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OPERATIONAL AND LEAN MANAGEMENT SURVEY 2008

European companies using Lean Management Principles outperform competitors

Allied Consultants Europe

Organisations that use the Lean methodology have achieved remarkable results. European firms from all sectors that apply Lean principles continue to improve and increase the gap between themselves and non-Lean using organisations.

That said, improvement rates for organisations that are most experienced in Lean start to decline after 5+ years, indicating that there's no room for complacency.

An improvement culture has become more important than ever for today's businesses, yet important management aspects like Standard Management, Value Stream Organisation and Visual Planning are still neglected by many.

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1 Executive Summary

Lean Management philosophy originates from the Toyota Production System developed by Toyota Motor Corporation in the early '50s and has since then been continuously refined. The principles behind Lean were first described in the book *Lean Thinking* (written by James P. Womack and Daniel T. Jones in 1997) where the terminology "Lean" is used to describe a process/production methodology. Lean aims to create an organisational culture where all employees are focused on continuously reducing all types of waste present in a process, such as waiting time, inventories, transportation, etc. The Lean methodology allows an organisation to create strong, stable processes that will enable them to deliver exactly what the customer wants – quickly, efficiently and with minimum cost implications.

This survey explores how companies applying the Lean management principles are being used to outperform their competitors. Here are a few highlights from the findings.

	Manufacturing	Administration	Public
Use Lean	69%	41%	39%
Plans to use Lean	18%	22%	25%
No plans to use Lean	13%	37%	36%

In recent years, Lean has become a popular improvement methodology used by many organisations across all industry sectors (Fig 1.1)

More than 50% of European organisations use Lean

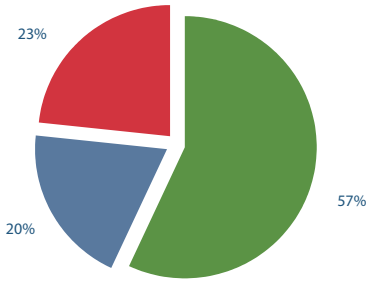


Fig 1.1 Total Lean uptake

- *Yes*
- *No, but are planning to*
- *No, and no intentions to*

Our findings indicate that 57% of businesses already use Lean methodologies, 20% are planning to incorporate Lean and 23% have no intention of introducing it. Approximately 25% of the companies that have incorporated the Lean methodology have been using it for 1-2 years, and 20% have more than 5 years experience of applying Lean. Around 5% of all participating organisations (those that apply Lean, as well as those that don't) are classed as "Top performers", 45% as "Good performers", 40% as "Poor performers" and 10% as "Worst performers" (see classification definitions on page 13).

(Executive Summary cont'd)

The more organisations apply the Lean methodology, the higher their chances of becoming a Top performer (Fig 1.2)

Figure 1.2 shows the relationship between those organisations that apply the Lean methodology and their performance. The results revealed that:

- 93% of all Top performers use Lean
- 69% of all Worst performers do not use Lean

Interestingly, 10% of all participating organisations that have worked with Lean for more than 3 years end up as a Poor or Worst performer. Given the success rate of the Top performers that use Lean, these organisations need to review and re-evaluate their Lean programme.

Use of Lean over several years creates a top performer

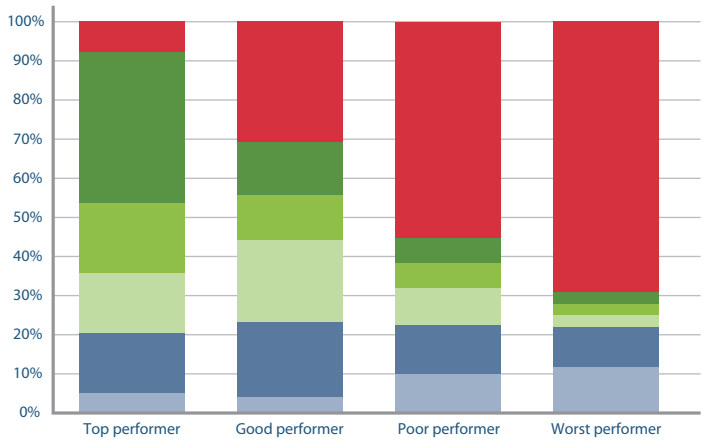


Fig 1.2 Relationship between Lean experience and total performance

- *No Lean use*
- *Lean more than 5 years*
- *Lean 3-5 years*
- *Lean 2-3 years*
- *Lean 1-2 years*
- *Lean 0-1 year*

(Executive Summary cont'd)

Top performers have focused on a wide range of improvement activities (Fig 1.3)

As a result, Top performers have achieved high scores across all 17 activity areas. On average, Top performers are more than halfway to attaining "World class levels", which represents the highest level that can be achieved on our scale of 0-4 on all activities, where level 0 is the lowest and level 4 is the highest (World/Best class). On average, Worst performers show low levels of activity on most of the 17 activity areas.

Average score in the 4 performance groups for each of the 17 improvement activities

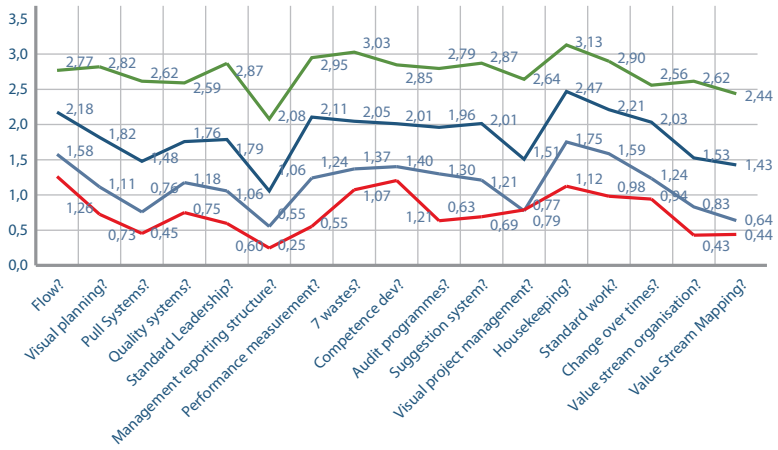


Fig 1.3 Score per activity area

- *Top Performers (N=39)*
- *Good Performers (N=342)*
- *Poor Performers (N=321)*
- *Worst Performers (N=69)*

Top performers achieve impressive results (Fig 1.4)

- Top performers deliver mostly on time (90%); their failure rate is 50% lower than Worst performers.
- Top performers make double earnings before interest, tax, depreciation and amortization (EBITDA) per employee than Worst performers.
- Top performers need only half the capital tied up in inventory than Worst performers.
- Top performers' absenteeism rate is 20% lower than Worst performers.
- Top performers deliver higher quality, which is five times better than Worst performers.

Average score in the 4 performance groups for each of the 8 Key Performance Indicators

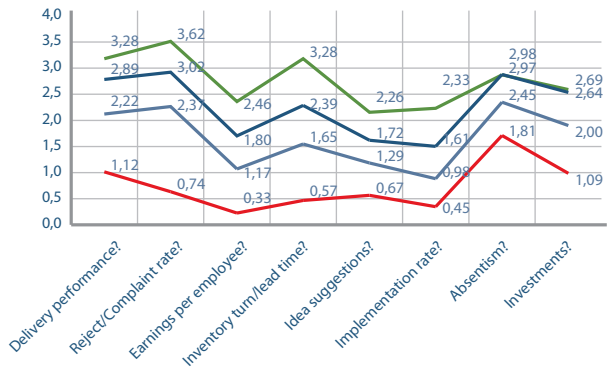


Fig 1.4 Score per result area

- *Top Performers (N=39)*
- *Good Performers (N=342)*
- *Poor Performers (N=321)*
- *Worst Performers (N=69)*

(Executive Summary cont'd)

Top performers have aspirations to improve further in the future (Fig 1.5)

The overall picture for future ambitions indicate that "the more they achieve, the more they want". In other words, the better the performance/results an organisation achieves, the higher their ambitions for future improvements.

For all eight result areas investigated, Top performers have, on average, 3 times higher ambitions to improve further – even though they are, on average, 3 times ahead already (see Fig 1.4).

Characteristics of a Top Performer

- Has a clear, long-term roadmap connected to a vision.
- Secures a strong platform for the improvement programme in relation to a project management system.
- Sets clear targets for what needs to be achieved and measures them with high frequency using relevant indicators (i.e. Delivery, Quality, Cost).
- Creates leaders that take ownership of the programme and become role models for the cultural change needed.
- Focuses on few activities at a time (over a 1-2 year period).
- Becomes excellent at these and avoids sliding back before progressing to the next lot of activities.
- Continuously exercises the organisation's ability to accept change.

Best performers have the highest ambitions for the coming years

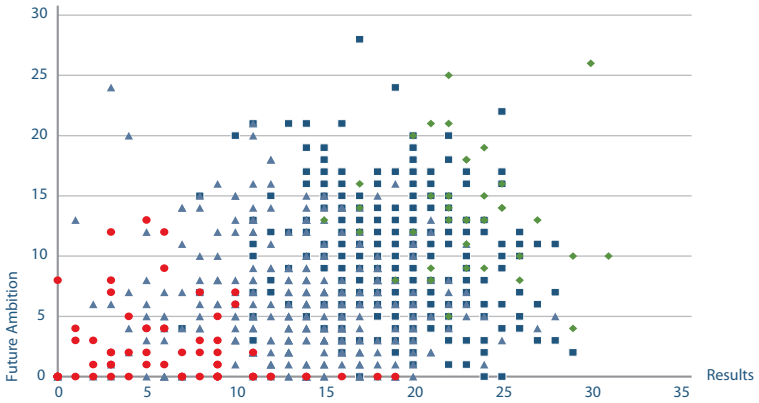


Fig 1.5 Relationship between achieved results and future ambitions

- *Top Performers (N=39)*
- *Good Performers (N=342)*
- *Poor Performers (N=321)*
- *Worst Performers (N=69)*

2 Introduction

The pressure to continuously improve business is on the agenda of most organisations today. It's like the Olympics mantra, "Higher, Faster, Longer", only with the words, "Faster, Better, Cheaper". The goal for every organisation typically remains the same: How do you improve the product/service for the same, if not less, amount of money than before?

