



People and Organizational Issues in the Lean Enterprise



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People and Organizational Issues

Lean Enterprise Implementation requires understanding of:

How to organize for lean

Theory for organizations and their improvement

Organizational culture

Change management

Methods for building of organizational capability and supporting learning

In a process that links these together without undermining any element



A Premise

“It is not the physical facilities but the organizational capability that will differentiate success from failure of the enterprise !”

Source : Gerhardt Schulmeyer, President, ABB-North America

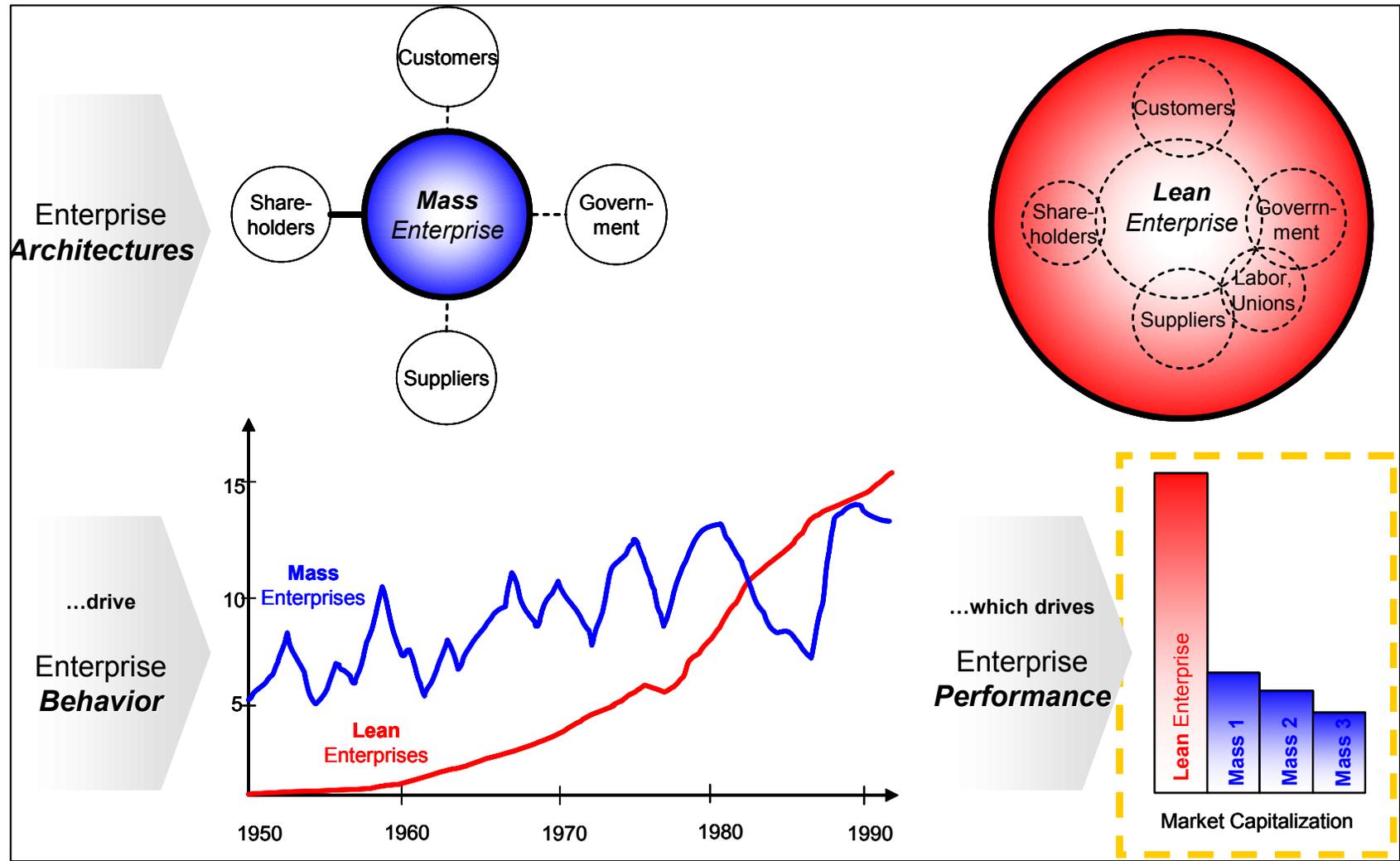


"The soft stuff is the hard stuff"

**-Chris Cool, VP, Lean Enterprise
Northrop Grumman, ISS Sector**



Significant differences in the performance of Mass and Lean Enterprises





What accounts for differences in the performance of Mass and Lean Enterprises?

