

CONTINUOUS IMPROVEMENT FOR HOUSING ASSOCIATIONS:  
A DISCUSSION PAPER PREPARED FOR THE HOUSING  
CORPORATION



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## SUMMARY

1. The Housing Corporation identifies Continuous Improvement (CI) as a strategic objective for all housing associations. This paper offers an opportunity to discuss the implications and the impact of CI in the sector.
2. CI is defined as *ongoing process innovations that are focused on the strategic goals of the organisation*. The fine-tuning and ongoing adaptation to organisational process required to achieve CI positively affects the performance of an organisation.
3. CI performance measures need to embrace outputs and outcomes. Attention needs to be focused on outcomes and developing measures of impact, formal effectiveness and equity. Future CI targets should ensure that decision-making is fact-based, proactive and linked to strategy.
4. There will be many routes to CI. However, the key 'lever' to achieve CI is the development of CI capabilities and behaviours. If CI is to become 'a way of life', the evidence suggests that the greatest challenge comes when organisations move from a structured and systematic approach to CI to an overarching strategic approach.
5. In seeking to achieve CI, associations will also have to consider a wider number of levers, including human resource management practices (management styles and approaches to problem solving), business processes (techniques to promote the cycle of improvement) and organisational structure (the balance between specialist CI staff and generic CI approaches).
6. A number of challenges exist for the housing association sector if it is to develop CI capabilities. These are centred on the way targets are set, the role of CI tools, the resources required to attain CI and how the benefits of CI are to be demonstrated.
7. Two major questions emerge for the housing association sector. Can it lead the development of CI in public service organisations and can it develop systems of knowledge transfer which ensure that the resulting CI gains are available across the sector?
8. Seven discussion questions are posed in this discussion paper.

## 1 INTRODUCTION

Continuous Improvement (CI) is expected in all public services (Blair, 2002). It is identified as a strategic objective for all players in the housing association sector and is one of the cornerstones of performance improvement regimes such as Best Value. To be able to meet the requirements of, and the standards set down, in the *Regulatory Code*, associations need to develop an understanding of CI and how it is achieved. The importance of this is heightened because a state of CI is not simple to attain. This paper offers an opportunity to discuss CI in the housing association sector.

In this discussion paper:

- Part 2: develops the definition of CI and includes a discussion of the relationship between CI and step change,
- Part 3: highlights the CI performance outputs and outcomes and their relationship to the *Regulatory Code*,
- Part 4: draws out some key lessons on management and organisational approaches to CI, and
- Part 5: discusses broader themes and challenges for the sector.

## 2 CONTINUOUS IMPROVEMENT

The concept of CI was developed in the manufacturing sector. It is a management approach in its own right, though it is closely associated with a number of other management approaches including:

- Total quality management, which emphasises CI, customer focus and teamwork (Boyne and Walker, 2002),
- Lean production, which seeks to correctly define value for the customer and ensure that through the production process customer value is not lost, and that if actions do not directly contribute towards customer value they are removed. Results are analysed and evaluated and process changes recommenced (Womack and Jones, 1997; Zangwill and Kantor, 1998), and
- *Kaizen* is the philosophy of CI in personal life, home life, social life, and working life. In working life it means CI involving everyone, on an ongoing basis. It is a mind-set (Imai, 1986).

CI is central to specific improvement initiatives such as business excellence (e.g. EFQM) and public service improvement regimes such as Best Value regime. Best Value requires CI in individual landlords and the sector as a whole (Housing Corporation, 1999).

