New Weather Institute

The Absent Corporation

David Boyle and Lindsay Mackie

a new weather institute publication

THE ABSENT CORPORATION

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The Absent Corporation

Why big companies don't want to see you

New Weather pamphlet #2

David Boyle and Lindsay Mackie

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1
Introduction

"We have to show more developed emotions than fear and greed..."
Anita Roddick, 2001

"Please continue to hold. Your call is important to us and will be answered by the next available operator..."
The standard evidence that your call is not actually important to them at all

Billy Wilder's 1960 film *The Apartment* was a vision of the great corporation as it used to be, complete with keys to the executive washroom and Mr Sheldrake on the 27th floor. It was unusual for Hollywood to tackle the world of work, and so the picture of the great tides of people pouring down the lifts and out into the Manhattan streets was an unusual one for us – though it was as much part of life as our own working schedules today, so much later, so much more intense.

It was the same picture that Walt Whitman painted, of the great tides of people emerging from the black ferries across the Delaware and into work in Philadelphia, a century before.

Whatever else you might have said about the great corporate names of two generations ago – General Electric, Grand Metropolitan, National Provincial Bank – they were not, in any sense, empty or absent. Except perhaps in their vulnerability: despite those marble porticos to denote permanence, only GE still exists from the first Dow Jones Index in 1896. My name is Ozymandius plc, they might have said, look on my works ye mighty, and despair.

So in what sense are they absent now? This pamphlet claims that big organisations, public and private sector, have a special kind of absence or emptiness, which is hidden but horribly obvious when you point it out. We don't mean that the people are gone, though that is a symptom. Whitman's tides of men are with us still, but not pouring into the portals of the great organisations. The aim of the new, great corporations today is to cut back on the use of human beings, which requires them in turn, to limit their contact with us, who used to be customers or passengers or buyers or a whole range of things, and are now – in a subtle shift – consumers.

Our interpretation of the great global corporations, which dominate our lives in degrees unimaginable 30 years ago, is that they have removed themselves from the traditional relationship of the market – a relationship that once gave citizens some power. If customers, users or purchasers did not like the product or service offered, we could change to another one.

One of the great unacknowledged truths about this period is not that nationalised state services now resemble the multiplicity of private market services, but the other way around. Big Corporate feels like the nationalised industries of the past, if they are there at all. The formal 'choice' offered in public services in order to prevent middle class domination often turned out to be so narrow as to be delusory.

When the 'revolution' in public services began in earnest under New Labour, having taken baby steps under the Major government, we were promised more choice. This was the gold plated carrot for us as we prepared to countenance some privatisation of hitherto stolidly public services.

There were improvements. Train services did get better – cleaner, more comfortable, more punctual (though ending the practice of holding connections helped targets, if not passengers). Schools certainly improved, but largely as a result of public money being poured into buildings, staffing and teacher training. Local authorities became more innovative.

But what we did not see developing – in the back office if you like – was that this new agenda was happening at a time of growth in strength of the financial industry, which in its insatiable search for organisations to buy up (the unkind might say, assets to strip), in turn imposed its own corporate mantras and targets on both private and public goods and services. And the principal of these was that people were expensive and so was contact with them.

And what that meant was that for the leviathans which dominate our high streets, our communications, our finances, our public services, our transport, people – both staff and consumers – became primarily a cost and no longer an asset.

Reductions in staff numbers are now an accepted form of asset building. They provide, often, the only remaining, easily accomplished, increase in profits. From automatic shopping tills, to automated payment systems, to complex banking systems online, the decimation of skilled people used to helping customers, continues.

In more grandiose language, it is thanks to a fatal tolerance for monopoly and a commitment to economies of scale, and therefore to economic specialisation – the ideology, as much as anything, of the Chicago School of Economics – that our corporations have been hollowed out. In the process, customers had to be demoted from a position of some market power, to one where their choices had to fit a new definition of competition. This was the gift of the Chicago School.

The social economist Colin Crouch puts it like this in his book *The Strange Non-Death of Neoliberalism*:

"If a group of consumers were to argue that they

> would prefer, say to keep a group of small local shops rather than have these replaced by one big supermarket, they would be told they were irrational, as it cannot be in their interests to want a less efficient outcome."[1]

As Crouch points out, the only voice that consumers have in this new centralised, hollowed-out world, is not their market choice – often there isn't one – but as private market research groups for individual firms. In the new empty corporation, only two groups have real sway, the shareholders and senior management. Shareholders returns dominate; senior management's personal enrichment – through bonuses, share options and vast salaries – dominate decision-making in the empty void inside the organisations.

This absence has allowed both businesses and public services to break their link with their customers and users, and backed up, in a sort of perfect storm, by three linked phenomena:

Virtualisation. The re-engineering phenomenon from the 1990s, and the rise of ERP software, has removed the human element from their basic functions. If the organisations we deal with seem like dysfunctional machines without human involvement, that is because this is what they have become (more on this later).

Financialisation. This term usually refers to the way that the economy has been transformed into financial assets, which are in turn dominated by the very wealthy. We mean it in a more specific sense, that the functions of most organisations have shrunk down to a legal or HR department and a finance function. The rest has been outsourced or hived off or otherwise disposed of. This finance function now takes all the decisions, at every level and about every subsidiary company, reduced to spreadsheet numbers and financial targets, in defence of the share price.

Taylorisation. We have the great time-and-motion pioneer Frederick Winslow Taylor to thank for the reduction of all processes to numbers, in such a way that the finance function believes it can control what happens in every corner of its empire.

Not all organisations are like this, but most of the big ones are. They have emptied themselves for different reasons, the private ones so they can control their share price better – and the speculators prefer companies which have low payrolls and which can give the impression of what they call 'efficiency'. The public sector organisations are often private too, but otherwise they are aping private sector patterns because – quite mistakenly – they seem efficient.

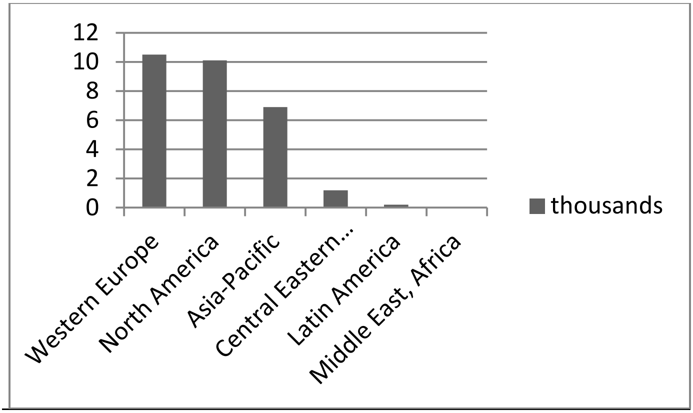
There are still big employers, the big supermarkets or the big online sales companies, or the big public services, where not everything can be automated. All these will take automation as far as it will go, both appropriately and sometimes less so, but there remains – for the time being, at least – the need for some mass employment. This has led to the phenomenon of the outsource specialist.

These are a threatened species, for reasons which are inevitable and which we will set out later, but their names became ubiquitous at the high point of outsourcing – Serco, A4E, G4S all emerged as specialists which could take the business of employment away from other organisations and could deliver services on their behalf. As we shall see, this was a little delusory: their main expertise was not, as it turned out, the delivery of services – it was the delivery of service target data. A very different matter and obviously so, unless you were in the grip of the idea – as Whitehall has been – that the target data is always an accurate reflection of what is happening on the front line.

But they are also empty in a more fundamental sense, having removed their human functions and replaced them with simplistic and largely dysfunctional algorithms, which has also removed something of their moral sense. They are controlled from a great distance by means of a pathetically unambitious series of numbers, to the extent that their human attributes have also corroded. They are, as Anita Roddick used to say, dinosaurs which can only feel two emotions: greed and fear. That is what is at the heart of the absent corporation.

Perhaps, now ten years since Anita Roddick died, a dinosaur is too somehow flesh and blood to be an adequate metaphor. There is something of the zombie about empty corporations. Something of the undead. You shrink from their touch. This pamphlet is designed to look more closely at the phenomenon and to work out why.

The rise of self-checkout, up 5 per cent in 2016 and predicted to rise another 44 per cent by 2021. This shows the proportion of self checkout systems shipped in 2015. *Source:* RBR London.[2]



2
Empty trends

"By far the biggest cause of excessive customer effort is the need to call back. Many companies believe they're performing well in this regard, because they have strong first-contact-resolution (FCR) scores. However, 22% of repeat calls involve downstream issues related to the problem that prompted the original call, even if that problem itself was adequately addressed the first time around. Although companies are well equipped to anticipate and "forward-resolve" these issues, they rarely do so, generally because they're overly focused on managing call time."

***Harvard Business Review*, 2010**

One of the authors of this pamphlet moved house to Sussex two years ago. None of the public services found it easy to grasp this idea. Some proved incompetent; some proved downright malevolent (TalkTalk springs to mind). But all of them, in their different ways, managed to sort out the glitches, except one. Southern Water. And their failure to do so seems to us to have important lessons for services generally, and the way they reduce customer service to arm’s-length data. This is part of the empty corporation phenomenon.

The problem stems from the fact that the new house boasted both a number and a name. We enrolled with Southern Water (though we actually have no choice: they have a monopoly in the area) using the number. We did not realise it at the time, but they used the name. It became clear that they had been worried about this when they started sending letters addressed to the named house and asking who we were.

We phoned them back, a number of times, to explain the situation but the letters kept coming. Then about a year later, they sent round a real person to seek out why there seemed to be only one water meter for two properties. The situation was explained to him. He grasped it immediately. But no change.