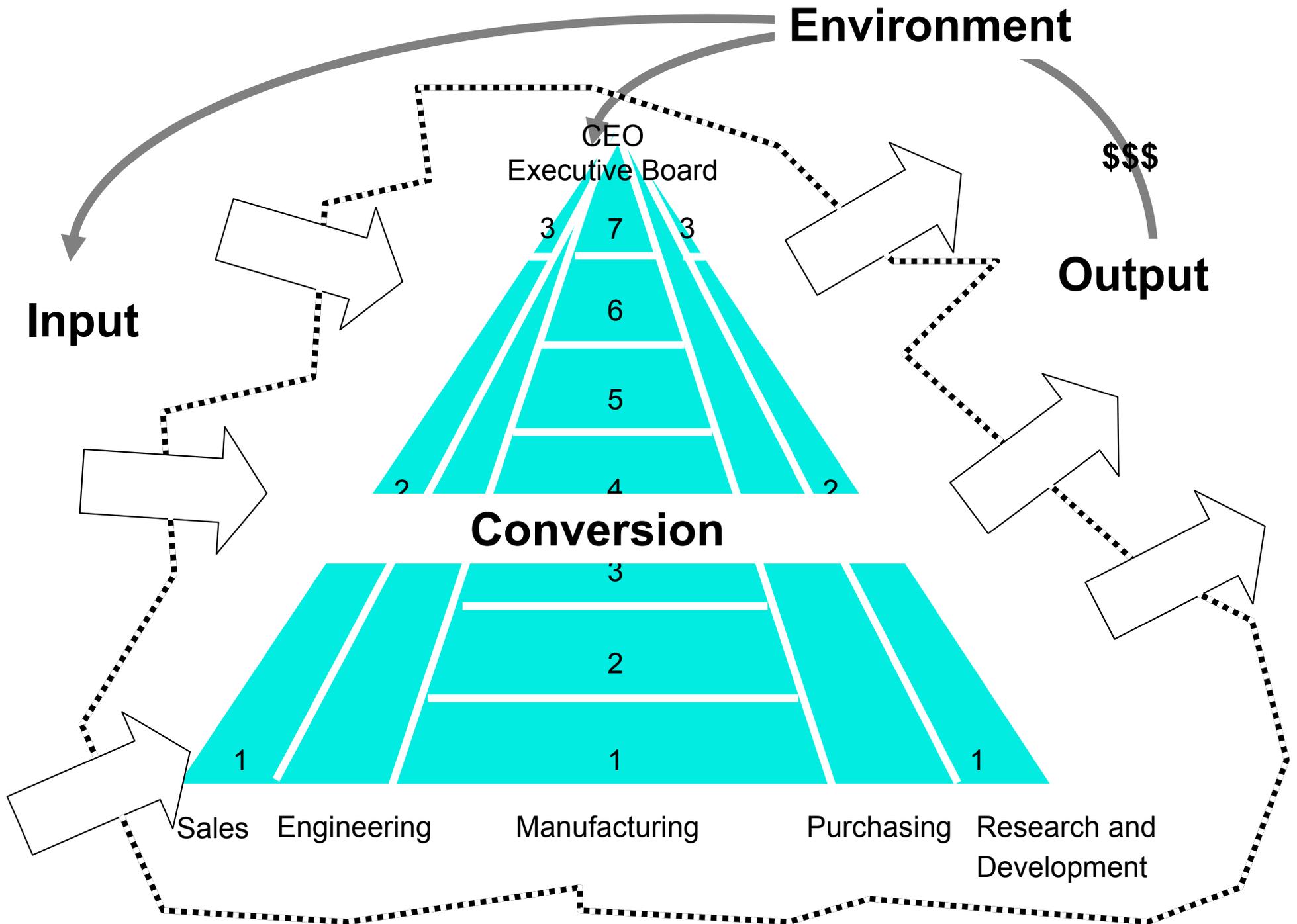
To understand some of the difference in performance we will go to organizational theory:

Organizations, and enterprises, can be thought of as tools used to achieve goals

They create value through a cyclic process, involving their:

- **inputs**
- **conversion process**
- **outputs**
- **environment**

from Organizational Theory by Gareth Jones





Lean & Organizational Theory

Historically, lean in American manufacturing has focused on this conversion process:

- **Effective ways that organizations take their inputs and convert them to outputs that create the most value for customers**
 - **focus on value,**
 - **improve value stream,**
 - **organize to flow,**
 - **respond to downstream pull, and**
 - **pursue perfection**

Enterprise Lean goes beyond the conversion process itself and examines the relationships and dependencies of that conversion process with the enterprise's environment, inputs and outputs



Organizational theory examines how organizations function and their relationships with their environment

Organizational Theory

The study of how organizations function and how they affect and are affected by the environment in which they operate.

Organizational Structure

The formal system of task and authority relationships that control how people are to cooperate and use resources to achieve the organization's goals.

Organizational Design

The process by which managers select and manage various dimensions and components of organizational structure and culture so that an organization can control the activities necessary to achieve its goals.

Organizational Culture

The set of shared values and norms that control organizational members' interactions with each other and with people outside the organization.

Relationship Among Organizational Theory and Organizational Structure, Culture, and Design, from Fig 1.4, in Organizational Theory by Gareth Jones



Approaches to Managing Organizational Effectiveness

Approach

External resource approach [**Control, Strategy**]

Internal systems approach [**Innovation & OD**]

Technical approach [**Efficiency & CPI**]

Description

Evaluates the organization's ability to secure, manage, and control scarce and valued skills and resources

Evaluates the organization's ability to be innovative and function quickly and responsively