CI has been demonstrated to positively affect performance in the areas of quality, costs, productivity and lead-time, and customer and societal satisfaction (Gertsen, 2001) and to achieve 90 percent or more improvements in processes and productivity, without capital investment (Zangwill and Kantor, 1998). To achieve such performance improvements organisations need to be committed "to constant examination of technical and administrative processes in search of better methods" (Dean and Bowen, 1994 p. 395) or work towards "... a planned change in the state of affairs of an organization that is perceived as positive in relation to the organization's goals, policies or vision" (Lillrank et al., 2001 p. 43). CI therefore requires "a company-wide process of focused and continuous incremental innovation" (Bessant et al., 1994, p.20). Given this discussion, CI is defined as: *ongoing process innovations that are focused on the strategic goals of the organisation.*

It is important to be clear that continuous incremental innovation or CI does not preclude larger changes associated with discontinuous change, innovation or 'step change'. First, step change is needed to move an organisation from a position of making ad hoc improvements to one where improvement is continuous (Bessant and Francis, 1999). Second, when step changes occur they need to be accompanied by continually improving incremental changes if the effect of the step change on performance is not to be lost (Imai, 1986; Choi, 1995). Third, incremental changes or innovations have to be 'nested', built on one another and clearly related to organisational goals such that "Radical improvement can be achieved through a process of small incremental steps" (Lillrank et al. 2001, p. 44). The process of managing change through small steps reduces risk and can accumulate to such a level that large changes are achieved and gains in performance are made as CI is adopted as a strategic way of working (Bessant and Francis, 1999).

*(i) Is the definition of CI appropriate for the housing association sector?*

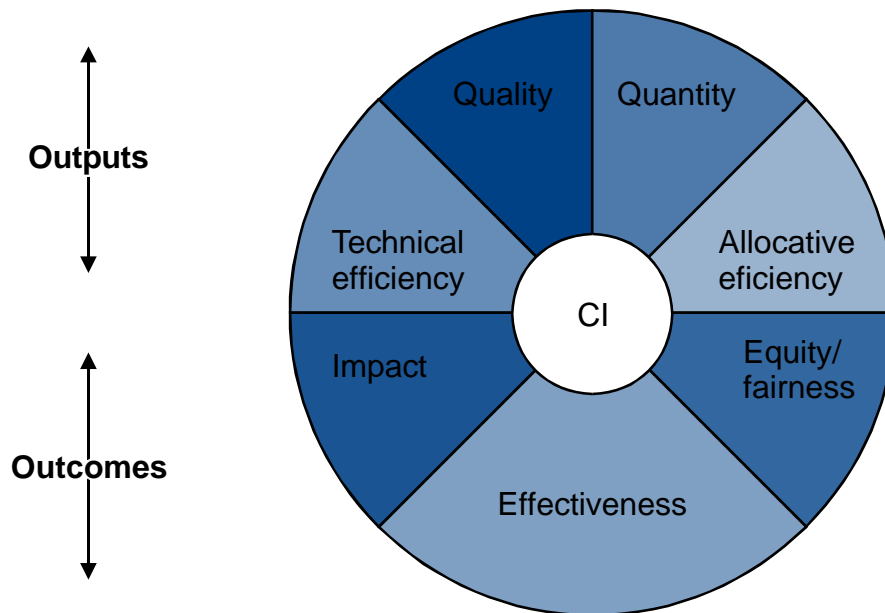
### 3 CONTINUOUS IMPROVEMENT TARGETS

#### 3.1 Dimensions of Performance

The *Regulatory Code* expects associations to work towards CI in their services and lays down minimum requirements for housing associations to be "viable organisations that are well governed and well managed" (Housing Corporation, 2002a, p.6). The *Regulatory Code*, when placed alongside a regime such as Best Value that requires CI in services and associations' own strategic goals and objectives, forms the baseline from which the housing association CI effort has to be launched.

To ensure that associations achieve CI they need to measure their performance in terms of outputs and outcomes (Figure 1). Outputs include efficiency, the quantity of a service, and the quality of a service (Boyne, 2002). The definition of quantity and quality (e.g. speed of delivery, accessibility of provision and so on) are relatively straight-forward. Efficiency is more complex. It is defined in two ways. Technical efficiency refers to the cost per unit of output (e.g. of letting a home). Allocative efficiency is concerned with the responsiveness to public preferences. The responsiveness of public service organisations to their users is argued to be central to the measurement of their success and failure.

