Maybe the lean label has run its course. Just as "JIT" (Just-in-Time) and other world-class buzzwords fell out of media favor and consultants' regular vocabulary, lean has been beaten into the ground while its implications are still misunderstood. Learning these through the school of experience for more than 20 years, I have an in-the-trenches view of how the learning in industry has and has not progressed.

**Computer Peripherals**

In the early eighties as a purchasing manager for Computer Peripherals, I began to work with JIT and vendor-managed inventories to support production of large format magnetic tape drives — what you used to see in movies in every shot of a computer, the only hardware that had movement. They were about the size of a regular refrigerator, built on a welded steel tube frame. Three large painted sheet metal panels and a front door enclosed the frame. Two weeks' inventory of this stuff consumed over 6000-sq. ft. of warehouse space. Handling damage and corrugated disposal were significant problems.

We worked with suppliers to deliver directly to the production line in racks made specifically for the materials and usage rate. We no longer needed to stock inventory; the corrugated disappeared completely, and the handling damage almost did. However, the operations manager I worked for would not accept less than two week's inventory, fearing a shortage or quality problem. The division controller did not want the incoming material inventory value to drop because of the P&L impact; the material service burden applied to it absorbed overhead.

Fast-forward to the late eighties, after I had left for other opportunities. The same plant was an AME event host, showing off a very lean production line — so lean that half the plant space was empty. Unfortunately, "lean" had only progressed in production. A little over a year later the plant closed, consolidated into another. (A nicely developed and documented operation seems easier to move.)

**Graphic Controls**

Meanwhile, my own operating unit at Graphic Controls had progressed to the point that we needed more business to fill the extra capacity generated by the leaning efforts. After much time and effort looking for additional work to pull in, we were able to acquire three competitors, but too late to retain long-idled workers. By the time we were able to inject more work into the operation, we had lost nearly half of the plant employees. You can imagine the difficulty in making productivity gains. Our business unit had a broader interpretation of "lean," but was hobbled because it was
going it alone. The rest of the company was content with the status quo.

In the later nineties, with a new company president at the helm, I joined his team to remake the company, building a strategy around a lean enterprise. Of course we didn't call it "lean;" other buzzwords were more popular at the time. However, to align and guide the organization, we built a strategic framework around our mission and vision of the new Graphic Controls. Within three years we had made good progress. Sales almost doubled, (after being essentially flat for years), with better than 50 percent of the growth organic. Asset turns doubled. Margins widened even though average-selling prices declined about 14 percent. When we engaged the whole enterprise and concentrated on a business proposition that created value for the customer, this "lean" stuff worked. It wasn't just a production thing.

For example, our sales force developed and followed standard work processes that made them much more effective. Seeing money-motivated sales reps energized by their success was a reward in itself. One year a couple of them made more money than the president; you can imagine the celebration at the annual awards meeting. The point is not merely that the company was successful, but that it succeeded because it was aligned in a continuous improvement process guided by a strategic framework, to which all had visibility, input, and accountability.

At the end of the three years, we could see considerable opportunities for further improvement. Then we were sold to new ownership with different ideas. End of story.

**A Total Enterprise Change**

I don't think the term "lean" conveys the gut feeling of the impact it has when it sweeps through an entire enterprise, compared with a plant, or the how high the company performance can rise. It is a change in a business way of life, improving company performance by vigorously engaging everyone within it to achieve its mission. Many of our improvement programs such as lean operations, six sigma and so on, are derived from programs developed by the Japanese from 1945 to 1980s. The most prominent model is the Toyota Production System (TPS). Taiichi Ohno warned us in the 1980s to be careful thinking of TPS as just a production system.

Company leadership is not all about the next tool or technique we need to learn. It's an overall management system designed to align the company culture around its customers and objectives. The tools and techniques simply support the people in the company to achieve those objectives. There must be something to this; Toyota has grown to the ninth largest revenue company in the world with almost twice the market capitalization of Daimler/Chrysler, Ford, and GM combined.

Our strategic issue at Graphic Controls was to grow the business when the market was not. Business performance had been falling short, and initiatives were not getting the top and bottom line results. Efforts were too focused on cost and improvements too isolated. Without a holistic strategy, we were ignoring both suppliers and customers who play a key role in streamlining operations leveraging our position in the value chain. Cutting costs without understanding what customers want and how the company will deliver its value proposition to them is like sailing in the fog without radar. You can hear the noise around you but cannot pinpoint the direction. Believe me it is an intensely unnerving experience.