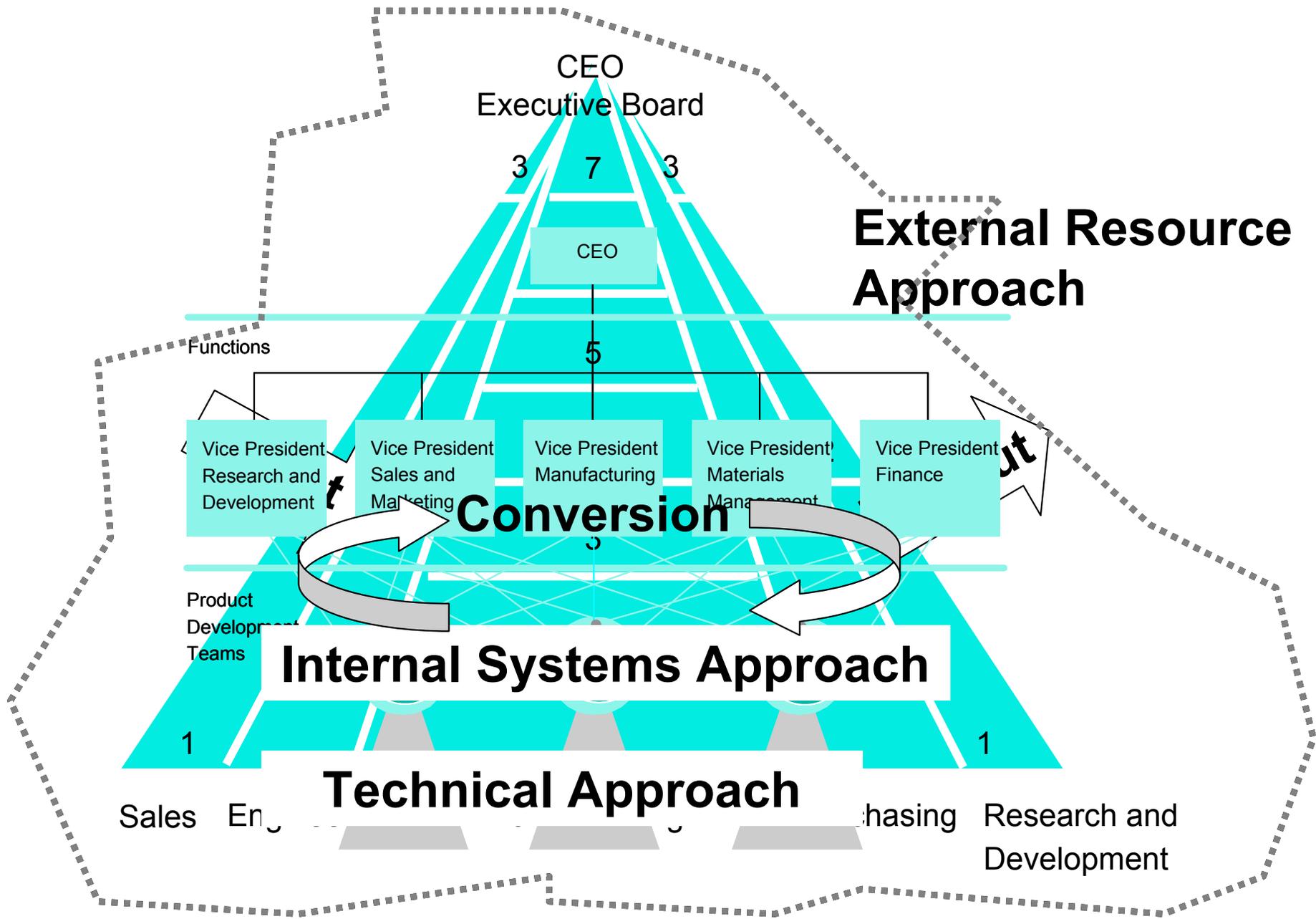
Evaluates the organization's ability to convert skills and resources into goods and services efficiently

Goals to Set to Measure Effectiveness

- Lower costs of inputs
- Obtain high-quality inputs of raw materials and employees
- Increase market share
- Increase stock price
- Gain support of stakeholders such as government or environmentalists

- Cut decision-making time
- Increase rate of product innovation
- Increase coordination and motivation of employees
- Reduce conflict
- Reduce time to market

- Increase product quality
- Reduce number of defects
- Reduce production costs
- Improve customer service
- Reduce delivery time to customer





Organizational Culture

Organizational culture is the set of shared assumptions, values and norms that control organizational member's interactions with each other and with people outside the organization

Values

strategies, goals, philosophies
(espoused beliefs and justifications)

Basic Assumptions (mental models)

unconscious beliefs, habits, perceptions, thoughts, and feelings
(ultimate source of values and actions)

Artifacts

stories people tell, visible organizational behavior, processes, and structure
(hard to decipher)

from Schein (1992) Organizational Culture and Leadership



Levels of Culture

Shared Espoused Values

The espoused reasons for why things should be as they are, e.g. charters, goal statements, norms, codes of ethics, company value statements

Source : Ed Schein, Sloan School of Management



Levels of Culture

Shared Basic Assumptions

The invisible reasons why group members perceive, think, and feel the way they do about external survival and internal integration issues, e.g. assumptions about mission, means, relationships, reality, time, space, human nature, etc.

Source : Ed Schein, Sloan School of Management



Levels of Culture

Artifacts

The visible, hearable, feelable manifestations of the underlying assumptions, e.g. behavior patterns, rituals, physical environment, dress codes, stories, myths, products, etc.

Source : Ed Schein, Sloan School of Management



“Lean” cultural assumptions: Four Rules at Toyota

- 1. All work shall be highly specified as to content, sequence, timing and outcome**
- 2. Every customer-supplier connection must be direct, and there must be an unambiguous yes-or-no way to send requests and receive responses**
- 3. The pathway for every product and service must be simple and direct**
- 4. Any improvement must be made in accordance with the scientific method, under the guidance of a teacher, at the lowest level in the organization.**