Figure 1: Performance dimensions and CI



Outcomes have three sub-components:

- (1) the effectiveness of organisations - this is usually interpreted as the achievement of formal objectives, 'impact', for example the
- (2) impact of housing association activities on regeneration. This may be positive or negative, and
- (3) equity or fairness of service provision which embraces the distribution of outputs by gender, age, race, income and geographical area.

In seeking to achieve CI and be viable, well governed and well managed organisations housing associations will need to take account of these dimensions of performance.

### 3.2 Measuring Outputs

The core business of housing associations (providing, managing and maintain homes) has been identified as a key output of housing association business for some time. Three areas of *service delivery* are identified in the *Regulatory Code* (Housing Corporation, 2002a). Housing associations are expected to develop and manage good quality homes (3.4<sup>1</sup>) that are well maintained and provide good quality housing services (3.5). Second, value for money in their services is to be attained (3.2, 3.3), third, appropriate management arrangements (3.2) are expected to be in place that are appropriate to their circumstances, scale and scope of operation.

Associations are expected to be *responsive* to the needs of users (2.5), and mechanisms have been put in place to strengthen user interface over service design and delivery (Housing Corporation, 1999). As part of this process the Housing Corporation aims to champion a tenant focus amongst housing associations (1999, 2001a, p.12, 2002a, p.3). The Housing Corporation has promoted a consumerist mode for some years and developed a number of mechanisms to gather tenants' views and experiences

<sup>1</sup> Numbers in parenthesis refer to the Regulatory Code (Housing Corporation 2002a) category.

(including 'Communities in Control', the 'Tenant Consumer Panel', Inspection etc).

The *Regulatory Code* specifies customer focus as an output of housing association activity - being responsive to the needs and characteristics of tenants, providing high standards of customer care, enabling residents to play a part in decision-making and so on.

As independent organisations housing associations are expected to be *viable* - financially sustainable, efficient businesses, that clearly plan and monitor information on their progress (1.1), identify and manage their risks (1.2) and charge appropriate rents to their tenants (3.1). Implicitly, if associations are continually to improve their service delivery to customers they also need to be well-managed with an effective board supported by appropriate governance and executive arrangements (2.2), together with appropriate management arrangements, resources, skills and systems (3.2). In ensuring that they are viable they will also have to protect public investment (2.4). Closely associated with the viability of associations are the processes of management that constitute the overall governance framework. Associations are expected to be well-managed (3.2), operate within the law and their constitutions (2.1), have high standards of probity (2.3) with clear leadership (2.2) and control mechanisms (2.2).

*(ii) Are service delivery (efficiency), responsiveness, viability and governance the appropriate CI outputs that associations should be measured against?*

### 3.3 Measuring Outcomes

Outcomes are signalled in a number of places to include a wider set of issues that are not easily defined and operationalised as performance measures. For example,

'We are looking at new and innovative approaches to reverse the spiral of decline which has taken hold in some areas, while at the same time tailoring our service to the needs of different groups within communities' Clive Turner, Director, Investment and Regeneration, South. (Housing Corporation, 2001b, p. 45)

Housing associations are expected to have an 'impact' by delivering a better *quality of life* to residents by pursuing social, environmental and economic objectives in their policies and activities (3.7). Given that quality of life is a broad concept, housing associations are expected to contribute to areas where they have direct influence (decent homes, communities and neighbourhoods, 'special' groups of users). They are expected to "know what is needed to transform their communities" and ensure that they "invest for the creation and maintenance of safe and sustainable communities" (Housing Corporation, 2001a, p.10). It is not, however, expected that they have the capacity to meet these outcomes alone. It is anticipated that they will work in partnership with other agencies (3.6) to achieve regeneration, sustainability, and strategies that are responsive to their social and economic environment (3.7).

