This lifecycle scenario does not necessarily require new processes or activities within the contract operations but rather changes the emphasis and priority of their application. For example performance measurement will be a foundation block for the contracts operation. Initially it will focus on demonstrating contract compliance, reflecting objective 'hard' targets. However as the contract evolves consideration will be given to measuring some of the 'softer' issues associated with the value that Serco is adding to the contract as well as ensuring the management team have effective measures that demonstrate progress against the selected strategy.

Driving continual improvement therefore forms part of how we manage the business and integrates a range of planning processes and systems. In this section we describe this planning process and highlight the different elements within Serco's management system that combine to deliver continual improvement.

### **Continual improvement planning (CIP)**

Continual improvement forms an integral part of how we manage the contract throughout its lifecycle. This process has driven the continual improvement planning (CIP) that is embedded in our strategic planning processes to enhance quality and continually add value to the service we deliver.

For CIP to be effective, three levels of services must be considered: strategic (what results are to be achieved), service management (how the strategies will be implemented), and operational (how well actions taken meet our customer's business objectives). At the strategic level, this encompasses the customer's business direction, infrastructure and service environment. The service management level looks at how support services are packaged and delivered in relation to the customers business needs. The operational delivery evaluates the 'front end' service and its relationship to strategic and service management objectives.

The following specific elements help our contract management team to drive continual improvement:

### **Strategic planning**

- Contract development plan – explicit objectives developed from the customer's strategic plans for the next 1/3/5 years
- Cost reduction strategy – to be jointly developed with the customer to become the value added strategy
- Procurement strategy – accounting and tendering procedures to allow development of longer-term partnership arrangements.

### **Service management**

- Management development – manage the customer expectations (demand) and manage the delivery process (service)
- Facilities organisation – improve user interface, manage assets, service and information
- User relationships – improve effectiveness of communication, create user forums
- Financial control – adopt consistent measurement protocols, cost comparisons.

### **Operational delivery**

- Introduce and monitor systems that define service requirements, such as service level agreements (SLAs)
- Performance standards and measurements for incorporation into contracts and in service appraisals
- Continued development of procedural and operating manuals.

By implementing the CIP process, we are able to achieve service and cost benefits to our customers. The contract development plan provides the context within which these plans are developed. Their review and revision forms part of a contract development review process. This is achieved through a contract board.

The concept of contract boards forms an integral element of a contract's operating processes, with particular focus on its strategic development and demonstration of continual improvement.

Contract boards are a robust mechanism that provides Serco with the necessary internal controls to meet corporate governance requirements without compromising its core values. At the contract level the contract board will become the catalyst for innovation, continual service improvement and business review. It therefore takes on a strategic role to review and evaluate present and future opportunities, strengths, weaknesses and risks relating to the contracts operation and development.

The frequency of contract board meetings is determined by the needs of the business. As a minimum each contract holds a board meeting at least annually; typically they are held six-monthly. The board will comprise the contracts management team as well as nominated non-executives. Agendas will be appropriate for the contract and driven by the contract's strategic plan (contract development plan) but will generally include a review of strategy, financial performance and corporate governance matters. The objectives of the contract board are to:

- Review current operational delivery
- Understand customer requirements and develop customer relationships
- Identify potential for contract development
- Support organic growth
- Support continual improvement
- Support the enhancement of shareholder value
- Identify actions and gain commitment to them.

## Benchmarking

The robust set of management processes that will be adopted enables us to look at contract operations, including how we are improving the operations, from a number of perspectives. Our inclusive contract development planning process provides strategic direction and enables continual improvement to be demonstrated while our performance monitoring system provides timely and accurate information in relation to how we are actually delivering the services. These processes are supported by our financial systems that provide data on actual spend to enable value judgements to be made in relation to different service areas. The output from these processes enables us to analyse current performance and inform decisions for the future.

One analysis tool that will be used will be benchmarking. This can be considered from two perspectives: external and internal.