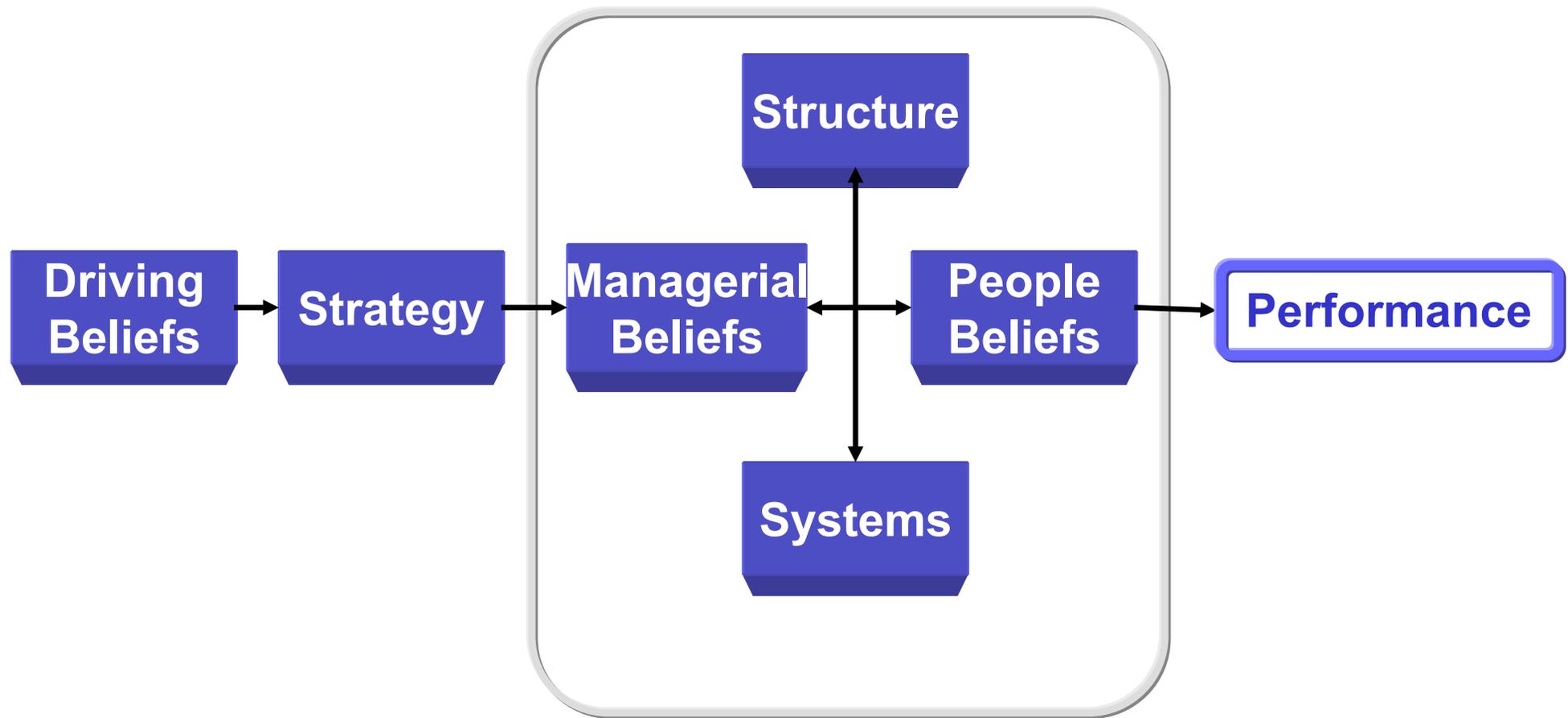
Source: Decoding the DNA of the Toyota Production System. By: Spear, Steven; Bowen, H. Kent. Harvard Business Review, Sep/Oct 1999



Creating a Lean Culture

- **Strong culture essential to maximize benefits of lean**
- **What is a good lean culture?**
- **How do we change culture?**

Assessing a Corporate Culture



Hypothesis: if the beliefs are not aligned, performance suffers.

SOURCE : Boston College



Human Resource Shifts

From

- **Perform task**
- **Reward for doing**
- **Skills life equal to career life**
- **Training as 1% of payroll**
- **Individual treated as cost**
- **Limit human potential**

To

- **Perform task & provide knowledge**
- **Reward learning and doing**
- **Skills obsolescence at 20% p.a.**
- **Training as 7% of payroll**
- **Individual viewed as asset**
- **Maximize human potential**

Source: Next Generation Mfg., 1997



Shifts Required to Support Teaming & Partnering as a Core Competency

From

- **Physically control core competencies**
- **Reward individual contribution**
- **Transfer knowledge within team**
- **Single decision style: hierarchy**
- **Material supply chain**

To

- **Control the knowledge of core competencies**
- **Reward individual contribution and team success**
- **Transfer of knowledge between teams**
- **Multiple decision styles: hierarchy, team, empowered**
- **Knowledge supply chain**

Source: Next Generation Mfg., 1997



Responsive Practices & Culture

From

- **Teach Productivity**
- **Teach the Need to Change**
- **Customer Satisfaction**
- **My Standards and Metrics**

To

- **Teach Innovation & Creativity**
- **Teach the Process of Change**
- **Society / Stakeholder Satisfaction**
- **Our Standards and Metrics**

Source: Next Generation Mfg., 1997



Corporate Culture Change

From

To

Authority	Based on Position	Based on Knowledge
Decision Making	Close to Top	Where Action Is
Employee Contribution	Limit knowledge & Skills	Enhance
Information	Closely Control	Share Widely
Rewards	Individual Preference	Teamwork
Status	Highlight Differences	Mute Differences
Supervision	Watchdog	Resource

SOURCE: MSB REPORT OF NATIONAL RESEARCH COUNCIL



Making Change Happen Is Not Easy

"It must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage - than the creation of a new system.

For the initiator has the enmity of all who would profit by the preservation of the old and merely lukewarm defenders in those who would gain by the new."

Source: Machiavelli, The Prince, 1513.