Then the warnings started. The named house was going to have its water cut off. This letter led to a long conversation with their call centre when we insisted on a second letter accepting that they now understood that it is only one house, and withdrawing the threat. They promised. Unfortunately, this is now what happened. Their next letter said that they had closed our account at the numbered address (now an 'uncharged property', apparently) and opened a new account at the named address.

We phoned them back and told them that this was a lie and that lies tended to have serious consequences. Not a bit of it. Everything was fine, everything paid had been transferred and there would be no further problems. After a flash of inspiration, we asked that the new named address should be changed so that it also has a number. But this had to be done 'offshore'. Only a week later, bills started arriving for 34p at the numbered address to close the account, and letters asking if we had moved elsewhere in the Southern area.

Now, what is the sane reaction to this kind of insanity? Fury at the time wasted, not just our time but Southern's time? Rage at the stupidity of the brontosaurus that tries to make sense of a pretty simple situation? Or pity perhaps? Southern has a call centre, presumably managed by someone else, using a dysfunctional script, probably written elsewhere, and an IT system, managed offshore, which has rendered them unable to deal with variety – the fatal cause of extra costs identified by the system thinker John Seddon.[3] All that investment in data management has rendered their system extra stupid, because it isn't flexible enough to deal with human variation. Data just provides you with a reflection of what you want to measure, and never more so than in this case – it can't predict, can't imagine, can't move forward. It is a symptom of absence.

Perhaps one address hardly matters, but think of the same effect repeated time after time – not just across Southern Water, but every public service using the same kind of inflexible data system. Think of the extra costs that we pay for. Think of the escalating costs involved in trying to treat a very simple variety virtually, when a more human, less controlled system would be able to deal with it instantly. It is actually scandalous that governments and corporate suppliers should have been so misled. Unfortunately, they are still being misled. Because, at the heart of these organisations, there is nobody there.

This section sets out the elements of the absent corporation phenomenon, explaining why the combination is a threat to public services, taxpayers and the economy.

Virtualisation

The 1993 book *Re-engineering the Corporation* led to a huge reshaping of organisations, rebuilding them around software which combined IT systems with a kind of Taylorism (see below) which provided the elite finance function (see below) with the data it needed. The co-author, mathematician Michael Hammer, began the revolution with a typically aggressive article in the *Harvard Business Review* three years before called ‘Don’t automate, obliterate’.

This was a management philosophy for the software age, and it made a great deal of sense. It denied that there were such things as economies of scale (as we shall see, this remains a problem for absent corporations). It therefore made no sense to split up the functions of a company and do them separately. They needed to be brought together in one system, and that meant that middle managers had no real function left.

Re-engineering meant huge redundancies. A third of BT staff lost their jobs in the mid-1990s, with a massive impact on morale. It also carried within it a major IT problem. Re-engineering was supposed to make organisations more flexible, but it didn't happen that way. When the software was written that was capable of drawing all these various functions together, most companies were tempted to split their operations into two – there would be a front office factory of untrained call centre staff facing outwards, and a back office of experts who would take decisions and make things happen. Unfortunately, it was as rigid a structure as any of the departments they had all replaced.

At the same time, the first enterprise resource planning (ERP) software was put on sale by the German software giant SAP. Their English version of ERP R/3 was available in 1993, and by 1994 it was earning over $1 billion. ERP dovetailed with re-engineering. It offered to pull together all the functions of an organisation into one management system and the big corporates loved it. But by the end of the decade, some were beginning to shift their efforts into selling Customer Relationship Management (CRM) software instead, to regulate precisely what call centre staff could say in any given situation.

The consultancies had been wooing governments for some years, and particularly in the UK. The future Labour minister Liam Byrne, an Andersen Consulting consultant, had organised a training session for a hundred Labour MPs a year before Tony Blair was swept to power. It was hardly surprising that the new ministers in the Blair government saw Andersen Consulting (now Accenture) as a source of special advisors, or for independent advice to bolster their arguments against their civil servants. Soon the senior civil servants were becoming interchangeable too. The chairman of the Inland Revenue went to help Pricewaterhousecoopers clients minimise tax. The Treasury's managing director went to KPMG.

It so happened that the British government's attention was elsewhere in 2002, nervously planning for a controversial war in Iraq. They were also frustrated that their public service reforms seemed to be bogged down – the targets were coming due – and the consultancies swept in to fill the vacuum. By 2004, the UK government was spending a massive £25 million a day on management consultancy.

It was no coincidence that this was also the first year of the most disastrous government investments in IT systems. Many of these were related to ERP, dividing heavily monitored frontline call centre staff from the experts in the back office who would process decisions. The huge tax credits IT system, bought from Ross Perot's old company EDS, managed to pay out £2.2bn too much in its first year. During that same period, there were 100 million calls to the tax credits helpline, half of which went unanswered. That was the pattern.

"Chronic dependence on consultants is an implicit admission of ineptitude in management," wrote a former senior executive at the telecoms company AT&T.[4] Looked at this way, the spending revealed a similar dependence among UK ministers and civil servants, and a lack of confidence in their own abilities. It may also be a vicious circle. If the solutions that most management consultancies provide don't work as well as they should – a mixture of Taylorism, IT re-engineering and command-and-control centralisation – it leads to even less confidence, and more money frittered away, and so it goes on.

So it was that the targets culture, which had been ushered in on both sides of the Atlantic by McKinsey and others, was welded onto a related culture of corporate re-engineering. It was powered by enormous IT investment and massive call centres, regulated by ERP and CRM software. IT can be used to enable human relationships, but in practice that isn't what happened. In this case, it was used to divide people – professionals from customers, experts from people with problems – because it looked efficient to do so.

This is how it still works. The software teams look in detail at all the processes, find the best employees and watch what they do. Then they turn that into the processes staff are led through on the screen. They also build in onerous reporting, tick boxing and measurement systems to satisfy managers that the performance of every part of the process can be measured. The dwindling number of managers want to be able to stare at a complete picture of the machine in motion until they can find who to blame if it isn't working, and ERP or its modern equivalents gives them this illusion.

There was no organisational form, no new skills, no self-managing teams and no new kinds of decentralised working, at least not when it was delivered by re-engineering software. If IT investment was really about empowering ordinary employees, then you would expect them to value their middle and lower income staff as experts in the frontline, said the academic Simon Head.[5] In fact, they were de-skilling them and, where possible, making them redundant.

People like John Seely Brown, a former director of the IT think-tank Xerox-PARC, saw what was happening as early as 2002 and described it as "technologically inspired vandalism".[6] What was emerging instead was a series of "monolithic blocks of concrete", where the accumulated experience of staff, and their ability to make human relationships – even brief ones over the phone – were being lost.

The complicated rules, enforced by the software that staff were using, were ushering in an era when customers were very much less important than processes. The rules create an intractable combination of processes, Kafka-esque customer service and a peculiar belief that what comes up on the screen is real.

Perhaps the most virtual of any operators are the mobile phone companies. There are many brands, and that gives the impression of diversity, but only four providers – Three, EE, O2 and Vodafone. Their signal strengths vary to some extent, and their offers do occasionally too, but generally speaking these are massive databases competing with nearly identical products.

And like so many other companies, they are fine dealing with predictable issues like lost phones and changes of address (though, as we have seen, some companies even find this hard). The difficulty is when you have any issue that is off the call centre script. Then you will find that, often, there is nobody at home.

We have a case study at the end of this pamphlet (Appendix A) which shows the new arrogance of the contemporary phone monopoly. Vodafone, as ever, tops the list of the least responsive network provider. Fines, in the latest case of £4m for taking money off pay-as-you-go customers by mistake and then failing to listen to them at all, do little to dent a company with £3 billion annual revenue.

Enter Ofcom, the regulator. Ofcom is an excellent example of the weak response of government to increasingly large corporations, which are not working for customers but which are too large to reprimand effectively. Their solution is regulation. This gives the impression that faults are being attended to, that complaints are listened to, and that 'the industry is responsive to its customers'. They're not of course – see the case study at the end of this pamphlet where Ofcom tells a group of maddened phone users that they do not receive group complaints and that single complainants must be just that.

The regulator is no substitute for a business that actually has a relationship with its customers, and values them, and wants to keep them. It is a fig leaf.

Adding regulation to the whole cacophony of brands and call centre scripting creates a smokescreen to obscure the fact that – at the heart of these companies – there is actually nobody there. That is an exaggeration, of course. The finance department is there, and there are strategists and a small operational team which manage outside contractors. There is a customer service section without power who themselves are the butt of impertinent and specific 'surveys' about 'how helpful we are', but which provide no route to managers who might actually solve long standing problems. But – if you need help or have a complex issue – there is really nobody to help.

This is a characteristic of Absent Corporations.

When the systems they have designed work – when there is good reception in the case of phone companies, and phones do what is promised of them – then the system is mostly efficient. But it is also a characteristic of life and systems that things will go wrong. This costs money. Or it would do if – taking our current example – phone companies took customer service seriously.