The purpose of this survey was to pinpoint Lean methods that significantly improve an organisation's performance more than others. The study investigates whether Lean Management as a methodology works and whether the benefits can be seen in the results.

In order to demonstrate this, we designed the questionnaire so the answer for each question could be scored on a scale from 0 to 4, 0 being the worst obtainable result and 4 being the best. This abled us to calculate each organisation's score for the following categories: **"Improvement activities"**, **"Results achieved"**, **"Change in results over the last 2 years"**, **"Change management culture"**, **"Future ambitions for improvements"** and finally **"Total score for all categories"**, which ultimately enabled us to answer these all-important questions:

- What do top performing organisations do to improve more than the others?
- Is there a relationship between the use of Lean management and achieved results?
- What can we learn from the Top performers?

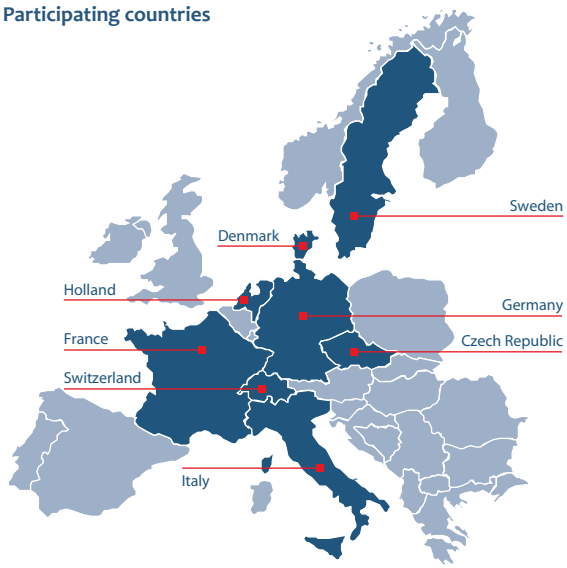


Fig 2.1 Participating countries

(Introduction cont'd)

The results and conclusions were striking and more precise than we had hoped for. We expected to see many organisations applying the Lean methodology having difficulties to improve because of the major obstacles to change an existing (non-Lean) culture, especially changing old behaviours. And that was proven to be the case across the board.

We hope this report and its conclusions will help your organisation select the best improvement methodology that will ultimately benefit your customers/users and, of course, your company.

Denmark and Germany have the highest percentage of organisations using Lean, Switzerland and Czech Republic have the lowest percentage

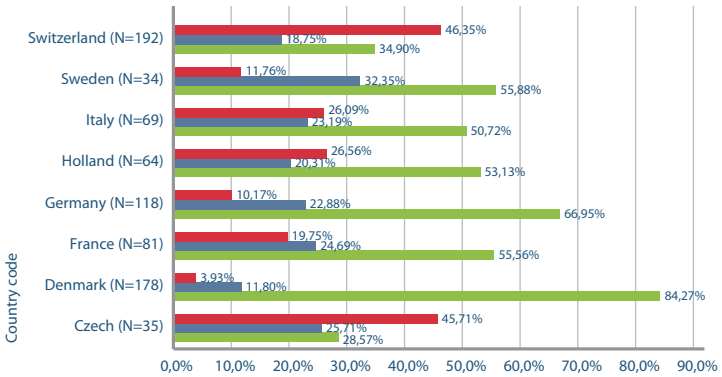


Fig 2.2 Lean uptake per country

- *Use Lean? No, and no intentions to %*
- *Use Lean? No, but are planning to %*
- *Use Lean? Yes %*

3 Participating Organisations

We invited organisations from all sectors in eight European countries to take part in this survey, and divided them into three main categories:

- Manufacturing
- Administration
- Public

We received a total of 771 replies, making it the most extensive Lean investigation in Europe. Almost 60% (444) of the replies came from the manufacturing sector, one-third (260) from the private administration and less than 10% (67) are from the public administration.

In all three sectors, Lean is a highly preferred method (Fig 3.1) of improvement. As Lean originated from manufacturing, this sector had the highest population of organisations using Lean (69%), with another 18% considering the introduction of Lean initiatives. The success of Lean in manufacturing has undoubtedly inspired other sectors to adopt the principles of Lean. As a result, 40% of organisations in both the private and public administration have started to apply the Lean methodology. However, because this is a relatively new initiative for these two sectors, it's not as broadly accepted as manufacturing. So whereas only 13% of manufacturing firms have no intention of applying the Lean methodology, the reluctance of public and private administration organisations to incorporate Lean principles is higher – 35%.

In total, 57% of respondents currently use the Lean methodology, 20% are considering it and 23% have no intention of introducing it.

Survey participants divided into main sectors

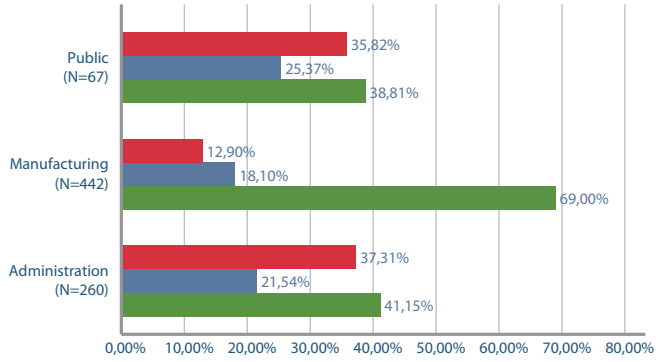


Fig 3.1 Replies and Lean use per sector

- *No, and no intentions to (N=179)*
- *No, but are planning to (N=153)*
- *Yes (N=439)*

(Participating Organisations cont'd)

We asked all the organisations that used Lean about their level of experience with the Lean Methodology (Fig 3.2). We also asked how many years they had spent on applying Lean principles. The result was an equal distribution between those who are absolute beginners and those with 5+ years' experience in focused Lean implementation.

The experience level for all survey participants using Lean

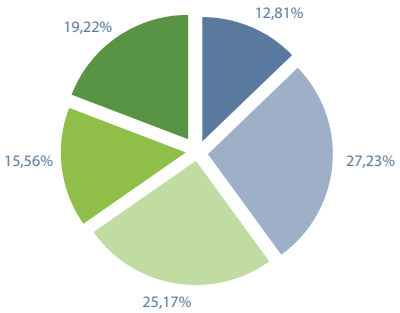


Fig 3.2 Lean experience

- *year (N=56 1 - 0)*
- *years (N=119 2 -1)*
- *years (N=110 3 -2)*
- *years (N=68 5 -3)*
- *More than 5 years (N=84)*

The participating organisations ranged from small firms with less than 50 employees and a yearly turnover (or budgets for public bodies) below €100 million, to medium/large companies with more than 500 employees and a yearly turnover (or budgets for public organisations) in excess of €400 million.

Yearly Turnover

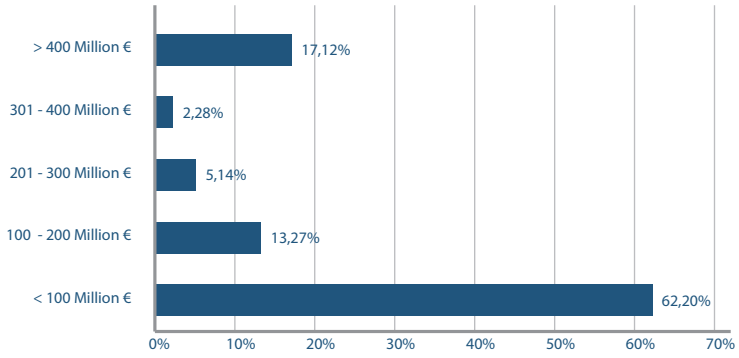


Fig 3.3 Turnover distribution

(Participating Organisations cont'd)

Most of the participating organisations (74%) have a high variety of goods/products/cases to manage in their daily operation. Two-thirds also have high volumes to deal with too. The high volume/high variety type however is complex to manage. Managing a high volume of products that are distributed between many smaller volumes of different variants requires a high degree of flexibility.

One of the key messages from Lean management is creating a high degree of flexibility without compromising on efficiency/cost; in other words, serve our customer/end-user quickly and accurately, giving them what they want, when they want it and without long lead times and/or large inventories.

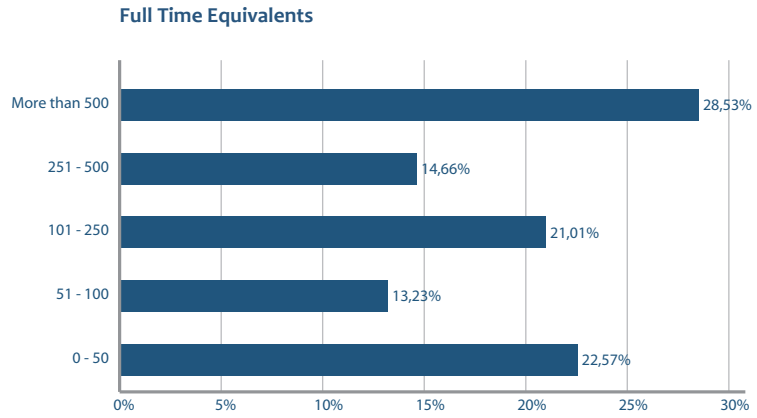


Fig 3.4 Employee distribution

There are many advantages to introducing a Lean management system. But there are certain processes that will gain little from Lean. For example, a low volume/low variety process will gain relatively less from creating flexibility than a high volume/high variety process would.

Around 20% of the participating organisations have low variety/high volume – only 6% have a low volume/low variety process type.

