Lean Enterprise Institute

lean.org

The LEI senior executive series on …

Lean Leadership

As part of a continuing series on leading lean transformations, the Lean Enterprise Institute (LEI) will interview executives from a variety of companies to explore the challenges lean transformations present to senior managers. What follows are perspectives from Hank McHale, who applied lean principles while in senior posts at several industrial companies.

LEI: *Why do some companies fail to achieve adequate results from their lean efforts?*

McHale: You'll usually find that the transformation efforts at these companies had two major flaws. The first is a failure to emphasize a total process for improvement. That means setting specific goals, measuring current progress toward achieving the goals, identifying root causes for goal gaps using teams, formulating actions to close the gaps using teams, measuring progress frequently and reformulating actions, and communicating progress throughout the organization,

If senior leaders neglect any of these elements of the total process, they'll weaken the results obtained. Now, that begs the question of why more companies don't see the transformation effort as a total process? I think some top managers just don't know how to go about a total process of continuous improvement for lean managing; they have a quick-fix mentality. Others lack training and experience in manufacturing or operations and in formal problem-solving techniques. They don't like a structured, continual approach to solving problems. They would rather solve problems in a more casual way.

Still others see no need for massive change. Many companies have become too comfortable because they had the luxury of growth in the past.

The second flaw is the failure of top managers to spend enough time observing employees' continuous improvement activities, coaching them in how to perform the various continuous improvement elements, and make the personnel changes required to improve elements of the total process.

I think many senior managers don't get more involved with the improvement process because they believe that they don't have the time to get involved in this level of detail. They think it's someone else's job further down in the organization.

Others, particularly those who have limited manufacturing or operations' experience, and are more generalists, do not feel comfortable discussing operations.

LEI: *How can senior leadership avoid these failures?*

McHale: They have to familiarize themselves with the total process, and be committed and involved in the elements of the total process. This can be done with selective reading of books and articles and by hiring an employee or consultant with lean experience to act as a lean "personal trainer." Senior managers, in turn, must select and motivate managers who will aggressively implement lean and get involved in the process. Don't accept lip service from your reports!

LEI: *What is a senior management audit? What's the process and how long does it take?*

McHale: A senior management audit is when the senior manager personally observes elements of the total process to evaluate how well managers or employees are performing them.

For example: As CEO of a company, I wanted to evaluate the adequacy of root cause analysis. I attended a meeting in the plant of about ten manufacturing supervisors, process engineers, and design engineers. They were trying to solve a serious productivity and scrap problem with a particular part. I noticed that there were no hourly employees at the meeting, no team leader or meeting leader had been appointed, there was a lot of bickering and finger pointing, and no dates for completion were targeted

As a result of this meeting, I worked with the division general manager to develop a formal root cause analysis approach with more employee involvement. Had I not observed first-hand for myself, how would I have determined how well root cause analysis was being conducted?

The auditing process doesn't have to take long, but it should be part of senior managers' routines. When visiting a plant, for example, they should request that the regular improvement meetings be scheduled while they are present so they can personally observe elements of the process, such as root cause analysis, actions to be taken, progress reviews, etc.

LEI: *How do you restructure accounting so the benefits of lean improvements in the shop and office appear in the financial statements?*

McHale: I'm not sure the extent to which accounting needs to be restructured, although more cost analysis will be required. The important thing is to tie the specific improvement in operations -- such as less machine downtime or less rework -- to specific, expected reduced costs and track those costs monthly by department and by total plant.

As manufacturing operations improve, the management team should continuously review which costs can be reduced, take the actions necessary to reduce them, and measure these cost trends monthly to make sure the reductions are actually happening. These types of operating costs need to be tracked to the related cost categories in the income statement and balance sheet, such as labor dollars, inventory dollars, and so on. If the operating categories are showing reductions and the related cost categories in the income statement are not, obviously more cost analysis needs to be done. It may be that other cost categories have increased, or the cost reductions are not real.

Senior management should anticipate that as inventory is reduced, which is typical during lean transformations, to a target level where production approximately equals demand over time, there can be a one-time negative impact on the income statement. This is because cutting production can result in less fixed cost burden absorption -- depending on accounting treatment. However, this is usually a one time short-term impact.

LEI: *What -- if anything -- can a middle manager do to convince senior managers to pursue a lean transformation?*

McHale: Perhaps this should be a two-step process. First, does senior management believe there is no room for improvement? Here the challenge is to identify that improvement is needed. Second, if senior management admits improvement is needed, it needs to be convinced that lean principles can help -- hopefully, significantly -- in that improvement.

Regarding the first step, various measures can be calculated. These measures, among others, can be trended to see if the business is improving, stagnant or deteriorating. The measures can also be compared to competitors' and industry averages. These measures may include: sales, warranty costs, profit, rework costs, return on sales and assets, equipment downtime, operating cash flow, days sales in receivables, days sales in payables, work in process inventory level, inventory turns, vendor returns, direct and total hourly efficiency.

That raises the question of whether middle managers must calculate and present these measures or whether they already are available to senior management. There are different possibilities:

- Such measures are not available presently
- The measures are available, however, trends, competitive and industry comparisons have not been made
- Trends and comparisons have been made, but no conclusions or action plans have been made to improve.

My experience is that different companies are at different stages of measure development and analysis. Regardless, middle managers have choices to make, all involving some degree of career risk -- or opportunity. Certainly senior managers and boards of directors should make these analyses, but surprisingly many don't. A middle manager inquiring about such analyses can be seen as a pest, someone with admirable initiative, or somewhere in between.

If senior management is non-responsive, the middle manager might consider changing departments or companies where lean is practiced and rewarded. He or she can stay and keep trying and hope for the best. Perhaps the boss can be convinced to try a few lean projects of limited scope within a functional area to see the value of lean. Small successes may lead to more widespread usage of lean principles.

It would be unusual for a company to show positive trends for all measures or be better than all the averages for competitors and the industry. Hopefully, this would convince senior management that improvement is needed.

And there are many books and case studies with examples of significant improvements from lean principles. The middle manager could condense and summarize these in an easy-to-read format.

Hank McHale
Hank McHale has applied lean thinking as the CEO of several companies, including Ladish Company, GO/DAN Industries, Trans Pro (a NYSE company), and on an interim basis of the Greenleaf subsidiary of Ford Motor Company. He is a former executive vice president in the automotive operations of Rockwell International. Before that he served as a material manager and a plant manager. He has a Ph.D. in marketing and economics from the University of Illinois. He currently is president of HM Associates, Milford, MI, (248)470-3443 and hpmchale@aol.com .