Financialisation

One of the peculiar side-effects of absent corporations, whereby organisations hollow themselves out until only the finance function is left, is that it means – not just that most large organisations think and behave like banks – but also that they take the same approach to remuneration that banks do. Corporates could save more than five per cent on their annual revenues just by going back to 1993 levels of chief executive pay.[7]

This is part of a bigger phenomenon, a huge transfer of assets from the middle classes to the new elite. Labour's business secretary Peter Mandelson once said that the Labour Party was "intensely relaxed about people getting filthy rich", but actually it *does* matter. House prices are higher as a result, the salaries of those lower down the food chain are squeezed, pensions are top-sliced, while the financial class has become a new kind of landlord, living off the rents and charges of the financial system which funnel wealth upwards – while real UK wages, and real salaries, haven't risen in real terms since 1970.[8]

In 2005, the first of three reports was published privately by the US banking giant Citigroup, especially for their wealthiest clients. They coined a word to describe the phenomenon and tried to explain it. The first report was called 'Plutonomy', and it explained the idea like this:

> "The world is dividing into two blocs – the plutonomies, where economic growth is powered by and largely consumed by the wealthy few, and the rest. Plutonomies have occurred before in sixteenth century Spain, in seventeenth century Holland, the Gilded Age and the Roaring Twenties in the US. We project that the plutonomies (the US, UK, and Canada) will likely see even more income inequality, disproportionately feeding off a further rise in the profit share in their economies, capitalist-friendly governments, more technology-driven productivity, and globalization. In a plutonomy there is no such animal as 'the US consumer' or 'the UK consumer', or indeed the 'Russian consumer'. There are rich consumers, few in number, but disproportionate in the gigantic slice of income and consumption they take. There are the rest, the 'non-rich', the multitudinous many, but only accounting for surprisingly small bites of the national pie . . ."[9]

Two more reports followed in 2006, explaining that plutonomy was a result of a kind of *financialisation* of the economy – a huge expansion into financial assets, which are the target for investment rather than real assets, and which the financial sector repackages and repackages, inflating their prices each time. When the financial bubbles burst, they buy back the assets again at a lower cost. Even bursting bubbles make the One Per Cent better off.

This is helped by the fact that the most powerful governments of the world see the value of those assets – property, bank shares and those like them – as the touchstone of economic success, which is why so much of the banking bailout was designed to reflate their value.

Citigroup came to regret publishing these reports, presumably because it encouraged the idea that they were cheerleaders for plutonomy. Over the years, copies began to leak out via the internet, much to their horror. There was a concerted attempt to suppress them. By 2010, Citigroup lawyers had managed to remove them all from the Web, only to find them seeping back again. The revelations are important because they show, once again, that the new economy has moved onto sucking resources out of the middle classes, as they once had from poorer economic groups.

They are also important because most large companies, public and private, are reshaping themselves for the plutonomy world. They are focusing their imagination and attention on their assets, and – despite all the rhetoric about this including staff and customers – that is not actually how most behave. Both are treated as the world of plutonomy suggests they should be: as costs which need to be managed.

The vital shift here, which we examine later, is that customers have now become a cost rather than an asset. Businesses now want to manage us so that this cost is as low as possible. In a monopoly, there are no more customers to be had. What matters then is the asset price, the takeover price, crudely, the enrichment possibilities for major shareholders and very senior management.

There are important questions here for the future of anyone who is not in the so-called One Per Cent, but the one that concerns us here is the way that companies have shrunk their functions down to finance and little beyond. Those great marble porticos no longer conceal a human staff beavering away – they have been outsourced to save on salaries and pension responsibilities – but a few accountants and receptionists and perhaps some strategic thinkers.

The most obvious location of this phenomenon is within the domestic banks. The great banks of a generation past had local branches, with local managers, who took local decisions which were based on helping sustain local economies.

Over 25 years, the mammoth withdrawal of attention and resources from domestic banking, especially in poorer areas – closing bank branches and withdrawing from SME lending – has occurred because the potential rewards from investment banking (also as it turned out, the potential losses) were so much more exciting. Bank managers who knew their local areas have largely been replaced with risk software operated from regional office.

This process took place across the western world, but it mattered more in the UK because the UK domestic banking market was so reliant on the big banks. The UK banks had been consolidated to a rump of the Big Five (Barclays, Lloyds, Midland, National Provincial and Westminster), a situation which has really existed since 1919, so the UK banking market includes almost no competition from small, local banks, the kind of banking network which has done so much to redress the balance in so many of the countries we work, trade and compete with in the UK.

Outstanding SME lending fell by nearly one-fifth after the financial crisis, and many more loan requests were turned down. One in four SMEs that applied for bank finance in 2010 were turned down outright, compared to just one-in-25 in 2007, and the smallest firms were hit the hardest.[10] The terms of loans were also changed, in ways that have yet to be properly researched. The level of SME lending only returned to pre-crash levels this year (2016).

But the credit crunch obscured a much bigger trend. In search of cost efficiencies, the big banks have relied less on local managers and more heavily on 'credit scoring', which involves noting down the business's or person's characteristics and using algorithms and historical data to decide whether businesses or people are good risks.[11] The resulting under-provision to SMEs may seem rational for individual commercial banks, but it damages the economy because it means that wealth-creating enterprises also tend to fail to get the finance they need to expand.

Most SME credit applications get filtered out before they even reach the credit scoring stage. Evidence suggests that small banks are better at using the 'soft' information needed to assess the prospects of small firms.[12] What this amounts to is that big banks do not have the infrastructure to price local risk effectively, but there are virtually no small banks to take their place – only three per cent of banks are local in the UK, compared to 34 per cent in the USA, 33 per cent in Germany and 44 per cent in Japan.[13]

Then there is the banking infrastructure, on which so many ordinary businesses rely. The small Sussex towns that one of us lives in has just lost two banks and bank machines, and seems likely shortly to lose the last. The customers, whose decades of loyalty have been so let down, are told that they can use the post office to bank takings, and they can – though the post office in the next village has closed (there are two cash machines there too, which charge £1.99 to disgorge your cash).

The point is that banks have withdrawn from their marginal service role, without any response from policy-makers, to the great detriment of local businesses. And for the reason that neither the post office nor the bank branches are selling enough insurance or other financial products. Nor are there enough ‘scale up ‘companies opening accounts. That isn’t supposed to be their purpose, but that is how their success is measured so that is what it becomes. We are not rich and, if you are not rich, you are expected to pay. Otherwise, the banks have withdrawn their attention back to core functions, focusing their service energy on places that can maximise profits.

That is logical, in a sense, as many of the trends suggested here are. But it means that resources are increasingly concentrated on a handful of businesses with growth potential as conventionally measured. A handful of those might help the town, but what it actually needs are ordinary businesses, shops and services, which will not demonstrate stratospheric growth rates. Unfortunately, resources are now so targeted that they will have nowhere to bank cash.

Even public sector lenders, like those in South Wales, are concentrating their resources now entirely on high potential growth start-ups. So who is going to provide for the rest? We believe the market should be about more than maximising profit for asset holders in far off lands, Wiltshire estates and ludicrous houses in Notting Hill. It certainly used to be.

Cut to today. One of the best examples of financialisation in the entertainment business is the Odeon cinema chain, still the brand name of UCI cinemas, dating back to 1930, and once the nation's favourite entertainment provider. It was always considered a cut above, largely because its founder, Oscar Deutsch, employed terrific architects to design ornate, fanciful and gorgeous cinemas, on loosely interpreted Ancient Egyptian or colourful Art Deco.

By 1941, Deutsch owned 258 Odeons which he sold to the entertainment group J. Arthur Rank. They were in continuous ownership with Rank until 1984 when they were sold to Cineplex, another cinema chain. These were specialists in entertainment.

No one seems to mind people getting rich if there is a deal. In film-going, the deal was that cinema chains would put on good programmes and set up as locally as possible. J. Arthur Rank and Oscar Deutsch put on a show for their customers; they innovated, they built up the entertainment business.

Enter Terra Firma, a private equity firm run by Guy Hands, a financier who is a bit of a favourite with sceptical City journalists. Terra Firma had no expertise in entertainment, but a lot of expertise in spotting assets and buying them up with an eye to profits on sale. It bought the Odeon chain in 2004, merged it with UCI to make the biggest cinema chain in Europe.

Terra Firma's other interests include care homes, housing, aircraft leasing, energy and garden centres. Guy Hands, its CEO, lives in Guernsey.

Although Terra Firma says it invests "time, money and expertise into transforming strategy, operations and finance" for their businesses, there has never been much sign of that in its stewardship of the Odeon chain. Since Terra Firma took a huge beating over its ill-advised takeover of EMI, there was probably little appetite for spending the necessary money on modernising either the buildings or programmes of the chain.

Since its takeover by Terra Firma, Odeon has become a byword for under-investment, lack of vision and absence of innovation. The chain dispensed with ticket offices, instead placing ticket sales among the frozen yoghurts in many of its cinemas. It sold off a few lucky Odeons to the independent cinema chain Everyman. In February 2015, it announced, an open secret in the cinema world, that the chain was up for sale for £1 billion. It finally sold, to a Chinese conglomerate called AMC Theaters, for $921m.

The truth is that a great chain of cinemas, which needed clever strategies, a vision, and investment in times of changing entertainment patterns, did not get the attention it required because the private equity firm which owned it spread itself wide, was looking at the re-sale value, and was just too big.

The very people who suffered were cinema goers without recourse to the deaf ears of Terra Firma and with very little power to choose alternatives. The Odeon chain had become an absent corporation, preoccupied with asset value and not with service to its public.

Taylorisation

Where did it come from, this obsession with targets? Some people date it back to the moment in 1903 when the time and motion study pioneer Frederick Winslow Taylor rose to his feet in Saratoga Springs to explain his idea that every factory could be measured to work in what he called ‘the one best way”.

Maybe it was actually James Oscar McKinsey, the first management consultant, whose consultancy still lives and dies by the highly misleading maxim “everything can be measured and what can be measured can managed”. Maybe it was the technocrat’s technocrat, Robert Macnamara, who imposed ‘kill quotas’ on soldiers in the Vietnam War, only to find that the deaths rose but victory stayed elusive.