Effective Change

Effective Change involves eight sequential steps

1. Establishing a Sense of Urgency
2. Creating a Guiding Coalition
3. Developing a Vision & Strategy
4. Communicating the Change Vision
5. Empowering Broad-based Action
6. Generating Short-term Wins
7. Consolidating Gains & Producing More Change
8. Anchoring New Approaches in Culture

John Kotter

Leading Change: Why Transformation Efforts Fail (1996)

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Massachusetts Institute of Technology

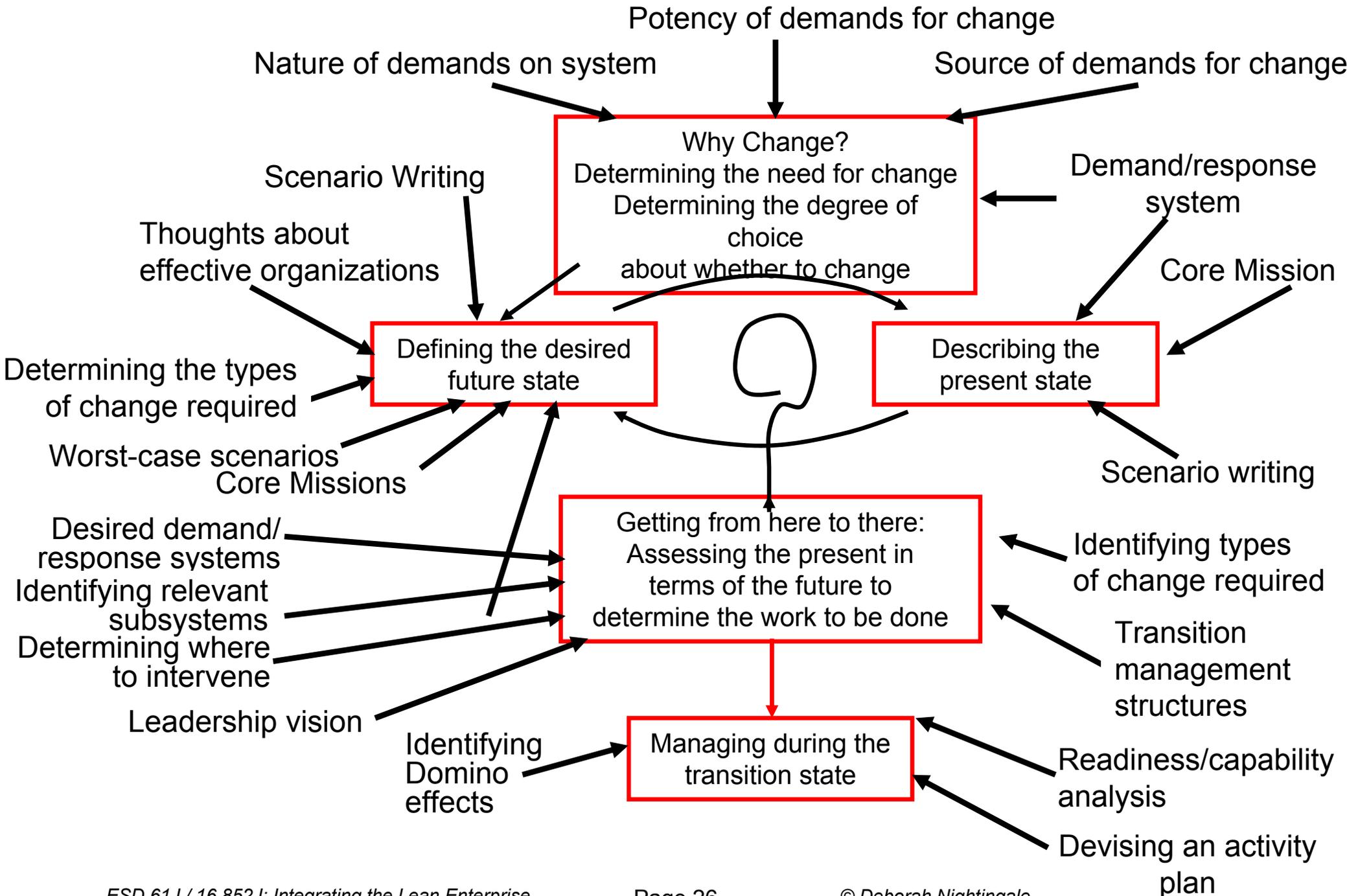


Cultural Change Issues

1. Identify the business problem or issue
2. Develop strategy & tactics to deal with issue/solve problem
3. Assess the present state of the culture to identify how assumptions will aid or hinder what is to be done
4. Focus on those cultural elements that will aid you, ignore the ones that will hinder you unless they are absolute constraints
5. Identify the people in your organization who are “culture carriers” of the elements that will aid you
6. Empower these culture carriers & build change teams around them
7. Develop processes for overcoming normal resistance to change

Source : Ed Schein, Sloan School of Management

Planned Change Model





The Change Process

Overcoming resistance to change by creating

“psychological safety” —

The Change Process

In order for new learning to occur, *survival anxiety*

has to be greater than learning anxiety.

This is best accomplished by *reducing learning anxiety.*

Source : Ed Schein, Sloan School of Management



The Bottom Line Questions

- 1. Does culture have to change or do you have to change business processes within the present culture?**
- 2. If culture has to change, can you build on enhancing cultural strengths rather than eliminating elements of culture?**
- 3. If cultural elements have to be eliminated, are you prepared to deal with the anxieties involved?**
- 4. Are you willing to allocate the time and resources necessary to actually change the culture?**

Source : Ed Schein, Sloan School of Management



Breaking the Code of Change

Michael Beer & Nitin Nohria

HBS Research Grant: conference in summer of 1998: 50 academics and 25 consultants and 6 CEOs, debating the different perspectives on change.