Formal effectiveness of services extends the prior discussion of service delivery. *Service delivery* effectiveness refers to meeting core business goals, such as lettings, rent collection and maintenance. Facets of these outcomes are also anticipated to be undertaken in partnership, for example, meeting the needs of the homeless and the vulnerable (3.6). Finally *equity*, associations are required to demonstrate



that they are committed to equal opportunities and "work towards the elimination of discrimination and demonstrate an equitable approach to the rights and responsibilities of individuals" (2.7).

*(iii) Are impact, service delivery (effectiveness) and equity the appropriate CI outcomes that associations should be measured against?*

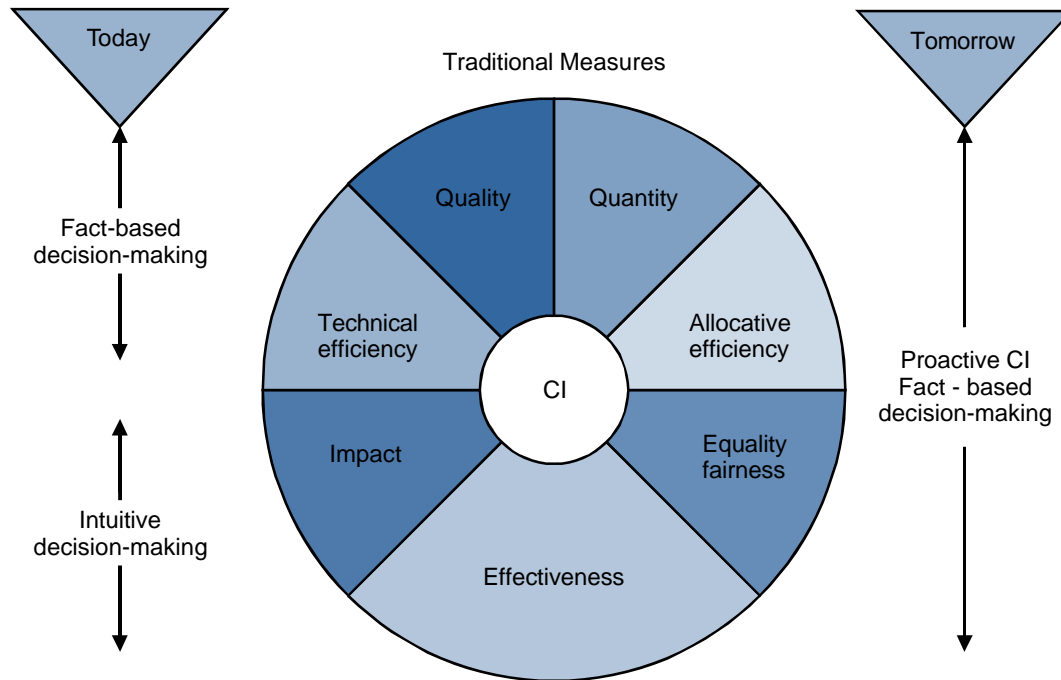
### 3.4 Developing Continuous Improvement Targets

Housing association performance measurement systems have focused on outputs. A range of performance indicators have been developed by associations for their own uses and by the Housing Corporation. In order to meet the challenges of CI, associations need to consider the emerging areas of performance measurement: the impact of their policies, effectiveness and fairness. These areas are less well defined and are not as abundant, precise or quantitative as traditional measures. They are also forward-looking rather than historically based. This leads to intuitive decision-making rather than factual decision-making. Given the pressures for CI, associations need to develop systems that allow them to develop proactive, fact based decision-making by ensuring that measurement links to strategy. This will allow an association to set measures in the context of where they are going, rather than where they are coming from. Figure 2 illustrates these points.

A range of tools exist to help associations in this endeavour: EFQM, Balanced Scorecard, Value Chain Scoreboard, Best Value Reviews. Good performance management is essential to CI and can bring benefits (Egan, 1998). Associations need to consider developing and have examples of:

- measures that managers understand,
- balances of output and outcome measures,
- linking strategic measures to operational measures, updating their 'scorecard' regularly, and
- communicating measures and progress to all employees (KPMG, 2001, p.5).