External benchmarking lets us understand how we are performing in different areas in comparison to other operations. While this provides an indicator, it is important to make sure that like for like elements are compared. Every contract has many unique features that limit such comparisons. However we will seek to draw comparisons with other operations, should such information be available. While such direct comparisons with like for like facilities will be difficult, we can consider best practice from within the Serco Group, bringing to the contract the experience and best practice of a leading worldwide facilities management organisation.

Within the overall philosophy of a devolved management structure the Serco management team will be corporately responsible for ensuring that the internal and external stakeholders to the contract are provided with an operation that utilises the most effective tools and capabilities to meet service responsibilities and that we are continually improving the service delivery. Within Serco's own organisation we have two main sources that enable our management teams to deliver this responsibility:

- The Serco Best Practice Centre is responsible for evaluating the needs of the business and designing tools and processes to improve effectiveness, and for providing or facilitating training and development for individuals. It is also responsible for identifying the intellectual property within the organisation, capturing that knowledge and making it usable across the business
- The Serco Institute is a research and development organisation that identifies leading edge practice in outsourcing across the world and supports businesses in applying innovative practice to the way we do business.

Serco uses an internal intranet to network its tools and services to the business. This will be made available to the contracts management team. In this way everyone in the Serco team will have access to current best practice within Serco so that these tools and processes can be benchmarked against those currently in use. In addition we will consider establishing service network groups to facilitate ideas and debate and ensure that current methods are questioned and alternatives presented, the objective being to establish best practice guidelines.

More specific benchmarking will be undertaken internally. The performance monitoring system will enable detailed analysis of performance by service category and identify any trends. This will enable potential pockets of best practice to be identified within the contract. These can then be investigated utilising selective benchmarking. Such an approach will enable performance within each service area to be compared utilising high level benchmarks e.g. levels of customer satisfaction or unit costs. As we will be comparing largely like for like operations this will enable real comparison to be undertaken with the objective of taking best practice and utilising it across the contract to achieve continual improvement.

Our approach to benchmarking is therefore customer focused and begins with the identification of the issues, including:

- Business needs
- Customer expectations
- Performance gap – between current activities and defined needs and expectations
- Problem areas
- Strategic advantage.

We would then set up a programme as follows:

- Set up a joint improvement/benchmarking control group
- Establish input mechanisms from business strategy and task groups, performance measurement systems and end user satisfaction systems
- Agree criteria for identifying and prioritising process/support improvement targets
- Undertake individual improvement projects.

By adopting such an approach we will be able to compare identified elements to draw out best practice and identify why a particular area is performing differently from another. The differences in service delivery may result from a particular characteristic and something that we are unable to influence; however, we will have identified the issue and questioned it. If there is no obvious reason for the difference we will develop a change programme to adopt the identified best practice across the contract.

### **Benefits**

Innovation is the foundation of the competitive market in which we operate. We have therefore developed over the years, embedded in best practice and will apply robust processes to achieve continual improvement.

We recognise that continual improvement forms an important element of how we manage every contract we operate throughout the lifecycle of that contract.

We are committed to embedding our processes for achieving continual improvement within the way we manage our business and it forms part of the overall management framework that Serco will provide (the Serco Management System).

Our continual improvement planning process will be embedded within our strategic planning processes in order to enhance the quality of, and continually add value to, the service that we deliver.

The contract board is the catalyst for innovation, continual service improvement and business review. It takes a strategic role in reviewing and evaluating present and future opportunities, strengths, weaknesses and risks, relating to the contract operation. It facilitates the implementation of change and continual improvement practice and is instrumental to the delivery of added value services to the customer.

Our approach enables best practice from across the organisation to be applied within the context of individual contract requirements. Customer input ensures that the recommended solutions are applied in a manner that will effectively integrate with the customer's business processes. Best practice from across the organisation is introduced and applied via participation from external contract staff.

We will encourage open communications throughout the company and ensure that information is accessible from all levels of the organisation. Business processes encourage network development across the company to assist in organisational learning and knowledge sharing processes. In support of this process and our approach to performance measurement we will look at the potential for selective benchmarking to ensure that the ongoing operation remains competitive and reflects the strategic objectives and expectations of our customers.