

# In the NHS, as in private business, organizational evolution outperforms the ‘cult of change’ – if only Andrew Lansley would let it

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*New governments like new business executives, often reach for the lever labelled ‘radical restructuring’, in an effort to make an evident short-run attack on organizational problems. Starting from the ‘genetics’ of organizational change, as developed in a new book, [Geoffrey M. Hodgson](#) argues that in the NHS and schools as much as in private industry the evidence shows that serial, evolutionary transformations trump the ‘cult of change’.*



In a quotation frequently posted on office notice boards, Gaius Petronius (27-66 AD) remarked that ‘every time we were beginning to form up into teams we would be reorganised’. Reorganisation, he said, is ‘a wonderful method ... for creating the illusion of progress while producing confusion, inefficiency, and demoralization.’ Today ‘change’ has become even more of a cult among politicians and business leaders. In a technologically dynamic and rapidly changing society it is treated even more as a virtue in itself, with less regard for the costs and disruptions involved.

## Look at the National Health Service

A superb example is the history of the English National Health Service, which under three governments has undergone numerous structural and substantive changes. By 1997 the Conservative government had moved towards a market-oriented system with fund-holding GPs, about 100 Local Health Authorities and 8 Regional Offices.

Pledging to reverse the ‘market’ reforms of their predecessors, the incoming Labour Government of 1997 abolished GP fund-holding and created 480 GP Primary Care Groups to take the place of the Local Health Authorities.

In further successive reorganisations under several Labour Secretaries of State for Health, by 2002 ‘market’ elements were generally being enhanced rather than reduced. In 2006 the system became similar to that when Labour came into power, with 152 Primary Care Trusts and 10 Strategic Health Authorities. By this time the repeated reorganisations of the NHS had cost £3 billion to implement with a structural outcome reminiscent of what was there in early 1997.

Speaking from the Opposition benches, in 2006 David Cameron pledged ‘no more pointless and disruptive reorganisations’ of the NHS. Promises, promises. Yet the new Conservative-Liberal Coalition formed in June 2010 is now embarking on the most radical reorganisation of the NHS in England since 1948. It seeks to further enhance the private, ‘choice’ and ‘market’ elements. Very few professional or NHS groups have been supportive, but some voices from academia have concurred, notably [Julian LeGrand on this blog](#).

Yet the changes are costed by the government itself at [a minimum cost of £1.7 billion](#) during 2010-11 alone, with no guarantee that it will improve performance. [Professor Kieran Walshe](#) estimates that the new reform will cost around £3.5 billion – yet he finds that there is very little evidence that past NHS reorganisations have produced any improvement. The coalition government, he says, ‘looks likely to make all these mistakes again’.

## Private sector performance by firms

The NHS is just one (particularly large-scale and dramatic) example of many in the public and private sectors. New business executives and managers are hired and command large salaries because they have are perceived to have



powers of entrepreneurship or leadership that can change organizations. Of course, organizations do need to change to some degree, to deal with developing circumstances and new competition, but the widespread cult of change engenders ambitions that are often unfeasible and generally costly, for the organisation itself and sometimes for the broader public as well

Yet much evidence from private industry suggests that here too deep organisational change is difficult to achieve (Hannan and Freeman 1989). Timothy Dunne and his co-authors (1988, 1989) reported that it took new firms more than 10 years to increase their output level to match the industry average. Hence industry-wide change is as much or more a result of bankruptcies and new entrants than firm-level adaptations.

Nevertheless, the mechanisms and limits of firm-level adaptation are a vital and sometimes overlooked question of research. Indeed, if selection is a major force then we necessarily have to understand how new entrants can develop and adapt enough to survive and why bankrupt firms failed to do so. To understand the difficulties and costs of adaptation we have to appreciate how knowledge and skills are preserved, transferred and possibly enhanced. We know that much business knowledge is tacit (Nonaka and Takeuchi 1995), so how is it accessed, replicated and developed?

Along with Thorbjørn Knudsen I propose a theoretical framework to help to deal with these questions [in a new book, \*Darwin's Conjecture\*](#). Fundamentally we argue that the three basic Darwinian principles of variation, replication and selection apply to social as well as biological phenomena. But to say that two different domains have abstract features in common does not imply any similarity at the level of detail. Evolution in both biology and society involves the retention, copying and diffusion of information. Consideration of the processes of replication in social or biological evolution involves understanding of the nature of that information and how it is stored and passed on.

Furthermore, just as biological evolution has led eventually to organisms of greater sophistication and complexity, social and economic evolution is marked by a rapid increase in the complexity of technology and institutions in a relatively short period of human history. It is important to understand the necessary conditions under which complexity is enhanced in evolving systems.

The most basic and important condition is the existence of 'generative replicators', namely mechanisms that can store and copy information to instruct and guide the development of their host entity. Given these, the next most essential condition is that copy error during replication is minimised. By contrast, both reading and developmental errors, which occur when getting information from a source, do not corrupt the original information and are generally less serious. If the original information remains intact it might be retrieved, but if replication over time leads to the loss of parts of the original then they are gone forever.