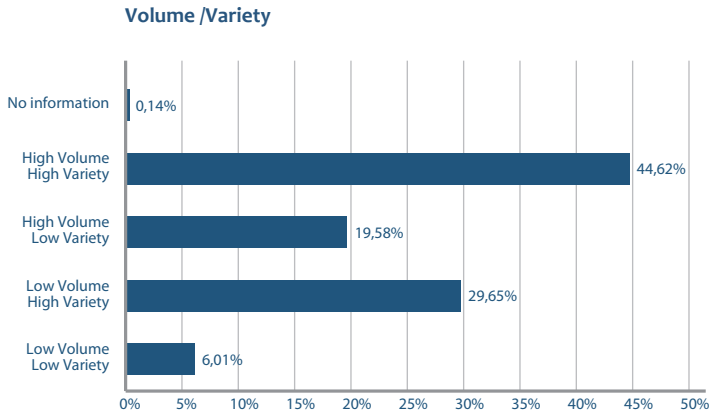


Fig 3.5 Process type distribution

4 Process Improvement Activities

To be able to spot the best performing organisations, we designed the survey so that each of the five main areas we investigated – **improvement activities, results achieved, change in results from the previous 2 years, change management ability and future ambitions** – could be scored according to performance. So organisations could score these areas from 0 to 4, where level 4 indicates a World class/Best Practice level.

When compiling the results, this enabled us to calculate the total score for each organisation, according to the following performance categories:

- **Top performers**. All organisations with a score between 75-100% of maximum score. 5% of the respondents ended up in this category.
- **Good performers**. All organisations with a score between 50-74% of maximum score. 45% of the respondents ended up in this category.
- **Poor performers**. All organisations with a score between 25-49% of maximum score. 40% of the respondents ended up in this category.
- **Worst performers**. All organisations with a score between 0-24% of maximum score. 10% of the respondents ended up in this category.

The survey firstly asked each organisation about their current improvement activity level on 17 different areas.

Top performers have 4 times more focus on different improvement activities than Worst performers

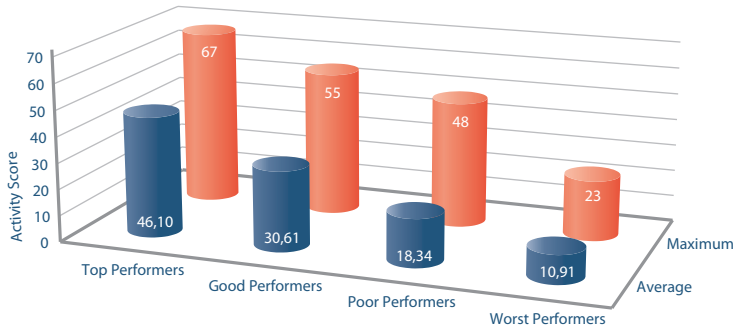


Fig 4.1 Average activity score

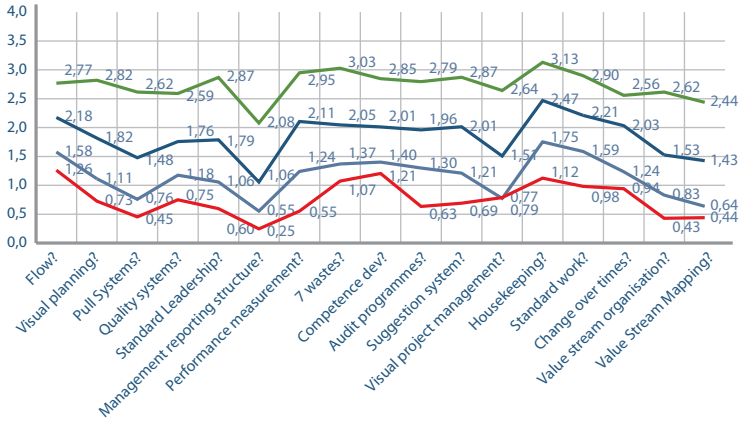
(Process Improvement Activities cont'd)

Fig 4.1 and 4.2 show a direct relationship between level of improvement activities and overall total scores. On a scale from 0 to 4 (4 being the best), Worst performers have an average score of 0.6 indicating that these organisations have no or little focus on each of the 17 improvement areas. Top performers score on average 2.7 indicating that they work hard on most activities.

Fig 4.2 Score per activity area

- *Top Performers (N=39)*
- *Good Performers (N=342)*
- *Poor Performers (N=321)*
- *Worst Performers (N=69)*

Average score in the 4 performance groups for each of the 17 improvement activities

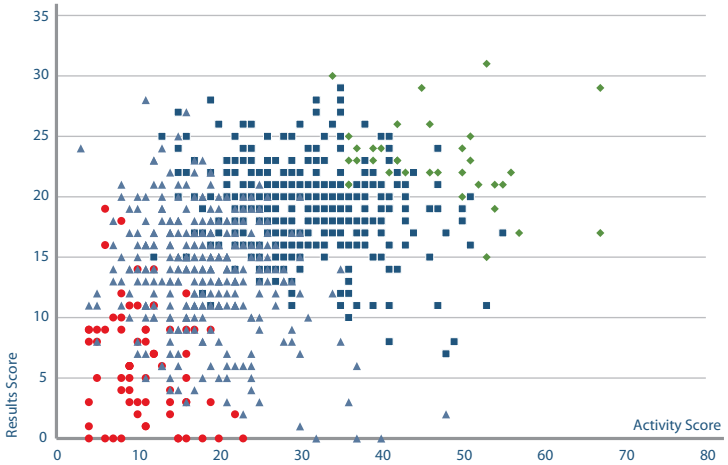


So does all the effort pay off? By comparing scores from improvement activity levels and scores from the achieved results, the pattern is clear (See Fig 4.3). Excellent results are only achieved through hard work. In other words, keeping the focus on improving a wide range of an organisation's processes – from employee competencies to supplier integration.

Fig 4.3 Activity Results

- *Top Performers*
- *Good Performers*
- *Poor Performers*
- *Worst Performers*

Activity score



(Process Improvement Activities cont'd)

A similar picture arises when looking at the results of organisations that apply Lean compared to organisations that don't. Organisations that have worked with Lean for less than 1 year have the same average score in activity improvement as firms with no intention of applying Lean, or those that plan to use Lean. Top priorities for these organisations tend to be: **Housekeeping, Flow and Standard work**.

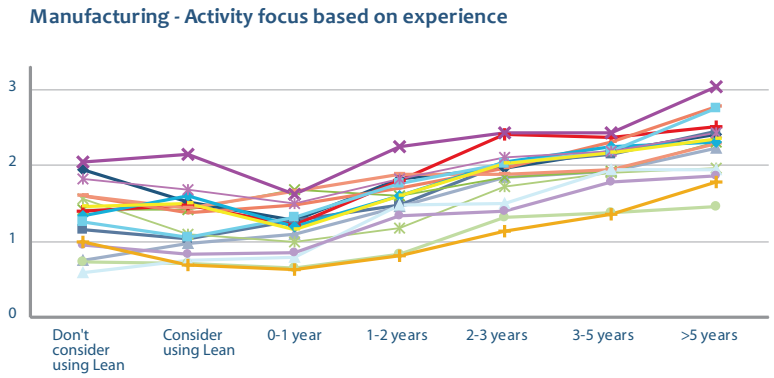


Fig 4.4 Manufacturing activity score based on Lean uptake

- *Flow*
- *Visual planning*
- *Pull Systems*
- *Quality systems*
- *Standard Leadership*
- *Management reporting structure*
- *Performance measurement*
- *7 wastes reduction*
- *Competence development*
- *Audit programmes*
- *Suggestion systems*
- *Visual project management*
- *Housekeeping*
- *Standard work*
- *Value stream organisation*
- *Value Stream Mapping*
- *Change overtimes*

For organisations with more than 1 year of experience of using Lean, the improvements start to become more visible, and the level of activity improvement increases year on year.

We believe that this demonstrates how organisations using Lean continuously improve results year after year. The Lean methodology with a ready-to-use (but difficult to sustain) toolbox gives companies a clear roadmap for their improvement work, not just for one year but for the future. This helps to avoid time-consuming "initiatives of the year", where the risk of sliding back from the change in focus only confuses the organisation, rather than create improvements. For the most experienced Lean using organisations, their typical top priorities are: **Flow, 7 wastes reduction and Suggestion systems**.

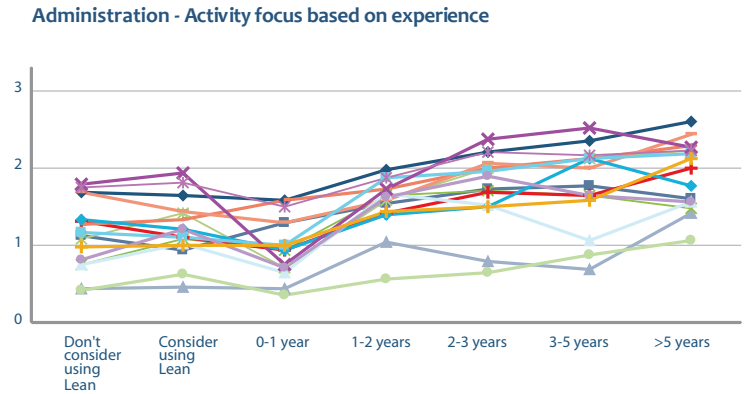


Fig 4.5 Administration activity score based on Lean uptake

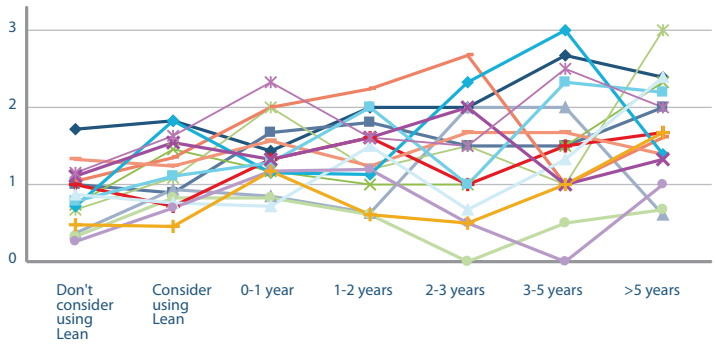
- *Flow*
- *Visual planning*
- *Pull Systems*
- *Quality systems*
- *Standard Leadership*
- *Management reporting structure*
- *Performance measurement*
- *7 wastes reduction*
- *Competence development*
- *Audit programmes*
- *Suggestion systems*
- *Visual project management*
- *Housekeeping*
- *Standard work*
- *Value stream organisation*
- *Value Stream Mapping*

(Process Improvement Activities cont'd)

One sector that still seems to have difficulties in making their roadmap work is the public sector. Although this sector improves every year, it seems that they start and stop their focus areas much more than any other sector. This is typical of organisations that don't have enough patience to see the effects of an initiated activity or if political factors change priorities. So they focus on a new activity instead. This trial and error principle however should be avoided not only because of the confusion it creates, but because it slows down the improvement process. The public sector scores on average 20-25% lower than the other sectors with a similar experience level in Lean.