Whatever it was, the management business has spawned a vast industry which churns out targets, specifications, standards and obscure acronyms, while an even bigger industry puts them into effect. The idea dominates consulting just as it now dominates government – the Blair government introduced 10,000 new numerical targets in their first term of office, on everything from vandalism to the state of sailor's teeth in the navy.

The side-effects of these targets have become much clearer, as managers tend to become experts in the business of manipulating the data. The problem is that controlling people with numbers never works. The principle that numerical measurements will always be inaccurate if they are used like this is now known as Goodhart's Law. The reason is that, however incompetent staff may be, they will always be skillful enough to make targets work for them rather than against them.

Gaming of targets commonly falls between two positions. Either too few targets are selected, in which case all aspects of a service that are not the subjects of targets are ignored; or there is an attempt to capture nearly everything with targets, which is unmanageable and a bureaucratic nightmare.

Take for example, the rule that patients shouldn't be kept on hospital trolleys for more than four hours. In practice, some hospitals got round this by putting them in chairs. Others bought more expensive kinds of trolleys and re-designated them as 'mobile beds'. Public services rapidly became a huge industry dedicated primarily to making the output numbers seem as if they were rising. This was achieved sometimes despite the job they were supposed to do, and often instead of it.

There has been a dawning of a realisation about what this obsessive measurement has done to our services. But at the same time, the targets have now taken over most large organisations in the form of the ubiquitous KPIs (Key Performance Indicators). These have the same effect as they have in the public sector, which is to transform customers from human beings whose needs must be met to sources of target data to be dealt with in the prescribed way, or pushed on elsewhere. This is part of the sense of emptiness in large organisations: they feel like the human being on the phone is operating a script. They probably are but, even if they are not, they are operating some kind of giant machine from which human emotions and empathy are supposed to have no place.

The purpose of employees in these empty corporations is still supposed to be supporting customers and delivering value, but also eliminating whatever doesn't contribute to this goal – and this contribution is interpreted by the company ever more narrowly.

This has been the result of seeing every organisation as an assembly line that could be 'rationalised' by standardising responses, and tuning the people involved into regulated machines. So every time the system tightened up, the chances of those brilliant human beings to make things happen were that much more constrained. It has been a tragic tale of reduced effectiveness bought in the name of efficiency – and it isn't over yet. But there are hopeful signs, and one of them is the fact that key people began to emerge, even in government, determined to do it differently.

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To understand the phenomenon of the absent company, you need look no further than the Southern Rail franchise, running rail services from London to the south coast. It was coming face to face with their slow unravelling that made us fully aware of what was actually happening in corporate change. Southern is simply the name of the franchise, which was put out to tender in the usual way by the Department of Transport. It is in fact fully integrated with two other franchises, Thameslink and Gatwick Express, which are managed by a special corporate vehicle set up for the purpose – Govia Thameslink Railway or GTR.

GTR is an example of an outsourcing vehicle, but owned in this case at arm's-length, by the French transport company Keolis and the train company Go Via, which is in turn a subsidiary of the bus giant, the Go Ahead Group, once from Newcastle, now rather disconnected from the world in their City of London offices in Museum Street.

Since they took over the franchise in 2014, their performance has been lamentable. This was not entirely their fault: they suffered from the mismanagement of the London Bridge redevelopment and the failure of Network Rail, the managers of the infrastructure, to invest south of central London. The number of passenger journeys were increasing very rapidly and the infrastructure was under strain. By the spring of 2016, after two day-long strikes by guards angry and company plans – mandated by the Department of Transport – to make the whole franchise driver-only, the timekeeping collapsed, and more than a third of services were cancelled. First, haphazardly and then, with Whitehall's agreement, officially: during the summer of 2016, the timetable changed with about a quarter of their services removed.

Even the new timetable proved too much for GTR. Day after day, services were cancelled at the last minute, driving passengers like cattle between non-existent services. Often traffic controllers gave up and cancelled final services, aware that they were unable to run them. And it was their frontline staff, on trains and platforms, who bore the brunt, day after day, of furious, exhausted passengers, dangerously overcrowded platforms, fainting people, and contradictory, rapidly changing or non-existent information.

People depend on railways to get to work or to do business. Many lost jobs or were forced to resign. Many more were unable to see their own children because they arrived home so late every night. The traffic on the London-Brighton M23 increased to disastrous levels. Air pollution increased. In a desperate move to survive until they were allowed to impose new driver-only contracts, they reassigned eight managers from their Brighton depot to act as guards on the Seaford line. A campaign among commuters emerged to take the government to court over GTR, which raised its initial target of £10,000 within a week. A sense of powerlessness and deep frustration made passengers horribly aware of their own weakness, despite the original idea that privatised services would be more responsive – especially as the Department of Transport is still refusing to hand over key agreements with GTR as requested by lawyers of the Association of British Commuters.

There are a number of reasons why the services unravelled, but we have to remember that GTR is also the quintessential absent company. It is run by the finance function of Go Ahead. It is primarily a vehicle for maximising income for Go Ahead. It runs its services by numbers, as the accountants that they are: they also happen to run a railway, and it is hardly surprising that they don't do it very well.

It was a surprise to GTR managers that the staff when they took over was lower than they expected. But it has remained at least 20 per cent down on what they need ever since, though there are supposed to have been drivers and guards in training. They also got rid of station staff along the south coast, closing ticket offices with plans to rent them out as convenience stores. They replaced ticket inspectors with contract staff and got rid of revenue protection teams.

All these were completely predictable given the structure of what is an unusual franchise agreement with the Department of Transport. This set out that all the ticket money would go direct to the government, and GTR would be paid by a set fee - £8.9 billion over seven years. The Department even has to fork out for the late payments to passengers who have been delayed. It seems obvious, in retrospect, that there are no economic motivations for GTR to keep to time, and that the only way they could maximise income was to radically reduce costs – there are no benefits for the operator in increasing passenger numbers.

Not only are they an absent corporation in the sense that they are not primarily a train operator, but a virtual accountancy programme operating by numbers. They also have no human or economic motivations inside which might lead them to provide a good service for passengers.

As such, they have made terrible misjudgements. As an absent corporation, GTR has taken on the obsessive fear of the rail unions that infects their real customer at the Department of Transport. This led to the 'iron fist' policy of threats, docking two days pay for every day the guards stopping work in the two short strikes in April 2016, removing free rail passes from families of guards, removing passes for car parks – even, very briefly, operating a policy that striking guards would not be invited to do overtime.

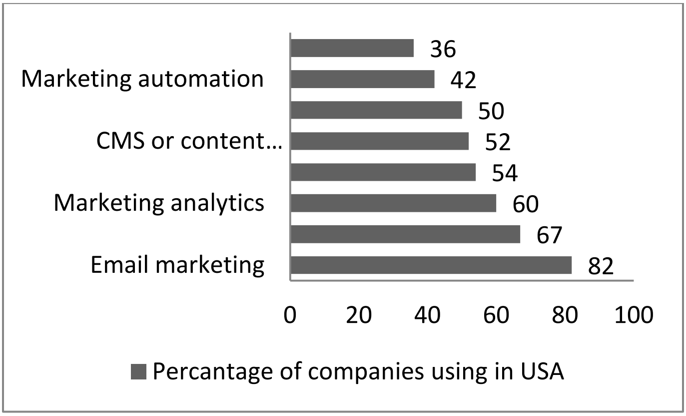
It was the overtime problem that caused the bulk of the delays, because there were too few staff to operate the timetable without it. GTR managers convinced themselves that the local flexibility that allowed depot managers to negotiate with guards and drivers to stay later or arrive earlier or just do half a shift was somehow retrograde. The dip in overtime which caused the difficulties from spring and summer that followed was a direct result of this, but – because they were obsessed with the union threat – the company blamed delays on a ‘sicknote strike’.

There was no evidence for this at all, but it appeared to let the Department of Transport off the hook, so it was widely repeated. It was true that sickness rates had gone up, but the rising stresses on frontline staff was enough to explain it. The highly centralised company also compounded the error by insisting on doctors’ notes for any absence, unaware perhaps that these are only available for weeks off work, not for days off work. This regulation undoubtedly compounded the problem.

This kind of treatment had precisely the opposite effect that it was intending, raising sickness rates, insulting loyal and exhausted staff and driving them into the arms of the very rail unions they feared. The unions were also no help, harking back to a boneheaded and nostalgic view of the great days of industrial disputes, which was almost as damaging to passengers as the original problem.

But here was an absent corporation (GTR) set out for all to see, echoing through its refurbished offices in Matthew Parker Street, running a dwindling company and its long-suffering staff by spreadsheet, involving a tight group of colleagues and former colleagues – one of the side-effects of this style of franchising. Ask them for help with a wheelchair, phone them up to ask their advice, and – as with the other absent corporations – you find you can't. There's nobody there.

Percentage of US companies which are using various different kinds of automated selling. ***Source:*** **Ascend 2.**[14]



3
The outsourcers

"There is something wrong with our ability to change."
Ricardo Semler, Brazilian entrepreneur and author of *Maverick*.

It is time to tackle the knotty problem of privatisation. Because, what is most peculiar is that, during this period when our organisations rendered themselves so ineffective, we have lived through a reforming generation that really believed it was loosening up public services, making them more effective, flexible and entrepreneurial. It was supposed to be a revolution but somehow it turned out the other way round. It was called 'privatisation'.

Privatisation was a word coined as 'reprivatisation' by the Nazi Party in the 1930s, as a way of handing over government functions to loyal party officials. The phrase was then borrowed by the great management writer Peter Drucker in 1969, proposing that governments use the talent in other sectors to deliver some of their objectives. "Government is a poor manager .... It has no choice but to be 'bureaucratic," he wrote.