Some enduring fidelity in the copying of this key information is a necessary condition for the evolution of complexity. Misleading propositions that social evolution is 'Lamarckian' have obscured this. Evolution of acquired characters might be possible, but if it were it would face problems and limit the growth of complexity. If every organism reacted to its environment by encoding adaptations in its 'genes', then this would mean a substantial reaction to every ephemeral change and the relative devaluation of tried-and-tested solutions to enduring adaptive problems. What matters for evolution is that coding for long-lasting adaptive solutions to complex problems is preserved and copied faithfully.

With social and economic evolution the advance of complexity depends upon similar conditions. In a world of complexity and uncertainty, designed solutions to economic and business problems are difficult. While some planning and guidance is desirable and unavoidable, we have to rely on tried and tested knowledge.

## The 'Genetics' of Social Evolution

Having understood the importance of the encoding of tried-and-tested information, we have to ask how information concerning adaptations to social problems is stored and replicated. Richard Dawkins coined the term 'meme' to describe such information. But precise and generally agreed definitions of the 'meme' eluded the entire 'memetics' project. Vague descriptions of memes as ideas or thoughts offered no insight into the psychological or neural mechanisms involved. By regarding social information as simply ideas, meme enthusiasts raised but ignored the ancient philosophical problem of relating the ideal to the material and of mind to matter.

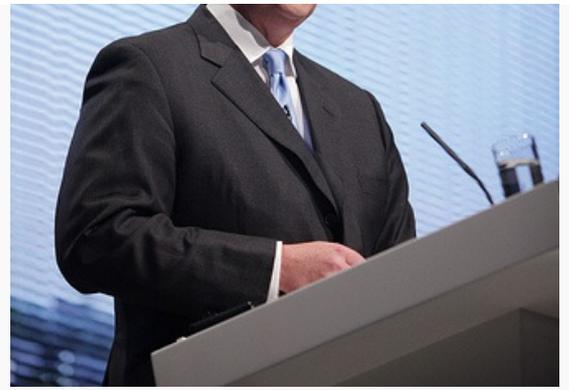


Image Credit: Conservative Party

Late in the nineteenth century, American pragmatist philosophers such as Charles Sanders Peirce, William James and John Dewey reached a solution to this philosophical problem by regarding psychological habits as the foundations and preconditions of ideas. Pragmatist psychology and philosophy are undergoing a revival today, and is supported by experimental and neurological evidence indicating that our underlying habitual dispositions are at work well before we make conscious decisions (Hodgson 2010). The American institutional economist Thorstein Veblen was strongly influenced by pragmatism and he argued accordingly that habitual and instinctive dispositions were the foundation of all social institutions.

In addition, modern evolutionary economics in the tradition of Richard Nelson and Sidney Winter (1982) emphasises the importance and roles of routines within organisations. Routines are interlocking patterns of habits placed within organisational structures: social interactions can trigger and enable behaviours that are not possible with isolated individuals.

The equivalent 'genetics' of social evolution involves understanding the psychological and neurological mechanisms involved in these social processes, as well as a deep appreciation of how social structures and positions enable the retention of knowledge that relates to coordinated activity within organisations or teams.

### **The need for cautious, episodic changes**

The cult of change has been enhanced in an increasingly unequal society. Senior managers and business leaders are routinely paid six or seven figure salaries in the belief that their individual drive and energy is necessary for 'change'. But no individual can understand the complexities of a single organisation or appreciate all the detailed, specific and often tacit knowledge embodied in individual habits or organisational routines.

Organisations do need to adapt to rapid social and technological changes. But planned change in firms should be piecemeal, experimental and cautious. Change always has costs but only sometimes has benefits. Generally, organisations should concentrate primarily on the careful development of existing competences rather than radical reorganisation. They should first understand and develop what they already do relatively well. Leadership and entrepreneurship are important, but leaders and entrepreneurs have to learn much from other employees. Managing continuity is as important as managing change (Kolb 2002).

### **Back to politics**

Change will happen. But forced and reckless change – as if for its own sake – is extremely wasteful and often counterproductive. Much business change will result from factors beyond any individual firm's control – by new entrants or bankruptcies. In government too much that gets done results from ideology rather than evidence, as the volatility in the English NHS bear witness.

Frustrated politicians looking for short-term fixes to health service problems can often summon up in themselves a renewed appetite for further change, even in the most unfavourable conditions, more or less ignoring the views of employees shell-shocked by years of reckless past disruption. It would be far better for the new ministerial team to experiment with piecemeal changes – perhaps on a regional basis – and to learn more from comparative experience from other countries (Hodgson 2008), rather than to lurch back into yet another expensive and ideologically driven cure-all.

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Further reading: Delia Lloyd, ['Now it's Britain's Turn for a Health Care reform battle'](#) at **Politics Daily**, 29 September.

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To learn more about these ideas, see

Geoffrey M. Hodgson and Thorbjørn Knudsen, (2010) *Darwin's Conjecture: The Search for General Principles of Social and Economic Evolution* (Chicago: University of Chicago Press, 2010 forthcoming). <http://www.press.uchicago.edu/presssite/metadata.epl?mode=synopsis&bookkey=10052998>

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Hodgson, Geoffrey M. (2010) 'Choice, Habit and Evolution', *Journal of Evolutionary Economics*, **20**(1), January, pp. 1-18.

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