Fig 4.6 Public activity score based on Lean uptake

Public - Activity focus based on experience



It's vital to pay attention to the 17 improvement activity areas. Firstly, it highlights the most important areas for an organisation to focus on, and secondly it helps even the Top performers see areas they'll need to focus on in the coming years.

Standard work. Creating clear standards, the discipline of following those standards and the ability to constantly improve standards is a tough task for any organisation as people naturally tend to invent their own best practice with no knowledge sharing. For creating improvements, the ability to follow standards is rated one of the most important factors. It is the foundation for creating strong, reliable processes where output, time, quantity and quality are stable for creating real improvements without sliding back. Only 2% of Worst performers and 7% of Poor performers have succeeded in the area of Standard Work. For Good performers this rate jumps up to 28%.

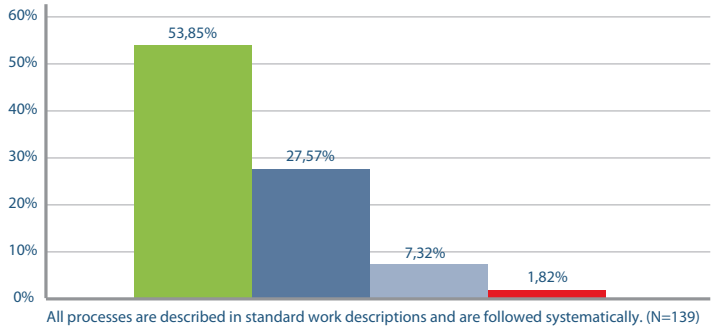
Half of the Top performers have succeeded with Standard Work thereby outperforming the others. But what about the remaining 50%? If they are able to perform amongst the top without having successfully used standards, the potential for further improvements is obvious.

(Process Improvement Activities cont'd)

Quality systems. Having strong processes that produce first-time quality is naturally the most cost-effective process, avoiding more inspections, rework or complaints. There are positive benefits to having reliable processes, including easier planning (realised output equals planned output) and less need for buffers between processes/functions (i.e. no need to "protect" the next process). The best quality systems have built-in quality processes with real-time signals to ensure quality is produced. Yet, 0% of Worst performers and 6% of Poor performers have such real-time signals to ensure quality.

Half of the top performers have visible quality signals. And the other half of Top performers have huge potential if they focus more on these built-in quality systems in the future.

Use of Standard Work for creating uniform processes and a foundation for improvements

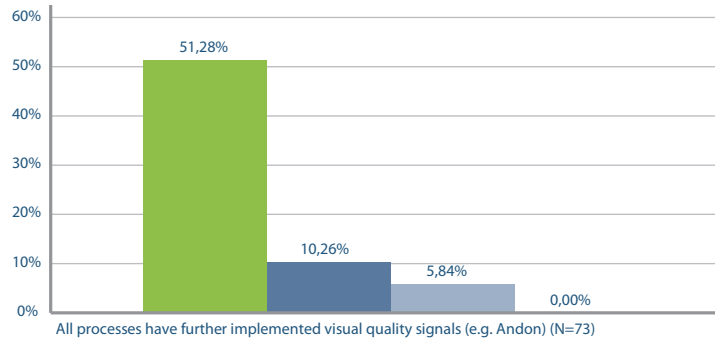


All processes are described in standard work descriptions and are followed systematically. (N=139)

Fig 4.7 Standard work

- *Top Performers (N=39)*
- *Good Performers (N=342)*
- *Poor Performers (N=321)*
- *Worst Performers (N=69)*

Use of Quality Systems with built in process quality and visual signals for instant reaction to running process quality



All processes have further implemented visual quality signals (e.g. Andon) (N=73)

Fig 4.8 Built-in quality systems

- *Top Performers (N=39)*
- *Good Performers (N=342)*
- *Poor Performers (N=321)*
- *Worst Performers (N=69)*

5 Achieved Results

As in the improvement activities, respondents scored the different categories in achieved results on a scale of 0-4. We wanted the survey to investigate the current level of **8 typical performance measurement areas**:

- Delivery of performance
- Reject/complaint rate (the external quality level)
- Earnings per year per employee
- Inventory turnover/Lead time
- Idea suggestions per employee per year (to measure employee involvement)
- Implementation rate of all incoming suggestions from staff (to measure the quality and impact of incoming ideas)
- Employee Absenteeism
- Rate of investments to gain improvements

The average score for all organisations on each of the 8 areas resulted in a picture similar to the one created on improvement activities. The total average score for Worst performers was just below 1 (on a scale 0 to 4) and the average score for Top performers was just above 3 (Fig 5.1). These differences in results, revealed that:

- Top performers deliver mostly on time (90%); their failure rate is 50% lower than Worst performers.
- Top performers make double EBITDA/employee than Worst performers.
- Top performers only need half the capital tied up in inventory than Worst performers.
- Top performers absenteeism rate is 20% lower than Worst performers.
- Top performers deliver better quality, which is five times higher than Worst performers.

Average score in the 4 performance groups for each of the 8 Key Performance Indicators

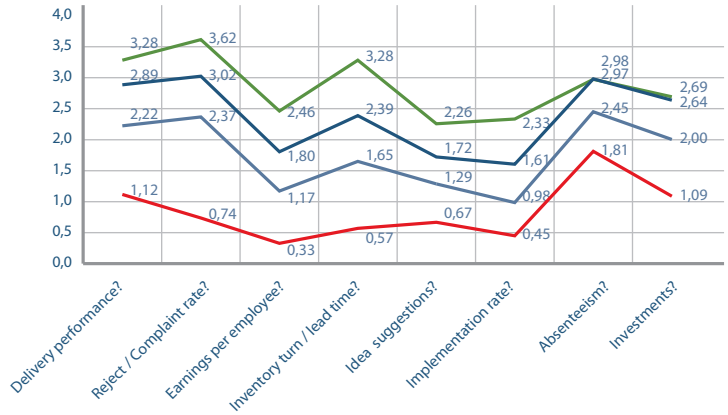


Fig 5.1 Score per result area

- *Top Performers (N=39)*
- *Good Performers (N=342)*
- *Poor Performers (N=321)*
- *Worst Performers (N=69)*

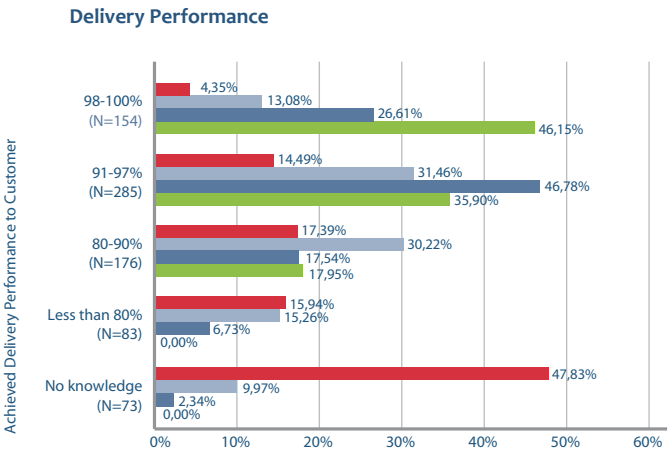
(Achieved Results cont'd)

Other findings revealed that:

On average, all organisations deliver on time 80-90% of the time. The majority of Top performers (approximately 50%), deliver on time 98-100% of the time. The majority of Worst performers (approximately 50%), have no knowledge of their actual delivery performance (Fig 5.2).

Fig 5.2 Delivery Performance

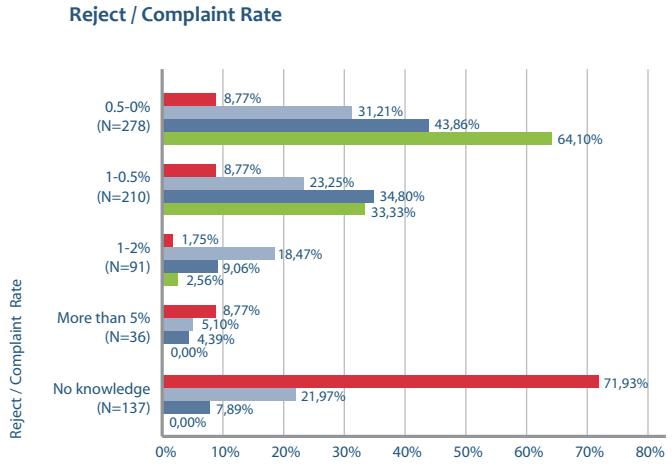
- *Worst Performers (N=69)*
- *Poor Performers (N=321)*
- *Good Performers (N=342)*
- *Top Performers (N=39)*



Nearly all organisations, on average, have a 5% reject rate. The majority of Top performers (64%), have a reject rate of between 0 and 0.5%. The majority of Worst performers (72%), have no knowledge of their actual reject rate (Fig 5.3).

