

Un-Lean: Justifying Continuous Improvement in Smaller Organizations

A recent trend among manufacturing and service firms is a renewed focus on rapid implementation of cost reductions and other lean initiatives. After acknowledging the importance of continuous improvement, firms must make decisions on resource allocation, organizational structure, and expected return on investment.

This article discusses the business implications of hiring specialized positions such as a Continuous Improvement Manager for the longer term in a small business environment, and offers an alternative approach which reduces costs and improves return on investment for continuous improvement efforts.

Executive Summary

Key Findings at a Glance

1. While larger organizations have generally incorporated continuous improvement into their underlying corporate structure, small and mid-sized companies have a lower rate of CI activity and integration.
2. For most smaller firms, the Continuous Improvement Manager is an “other” in the organization: a position with defined responsibility for cross-functional cost and product/service enhancement but little control over line manager and staff influence.
3. Businesses launching a quality management, lean, or other continuous improvement system generally add a dedicated position to offset a lack of required problem solving skill sets.
4. Without the direct involvement of senior management, CI activities in smaller organizations tends toward failure: a cultural change is required to channel dissatisfaction into productive action.
5. After the first two years of continuous improvement implementation, the need for a dedicated Continuous Improvement Manager begins to diminish.

Key Questions for Executives

1. Are you satisfied with your organization’s ROI for continuous improvement efforts?
2. If you measure continuous improvement companywide, do you incorporate the “fixed” costs of corporate CI staff?
3. Can your organization afford to invest in a position which will become more obsolete as it becomes more effective?
4. For the same cost, would it be better to invest in a single employee or a larger group of employees?

One of the few positive outcomes of this Great Recession is the growing realization among businesses that continuous improvement of products, processes, and costs can have a direct impact on company viability. For larger firms this means adding resources to existing departments and initiatives. But for smaller organizations, a new or renewed focus on quality systems can have a significant impact on cash flows and profitability—trying to improve makes them “Un-Lean.” This does not have to be so!

“As the big problems are solved all that remains are the small problems”.

I made this statement while speaking at our January plant meeting, to kick off the New Year of 2001. Our small company of one hundred fifty employees or so would meet every quarter to discuss company performance. I used this line to talk about the accomplishments we had made the previous year, and how far we had come as an organization in our ability to solve problems, and improve our performance. It must be noted we accomplished our achievements without the aid of a Continuous Improvement Manager. Now it's the year 2009, and I am thinking of the importance the role of a Continuous Improvement Manager has today in a small organization environment. I was thinking about what we experienced in our organization and the phrase:

“As the big problems are solved all that remains are the small problems”.

Continuous Improvement and Lean

Let's first look at the term continuous improvement and review its meaning. Continuous Improvement is a process used to continually identify problems and eliminate their root causes. We are probably familiar with the term “kaizen” which many of us equate to continuous improvement. We associate these terms with the Toyota Production System. In the United States companies began to take notice of continuous improvement or “kaizen” in the 1980's. Today continuous improvement, or the westernized term of “lean practices” is a wide spread strategy recognized and practiced by virtually every manufacturing and healthcare business in the United States.

Culture and Dissatisfaction

At the heart of continuous improvement lies an ongoing struggle between two frequently disparate forces: culture and dissatisfaction. The first of these, culture, is generally viewed as the binding element in an organization. This shared set of core values, mores, and work styles provides a common frame of reference for organizational development and follow through. A firm's culture sustains all of its activities, and the right culture allows a business to sustain itself. An organization with a culture of complacency will tend toward entropy and decline, while a culture of excellence will tend toward continuous improvement.

The second element, dissatisfaction, constantly critiques the organization and seeks to make change. In some cases this dissatisfaction can be localized, personalized, or misplaced. This type of dissatisfaction will create or reinforce a culture of angst and/or complacency. However, focused and well articulated dissatisfaction that leads to action can give an organization a competitive edge.

Dissatisfaction is the force that motivates continuous improvement, and problem solving is the key to making it successful, but culture is what makes it all happen. Culture is then the key ingredient to making continuous improvement happen. Put concisely, if dissatisfaction is the force that motivates continuous improvement to happen then culture is what sustains it.

The tools to implement continuous improvement are simple and well documented. Developing the correct culture may be more time consuming and difficult to attain. What is management's attitude toward change and empowering employees? Is theirs a participative approach? Is there an attitude to make sure everything runs correctly? As an organization do we obtain knowledge from employees and learn from mistakes? Do we tap into the knowledge from our current employees? There should be a willingness to explore and test new approaches. Are the right training opportunities in place? Do we have the right staff in place and make and right hires?

“As the big problems are solved all that remains are the small problems”.