Initially a few of us drafted a strategic framework for the company and then brought in the second level managers to flesh it out. We changed our approach to become more effective and created a focused strategy to optimize value stream creation. In some cases we reinvented operations, products and services to maximize the value our company provided to customers. As we began to achieve success, it drove what most people consider real company performance — the financials. Generally optimization initiatives target improvement in one or two of these key financial variables: revenue, cost, cash
flow, or capital. We believed that our performance targets provided a natural framework for reviewing the company’s opportunities and aligning the improvement initiatives of the organization on all four key financial variables. (Figure 1)

Everyone knows that profitability is important. Earnings reports and P/E ratios are daily reminders. However, financial results come from great execution of a well-designed business model. Designing and articulating the financial goals with the “drivers” aligned to achieve the desired results, therefore, became the role of our strategic leadership. We then focused almost exclusively on the drivers and let the financials tell us how we were doing. We did not drive the plan or its execution from specific financial goals.

Instead we relied on non-financial drivers connected to improvement initiatives in the value chain to deliver better service in areas valued by the customer, such as speed, reliability, cost, and convenience, and believed improved financials would result. Improvement initiatives had to be limited to a manageable set and placed in the context of a holistic value stream and cross-functional approach. This was the key to achieving the growth we wanted.

Our initiatives, however, could only succeed if the company identified the key capabilities to enable the organization to achieve its mission and reach the vision of what it wanted to be, and acted to develop those capabilities. These capabilities are summarized in Figure 2. We called them key result areas.

Our leadership challenge then was to focus on a few measures and initiatives throughout the company to drive its vision.

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**Performance Framework Linking Improvement Drivers to Financial Results**

![Diagram showing the relationship between drivers and financial results]

**Figure 1.**
achievement, establish key measures for accomplishment, and have the discipline to stay the course. At Graphic Controls, we liked to measure performance. Initially we found as many as 159 different measures used in the company. We skinned them down to nine key measures. The task was to link the financial variables and result drivers into a Strategic Achievement Framework that we could keep highly visible to everyone in the company. Then communicate like hell.

A simple one-page plan kept alive by management allowed everyone to measure superior execution throughout the value stream, and to contribute to improving it. Figure 3b is an example of the one-page strategic achievement framework used successfully in the company to provide a basis for communication, alignment, and comprehensive performance management system. The goal was to create a “line of sight,” as shown in Figure 3a, so people could relate their jobs and process improvements to the company strategy. Not all measures made the dashboard so we identified the ones we thought would be most important with DB (database) to indicate the ones we would track and report company wide.

The core of leading the lean enterprise is to put the customers at the center of the business and remove the waste from the value creation steps delivering value to them. Our focus in changing the company was to create a clear line of sight for people to see how their efforts contributed to our company’s success. This led us to identify the key capabilities of the organization, and then develop initiatives to strengthen them within the value streams of the business. Some of the “key result” areas in Figure 3b that we had to consider at Graphic Controls were:

**People:** A lean enterprise works to develop all of the people for the long haul. Previously, we had measured things like hours of training, which mean nothing. Instead we began to measure capabilities and skills developed in the company by cross training, teamwork, and kaizen facilitation leadership. In the rush to squeeze costs today, it is too easy to lose focus on delivering growth tomorrow, and alienate the only resource that can ensure the firm’s survival — the people. A commitment to no layoffs for process improvement is necessary; without job security, people cannot become engaged in a lean culture. Organization changes that required reductions in people were communicated well in advance to allow people to make choices for positions in other parts of the organization.

Most of our plant managers were what might be described today as value stream managers. All of the plants in Graphic Controls had P&L, HR, financial, engineering, and product marketing connections. People then worked together to conceive and select strategies that could be executed successfully. Our sales and operations planning process run jointly by the plant managers and product managers guided the value stream performance.

**Customers:** Optimization can generate dynamic gains, but they may not differentiate the company in the eyes of the customers. A relentless effort is required to target the right customers, understand their priorities, and develop a deep understand-
Whole Enterprise Strategic Planning Framework

a. Line of sight approach for developing the strategic framework

<table>
<thead>
<tr>
<th>Mission &amp; vision</th>
<th>Key capabilities needed</th>
<th>What we have to track</th>
<th>Critical actions and initiatives</th>
</tr>
</thead>
</table>

b. Example of a Whole Enterprise Strategic Framework that Incorporates Lean Operations Improvement (based on Graphic Controls)