Fig 5.3 Reject Rate

- *Worst Performers (N=69)*
- *Poor Performers (N=321)*
- *Good Performers (N=342)*
- *Top Performers (N=39)*



(Achieved Results cont'd)

Top performers earn on average 10 times more than Worst performers (Fig. 5.4)
Almost half of the Top performers (41%) have EBITDA/per employee which is 10 times higher (€25,000) than the average EBITDA/employee of all other organisations (€2,500). The majority of Worst performers (80%), have no knowledge at all of their earnings per employee.

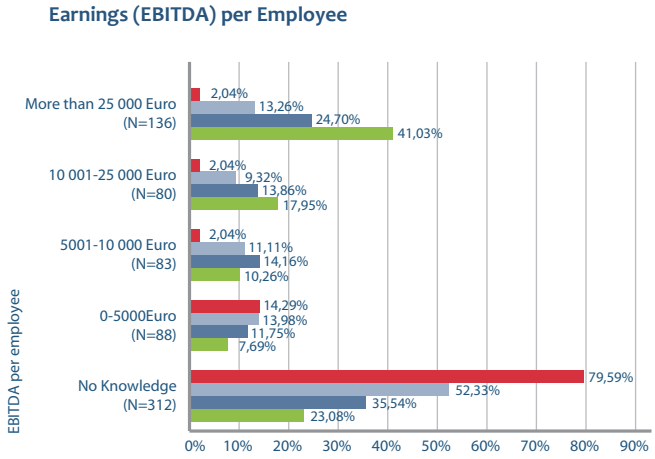


Fig 5.4 Earnings per employee

- *Worst Performers (N=69)*
- *Poor Performers (N=321)*
- *Good Performers (N=342)*
- *Top Performers (N=39)*

Top performers only need half the capital tied up in inventory than Worst performers (Fig. 5.5)
On average, all organisations have a total inventory worth 6 months of yearly turnover (or 6 months of average process lead time). The majority of Top performers (56%), have less than one month's worth of total inventory (or total process lead time). The majority of Worst performers (76%) have no knowledge of their actual inventory turnover or total process lead time.

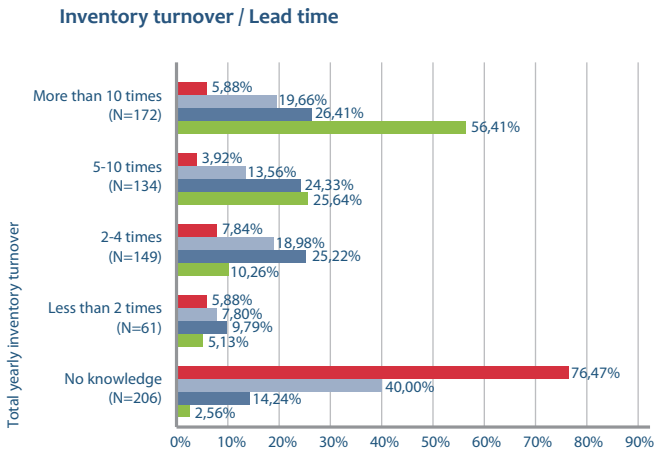


Fig 5.5 Inventory turnover / Lead time

- *Worst Performers (N=69)*
- *Poor Performers (N=321)*
- *Good Performers (N=342)*
- *Top Performers (N=39)*

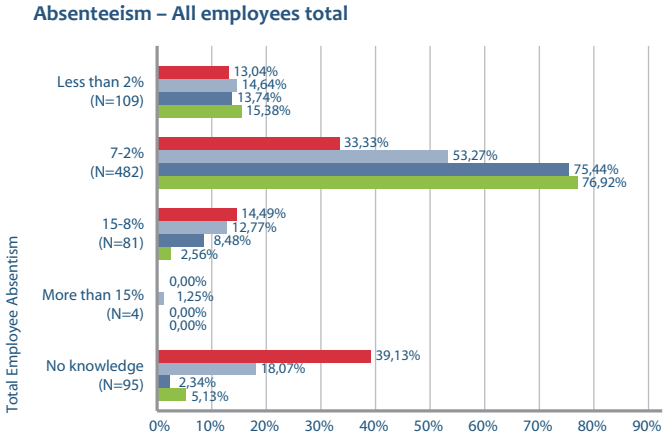
(Achieved Results cont'd)

Top performers absenteeism rate is 20% lower than Worst performers (Fig 5.6)

On average, all organisations have 7% employee absenteeism rate. The majority of Top performers (77%) have 2-7% employee absenteeism rate. The majority of Worst performers (73%) have either a 2-7% rate or no knowledge of their actual absenteeism rate. Employee absenteeism is the one area where all organisations experienced similar results.

Fig 5.6 Absenteeism

- *Worst Performers (N=69)*
- *Poor Performers (N=321)*
- *Good Performers (N=342)*
- *Top Performers (N=39)*

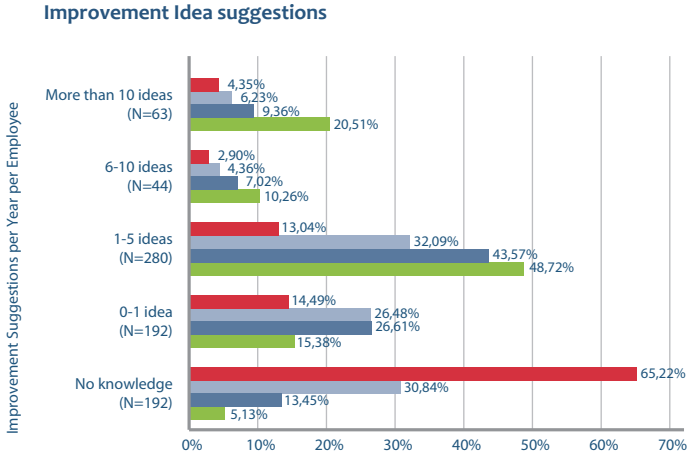


Top performers receive, on average, 6 times more ideas for improvements per employee than Worst performers (Fig 5.7)

On average, all organisations receive 1 idea per employee per year. Approximately 49% of all Top performers receives 1-5 ideas per employee per year. The majority of Worst performers (65%), have no knowledge of whether or not they received any suggestions/ideas from their employees.

Fig 5.7 Ideas / Suggestions from employees

- *Worst Performers (N=69)*
- *Poor Performers (N=321)*
- *Good Performers (N=342)*
- *Top Performers (N=39)*



(Achieved Results cont'd)

Top Performers implement on average 70% of all incoming ideas than Worst performers (Fig 5.8)

On average, all organisations implement 50% of all incoming ideas. Approximately, 41% of the Top performers implement 50-74%, while 36% implement 75-90%. The majority of Worst performers (65%), however, have no knowledge of their implementation rate.

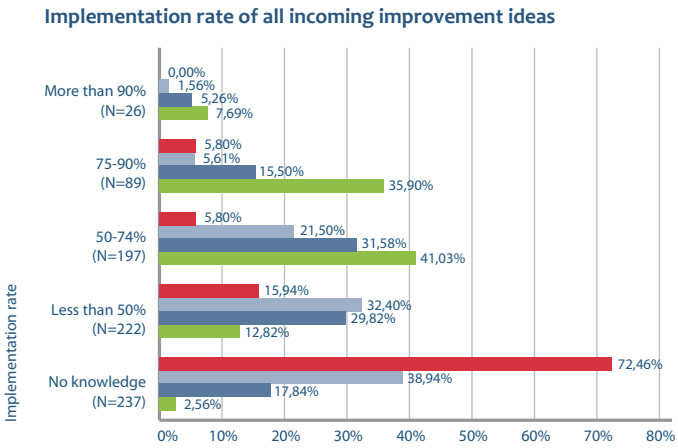


Fig 5.8 Implementation rate of ideas

- *Worst Performers (N=69)*
- *Poor Performers (N=321)*
- *Good Performers (N=342)*
- *Top Performers (N=39)*

Most improvements are achieved with little or no investment, but simply working smarter (Fig 5.9)

On average, all organisations achieved their improvements with little investment (new machines, equipment, systems etc). Only 1-2% of the respondents gained their improvements through investing in new machines or technology, compared to 70% that gained their improvements with no or little investment, but just simply working better/smarter with current facilities.

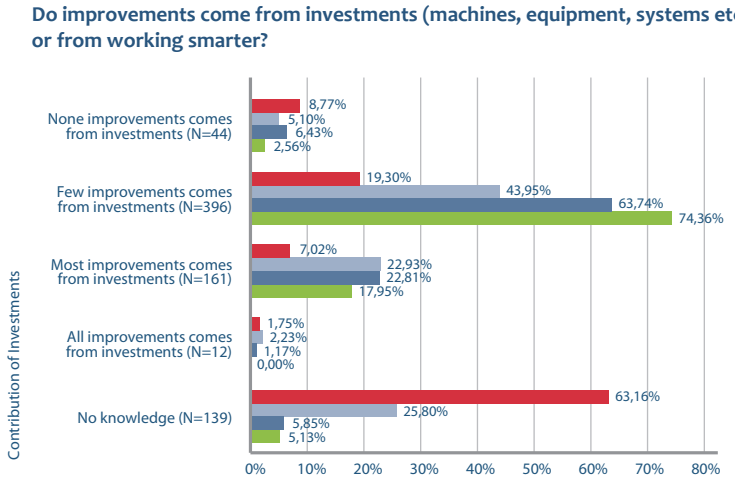


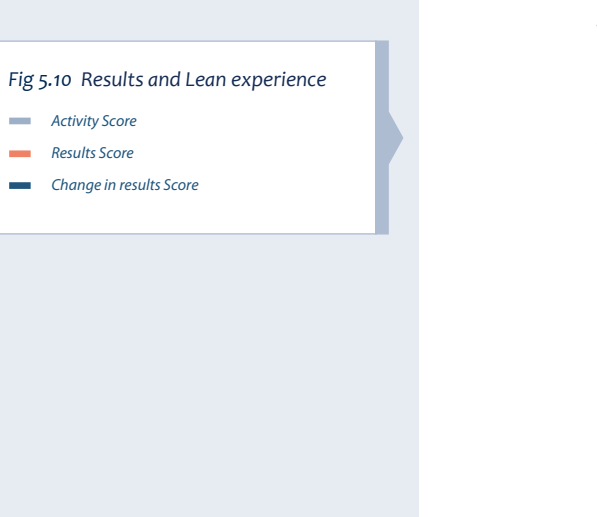
Fig 5.9 Investments vs. improvements

- *Worst Performers (N=69)*
- *Poor Performers (N=321)*
- *Good Performers (N=342)*
- *Top Performers (N=39)*

(Achieved Results cont'd)

When turning our attention to organisations using Lean principles versus organisations that don't use Lean, we noticed the same relationship between experience of applying Lean and achieved results (Fig 5.10).