Two dramatically different assumptions about the purpose for, and means of, organizational change emerged:

- **Theory E** – based on Economic Value
- **Theory O** – based on Organizational Capability

Dimensions of Change	Theory E	Theory O
Goals	Maximize value	Develop capabilities
Leadership	Top down	Bottom up
Focus	Structure and systems	Corporate culture
Process	Programmatic	Emergent
Reward system	Financial incentives lead	Commitment leads and incentives lag
Use of consultants	Expert consultants analyze problems and shape solutions	Consultants support process to shape own solutions



Breaking the Code of Change

Michael Beer & Nitin Nohria

Theories E and O approach the problem of organizational change from two different, but equally legitimate perspectives....

Neither achieves all the objectives of management in most cases.

Dimensions of Change	Theory OE
Goals	Embrace paradox between value and organizational capability
Leadership	Set direction from top and engage people from below
Focus	Focus simultaneously on hard and soft
Process	<i>Plan</i> for spontaneity
Reward system	Incentives reinforce but do not drive change
Use of consultants	Consultants are expert resources who empower employees

A theory of effective organizational change (for the long term)

**...high-leverage ways to shift
direction at a large scale...**



Profound Change

“... is change that combines ‘inner’ shifts in people’s values, aspirations and behaviors with ‘outer’ shifts in processes, strategies, practices and systems... The organization doesn’t just do something new; it builds its capacity for doing things in a new way – indeed, it builds capacity for ongoing change.”

-- *The Dance of Change*, p. 15



Profound Change

Change is a process of *organic* growth

“Leaders instigating change are often like gardeners standing over their plants, imploring them: ‘Grow! Try harder! You can do it!’ [But] if the seed does not have the potential to grow, there’s nothing anyone can do to make a difference....”

-- *The Dance of Change*, p. 8



Premise 1: Change starts small and grows organically

- **Sustained change accelerates as nature does, constrained by the resources available to it**
- **Imposed 'Roll-outs' don't work and lose, rather than gain energy over time**
- **Every movement is being inhibited as it occurs**



Premise 2: Change is only sustainable if it involves learning

- **Knowledge workers don't "do"; they also think**
- **It takes less time, in the long run, to involve people in change, strategy & purpose**
- **You can't force commitment; you can only inspire it; and**
- **Sustained change depends upon commitment**



Premise 3: Pilot groups are the incubators (seeds) for change

- **The size of pilot groups varies greatly: from three to hundreds of people**
- **Senior management teams are also pilot groups**
- **One common feature of pilot groups: A predisposition toward pragmatic curiosity**



Premise 4: Successful change requires three forms of leadership.

- **Executive leaders - defining the organizational environment, offering permission, protection, evaluation, and context.**
- **Local line leaders - developing changes in ways that produce results, galvanizing activity around a project, and managing accountability.**
- **Internal networkers - building community and diffusing experience, making sure that the line leaders do not act alone.**



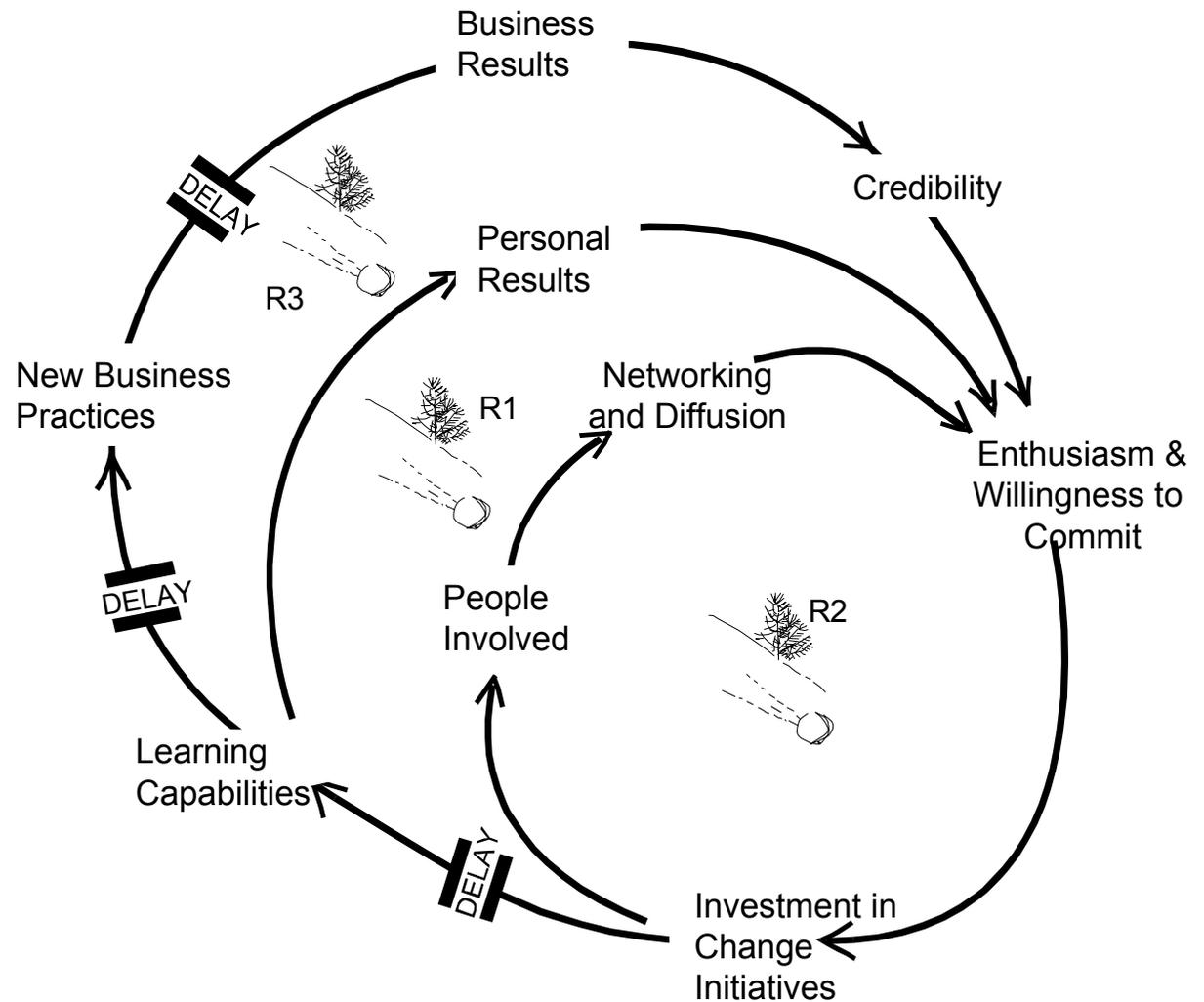
Who makes change?

