

## We're Going Lean, Where's the Payoff?

by Rick Pay, as Published in The CEO Refresher

Lean manufacturing, Lean operations, Lean administration, Lean accounting. It seems that everywhere you turn, Lean is permeating American industry. According to a recent *Industry Week* survey, 70% of all manufacturing plants in the US are implementing Lean. Yet, the same article says, "The jury is still out on exactly what the end result of the Lean initiative should be." A mere 2% of the companies have fully achieved their objectives and only an additional 24% reported they have had significant results.

Why are more than 60% of the companies implementing Lean not making the progress they would like to see? The primary reason is that these companies are treating Lean as a process improvement activity and not a cultural shift. They are lacking the leadership, operations strategy, and people needed to make Lean a part of the culture and strategy of the organization. Without these three essential ingredients that will lead to a cultural shift, failure is almost inevitable and the feeling that Lean is just another fad begins to grow.

When you examine Toyota and the development of the Toyota Production System, it is often said that Toyota has taught many companies how to do Lean, but these companies often fail to realize the same successes as Toyota because they lack these necessary attributes. Ironically, even Toyota has had problems

with quality and delivery when, for the first time, it recently hired top-level managers from outside the company. Even though these outside hires were often from companies trained by Toyota, they didn't have the "culture" of problem solving or continuous improvement that is inherent in Toyota veterans. As a result, the system began to break down.

### 1. LEADERSHIP: CEOs Need to Fully Support the Effort

Top management needs to be fully invested in the Lean process, not just bystanders allowing it to happen. They need to establish "why" Lean is being implemented and embody it as part of the overall corporate business strategy.

Lean needs to be seen as a competitive advantage that contributes directly to the strategic goals of the company. Culture in an organization starts at the top, and Lean needs to be part of the corporate culture to be successful.

Many Lean initiatives start deep within the organization where the initial sponsor is a manufacturing engineer, a production manager or someone in the materials group. They may have read a book, heard a speaker, or talked to a colleague in another company about Lean and what it can do to increase productivity, eliminate waste, and improve the work environment. They go to some training classes and start to implement Lean tools in the company.

There are initial successes usually in the form of more organized work places, smoother flow of production or reduced work-in-process inventories. So, the sponsors request more budget for more training and perhaps even for outside consultants to guide the way. Soon a lot of time is consumed and expenditures really grow.

Next, the accountants and top management start to take notice of the expenditures. They get concerned that quarterly financial numbers don't seem to be improving, new product introductions are slower, and inventory is often actually increasing overall. They may even pull the plug prematurely, before the results can be realized, if they are not totally behind the initiative.

Strong leadership at the highest levels of the organization is critical to the success of any productivity improvement program, especially Lean. It is no wonder that General Electric was successful with Six



The CEO Refresher focuses on creative leadership, competitive strategy, leading change, and performance improvement.

Sigma since Jack Welch, the CEO, brought it in and launched it throughout the organization.

**2. OPERATIONS STRATEGY: Make Sure It Supports Lean**

Lean also needs to become part of an overall operations strategy. The operations strategy should provide clear focus for the operations organization and spell out how and where products will be produced, which technologies and processes will be used, how the company selects and uses suppliers, how the supply chain will function and the nature of the workforce.

Integration with the sales plan is critical, and congruency with the overall business plan is key for success.

Notice, for example, that many US companies are off-shoring their suppliers, while US-based Toyota plants have most of their key suppliers within 150 miles of the plant. Why is that? Because the business model for Toyota includes Just-in-Time (JIT), quick-order turnaround, partnership with its suppliers, and flexible manufacturing. That translates into an operations strategy of closeness to suppliers with investment in their improvement, agile manufacturing, and a well-trained workforce with a focus on problem solving and continuous improvement. Telling your suppliers that you want to partner with them and then sending the work off shore is not consistent with a Lean culture.

In many companies, Lean simply becomes another project. In those companies, it is comprised of the implementation of a series of tools and practices that will hopefully reduce costs. What many companies don't understand is that Lean is truly a culture of continuous improvement and people development that translates into long-term strategic advantage. Making Lean the centerpiece of the operations strategy and having the operations strategy strongly support the business strategy is a systemic and holistic part of a Lean culture.

**3. PEOPLE: Get the Right People in the Right Positions**

The final piece of the puzzle is having the right people in the right positions throughout the organization, but especially at the line management level. Jack Welch once said that the two key roles of a CEO are to provide a strong vision for the organization and to find and develop the people to implement the vision. Toyota puts a high level of emphasis on selecting and developing managers throughout the organization. In a Lean culture, having the right people in the right positions and then providing a strong training program for their development is a necessary part of a Lean implementation.

It is important to define each position carefully and answer the following questions:

- What are the four to six key

reasons the position is important?

- What does the position really need to accomplish, especially in the next 12 months?
- What attributes or characteristics should the person filling the position have? Clearly in a Lean environment, a problem-solving mentality with a teaching aptitude would be very important.
- What experience and education should the person have? Should he/she have specific experience with Lean tools, or with leading teams?
- What key measures will tell us that we hired the right person for the job? Put another way, in 12 months, what should have happened that tells me I hired the right person? These should be specifically measurable, data-driven metrics.

If you are about to embark on a Lean initiative or if you are already mired down in one that is not producing results, look at these three key attributes to determine if the foundation for success has been properly laid. Strong leadership, an operations strategy that makes Lean a part of the culture, and strong people in key positions are critical for success. Developing these attributes will help ensure that your company won't end up as part of the 60% where Lean is failing, but rather as one of the top 2% of companies implementing Lean in the US.



*Rick Pay is president of The R. PAY COMPANY, LCC, a Portland-based management consulting firm that helps manufacturers and distributors achieve peak operational performance.*