Fig 5.10 Results and Lean experience



We can see that beginners in the Lean methodology – organisations with less than one year of experience – score lower on all aspects than those not using Lean. However, one year later, these organisations start to overtake the non-Lean using organisations, and their score then improves year on year, for at least five years.

Although the rewards start small, the gradual improvements gained year on year soon start to add up, speeding up the gains and 5 years of hard work can finally be harvested.

Improvements seem to slow down for the organisations with 5+ years of experience in the Lean methodology:

The one thing that should concern the experienced Lean organisation is that after 5+ years of applying Lean, improvement gains start to slow down. Most of the low hanging fruit has been cashed in, leaving the organisation finding it difficult to achieve the same kind of success it had in earlier years. In short, achieving continued gains becomes more difficult after five years. We believe, that the most experienced Lean organisations that don't beat this obstacle haven't succeeded in creating that true continuous-improvement culture. The questions they need to ask themselves are:

- Have we run out of low hanging fruit?
- Have we become too satisfied with the achieved results from the past?
- Have we utilised our current improvement activities to the fullest – do we need new inspiration for the next 5 years?
- Have we failed in creating a continuous improvement culture?

6 Change Management

Change management is the glue that bonds change together, preventing us from sliding backwards during an unstable phase of change or implementation of new procedures/methods. We believe that organisations have different maturity levels in change ability. Some are less used to and, as a consequence, more resistant to change, while others change so frequently that most employees see change as a natural part of everyday work. All respondents were asked about the main obstacles they had experienced during the process improvement part of the programmes. They could "strongly disagree" or "strongly agree" about how huge an obstacle the individual experienced for 13 different categories to the following questions.

Do we have the fundamental project management skills and tools in place that our change programme needs for a structured and successful implementation?

A. System aspects:

- Difficult to measure effect
- Difficult to manage project
- Lack of competencies/knowledge
- Difficult to communicate
- Difficult to integrate changes in current IT system

Do we have the right people in our organisation who take ownership of the changes, and find the time to continuously keep an eye on progress?

B. Leadership and time management aspects:

- Difficult to find time due to operations
- Difficult to find time due to other projects
- Difficult to find support from senior management
- Difficult to find support from middle management
- Difficult to find support from employees

Do we have the right culture in our organisation where most of the effort is spent on actual change and sustaining change, and not constantly on avoiding change?

C. Culture aspects:

- Difficult to change old behavior
- Difficult to sustain changes
- Difficult to create a sense of urgency

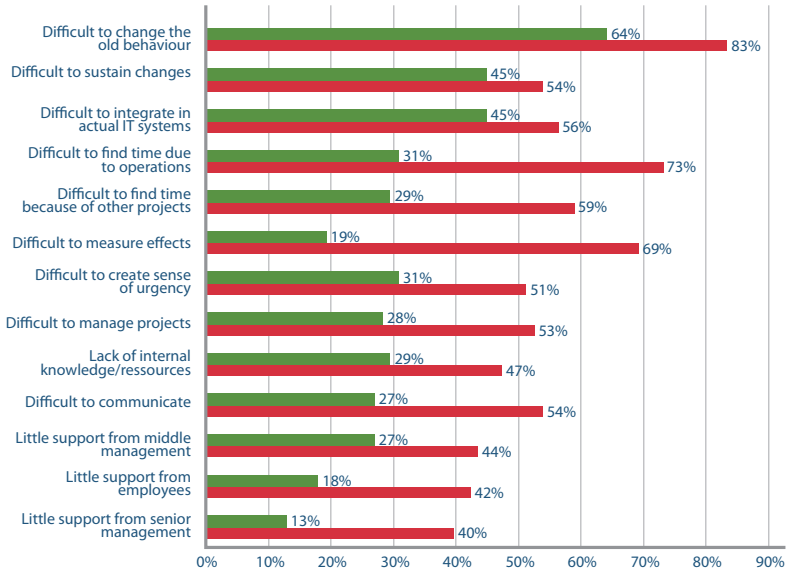
(Change Management cont'd)

Changing culture is the hardest part (Fig 6.1): For all organisations the highest rated difficulties in improvement changes revolved around changing culture. Approximately 76% of all organisations highlighted "changing old behaviour" and 52% cited "Sustaining change" as the most critical for successful implementation. Changing old behaviour is the highest rated aspect for both Top performers and Worst performers. It seems that cultural aspects of change is a difficult challenge regardless of the country, sector or performance category, respondents belonged to.

Fig 6.1 Difficulties experienced by all groups

- *Top performers*
- *Worst performers*

Change management pitfalls and differences between performance groups



Top performers experience fewer difficulties than Worst performers (Fig 6.2): The biggest difference between the ratings of Top and Worst performers is that Top performers are much better at measuring the effect of their change initiatives. Only 19% of Top performers see this as an obstacle, compared to 69% of Worst performers. That finding supports the view from achieved results, where typically 70% of all Worst Performers had no knowledge of the results they had achieved.

The other differences in ratings revolve around leadership and time management issues. Top performers are simply better at finding the time for their important resources and leaders, so they can focus on their change programme. Without the right people spending adequate time on supporting change, nothing will happen – especially when the largest obstacle is changing old behaviour.

(Change Management cont'd)

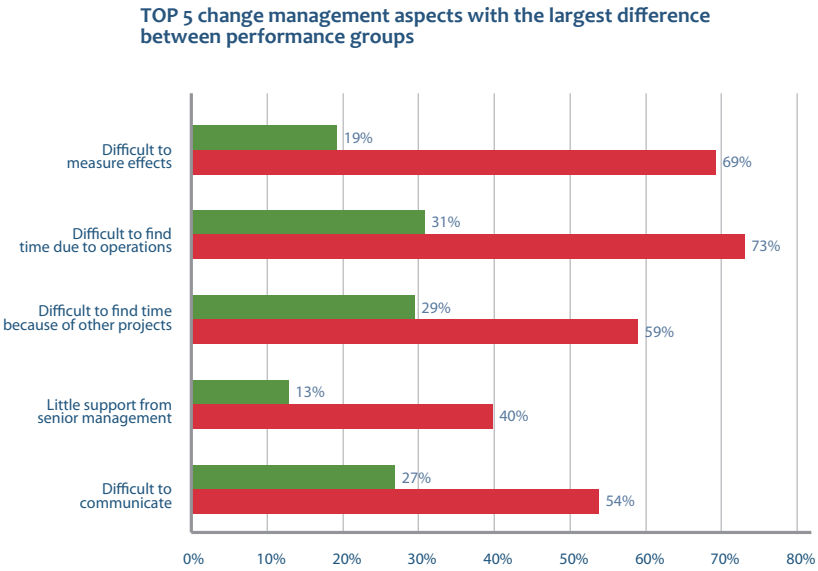


Fig 6.2 Biggest differences

- *Top performers*
- *Worst performers*

Future challenges for Top performers – integration of IT (Fig 6.3): As mentioned earlier, the main obstacles for Top performers revolve around aspects of cultural change. All 3 areas of culture change are on the Top performers' top 5 list of obstacles. But the second highest is related to IT systems. Approximately 45% of Top performing organisations finding integrating change with IT systems difficult.

This is very common when most of the low hanging fruit has been harvested. Further improvements become more complex, involving cross-functional changes, external suppliers, IT planning and ERP systems. The organisation then needs to move from function-based process improvement programmes to cross-functional Operational Excellence improvement programmes.