Figure 2: CI performance measurement



Source: adapted from KMPG (2001)

#### 4 CONTINUOUS IMPROVEMENT LEVERS

The Housing Corporation expects associations to show that they comply with the *Regulatory Code*. However, it is recognised that there is not one route or prescribed process to CI and that each association is independent and a different organisation. These views echo those of management and organisational researchers who have argued that management regimes are implemented in individual organisations each with their own history, culture and context. Consequently, it is not possible, nor wise, to offer a 'universalistic' solution to the question: how do housing associations achieve CI? Rather the approach is to identify the key management and organisational dimensions highlighted in other work and to allow each association to identify the value of these lessons for themselves.

Achieving the goal of performance improvement in public organisations is associated with a range of internal inputs or processes including leadership, training, people commitment, incentive schemes, budget management decisions and performance management systems and inter-organisational relationships including stakeholders, partnerships, user relationships etc (Lee, 2000; Puran and Ngoyi, 2000; Wechsler and Clary, 2000).

Work on CI (Bessant et al., 1994; Bessant and Francis, 1999; Boaden, 1996; Caffryn, 1999; Egan, 1998) identifies a set of issues associated with:

- Leadership,
- customer-focus,
- Processes,

- Quality,
- commitment to people, and
- CI capabilities.

What marks out CI from other efforts to improve organisations is the emphasis given to CI capabilities.

#### 4.1 Continuous Improvement Capabilities

CI is a dynamic phenomenon. It requires ongoing change and adjustment to processes in order to achieve performance improvement in products and services. If an organisation is to achieve CI, in addition to the levers mentioned above, it needs to develop the key lever of generic CI capabilities (Bessant and Francis, 1999; Caffyn, 1999). Organisations need to identify their CI competencies (figure 3). Figure 3A identifies generic core CI abilities and key behaviours that are seen as essential for long term success. The behaviours are displayed by individuals and groups whilst the core abilities are seen in the organisation. The ten key behaviours move from CI awareness through incremental improvements to CI as a way of life. The core abilities move towards the demonstration of CI values across the organisation, including the ability to move CI across organisational boundaries to include partners. Movement from key behaviour 1 to 10 or core ability A to F cannot be achieved overnight it is a long term effort.

Organisations pass through a series of CI developmental stages as they move towards a state where organisational members are engaged in making improvements focused on the organisation's strategic goals and objectives. The six levels an organisation passes through as it develops its CI capabilities are shown in figure 3B. As CI capabilities are enhanced so, in turn, is the level of organisational performance as CI practices become ingrained in daily organisational life. As indicated in figure 3, all ten key behaviours listed in figure 3A are present at CI level 2 (figure 3B).

The transition from level 1 to 2 (figure 3B) is essentially ad hoc, involving the establishment of basic problem finding and solving behaviours, and learning to undertake these better (Bessant and Francis, 1999). These include training in basic CI tools and techniques, setting up relevant vehicles (e.g. quality circles) to enact CI and developing appropriate reward and recognition systems (Bessant and Francis, 1999). These changes require all members of an organisation to acquire new behaviours, and in particular the need to both do (standard work practices) and think (CI) at the same time (Victor et al., 2000). This has implications for the organisation of CI as a specialised or generic activity.

One of the key transitions that organisations experience is the movement from level 2 to level 3. This step requires the adoption of strategic targets, more open and transparent systems, new ways of thinking and interaction with the organisation's context. The movement from a systematic approach to a strategic CI focus is argued not to be more of the same, but requires step change (Bessant and Francis, 1999).