That was the basic idea that was taken up by Conservative thinkers in the 1970s. Sir Keith Joseph's Centre for Policy Studies produced a pamphlet in 1975 which set out the case: "There is now abundant evidence that state enterprises in the UK have not served well either their customers, or their employees, or the taxpayer, for when the state owns, nobody owns and when nobody owns, nobody cares." It was a powerful proposition.

In the event, it wasn't until Margaret Thatcher's 1983 election victory that she grasped the sheer power of the privatisation idea. It was obvious to anyone who tried to use them that the nation's telephone boxes were largely out of order, and so the privatisation of British Telecom in 1984 was a popular move. As many as 2.3m people brought shares.

Three years later, the Treasury had earned £24 billion from privatisation, and the sale of British Gas provided four per cent of public spending for 1986/7. The idea of privatising state industries had spread to France and the USA and Canada. Even Cuba and China were testing it out.

The original impetus to sell BT was partly to find private investment for telecoms and partly because of Drucker's original idea that private companies were more efficient. By 1985, that was just one of the benefits – it was also supposed to help employees get a stake in the business, provide wider share ownership and reduce the role of the public sector. There was a logic about the idea that added up. Privatising public services would break those bureaucratic straitjackets, and get a new entrepreneurial energy about the place. They would focus on customers. Things would happen. There would be enterprise and imagination. The human element would weave its magic.

It didn't happen. The early privatisations led to dramatic increases in effectiveness but, after that, things slowed down. Private corporate giants turned out to be as inflexible and hopelessly unproductive (at least as far as the customers were concerned) as the public corporate giants: they just provided considerably fewer jobs. Often the costs remained much the same. As it turned out, privatised services were as sclerotic, inhuman and monstrous as their predecessors were.

The first local contracting out on any scale was the rubbish collection in Wandsworth. Within six months, the council was enforcing penalty clauses for poor service, but they gave the same company the contract for cutting the municipal grass because there wasn't anyone else. The same thing happened. Soon the European privatised utilities – E.on, RWE, EDF, GDF and Tractebel – had become huge institutions, delivering services right across and the world.

By the 1990s, the American waste company WMX Technologies was running the rubbish collection in

Wirral, water in Wessex and the Derby Royal Infirmary. The electricity in Buenos Aires was being delivered by the UK National Grid and its water by Anglian Water and the French company Lyonnaise des Eaux.

The issue is not so much foreign ownership but the absence of effective competition. If customers cannot easily go elsewhere, there is no reason at all why a private provider will be more efficient than a public one. Missing has been any attempt at finding means of guaranteeing responsiveness to customers or users where there are no easy means of providing competition. Instead, politicians and corporations have been only too happy to disempower customers.

A decade or more later, and the supposedly efficient private utilities are largely in the grip of the same illusions about efficiency as the public sector has been forced to be, with phalanxes of call centres, targets and standards, and are as inflexible as any nationalised industry had been alleged to be.

The scale of the deception practised by the idea that public ownership means worse and that private means better, particularly in responsiveness to the public, has been shot to pieces. What we see is that both size, the gargantuan nature of perpetually bought up organisations, and the upward funnelling of profits, has led to the downgrading to nuisance status of the customer.

The implications of this are more stark when it is our formerly public services that are delivered by absent corporations.

Let us just be clear on our attitude towards public services in the private sector. We might have had no principled objection, as long as the control of the services remained with the people who use them. What is so tragic about the period is that this hasn't happened, though there are a number of models which could have made services privately run but more transparent and more responsive. In the end, neither government – which has been for three decades keen to hand over its responsibility for running to the corporate world – nor the corporate world itself, took these paths. This has coincided with a period of declining effectiveness – a consequence that is inevitable when customers are as marginalised as we now are.

Privatisation may be a neutral concept – the authors disagree with each other about this – but the switch in emphasis to profit in formerly public services is fundamental to the Absent Corporation. It is time to look at the unpleasant marriage between American contract culture and outsourced services.

Outsourcing made some logical sense. It meant that specialist functions which were not core to the operation could be carried out by contract staff. The difficulty came when outsourcing began to include core functions, and when – because of contract terms – what services were supposed to deliver began to be narrowed to numerical ‘deliverables’ which often missed out the most important elements, usually the human ones.

Outsourcing and privatisation have led to suffering in the public sector because Whitehall believed they were a way to cut costs – and they believed, in a way that no frontline staff could ever believe – that the numerical target figures they were provided with related to something real. Like Southern Rail (see above), the operators were often paid per contact or on a fixed fee, which meant that the only way they could improve financially was by cutting costs and narrowing deliverables still further.

The easiest way to cut costs was by making sure that customers and their pesky demands and complaints were kept as far away as possible from the workings of the business or service. If each encounter, particularly encounters which required investigation, changes to procedure, consultation with different levels of staff, cost money, it became essential to stifle such interaction.

In these circumstances, it mattered that, by 2010, outsourcing contracts issued by the public sector hit £87.7bn. These were the bonus years for four big outsourcers, which specialised in delivering target data as their core skill: G4S, Serco, Atos and Capita. During that period, their standing with the public sank ever lower, partly because of the scandals that surrounded them and partly because the public was able to see at first hand the gap between the target data and the deliverables and the actual situation on the ground.

Thanks to excruciating bidding processes, designed to make outsourcing transparent – but actually limiting the number of small bidders – the Four Giants increased their hold on the public sector.

In the most shocking indictment of outsourcing inhumanity and unreasonableness, between 2010 and 2013, the government, which has the final say on the assessments, reversed 158,300 fit-for-work approvals by Atos. One man dying of a brain tumour and with a serious heart condition was deemed fit to work by Atos. Another man with Asperger's Syndrome, a phobia for food and several other health issues was stripped of his benefits after being judged fit to work by Atos. He later died of malnourishment. It later turned out, in a separate incident, that G4S and Serco had been charging taxpayers for the electronic tagging of criminals who were dead or in prison.

All four giants were caught up in controversy, at the same time that between them, they had amassed £4bn of government business by 2012. That year, only two of them paid corporation tax. They were also awarded lucrative new government contracts. These outsourcers had become, like the banks, ‘too big to fail’. At the same time, outsourcing to IT consultants by the big banks also seemed to be letting them down. Offshore IT consultants were part of the problem because of their distance.

Significantly, it was the two banks in public ownership, Lloyds and RBS, which suffered most, with major problems and big pay-outs to customers by way of compensation. Even the Swiss bank UBS lost £1.4bn when rogue trading was missed because of a system upgrade organised in Hyderabad. RBS froze the banks accounts of 12 million customers for five days without meaning to.

The central problem is that, in Whitehall and in very large organisations – where they have little or no contact with the front line – managers often lose their vital scepticism about the deliverables data they are receiving. The Department for Education still has a room where all the data from around the UK can be seen like a giant dashboard, as if officials were managing the UK school system like a huge machine. As anyone working on the frontline will know, this is a delusion – and a dangerous one – and it tends towards failure.

The Big Four outsourcing giants are not wholly responsible for this situation, but their rise coincides with the rise of the absent public corporation – wholly unresponsive, deluded about the gap between the data and reality, and spreading the cost of what they are not doing elsewhere in the system.

You might expect in this situation to see a major rise in the pressure on those elements of the public sector that are not outsourced or rationalised in the same way. Sure enough, A&E attendances have gone up 35 per cent in ten years, to over 22m a year. The system thinker John Seddon calls these extra costs on the services 'failure demand'. More on that in a moment.

Perhaps one of the most detailed pieces of research on this was carried out by the union Unison on the impact of outsourcing back office functions at West Sussex County Council for £154m over a decade to Capita. The report was produced by the researcher Andrew Holt, and found that the outsourcing deal had led to lower quality services, lower staff morale, and less transparency. Holt found a lack of publicly available information to permit independent scrutiny of contract performance.

He also found that there was insufficient separation between the council as commissioner and Capita as supplier. This is a common feature, especially in empty companies. When Govia Thameslink began to fail in its delivery of train services on Southern, the only possible reaction for officials and ministers seemed to be to defend them.

Holt also found that:

- Half of his respondents felt that services had got worse. As many as 55 per cent felt they under more pressure.
- The contract was preventing innovation and leading to a standardised treatment of service users.

- Three quarters of staff transferred from the council's employment felt their morale was lower since transferring to Capita.

Here are the Big Four, the main generators therefore of failure demand:

Atos
Founded in 1988, with headquarters in Bezons and Munich, Atos is a systems and IT consultant formed by mergers with a number of leading IT consultancies. They famously lost their contract with the DWP in the UK after concerns about the quality of their work doing work capability assessments. *Global revenues:* £11.8 billion.

Serco
Serco used to be the UK arm of the Radio Corporation of America, and is now based in Hook in Hampshire. It has public contracts in transport and traffic control, aviation, military weapons, detention centres, call centres, prisons and schools. In 2014, they issued a profits warning after getting caught up in the tagging scandal alongside G4S. *Global revenues*: £3.1 billion.

G4S
Founded in 2004, with headquarters in Crawley, G4S was formed by the amalgamation of Securicor and the Danish Group 4 Falck. It is the world's largest security

company and supplies security personnel (or not, in the case of the London Olympics), monitoring equipment, response units and secure prisoner transportation. *Global revenues*: £6.8 billion.

Capita

Founded in 1984 and based in London, Capita specialises in business process outsourcing. In 2014, five of eight Liverpool NHS Trusts which had contracted their payroll and recruitment to Capita two years before were withdrawing because of concerns about the quality of the service provided.[15] The following year, a newspaper investigation showed that in some cases locum agencies, Medicare and Team24 owned by Capita were charging some hospitals higher fees than others and giving false company details.[16] *Global revenues:* £4.7 billion.