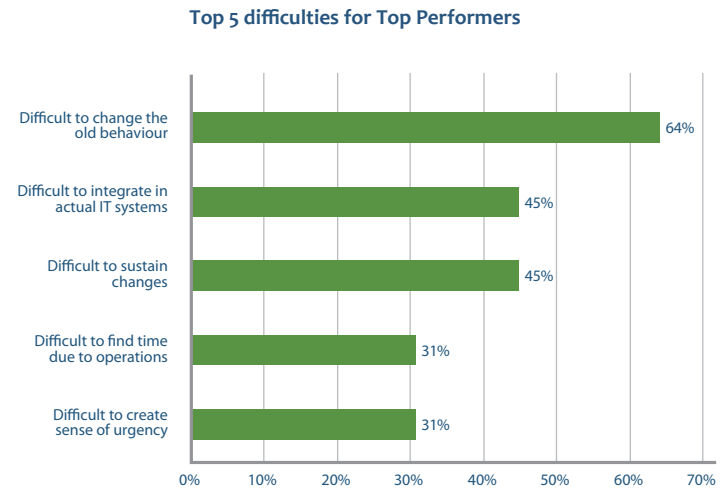
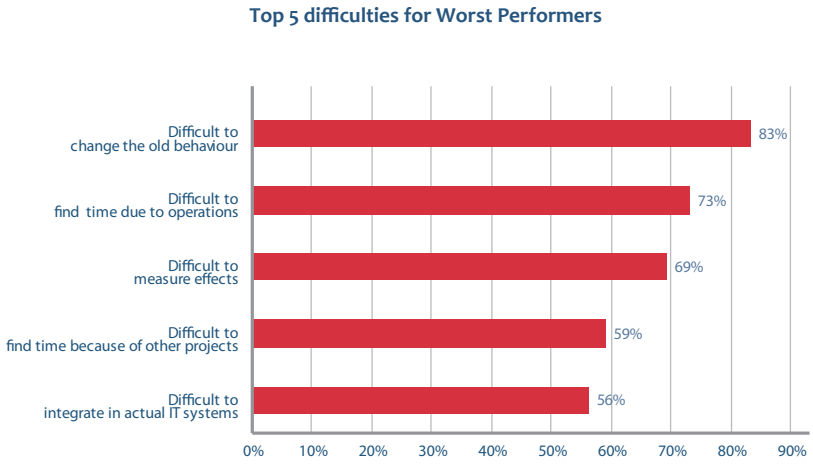


Fig 6.3 Difficulties experienced by Top performers

(Change Management cont'd)

Fig 6.4 Difficulties experienced by Worst performers



7 Future Ambitions

Besides looking at previous years of improvement activities, the results gained and the difficulties achieving them, the survey investigated ambitions for the near future, both in relation to gaining further improvements and the main focus activities over the next 2 years.

We once again compared scores for the four performance categories – Top, Good, Poor and Worst performers – in order to investigate the differences. Would the lowest performing organisations start to step up their game? Would the best performing organisations start to slow down? Which activities will become the dominant drivers for improvements over the coming years?

The overall picture for the future indicates that **"the more you achieve, the more you want".** The better the results and performance levels an organisation achieves, the higher the ambitions for future improvements (Fig 7.1).

Best performers have the highest ambitions for the coming years

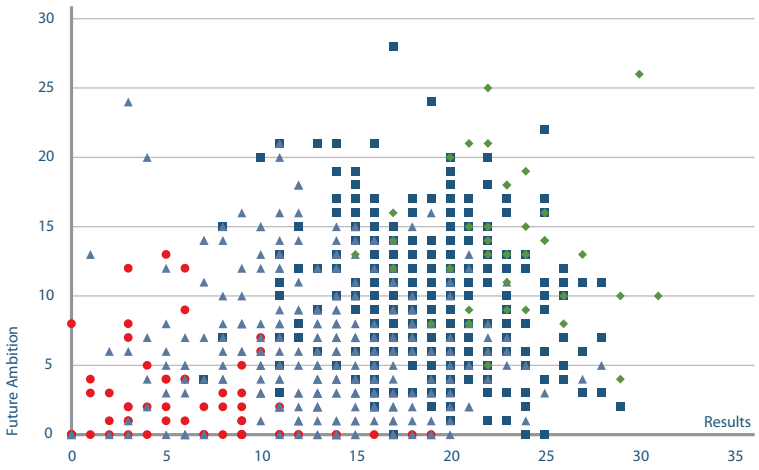


Fig 7.1 Relation between achieved results and future ambitions

- *Top Performers (N=39)*
- *Good Performers (N=342)*
- *Poor Performers (N=321)*
- *Worst Performers (N=69)*

For all 8 result areas, the Top performers have, on average, 3 times higher ambitions for further improvements – even though they already are, on average, 3 times ahead. The effect can be seen when we add future ambitions to the already achieved results from chapter 5.

(Future Ambitions cont'd)

Difference in already achieved results and future ambitions (Fig 7.2):

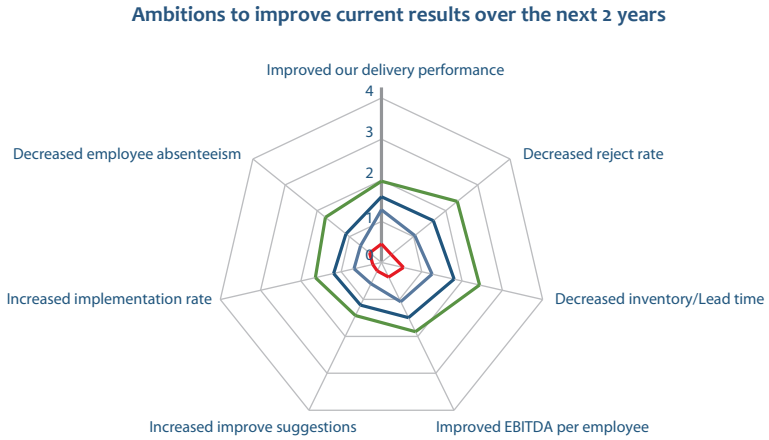


Fig 7.2 Ambitions for the next 2 years

- *Top Performers (N=39)*
- *Good Performers (N=342)*
- *Poor Performers (N=321)*
- *Worst Performers (N=69)*

- Top performers deliver mostly on time (90%); their failure rate is 50% lower than Worst performers. **Their future ambitions will improve this to 75%.**

- Top performers make double EBITDA/employee than Worst performers. **Future ambitions changes this to 120% more EBITDA/employee.**

- Top performers need only half the capital tied up for inventory than Worst performers. **Future ambitions change this to 55% less capital tied up in inventory.**

- Top performers absenteeism rate is 20% lower than Worst performers. **Future ambitions changes this to 25% lower absenteeism rate.**

- Top performers deliver 5 times higher quality than worst performers. **Future ambitions changes this to 6 times more often.**

When turning their attention to the activities that will be the focus for the coming years – and support ambitions for improving results – a different picture emerges. For the first time, Worst and Poor performers are more dominant than Top and Good performers. They demonstrate higher ambitions to work with more activities and in more detail than Top and Good performers.

Worst and Poor performers plan to focus more than other organisations on the following activities (Fig 7.3):

- Flow layout
- Standard Work
- Continuous improvement programmes
- Multi-skilled employees
- Reduction of the 7 types of process waste
- Performance management systems (Fig 7.4)
- Built-in Quality systems (Fig 7.5)

(Future Ambitions cont'd)

Improvement activities for focus over the next 2 years

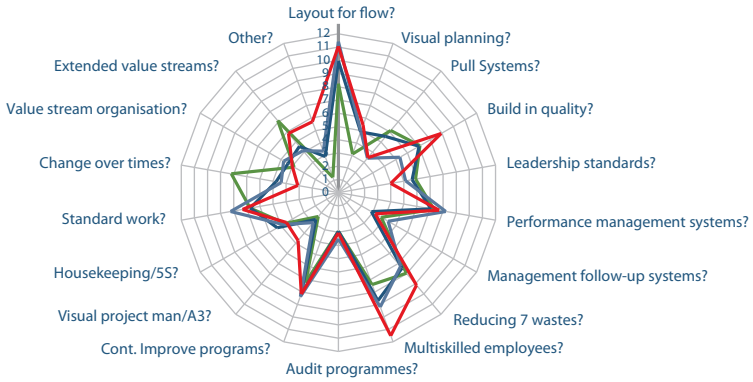


Fig 7.3 Activities for focus over the next 2 years

- *Top Performers (N=39)*
- *Good Performers (N=342)*
- *Poor Performers (N=321)*
- *Worst Performers (N=69)*

Future focus area: Performance management systems

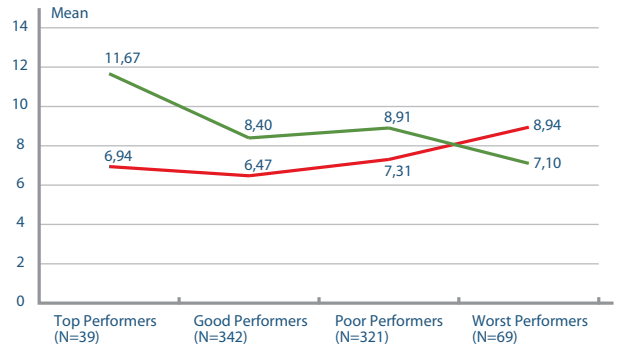


Fig 7.4 Performance Management systems

- *Lean*
- *No Lean*

Future focus area: Build in Quality

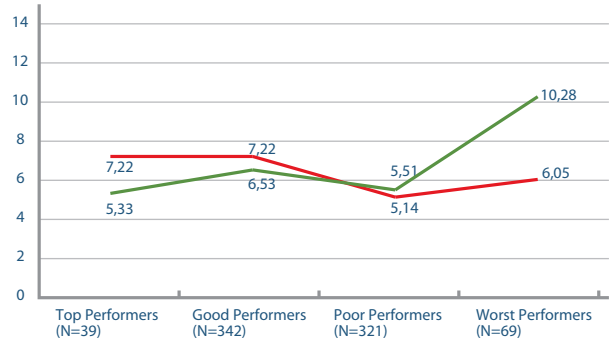


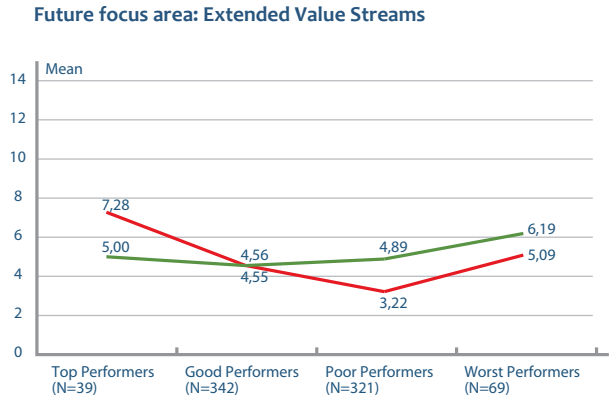
Fig 7.5 Future focus of Built-in quality

- *Lean*
- *No Lean*

(Future Ambitions cont'd)

Fig 7.6 Future focus of Extended Value Streams

Lean
No Lean



Top and Good performers plan to focus more than other organisations on the following activities:

- Change over times
- Pull systems
- Extended Value Stream mapping (Fig 7.6)

We believe that all areas of improvements in time need to be addressed to become a top performing organisation. It is not a matter of choosing a couple of areas and becoming world class within them. You need to become world class in each of them. A chain is only as strong as its weakest link (i.e. an organisation is only as strong or powerful as its weakest process).