Creating Focus: The Continuous Improvement Manager

For most organizations, the specific skill sets and disciplines required to channel dissatisfaction into a constructive set of actions lie outside of the purview of senior management. This may be a skills deficiency, or more often simply than not are simply so detail focused that they lend themselves to oversight by tactical (mid-level) management. These skills include, but are not limited to, the following:

- TQM
- TPS
- Just In Time
- Six Sigma
- Value Stream Mapping
- Leader of Kaizen Events
- Supply chain
- One piece flow
- Project management
- Visual systems
- MRP
- Problem solving
- 5-S
- Standardized work
- Error proofing

Given the specialized nature of these skill sets, leadership of continuous improvement efforts is delegated to a specific individual: the continuous improvement manager. The function, purpose, and key responsibilities for this individual tend to include:

- The planning and the execution of improvement projects.
- Fulfilling the strategic objectives of the continuous improvement program and the strategy of the business.
- Leading the business units' continuous improvement activities through the planning and implementation of Lean Manufacturing methodologies.
- Partnering with business and operational leaders to ensure the transformation to a culture of continuous improvement.
- Delivering practical hands on training to associates on Lean manufacturing methodology and tools. Measures and reports the progress of group level activities.

The role of continuous improvement manager can be a thankless one. In organizations without a strong

culture of ongoing development and product or process enhancement, the CI manager can be seen as an “other.” Their support can be received with less than welcoming feedback from general staff. This individual’s budget lines can be the envy of other departments or functional units.

This leads to an odd paradox: the individual and team tasked with channeling dissatisfaction can lead to a higher level of dissatisfaction among peers in the organization. For larger companies this push back is corrected by a strong and pervasive culture of improvement, or through direct coercion by higher level executives. In these larger companies the need to improve across functional lines simply cannot be achieved through standard channels. It was for this reason that General Electric utilized the Six-Sigma methodologies: first as a vehicle for tactical improvement, and later as a cultural norm.

It should be noted, though, that smaller organizations lack the deep pockets needed to implement major cultural change. This increases the challenges that CI managers must overcome. Without investment capital sufficient to overhaul the firm, the direct involvement of senior level executives and/or ownership is absolutely critical to the long term success of both individual continuous improvement projects and the overall development of a culture of improvement.

After reviewing what continuous improvement is about – its culture, roles and responsibilities – it makes sense that the single most important step to implementing continuous improvement is the development of a high performing culture in the organization. The other components can be taught, systems can be customized to fit your organization, and there is probably current staff available to make continuous improvement happen.

This leads to a single question: why? If the organization must change the majority of individual perspectives and work habits to improve its culture, why work to create change from the middle? Why not take a top-down approach? And why invest all of those improvement dollars in a single individual when they could be invested in many?

“As the big problems are solved all that remains are the small problems”.

“As the big problems go away the value of the CI Manager is diminished.”

Justifying the Role of Continuous Improvement Manager

Again, in larger organizations this question answers itself: too many people to manage, too many facilities to influence and control. But what of the small and mid-sized firm? Our research shows that beyond the initial projects and skill sets, smaller companies cannot justify the costs of a full time Continuous Improvement manager. That isn’t to say that specific individuals don’t do a tremendous service to smaller firms, but that on the whole the average CI manager does not provide a return on investment comparable to that of a well trained team of managers and staff.

To begin this comparison, a company must start with the analysis of the baseline cost of ownership of a continuous improvement manager. Firms launching their continuous improvement efforts can expect a five year learning curve: modest project success in years one and two, with increasing efficacy through the next three years.

Continuous Improvement Manager cost to the organization over 5 years.

Salary	\$250,000.00
Insurance	\$35,040.00
401 k contribution	\$6,250.00
Total	\$291,290.00

Based on a salary of \$50,000 per year, the annual cost of the CI Manager is \$58,258. We single out the cost of the manager as all ongoing project costs, training, and development can be considered “fixed” in the organization: they will occur regardless of the involvement – or the effectiveness – of the CI manager. The specific ROI of a project will be measured on the specific resources invested and the return provided: what impact is the CI manager’s cost on ROI?

The real key ingredient in implementing CI is adapting a business culture that wants to – and can – problem solve to make improvements. As an owner or manager of a business, the question of return on investment over a five year period has to be addressed in your business plan. If your organization and your Continuous Improvement manager are any good, major problems will be eliminated within a year, and most likely within two. As the organization develops the desired culture it becomes self managed, problem solving is robust, and the internal operations are efficient. The extent of decision making becomes sales, external services expense, and capital expenditures, for new projects.