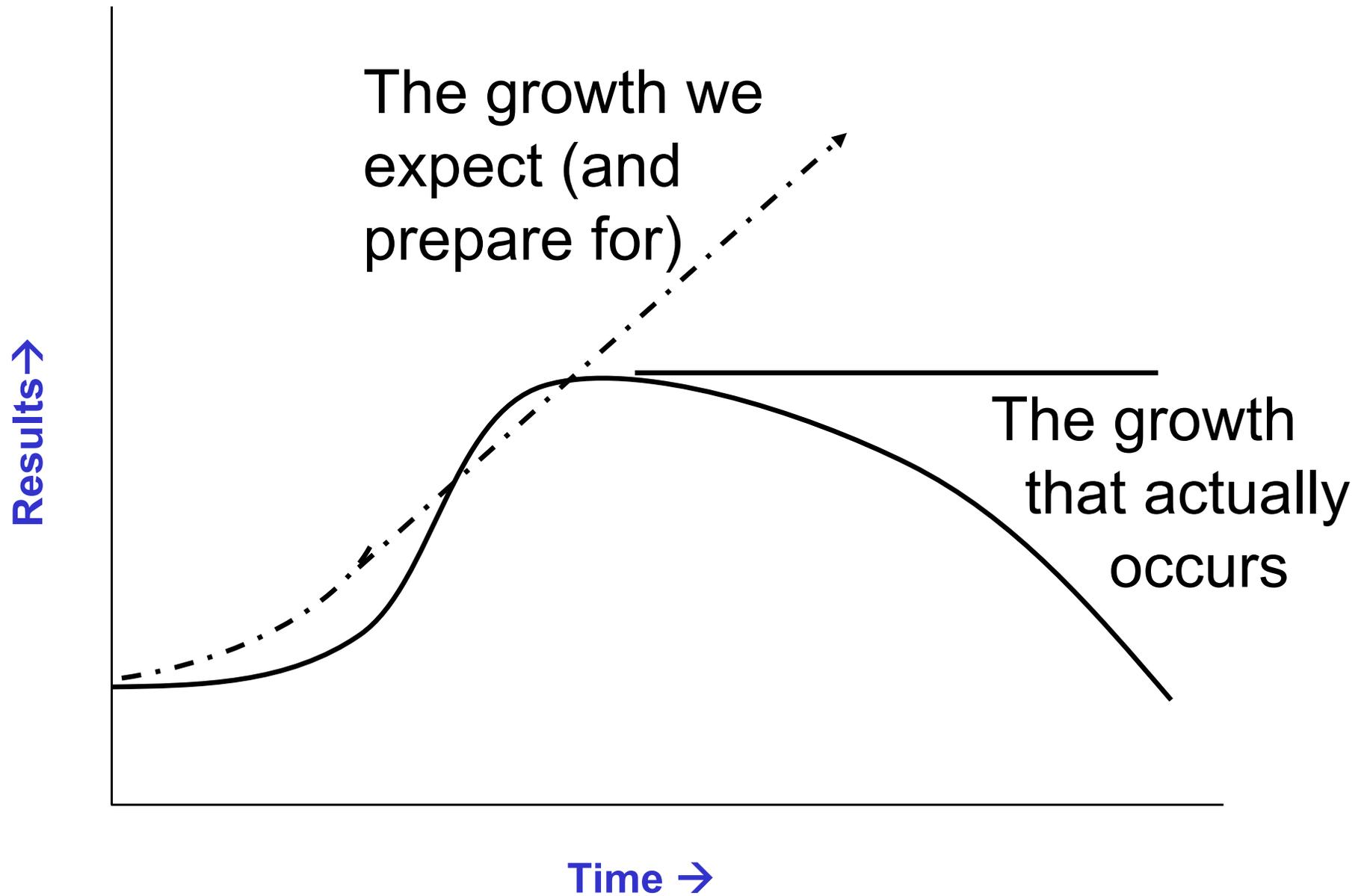
- A “line leader” of a pilot group, galvanizing activity around a project (Project manager? Regional manager? Local leader?)
- An “executive leader,” offering permission, protection, evaluation, and context (CEO? Senior executive? Board member?)
- One or more “internal networkers,” making sure that the line leaders do not act alone. (HR or IT staff? Well-placed “frequent flier”?)