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None of this series of cock-ups are the result of conspiracy. They are the direct result of contracting specialist organisations that are far too big to be effective. That is the result of two fantasies, again shared largely by organisations that are too large:

- That target data always reflects reality and, if it doesn't, there must be criminal behaviour. This is a fantasy based on ignorance of Goodhart's Law.

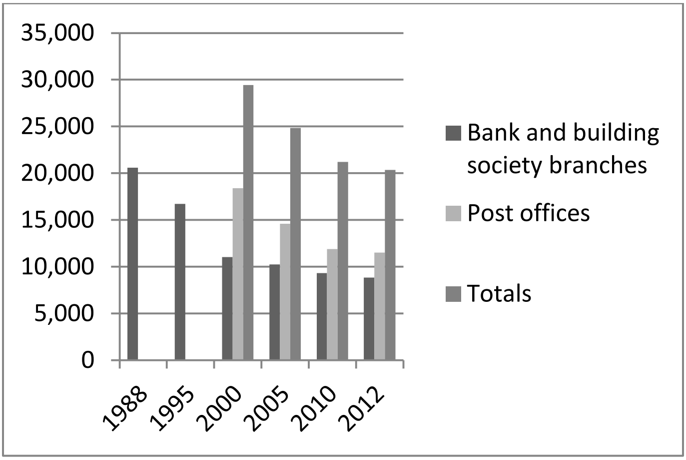
- That operations are cheaper, more efficient and more effective when they are delivered at scale. This is a mistake based on out-of-date ideas about economies of scale and how quickly they are overtaken by diseconomies of scale.

Both of these are classic mistakes made by organisations that are too big to see clearly, or to have any means of seeing clearly, what is happening in reality on the ground.

So Peter Drucker was wrong. As it turned out, big companies and big contracts tend to become bureaucratic too, and those which absent themselves become also completely process driven. The point wasn't that private was better than public, it was that small was better than big, because small allowed for the human element.

But the impact of working for a public service which does not have to turn a profit – see the despairing British love affair with the NHS – is precisely the kind of immeasurable that is not taken into count, because it doesn't lend itself to a measuring tape. Ownership does matter – or more particularly, the reasons why organisations are owned – matters. If the ownership is caused by the desire to stack up for sale, if scale is augmented to stack up for an IPO, if asset value rather than providing a decent service, is the aim – then the customer can expect short shift. We are a cost and not an asset and we had better remember it.

The decline of banks branches and post offices 1988-2012, as seen by the British Bankers Association's Annual Abstract of Statistics 2013, quoted by Move Your Money.



4
What it means to be absent

"One cannot be successful on visible figures alone. Now of course, visible figures are important. There is payroll to meet, vendors to pay, taxes to pay; amortization, pension funds, and contingency funds to meet. But he that would run his company on visible figures alone will in time have neither company nor figures. Actually, the most important figures that one needs for management are unknown or unknowable, but successful management must nevertheless take account of them.

W. Edwards Deming, *Out of the Crisis*, 1982

Let us just recap. There are three elements to the modern phenomenon of the absent corporation:

- They have reduced customer service to automation or the manipulation of CRM software using scripts, in order to remove the human element.
- They have reduced the functions of the company to finance, outsourcing to outsourcing specialists which suffer from the same fantasies and the same problems.

- They have reduced their management function to automated numerical control which tends to spread costs elsewhere and reduces effectiveness.

This section tries to answer some questions that arise from this. Why? What does it mean in practice? And, finally, what does it cost us?

Why?

We have already suggested that the main reason why organisations absent themselves is because the prevailing ideology is tolerant of monopoly – insulating organisations from consumer pressure – and shares a fatal commitment to economies of scale. As we have seen, this was quite mistakenly believed to lead to efficiency. In fact, and especially in public service, it spreads costs elsewhere.

The other main cause of the absent corporation phenomenon is the pre-eminence of the market which has led to the financialisation of every stage of business, and now of public services. If profit is the motive, and everything is measured in terms of profit, then all other aspirations are lost. Privatisation was the route through which financialisation became the all-conquering business methodology.

It is pointless blaming all this on the political process. Privatisation was partly intended to loosen up the sclerotic state services; in practice it remade private organisations on the lines of that same sclerosis. It was, in short, a flawed model, borrowed from American contract culture, developed under the Major government and turbo-charged under the Blair government. The coalition years were not used to roll it back and, despite public commitment to removing targets, did not really try.

The irony is that much of this absenting has been done in the name of customer service, partly for fear of the burgeoning regulators. It has gone hand in hand with increasingly complex and decreasingly meaningful questionnaires that ask you to rate aspects of their service between one and five (more on that in a moment). But, in practice, their customers no longer matter in quite the way that they did. And if customers do contact these companies, they find there is usually nobody at home in the organisation to help them.

What does it mean?

There is clearly a paradox here. On the one hand, the absent corporation phenomenon seems to have been a result of free market policies. On the other hand, it has ushered in a period when the political orthodoxy of most advanced economies has, in practice, favoured large semi-monopolies.

The sociologist Colin Crouch argues that, in practice, this process has been intensified, not checked, by the recent financial crisis and acceptance that certain financial corporations are ‘too big to fail'.

Although much political debate remains preoccupied with conflicts between the market and the state, the impact of the corporation on both these is today far more important. Crouch argues that several factors have brought us to this situation:

- The lobbying power of firms whose donations are of growing importance to cash-hungry politicians and parties.
- The weakening of competitive forces by firms large enough to shape and dominate their markets.
- The moral initiative that is grasped by enterprises that devise their own agendas of corporate social responsibility.

Both democratic politics and the free market are weakened by these processes. The hollowing out of corporate forms, which we can all see, though we are still being assured that efficiency and choice are all that Big Corporate wants to give us, leads to fury and impotence on our part as we clearly see the perpetration of this basic deceit.

The practical meaning of the phenomenon is more mundane. One of the peculiar implications of absent corporations is that they transform customer-facing staff into the minders, security guards and defenders of machinery. Sometimes that machinery is the software that gives them a script and undermines their ability to help customers with non-standard issues to solve. Absent corporations transform customer facing staff from professionals into machine-minders whose main task is to make sure that customers stay passive and easy to process, and don't obstruct the doors.

The exception to this rule is when the machines are bigger than computers. Then staff tend to be transformed into police to protect the machinery – not helping you onto trains, but making sure you hurry up and stay clear. We have been shouted at by platform staff, especially perhaps on the London underground, for helping elderly passengers who were stuck in the automatic doors. That is one of the peculiar phenomena of the empty corporation: it turns staff into enforcers and customers into inconvenient costs, at best a source of target ticks – at worst, a serious bother.

At manned railway stations, there are often more staff guarding the barriers than there are selling tickets. But the best example may be supermarkets, where check-out staff are reducing and being replaced by security staff, and robot-minders there to check you treat their automated checkouts properly (see page 7).

It is this world of Orwellian doublethink which allows untruths the space to breathe. Like Tesco's fake 'Willow Farm', which doesn't exist but gives the impression of Old Macdonald on some of their factory products. Or like the cable giant Comcast repairman in the USA.

In 2006, he arrived at the home of a man called Brian Finkelstein and, after some time on the phone, he fell asleep on the sofa. Finkelstein filmed him snoring and stuck it online, together with the sound track of a song called 'I need some sleep'. The repairman was fired, but it transpired that he had actually fallen asleep after waiting over an hour on the phone to get through the useless systems that ran the call centre at his own office.

This story is familiar to most of us who have to deal with absent corporations, and with call centres in particular. But there is something else familiar about it – the slow realisation that it isn't the fault of the repairman, or the person on the end of the phone; it is the system, stupid.

If any organisation tells you by recorded message that "your call is important to us", you can be pretty certain that the opposite is the case.

What passes for customer service is the endless, ubiquitous requests for rating. Where these are linked to bonuses, the whole system usually falls victim to Goodhart's Law – when you are asked by counter staff to rate them 5, or when you find out that, unless you volunteer for a call to rate their service, then you tend not to be called back.

Why would they call? Their entire purpose is now to get the top ratings. This is the strange looking-glass world of the absent corporation.

What does it cost?

Far from efficiency, absent corporations tend to be quietly adept at shifting costs elsewhere. This was an insight by the system thinker John Seddon, who found that dividing back office from front office functions tends to put time and costs onto consumers – who have to provide information in the approved way – and to make them shun non-standard cases, sending them elsewhere where they bounce around inside the wider system creating costs. He called this 'failure demand', which is the demand on the system that comes from failures elsewhere. In local government, he found that failure demand can be as high as 80 per cent.

The best example is the pressure on A&E when other parts of public services are failing. We have written elsewhere about the costs caused by people who arrive at A&E, maybe more than a hundred times a year, because nobody is geared to helping them with what they actually need (one famous example was supported by getting her a cat).

When there are customers who can still go elsewhere, there are obvious costs to businesses, which have been estimated at £15.3bn for the UK – largely from abandoned products.[17] There are problems with this figure because we don't know how many of them simply take business somewhere else. If half of customers believe their approach to customer service has failed to answer their questions, as they do in the USA, there are bound to be costs.

The same survey found that the following elements of empty customer service is what most upsets the customers:

- Having to repeat information.
- Feeling trapped in automated self-service.
- Being forced to wait too long for service.
- Interacting with representatives who have no knowledge of the service history (or consumer value).
- Unable to easily switch between communication channels.