To achieve world class status in each activity takes hard work, time-investment and an incredible focus. We find that organisations which succeed most are the ones that manage to focus on few activities for a period of time, reaching a new maturity level and then choose a few new activities to focus on next. Perhaps one of the reasons that Top and Good performers achieve better results is because they have such a focused methodology. The reason why Worst and Poor performers achieve little success could be that they focus on too many activities over a period of time. However, focusing on, say, just 3 main areas over the next 2 years, would be a better strategy.

One interesting area to explore is the 'activities' that will become the focus for the coming years – another is the activities that don't get much attention. Some activities in the survey got lower than average attention, regardless of current performance levels. The picture painted was the same regardless of whether it was a Top performing firm or Worst performer.

(Future Ambitions cont'd)

The three most neglected activities (a bit surprising as they are seen as cornerstones of building a top performing organisation) are:

Value stream organisation (Fig 7.7): Most organisations have realised that true optimisation happens with focus on the entire value stream (from raw material to finished goods – from supplier to customer). Function based improvements tend to create isolated sub optimisations or "islands of improvements" around the organisation. That doesn't mean that we should change the function-based organisation (with all its advantages), but improvements have to be planned with a bigger picture in mind. Mangaging this cross-functional area, the value stream based organisation or the value stream manager with end-to-end improvement responsibility, is a must.

Future focus area: Value Stream Organisation

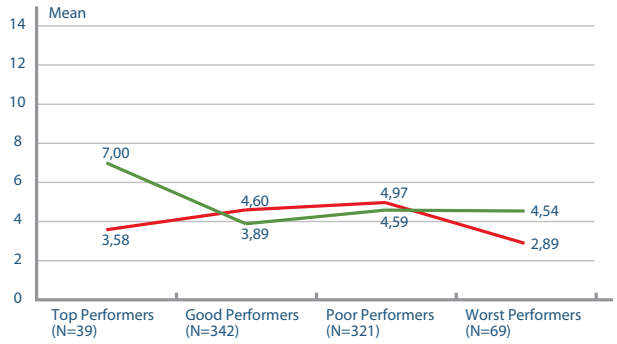


Fig 7.7 Future focus of Value Stream organisations

Lean
No Lean

Leadership standards (Fig 7.8): Success or failure in improvement programmes boils down to whether or not you have the right leaders; leaders who take the time to become that organisational role model that change people – and change culture. But even leaders can find it difficult to change old behaviour. To support leaders in keeping their daily focus on the areas that are important to the organisation and the change programme, it's vital to have leadership standards, so they know exactly what's expected of them.

Future focus area: Leadership Standards

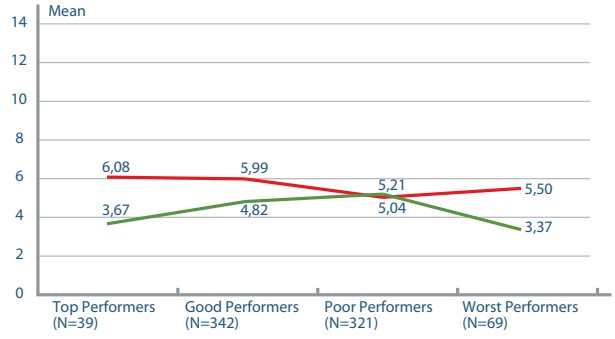


Fig 7.8 Future focus of Leadership standards

Lean
No Lean

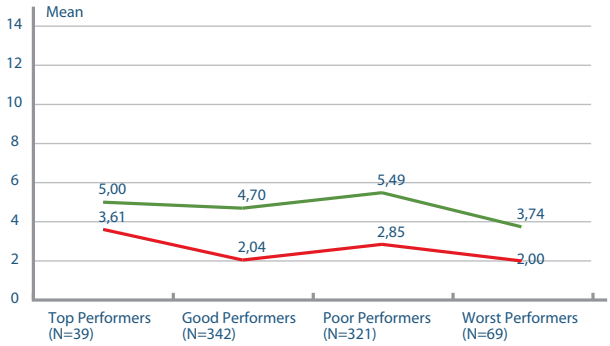
(Future Ambitions cont'd)

Management follow-up systems (Fig 7.9): If the above standards are in place, further support between leaders/managers in the organisation is needed so they can follow-up on each other's standards. I.e. every week the site manager follows up to see if his area managers have followed up on their standards. And he does that because it's a part of his own standard. That way we commit each other to the things that we have agreed are important.

Fig 7.9 Future focus of Management follow-up systems

Lean
No Lean

Future focus area: Management follow-up systems



8 Conclusion and Advice

Throughout the survey, we have used the terminology: "Top, Good, Poor and Worst performers" as an indication of performance level based on total score in the survey. This is a label we have placed on each organisation and does not necessarily reflect the individual organisation. A Worst performer can still be amongst the best in its own country and sector. These labels are solely used to compare organisations within the survey and to indicate levels of improvement when comparing it to the best.

We wanted the survey to answer the following questions:

What do top performing organisations do to improve more than the others? It's quite clear that the top performing organisations have focused on a wide variety of improvement activities for many years. They have a clear roadmap of their improvement programme that guides them year after year. We believe they have a clear vision and a long term plan on how to reach it. There is no magic pill or easy short-cut.

Is there a relation between the use of Lean Management and achieved results? Almost all the previous results of the survey have shown a comparison between the four performance categories. The Top performers with a total score of 75-100%, the Good performers with a total score of 50-74%, the Poor performers with a total score of 25-49% and the Worst performers with a total score of 0-24%.

Additionally, figure 8.1 shows that there is a clear relationship between those that apply Lean and achieved results. In short, most of the Top performers use Lean (93%). And 69% of worst performers don't apply Lean. The conclusion we've arrived at is that becoming a Top performer can take more than 5 years of applying the Lean methodology.

Use of Lean over several years creates a top performer

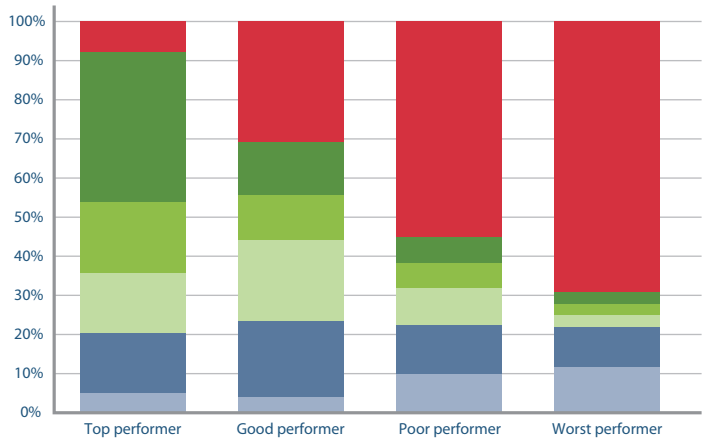


Fig 8.1 Relation between Lean experience and total performance

- *No Lean use*
- *Lean more than 5 years*
- *Lean 3-5 years*
- *Lean 2-3 years*
- *Lean 1-2 years*
- *Lean 0-1 year*

(Conclusion and Advice cont'd)

Even the top performing 7% that don't use Lean, reveal that they've achieved success through continuously stretching their organisation using a structured roadmap. In other words, it's a form of Lean process, even though they don't necessarily label it 'Lean'.

Finally, 10% of all participating organisations who, despite having worked with Lean for more than 3 years, end up as a Poor or Worst performers. Judging the achievements experienced by Top performing companies using Lean, they seriously need to review their current Lean programme and learn from the top performers.

What can be learned from the top performers? Throughout the report, we can see that the there is a lot to learn from the top performers. Top performers not only reached a higher level in each of the 17 improvement activity areas, they achieved better results in all 8 result areas. They experienced lower resistance to change in all 13 change management areas. And they have higher ambitions for the future in all 8 future results areas. That's why they are labelled a Top performer.

Characteristic of the average Top performer, based on the findings throughout the survey, include:

- Has a clear, long-term roadmap connected to a vision.
- Secures a strong platform for the improvement programme in relation to a project management system.
- Sets clear targets for what to achieve and measure, with high frequency and important indicators (i.e. Delivery, Quality, Cost).
- Creates leaders that take ownership of the programme and become role models for the cultural change needed.
- Focuses on a few activities at a time (over a 1-2 year period).
- Becomes excellent at these to avoid sliding back before progressing to the next few activities.
- Continuously exercises the organisation's ability to accept change.

We hope this survey will inspire the majority of European firms across all sectors to continue their improvement work with ever more dedication and renewed inspiration to strengthen their organisation.

Characteristics of Top Performers

Long term roadmap

Strong Project management platform

Clear targets

Strong leaders

Focused activities

Mature organisation in relation to change

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Allied Consultants Europe

Allied Consultants Europe (ACE) is a European strategic partnership of change management consultancies who have been working together - as one - since 1992. ACE has a rare combination of local presence and international vision with a proven track record in change management.

ACE focuses on the major dilemmas and challenges faced by its clients, which invariably have to do with strategy and how to make it work.

ACE consultants are specialists in change management with a strong people focus. They work closely with the client and involve the whole organisation. They guide the company through the processes of change towards actual implementation, to obtain effective and sustainable change. Perhaps, most significant of all, is the fact that ACE consultants spend a lot of time and energy integrating the local requirements, applying their practical experience and cultural awareness.