Without the support and involvement of senior leadership, the CI manager in a small organization will have difficulty implementing needed change. But once this involvement has occurred, the value of the individual CI manager’s contribution is minimized. Further reducing the CI manager’s necessity is the organization’s learning curve. After year five, successful execution of the continuous improvement methodology will have permeated the firm, providing maximum return on investment in both cost containment and product/service enhancement. Beyond year two, though, the organization will have a gradually reduced need for this individual.

Our findings show that while the majority of smaller firms can justify continuous improvement efforts—most in fact require them to remain competitive — few are able to justify a position for which ROI will decline annually.

A Common Sense Approach to Continuous Improvement

In order for small and mid-sized business to be successful, they need to maintain an organizational



structure that is flat while employing individuals with a diversified set of functional and problem solving skills. A team of committed people who are involved with the daily processes, who live in the detail, are most capable of making continuous improvement happen.

We begin with the acceptance of this prior statement as the foundation for a new, truly lean method of continuous improvement. Our research into smaller firms has found a common set of principles underlying their continuous improvement efforts. These companies have eschewed the traditional “Lean” implementation, applying the Plan-Do-Check-Act method in a much more cost effective manner.

The primary difference between this smaller company system and that of their larger counterparts is the move away from a single continuous improvement champion or department. Instead, these progressive firms have chosen to “embed” continuous improvement responsibility with their staff and line managers. They have then spent a portion of foregone CI manager’s salary on structural development and individual training, and used the savings elsewhere in their organization.

The Traditional (Un-Lean) Approach

- Appointment of a “Lean Champion” or CI Manager
- Direct investment in developing an individual leader’s skill sets
- Adoption of a broad range of continuous improvement techniques
- Focus on solving larger problems first
- Hiring of additional skill sets to oversee staff and management improvement efforts
- Measurement of ROI from individual initiatives

Smaller Company Innovative Responses

- Senior Management Champions
- Direct investment in developing a core team’s skill sets
- Adoption of a handful of continuous improvement techniques
- Focus on solving smaller problems first
- Hiring of staff and managers who can learn and apply continuous improvement techniques
- Companywide measurement of continuous improvement ROI

Smaller Organization Lean Initiative

It is interesting to note that these smaller company responses have emerged in disparate industries and without a discernable “carrier” for the methodology. This widespread emergence instead appears to be the result of ongoing trial and error. While this developmental approach has proven effective for these firms, Simplicity Tactics has condensed the core elements of these companies into a comprehensive approach to continuous improvement success. This approach, outlined below, eliminates the hiring of a Continuous Improvement manager, instead funneling developmental dollars into the broader organization. In large companies this would be a drop in the overall budget bucket, but in smaller firms this cost savings can provide a return on investment in a matter of weeks!

Smaller Organization Lean Initiative Outline

<u>Required Steps</u>	<u>Responsible Party or Parties</u>
Develop specific cost and/or product and service improvement outcomes	Executive Management Team
Define gaps between current and future business state	Tactical/Daily Management Team
Choose high impact pilot project	Tactical/Daily Management Team
Enlist volunteers from around the organization	Individual Project Leader
Training and development of project staff	External Trainer or Consultant ¹
Successful completion of pilot project	Project Team
Trumpeting success and encouraging next projects	Executive Management Team

While no single method will address the needs of all organizations, our research shows that adoption of this metered approach to continuous improvement yields the highest levels of sustainable enhancement and execution in most smaller and mid-sized organizations. It allows the best and brightest in the organization to take control of their individual processes and work spaces, while limiting the companywide spend on specific skills to that of specific training from an outside source. Once this training has occurred in the organization, it can be utilized on all future projects. And as no single person in the company is the font for continuous improvement knowledge, the firm can create a deeper base of knowledge in continuous improvement skill sets which are focused on the particular needs and variables of the company.

For additional information on how to apply the Smaller Organization Lean Initiative in your company, please contact your Simplicity Tactics practitioner.

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About The Author

Senior Practitioner Jack Lasley brings a critical eye that only three decades of manufacturing experience can provide. From his background in the automotive industry Lasley expanded his studies into material and systems quality, organizational development, and operational efficiency. Jack currently leads the Simplicity Tactics health care working group, and is launching a statewide manufacturing program in Michigan later this year.

About The Firm

Simplicity Tactics provides hands-on problem solving and support to manufacturing companies, governmental and non-governmental entities, and service firms. Bringing expertise in areas as varied as commercial development, operational effectiveness and efficiency, and labor relations, the firm offers discrete counsel and business plan implementation for firms in transition.

1. This external spending should be compared to the cost of a continuous improvement manager; the cost of ongoing group training in continuous improvement methods for a smaller company can be estimated at between \$15,000 and \$45,000 for the first year, with a residual budget of no more than \$5,000.