Where they felt ‘trapped’ in an automated system, consumers spent, on average, more than ten minutes trying to reach a live agent. This also allows us to put some costs on empty corporations for customers. Assuming all UK working adults have to use call centres four times a year, that is an opportunity cost at average incomes of nearly £350 million a year. If they are doing it at work, that cost will fall on employers.

Seddon himself estimated the extra cost to the public sector of failure demand at around £16 billion a year in the UK. This is not quite the same as the costs of empty corporations, and it does not include, for example, the extra costs of people’s time. To which you would also have to add the costs of tax not collected by the HM Revenue and Customs because they now split up tasks on their virtual assembly line so that nobody is primarily responsible for collecting it.

This is confirmed by the lack of evidence that large, and often therefore emptier, organisations are cheaper. Quite the reverse, in fact. We have known since 1964 that there are more activities outside the classroom in the smaller schools than there in the bigger schools.[18]

It seems pretty clear also that the smallest police forces are the most effective, catching more criminals for their population than the big ones. That is another reason why American hospitals cost more to run per patient the bigger they get. These are the costs of scale in the public sector.[19]

There is some evidence of the costs of size in the private sector too. When the business writer Robert Waterman says that the key to business success is "building relationships with customers, suppliers and employees that are exceptionally hard for competitors to duplicate." Size gets in the way of that.

There is also evidence that the bigger companies get – and the more impersonal – then the less innovative they are able to be, which is why so many pharmaceutical companies are outsourcing their research to small research start-ups. In fact, this trend seems to have been going on for most of the twentieth century. Half a century ago, the General Electric finance company chairman T. K. Quinn put it like this:

> "Not a single distinctively new electric home appliance has ever been created by one of the giant

> concerns – not the first washing machine, electric range, dryer, iron or ironer, electric lamp, refrigerator radio, toaster, fan, heating pad, razor, lawn mower, freezer, air conditioner, vacuum cleaner, dishwasher or grill. The record of the giants is one of moving in, buying out, and absorbing after the fact."[20]

Car hire companies are a good example of this withering of innovation, being accompanied by growing monopolistic control of a small number of global companies. There are now just a handful of car hire companies providing the majority of global car hire.

So Avis owns Zipcar, Budget and Payless. Avis itself has been owned at various times in 30 years by organisations like Lazard Freres, Beatrice Foods, Wesray Captial Corporation. Hertz owns Dollar and Thrifty but itself has been owned by RCA, the UAL Corporation, the Park Ridge Corporation (owned by the Ford Motor Company). Then, in 2005, Hertz was sold to three private equity companies for $15 billion.

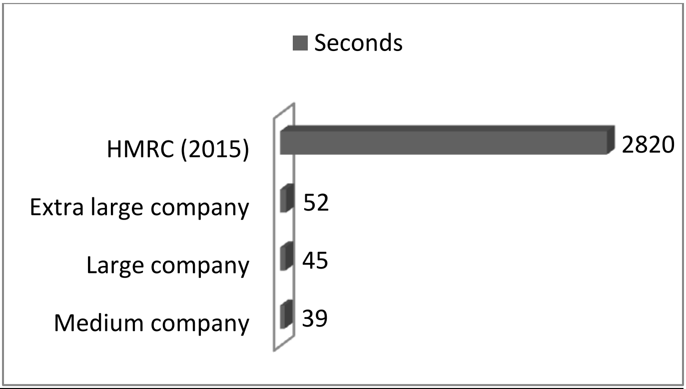
Anyone who has stood in line in a busy airport will recognize that technology and innovation in checking information, speeding up booking processes, delivering the right car, have barely moved in 15 years. This phenomenon is recognised by the efforts of pharmaceutical and food giants to buy the innovative start-ups, only to find that the culture of emptiness corrodes that innovation and flair very quickly.

There is an interesting process turning up in our schools, particularly secondary schools. The virus of measurability and automation has spread here – a among our children, who need schools to help them develop both knowledge and morals to take on the modern world. Instead, increasingly their learning is being controlled by technocratic systems.

Educationalists obsess about 'maximising the teaching time' because actually the whole set up is not very conducive to learning in the first place. Learning requires relationships and the institutions are too big to manage that.[21]

Far from being more effective, anecdotal evidence suggests that the poor are given big secondary schools and other big systems, while the rich prefer and are able to pay for smaller schools. The poor are given big, virtual doctors or remote or authoritarian social care, not because they are more effective – as the rhetoric suggests – but because they are cheaper. The rich get the human organisations and the poor get the absent ones.

The average time it takes to get through to companies by size, source: www.marketingcharts.com, 2013.[22]



5
What is to be done?

"The real lesson from Brexit goes beyond populism. We are witnessing the failure of bureaucracies and large institutions."

Jeff Immelt, chairman and CEO of General Electric, *Fortune*, 2016

Business is aware of the symptoms of this problem but relaxed about the causes. That is partly because business representation is filtered through lobby organisations which are usually dominated by the biggest, most absent ones. Small business representatives do not yet have the profile they need.

That means that business solutions on offer are there primarily to tackle the symptoms. Oracle offers advice about how to solve customer problems right first time, and measuring a company's ability to do so. Contact centre software providers like NewVoiceMedia and Genesys, plus social media providers like Sentiment and Conversocial, have been trying to link different online conversations, for example, knowing "whether that person is a regular detractor, and so on". These are not solutions. This is more of the same.

There are public service organisations emerging on both sides of the Atlantic that are small enough to be effective, cost-effective, and which genuinely understand their staff have something to offer beyond mere obedience. New research from Birmingham University seems to demonstrate the effectiveness of smaller scale, after spending the past two years studying micro-enterprises in social care. There are opportunities under the new Care Act, one of the legacies of the coalition years, to encourage micro-enterprises, because they tend to be more innovative, more personal and more flexible. This is what the research summary says:

> "The distinctive contribution of micro-enterprises appears to be the ability to offer more personalised and valued care without a high price tag. Price data provided by all of the organisations in the research indicated that the hourly rate for micro-enterprises was slightly below that of larger providers. As we indicated above, this was not at the expense of quality, as responses on personal control and use of time … were at least as positive as for larger providers."[23]

This is important. It is a continuing mystery that there are models available for problem areas of public services in other parts of the world, which are actually more cost-effective than the problem models that dominate the UK – yet we are only tiptoeing in that direction. They include, as this suggests, micro-enterprises in social care. They also include co-operative nurseries, considerably less expensive than conventional ones, but using some parent energy and knowhow, as they do across Scandinavia and North America, but barely here. Also the approach to social care assessment known as 'local area co-ordination', the informal solution from Western Australia, and working very well already in Middlesborough, Derby and some other places, but being rolled out ever so slowly.[24]

Part of the solution, therefore, is going to be that – in both public and private sectors – it should be possible to out-compete the absent corps. Or it would be if regulation was not tipped so resolutely in their favour, and if access to finance was not now so difficult to come by because our dysfunctional banking system is itself largely absent. That is why the long-term direction means breaking up the most absent companies, because they are likely to be the semi-monopolies, and reshaping the banking and schools system to kickstart an entrepreneurial revolution,

But that is a long-term project and it awaits a government courageous enough to do it. Until they do so, they will be forever wondering why the new privatised corporations behave so much like the old state-run utilities a generation ago. We need to get them to ask themselves why the flag-waving representatives of the free market look so like the sclerotic, inhuman Soviet corporations of old.

In the meantime, there are a few things we might do to improve the situation in the public sector:

1. **Devolution of targets** to cities and towns, where the costs of failure demand will be easier to spot, and where it is possible to integrate public services as one system.

2. **Human by default**. This is one of John Seddon's proposals, which suggests that – because they have the flexibility to respond and to inspire – services need to have a default human option, rather than a wasteful and dysfunctional 'digital by default' service. This should not rule out using digital services for those it suits, but it does suggest that excluding the human element where it is most effective is just too inefficient.

3. **The right to request** flexible service delivery, to strengthen the confidence of service users to ask for something different, and to provide duties on service providers to consider this. In each case, the provider would not be obliged to provide flexibility if it is impossible, but they would be obliged to explain why and that letter must be posted on their website. It would be aimed particularly at situations where systems or bureaucratic arrangements get in the way of what people need. For example, if they want the c

choice of a consultant who won't mind them asking lots of questions. Or to study Spanish at A level when all that prevents them is their school's timetabling system. Or to go to bed later than 5pm when their carer comes round. These are basic flexibilities in the system which articulate people can often get now by being assertive, but which others can't. Using customers to force flexibility onto a decreasingly flexible system may be the most cost-effective way of achieving it.

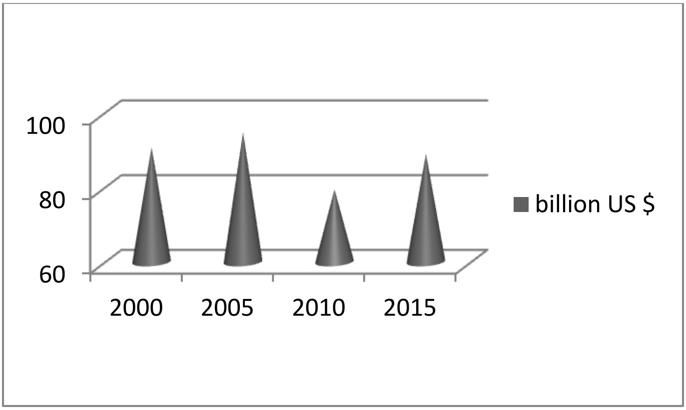
4. **Major anti-trust action**. We have to break up the oligopolies, starting with the banks, phone and energy giants, and then pursuing policies to make sure that companies seeking to rake off a slice of every transaction – Google or Visa – get proper competition.