*(iv) Are these the appropriate capabilities and behaviours?*

*(v) How well developed are these capabilities and behaviours in the housing association sector?*

Figure 3: CI abilities, behaviours, capacities and performance

3A Level of core organisational abilities and key behaviours for CI

Core Abilities		Key Behaviours	
A	The ability to link CI activities to the strategic goals of the association	1.	Employees demonstrate awareness and understanding of the organisation's aims and objectives
		2.	Individuals and groups use the organisation's strategic goals and objectives to focus and prioritise their improvement activities
B	The ability to strategically manage the development of CI	3.	The enabling mechanisms (e.g. training, teamwork, methodologies) used to encourage involvement in CI are monitored and developed
		4.	Ongoing assessment ensures that the organisation's structures, systems and procedures, and the approach and mechanisms used to develop CI, consistently reinforce and support each other
C	The ability to generate sustained involvement in CI	5.	Managers at all levels display active commitment to, and leadership of CI
		6.	Throughout the organisation people engage proactively in incremental improvement
D	The ability to move CI across organisational boundaries	7.	There is effective working across internal and external boundaries at all levels
E	The ability to learn through CI activity	8.	People learn from their own and others' experiences, both positive and negative
		9.	The learning of individuals and groups is captured and deployed
F	The ability to articulate and demonstrate CI values	10.	People are guided by a shared set of cultural values underpinning CI as they go about their everyday work

3B Levels of CI capability, performance and practices

Level	Practice	Performance
0 = No CI activity	Problem-solving random and dominated by specialists. No formal efforts or structures	No impact from CI
1 = Trying out the ideas	CI happens as a result of learning curve effects associated with a particular new product or process or training intervention and then fades out.	Minimal and local effects only. Some improvements in morale and motivation
2 = Structured and systematic CI	Formal attempts to create and sustain CI. Use of formal problem-solving processes, participation, training in basic CI tools and reward and recognition systems Can extend to cross functional working, but on an ad hoc basis	Local level effects Measurable CI activity - e.g. number of participants, ideas produced, etc Measurable performance effects confined to projects
3 = Strategic CI	All of the above plus: Formal deployment of strategic goals Monitoring and measurement of CI against goals	Policy deployment links local and project level activity to broader strategic goals Monitoring and measurement drives improvement on these issues which can be measured in terms of impact on outputs
4 = Autonomous innovation	All of the above plus: responsibility for mechanisms, timing etc devolved to problem solving unit. High levels of experimentation	Strategic benefits, including those from discontinuous, major innovations as well as incremental problem solving
5 = The learning organisation	Automatic capture and sharing of learning Everyone actively involved in innovation process Incremental and radical innovation	Strategic innovation Ability to deploy competence base to competitive advantage

Source: adapted from Bessant and Francis, 1999; Caffyn, 1999

## 4.2 Continuous Improvement Levers

The discussion below *illustrates* some of the wider generic management and organisation lessons about CI and performance improvement. It is clear that the external environment has become more complex over recent years and a range of pressures are now driving CI. These include regulation and inspection, more intense competition, changing finance e.g. rents, customer demands and expectations, government policy agendas, partnerships, social and economic change, new technology and e-government, changing demand, and environmental issues. The rate of change amongst these factors has also grown.

Running alongside the external pressures, associations may find a number of internal pressures pushing them towards CI:

- the need to support and maintain organisational structures,
- wanting to be leaders in the field,
- dealing with poor performance,
- the need for cross-departmental working,
- the aspirations of leaders,
- changes in leadership and management, and
- the need to speed up information flows.

What becomes important to associations when they search to achieve CI is the level of uncertainty associated with this change - are they able to predict the rate and nature of change and are they able to influence it? The ability of an association to influence its environment is partly dependent upon its stakeholders: the tenants it houses, the local authorities it works with, funders, regulators, voluntary organisations, other housing associations and so on. The evidence suggests that organisations need to understand the environment, scan it on a continual basis and analyse it, and be familiar with the needs of their customers, and the views and expectations of their stakeholders.