Growth Processes of Profound Change

Reinforcing loops

- Personal results
- Networks of committed people
- Business results

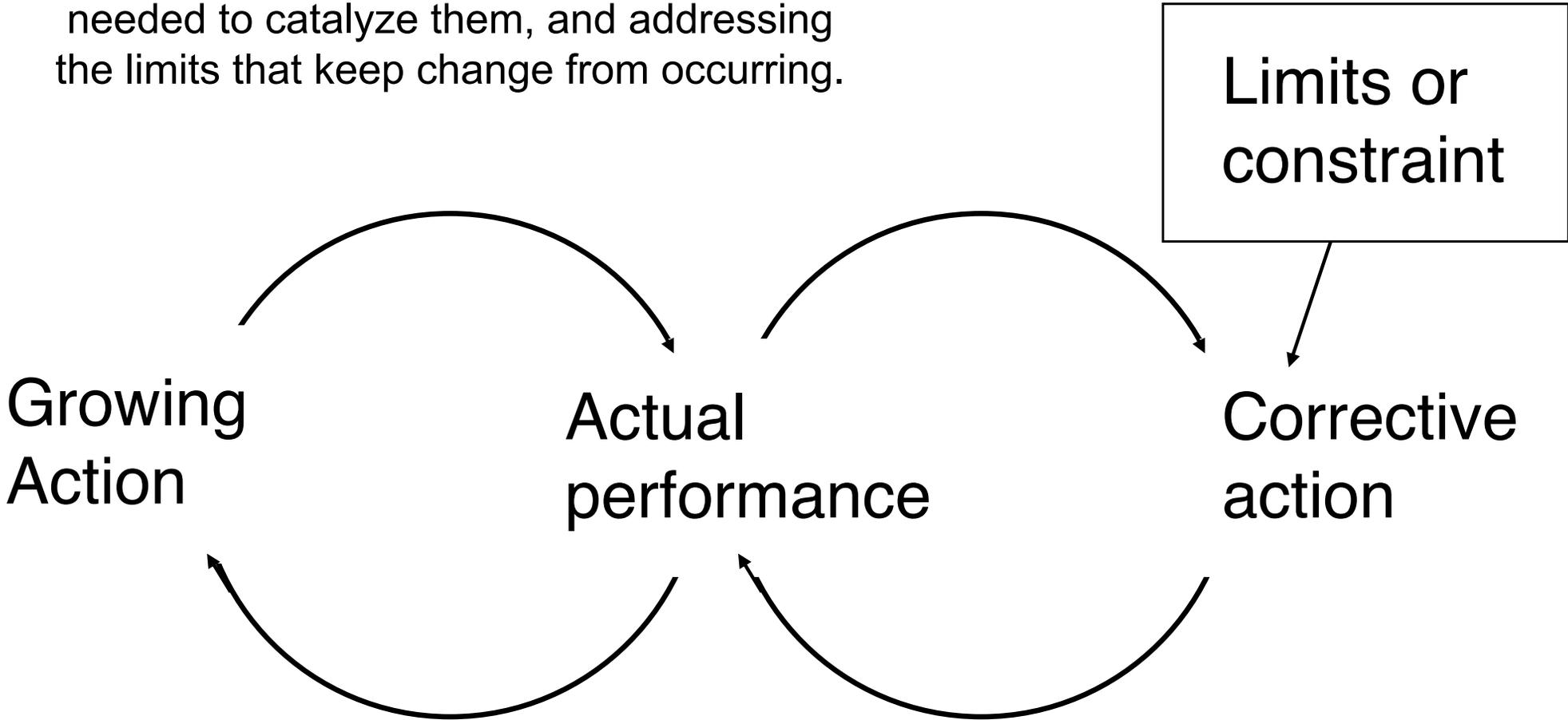






Limits to Growth

Sustaining change requires understanding the reinforcing growth processes and what is needed to catalyze them, and addressing the limits that keep change from occurring.





Growth Processes of Profound Change

Balancing Loops





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The Challenge of Change

- **Challenge in lean enterprise change is linking**
 - **Occupational communities of organizations and their management cultures, with**
 - **Change processes, tools and techniques**
- **Leaders must take on appropriate roles that support their efforts holistically, using**
 - **A process that is strategically directed;**
 - **Engages people at all organizational levels and all occupational communities; and**
 - **Builds enthusiasm and commitment**

Enterprise Transformation

Alignment of:

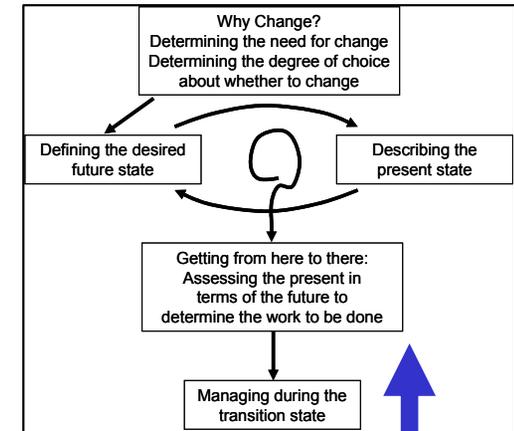
- Capabilities for improvement and change with
- Line (local) leadership and involvement

Enabled by:

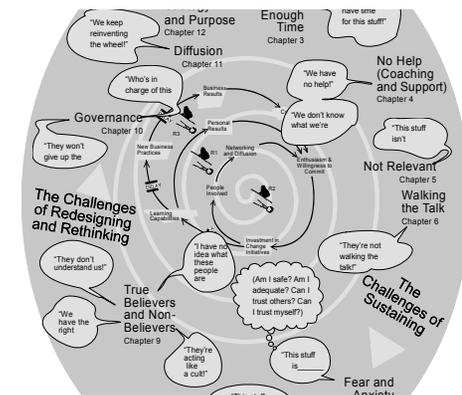
- Strategic direction, resources and support that
- Applies and develops capability that is
- Broad, inclusive and directive

Executive, network and line leadership working together

Executive Leadership



Linked by network leadership to capability and learning



To enable local leadership to develop new capabilities and

Transformation Results

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