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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.

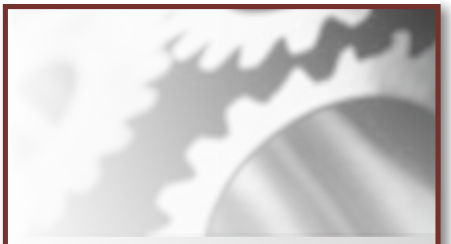
Lean needs to be seen as a competitive advantage that contributes directly to the strategic goals of the company. Culture in an organization starts at the top, and Lean needs to be part of the corporate culture to be successful.

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



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