As part of their assessment of the internal and external CI drivers, associations will need to understand their own internal strengths and weaknesses including factors such as the types of association, finance (rent restructuring), size and spread of operations, location, type of communities where an association works, the growth of new risks and so on. Management tools that focus on internal and external factors, the business and assess risk will help associations to identify the important processes, outputs and outcomes where their CI efforts should be targeted.

The CI and performance improvement levers discussed are human resource management (HRM), business processes, culture and structure.

Given the emphasis on capabilities and behaviour HRM practices are central to CI. Participative problem solving is given particular attention, notably the formation of teams, group skills and team building. A CI organisation would be expected to display the following HRM or people strategies and practices (Bessant and Francis, 1999; Power and Sohal, 2000):

- open, directed and informal communication,
- participative management styles,
- empower employees,
- promote the development of multi-skilled and flexible workforce, use team based structures to drive CI, and
- have effective employee development programmes which includes training on problem finding and solving processes, CI tools and techniques, idea management systems to receive and respond to ideas, and reward and recognition systems.

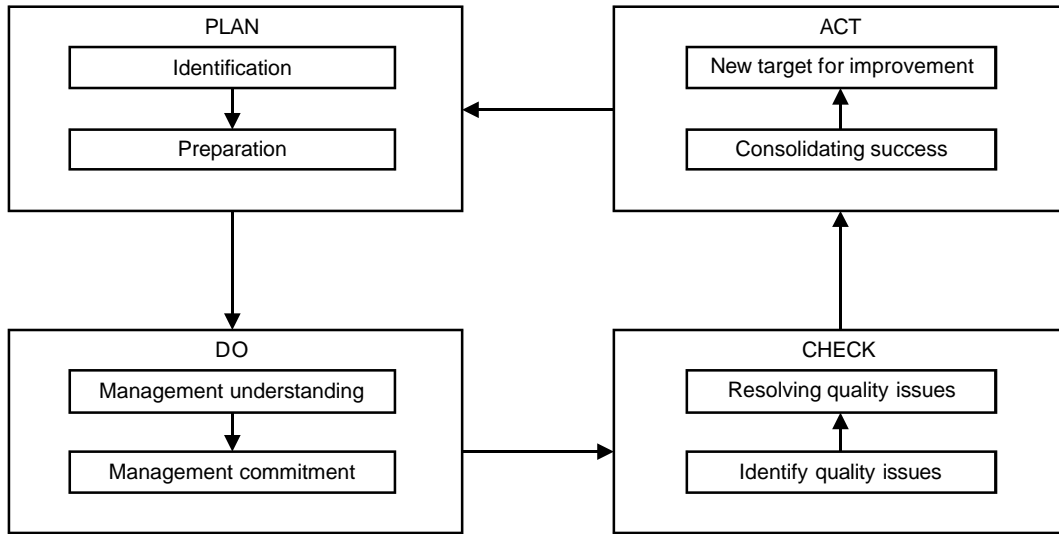
In order continually to raise the standards of products and services *business processes* need to be relentlessly improved. Process improvement is associated with a number of practices that seek to promote a virtuous cycle of improvement. These include CI tools such as, Best Value comprehensive reviews, re-engineering, problem solving and 'plan-do-check-action'.

The plan-do-check-action (PDCA) cycle usefully illustrates the relationship between business processes and CI implementation. Figure 4 outlines this approach. At the PLAN stage it is necessary to identify and collect information about the organisation in key areas where improvements will have most impact on their performance and prepare the detailed basic work for the improvement in the organisation's activities. The DO phase requires that the objectives and methodologies of CI are understood and that there is management commitment to them all the time. The CHECK stage requires the involvement of management and staff in training and communication, identifying CI issues and how to resolve them. The final ACTION stage sees the commencement of a new initiative with new targets for improvement whilst the completed improvement process is taken to everyone and indicates stakeholder links. Information about progress is recorded on an ongoing basis and successes consolidated.

