



Do you recognise the challenge?

There is a clear message in the latest quarterly economic report for the third quarter of 2008 from Green's Institute of Market Research and Statistics Denmark, which compiles data from 832 Danish companies. Profits and incoming orders have been falling over the last two years, while stock volumes have been on the increase in the same period! There can be various reasons for this: companies are producing to stock to keep production going, they are producing to stock on the basis of inaccurate forecasts or the products being produced are not the ones that customers are actually demanding. This is a description of the average Danish company's situation at present, and if you are experiencing a similar situation, you are no doubt giving some thought to what the future will bring and how you can best survive these difficult times.

Why have Danish companies gotten into this situation?

Studies show that approx. 50% of all Danish companies in the industrial sector have been applying the LEAN management philosophy, which identifies waste in an organisation's processes and rationalises production. The aim of LEAN is to "slim down" a company by implementing the various tools and methodologies that LEAN advocates. The aim is also to create continuous improvement throughout the company. Continuous improvement requires a high level of responsibility from management in connection with following up on and disciplining work on MBO-based structures. The research shows an increase in finished goods inventory levels despite a fall in incoming orders, which should not be possible within a LEAN perspective. LEAN advocates a "pull" production system, which means that only products ordered by customers are produced. The economic analysis shows quite clearly that the "pull" production system has not been implemented, as the finished goods stock volumes would quite simply not increase with the discipline of a LEAN "pull" production system. Why does the trend of rising inventory levels and a fall in incoming orders look as it does? The conclusion could be drawn that LEAN projects have not taken effect and that the implementation of LEAN has not created fundamental changes, but merely generated a breath of fresh air for a short period. Two elements of the LEAN philosophy find it difficult in the LEAN world in Denmark. This first one is our focus on short-term results and a lack of focus on creating flexibility in production, where the ability to adjust production according to demand is a primary consideration. The other important element is the creation of the fifth LEAN principle – the LEAN culture also known as Kaizen. The creation of the LEAN culture holds the key to achieving lasting improvements and changes. Implementing a culture means working with people and their attitudes. This is often a long, drawn-out process that requires creating the necessary conditions, which are based on calmness, trust, involvement, time, success and co-operation. In many LEAN implementation programmes managers or consultants are unable to create the culture of change that can produce lasting improvements. The implementation phase also requires acceptance among managers and employees of the tools and the attitude that will produce results in due course.

Why have Danish companies got into this situation? Far too many companies and consultants have been focusing primarily on implementing tools, and have not been able to create the changes in attitude that guarantee acceptance of the use and understanding of the LEAN toolbox and that give a company a LEAN culture, which will in due course enable it to be flexible and create lasting improvements.



How should you respond to the new situation?

It can be said with a reasonable degree of certainty that if 50% of all Danish manufacturing companies have worked with LEAN, there are many that have not achieved the full benefit of their LEAN work. This is very probably due to a lack of acceptance of the changes LEAN entails. A lack of acceptance can exist because managers or consultants have failed to break down the barriers between departments and different levels in the organisation. These obstacles can be broken down by means of dialogue, involvement and trust. Other reasons are that employees have not developed a clear vision of why a LEAN implementation programme should take place and how they can influence the solutions for current and future challenges.

If you want to stop this trend of rising stock volumes and falling profits, there must be a change, regardless of how it is achieved, so that it is beyond doubt that acceptance among both employees and managers will bring about a significant increase in the scale of success. So get employees involved – after all, they are the ones who know how they can rationalise their own work. Involve middle managers in creating a general overview of a department's performance and where savings can be made. Involve everyone in the company and allow them space, time and reassurance to work towards the common objectives.

Whether it is LEAN or other "efficiency methods" that are chosen as the most suitable solution in your particular company to respond to the current challenges, the value of the implementation process will depend on the ability to gain acceptance for the process of change.

One good example of a lack of acceptance is the LEAN implementation programme at PFA (a large financial services business) in 2003. The project was one of the very first major LEAN implementation programmes in a pure administrative environment, and the project won the Danish Management Board's consultancy prize for the best project of the year in 2004. An efficiency improvement of 30% was measured in the first year, when consultants were working "in-house". But soon after the end of the project, employees started to deviate from the structures and methods that the consultants had implemented, and ultimately they found themselves in the same situation as they were before the project. Only one year had passed since the consultants had left PFA. As a former PFA employee explains: "Staff lost motivation, because we felt that our ability to think and create our own solutions had been taken away from us." This had the effect, naturally, that once the consultants had left the company there was very little motivation to continue with the extremely structured work. The opportunity to involve employees in finding the best solutions to current and future challenges gives employees a high level of motivation to remain committed to improvement per se, and thus to continue to contribute ongoing ideas for the company's growth. The LEAN culture was not a culture that employees felt that they owned, and there was therefore a sense of being rigidly bound by new roles and structures.

Looking ahead, what should Danish companies do?

Not involving employees in change allows hierarchical barriers to be formed in a company; this prevents the existence of the LEAN culture – continuous improvement. The only way forward is to engage people fully. A successful process of change should always relate to people, systems, the organisation and processes.



People, as in the involvement of employees and managers. Systems, as in the adaptation of follow-up, key performance indicators and meetings. Organisation, as in defining responsibilities and authority levels at the right places in the organisation. Processes, as in making sure that there is a smooth, efficient flow of the company's products, information and money.

Involving employees is easier said than done, so how do you do it? Employees must understand and have knowledge of why a change is necessary. A broad-based understanding must also be created among employees of how they become a part of the solutions to future challenges. Trust and respect are also required between managers and employees. This means that the manager has a massive role to play in creating trust and respect. In other words, the success of a process of change is based on management being able to listen to and communicate with its employees and motivate them through the process of change. By involving employees and managers, and by creating peace, trust, time, success and co-operation on these, the company has a tremendous opportunity to achieve the important cultural change that will create Kaizen – the LEAN culture.

The existence of consultancy companies is based on successful change – which is why consultants should also be the best at creating acceptance and thereby producing lasting, successful change. Consultants can be, however, restricted by sales figures and budgets, which can in time lead to short-term solutions. A consultant must lay the foundations for acceptance through trust and understanding. This is extremely difficult to achieve if the consultant does not work in full partnership with the client, and instead puts a higher priority on maintaining budgets and achieving bonuses. Whether it is LEAN or another management philosophy that is to be implemented, it is our experience that success is achieved through a down-to-earth, inclusive, understanding approach, in which the keywords are dialogue and co-operation.

Claus Madsen, ANPRO
c.madsen@anpro.dk