5. **Failing that, ridicule**. It is time we launched an annual award for the most boneheadedly, inhuman example of customer service. We suggest the title: 'The Absent Corporation Award'.

In the end, the real power needs to be put back into people's hands. Though our customer choices are shrinking fast, they are not gone by any means. We can shun the robots, refuse to use the voice recognition systems, challenge the rhetoric that changes are being brought in for our benefit– for example removing humans from the railways for the benefit of customers.

Where companies can no longer get away with this, in public transport and public services, their emerging failure – revealed perhaps most spectacularly with Southern Rail – will overwhelm services increasingly, and the model will then come under increasing political scrutiny. Fingers crossed.

Global outsourcing revenues showing the continuing decline as corporations realize the cost of distance.
***Source*: statista.com**



Appendix
The mobile transmitter story

Let's look at one area in North London where, when a transmitter was removed, hundreds of households found their mobile signal badly affected to the point of having no reception, intermittent signal, phone calls cut off in mid sentence and so on.

A number of these households banded together to approach the four network companies who control the market – EE, Three, O2 and Vodaphone. One resident was designated as spokesperson. Here is her summary:

A group of 35 local residents all experienced a loss of mobile coverage to their neighbouring streets stretching over many months and spanning different mobile operators. The outtage meant many people in the area could no longer use their mobile phones at home, or had to run to the back of the garden or top of the house to get any coverage.

Various residents were given different reasons by their providers for the drop in service and offered a range of technical fixes, excuses for the outage, promises of action, dates for resolution or forms of compensation. Nobody got good coverage back and attempts to press for mass action came to nothing, with even the industry ombudsman rebuffing a collective request for help.

Some of the mobile phone companies bothered to respond and give us updates on mast works that had affected coverage; one firm promised to investigate the problem and come back to us but I heard nothing more. One offered no help at all.

Here was our reasonable letter to senior executives of the phone companies.

Subject: Collective complaint about coverage
Date: 29 May 2016 at 11:27:12 BST

"Dear [named executives]

I am writing with a collective complaint that has left our NW5 neighbourhood bereft of mobile coverage since last year, turning home after home into a mobile black hole.

Separately, we have all called our providers to complain about the loss of coverage and got nowhere.

Everyone is suffering the same problem, Yet everyone has been given different information about the reason for the loss of mobile coverage, different dates – all mythical – that the problem will be fixed and offered different interim solutions (e.g. wifi calling) none of which has resolved the problem.

We understand from some conversations with our providers that the cause is simple: a mast was removed from the end of our road to make way for a luxury housing development, and we, as long-term residents, have suffered the consequences. It is affecting our livelihood, our work, social life and our day-to-day ability to lead a normal home life.

Since so many months have gone by, and so much frustrating effort spent, all without result, we have decided to act collectively in a bid to get a resolution and stop being fobbed off with tall stories about future fixes…

I have written and emailed and called repeatedly on my own behalf since November trying to resolve this, without any success. I simply cannot keep running into my garden to speak or missing incoming calls while I wait for you to fix matters.

I am therefore calling on you to resolve this matter for everyone since we cannot use our phones in our own homes, which for many of us is also our place of work. The cost (and I do not mean just financial) of paying for a phone that does not work seems utterly lost on you, our mobile providers, evidenced by the very many months you have failed to resolve the issue.

Details of this correspondence have also been copied to the industry ombudsman in a bid to prod you into responsible action rather than keep taking our money, doling out false information and saddling us with appalling phone coverage."

The spokesperson emailed again on 13 June.

Sent to executives on 13 June:

"Dear Sirs,

Following our collective complaint last month, we are in touch now with EE and O2, with investigations under way and hopefully concrete action to come. It is astounding to me that Vodafone and T-mobile have not yet even bothered to reply to our email, a copy of which follows. Can I urge you to change that and address our complaint asap...

If our problems continue to go unaddressed – as they have since last year – we have no option but to take our mass action to the media in the hope of shaming you into action."

Vodafone did finally call.

"Finally, Vodafone called back today – a rep from customer services, in name at least. He ran through at length my previous communications with the company and said my complaints had been resolved as I had accepted the Sure Start box. I explained the box did not work effectively and that problems persisted for us all. However he refused to discuss our case collectively and would only deal with my phone, telling me repeatedly I had accepted a resolution, albeit one that does not work, so he had no more to add.

He said my failure to call and complain enough – on top of the tens of calls and emails we'd just discussed – showed the problem couldn't be all that bad! I explained that EE and T-mobile were trying to come up with a fix for everyone and that O2 was investigating our problem and only Vodafone was taking this line. We got no place.

He plans on escalating my individual case to the 'deadlock team' as I want out of my contract and they will apparently decide if that is allowed. Nothing could be done en masse. I feel powerless and put upon but I'm not sure what more to do, given the mountain of Vodafone complaints highlighted in the press and by the regulator does not seem to hurt their business enough for them to operate decently."

The attempt to get help from the communication Ombudsman went no better. This was the less than helpful reply to the request for help.

Re: Your complaint about Vodafone.

"Thank you for your emails received on 29 May 2016.

We have fully reviewed all of your correspondence. Ombudsman Services Communications can only investigate individual complaints. This would mean each individual account holder per property would need to follow the complaints procedure with their own provider, before individually contacting us.

If you wish for Ombudsman Services: Communications to review your own complaint, please provide the below details.

- To help us decide the best way to help with your complaint, we need to know all of the following information:
- Whether there are any practical needs where we could help – by making adjustments like using large print, Braille or a different language.
- If there is someone you want to handle the complaint for you, for example a friend, a relative or Citizens Advice. Please give their full name and contact details.
- The date the problem happened.
- The date you first noticed the problem.
- The date you first complained to the company.
- Your account number.
- Please confirm that you are the named account holder.
- If you are a small business, please confirm that you employ 10 people or less.
- Copies of any letters or emails which you have sent to the company. Please let us know when they were sent and where they were sent to.
- Copies of any letters, bills or emails you have received which you think are relevant to your complaint.
- Details of any telephone calls made or received,

including dates, times and who you spoke to.

- What you would like as a resolution to your complaint; this may include some practical action, an apology or an award to cover time and trouble. Our most common time and trouble award is £50 and most awards are less than £100.

Please include our case reference number, shown at the top of this reply, with any information that you send to us. This will help us add the information to your case more quickly.

When using our service you are free to seek independent advice and you are able to withdraw from the process at any time. For more information about Ombudsman Services visit our website..

Yours sincerely…"

At the time of writing, the residents of this area are no further forward. Still at the top of their gardens when they want to make phone calls.

There are only four mobile network providers in the UK. EE, O2, Three and Vodafone. In January 2016, BT bought EE in a £12.5 billion deal.

So there is very little choice for phone users and very little difference between the services offered by the Big Four. Vodafone has lost a million customers, consistently appearing as the most complained about network- but that does not affect the salaries of its top executives. Vittorio Colao, the chief executive in 2012, pulled in £14m for his efforts. Vodafone revenue is down a bit, but is still a healthy £3.08 billion.

So what we have here is a classic example of the Absent Corporation. The phone company does not need more customers and the market is already at saturation point. The money – vast amounts of it – made by these companies comes from:

1. Customers monthly bills.
2. Perpetually cutting back on staff. In 2016, Vodafone only employed 107,000 people worldwide. In 2011, EE cut back 550 staff from ‘back offices’ in the UK.
3. Nurturing the asset value of the company to prepare it for takeover.

Mobile phones have revolutionised our way of life. But their value plummets when they go wrong, and they are increasingly suffering from the kinds of network problems suffered by the valiant little North London group of disgruntled and aggrieved customers.

When you finally get through to low paid Rahul or Aidan, they will try to help within their limited script and capacity. But you will never reach the real powers within these companies. They are deliberately and carefully absent from us.

Notes

[1] Colin Crouch (2011), *The Strange Non-Death of Neoliberalism*, Bristol: Polity Press.

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[3] John Seddon (2014), *The Whitehall Effect*, Axminster: Triarchy Press.

[4] James O'Shea (2002), *Dangerous Company: The Consulting Powerhouses and the Businesses They Save and Ruin*, Collingdale: Diane.

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[13] Lord Sharkey (2013), Speech in Hansard, House of Lords, 15 Oct.

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[15] https://www.hsj.co.uk/news/finance/trusts-exodus-from-capita-hr-contract/5072024.article#.U8PoMPldUk4

[16] http://www.telegraph.co.uk/news/investigations/nhs-hit-by-locum-agency-nurses-pay-scandal/

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[18] The original research I refer to is Roger Barker and Paul Gump's *Big School, Small School* (Stanford University Press, 1964). The best collection of evidence on small schools is Kathleen Cotton's article *New Small Learning Communities: Findings from Recent Literature* (Portland, Oregon, Northwest Regional Educational Laboratory, 2001). There is a more recent American summary by the Chicago Public Schools System at smallschools.cps.k12.il.us/research.html. The equivalent UK information is available from Human Scale Education (www.hse.org.uk). I also recommend Linda Jones' article 'My daughter's reports are meaningless drivel' (*The Independent*, 26 July 2007).

[19] http://news.bbc.co.uk/1/hi/uk/7911183.stm

[20] *Nation* (1953), 3 Jul.

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[22] The source for the average wait time for HMRC was in the 2015 report: http://www.telegraph.co.uk/tax/return/revealed-the-best---and-worst---times-to-call-hmrc/

[23] Catherine Needham et al (2015), *Does Smaller Mean Better? Evaluating micro-enterprises in adult social care*, Birmingham, Birmingham University.

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