The adoption of an appropriate *culture* is central to achieving organisational CI. Studies have noted that innovation and team working are key cultural attributes that are positively related to organisational performance (Boyne et al., 2001). The key facets of the CI culture include:

- employees signed up to an association's strategic goals and objectives,
- CI activities focused on strategic goals and objectives,
- self-assessment of CI capabilities,
- CI leaderships at all levels,
- working across internal and external boundaries,
- learning by individuals is captured and deployed,
- all staff actively involved in innovation processes, and
- devolution of problem solving to the lowest possible level.

Figure 4: Plan-Do-Check-Action model of business processes and CI implementation



Source: adapted from Imai (1986) and Kanji (1996)

These approaches have implications for the chosen *structure* for an association. If CI were to lead to higher levels of bureaucracy it would have adverse effects on performance. The innovation emphasis within CI further suggests the need to develop organic and flexible structures which will engender improvements and new ways of doing things (Victor et al., 2000; Walker et al., 2001). In seeking to achieve CI, organisations must, therefore, consider the balance between first, the specialisation of the CI activity or generic CI and second, the balance between the organisation of standardised work, typically undertaken through hierarchy, and CI, typically undertaken through team working.

(vi) Are these the appropriate levers to achieve CI?

(vii) What CI levers are associations currently pulling?

## 5 THEMES AND CHALLENGES

This discussion paper has indicated the important role of CI in the housing association sector, presented a definition of CI, discussed the CI targets that housing associations need to move towards and highlighted key management and organisational dimensions of CI. Questions have been posed to assist the CI debate in the housing association sector. A number of specific challenges emerge:

- Are current CI targets (set nationally or locally) adequately developed and sufficiently demanding?
- How can measurement frameworks be developed at the macro- or micro-level?
- Do housing associations need specific CI self-assessment tools or awards?
- Do associations have evidence that self-assessment tools or awards lead to improved performance?
- How are associations going to make resources available to facilitate CI?
- How can associations use CI capabilities to support innovation and do things in new ways, as well as doing existing things better?
- In what ways will CI benefits be demonstrated?
- How can tacit CI knowledge be systematically captured and codified?

Two broader themes emerge for the housing association sector to pursue in the application of CI in public service organisations.

1. The review of literature on CI and associated techniques such as TQM indicates that performance improvements are achieved in private sector firms and manufacturing firms in particular. The housing association sector is, therefore, at the forefront in applying CI ideas to service orientated organisations and can lead the way in demonstrating benefits.
2. Housing associations work in partnership with a range of public service organisations, voluntary organisations and customers. Much of the evidence for CI and the resultant performance improvements are based on internal organisational processes. However, to achieve CI outcomes, knowledge transfer between a range of organisations is likely to become essential. Private sector evidence suggests that for knowledge transfer to take place across organisational boundaries organisation's need to develop partnerships to enhance the inflow of information, resources, processes and products and develop skills in collaborating with diverse partners (Delbridge and Barton, 2002; Powell et al., 1996). Housing associations will need to develop enhanced skills and techniques in partnership working to capture knowledge that needs to be available to a range of organisations in order for the benefits of CI to spread across the sector. This has implications for the relationships between associations (competitors or collaborators), the way information is shared (between associations, the Housing Corporation, National Housing Federation, Local Government Association and so on) and where it is acquired from.



6 NEXT STEPS

We welcome comments on this discussion paper. Please send written comments by 15<sup>th</sup> May 2003 to:

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We have allowed 8 weeks for responses to this discussion paper. A symposium will be held following the analysis of responses. Details are available from Steve Carey at Cavendish Corporate Communications Ltd, Tel: 020 7886 5571 Email: [steve957@yahoo.co.uk](mailto:steve957@yahoo.co.uk).

More copies of this paper are available on the Housing Corporation's website:

[www.housingcorp.gov.uk](http://www.housingcorp.gov.uk)

Responses will be made available to the public unless confidentiality is requested.

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