<table>
<thead>
<tr>
<th>STRATEGIC PLAN</th>
<th>KEY RESULT AREA (The Key capabilities needed to achieve our mission)</th>
<th>KEY MEASURES (Gives us what we need to achieve our mission)</th>
<th>KEY ACTIONS / INITIATIVES (The critical things we must do to track our key measures)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MISSION/VISION</td>
<td>PEOPLE Create &amp; maintain an atmosphere of teamwork with every person having ownership in the success of our business</td>
<td>• Kaizen participants • Oracle milestones</td>
<td>• ERP training • Sales, marketing, &amp; operations planning process improvement • Recognition &amp; incentive programs at all locations</td>
</tr>
<tr>
<td>CUSTOMERS Be the best value added provider to the customers GC serves</td>
<td>• Customer service index - DB (database)</td>
<td>• Improve distribution strategy &amp; build to demand • Pilot SME (Supplier Managed Inventory) with distributors • Key account management with top 250 customers</td>
<td></td>
</tr>
<tr>
<td>FINANCIAL Achieve the economic value of the company for all stakeholders</td>
<td>• Operating income - DB • DPO - DB • Inventory turns - DB</td>
<td>• Develop template for forecasting and reporting business performance • Asset reduction and cash management</td>
<td></td>
</tr>
<tr>
<td>SUPPLIERS Develop a cost effective supply chain that fosters partnership in with GC business direction</td>
<td>• Raw material turn rate • Supplier quality • Supply leadtime</td>
<td>• Corporate and plant supplier consolidation • Vendor base reduction • Supply chain management process development</td>
<td></td>
</tr>
<tr>
<td>ORGANIZATION Lean and effective in quality, service, and cost through people, systems, and technology</td>
<td>• Productivity - DB • Fulfillment cycle time - DB • Defects per million - DB</td>
<td>• Replenishment cycle time reduction (ABC classification) • ERP implementation • Kaizen blitz to remove non-value added activities</td>
<td></td>
</tr>
<tr>
<td>GROWTH Aggressively pursue new business, product, and acquisitions to achieve our growth and profitability goals</td>
<td>• Sales - DB • Sales of new products - DB</td>
<td>• New product release introduction into manufacturing process • Review and update business development strategy • Strengthen distributor relationships at all points of focus</td>
<td></td>
</tr>
</tbody>
</table>

Figure 3.

...ing of how to tailor the company’s value stream operations to those customer needs. Understand which customers are willing to pay for value, what they are willing to pay for, and then improve your value stream to deliver a consistent, attractive customer experience. Our strategy: The hospitals we served were driving the prices of commodities down, so we focused on the customers’ economics of providing care. That approach led us to new, higher margin products and a greater participation...
in the customers’ lower total cost service delivery to patents.

**Growth:** No firm ever shrank its way to greatness. Lean initiatives free up capacity, so to avoid shrinking, we needed to find more customers and growth opportunities. Our board helped us target initiatives that aligned with the company’s long-term goals and that would give us a stronger competitive position. By better understanding our hospital customers’ total economic equation, we pursued acquisitions and developed new products to give the hospitals “superior service solutions.” When our leadtime dropped to basically same-day, we stressed the competition. But on top of that, we added system tools that allowed customers easier access to our product and services, and made it easy for them to convert one of their standard accounts to us. Sales accelerated.

**Financial:** Cost cutting will remain a key source of operational improvement. Lean initiatives also are an opportunity to refocus on the customer and the profit drivers in your business space. This allowed us to define more sharply the non-value adding activities targeted for elimination. To optimize value stream design, we felt that it was critical to evaluate all order generation, sourcing, fulfillment, product development, and administrative processes.

**Suppliers:** Our vision was to create a lean supply network. Most companies, and ours was one, have too many suppliers, and suppliers not aligned with the company’s strategy. Overall there were over 1000 suppliers. We shrank the supply base, aligned the partners with the overall strategy, and gave them the information they needed to optimize (lean) their operations. Putting the material replenishment on visual signals and working with the suppliers to reduce leadtimes did the most to accelerate inventory turns.

**Culture:** A strong, compassionate, and disciplined corporate culture serves as a foundation for survival. Toyota’s emphasis on continuous improvement and maintaining respect for people over the years has allowed the company to remain flexible throughout its far-flung operations while sustaining growth in both good times and bad. Viewing the company operations broadly and breaking down the barriers that prevent people from working together toward the same ends is a constant leadership imperative. Lean companies define how the whole company will work and create the discipline to practice standard work processes. The standard work process in sales noted earlier is an example of getting out of the production box mentality.

Keeping the company on course is vital. Consistency — walking the talk — leading these processes is the primary challenge. Strategy development is the easy part. Larry Bossidy makes the point in his book *Execution* that leadership failures are generally not due to a poor strategy, but failure to successfully execute it. A strategy provides the road map, but leaving the work of navigating it to others doesn’t lead to robust performance. Leaders need to be out front and visible. At Graphic Controls our president and I spent a lot of personal interaction and recognition time on the road making sure the strategy was well understood and working.

With the strategy in place, we worked to link specific programs, initiatives, actions and accountabilities and performance measures. Measuring progress and consistently acting on deviations developed a performance culture. We used a relatively simple performance management system. Key measures were monitored, published in a company dashboard, and reported to everyone. The dashboard became the subject of our management and communications meetings company wide.

A “sanitized” version of the company dashboard used in Graphic Controls, and later in other companies, is in Figure 4. The dashboard compares operational performance with targets. Managers were expected to adjust actions that drive performance, and modify sub-goals determined by employees responsible for executing the plans. Constant visibility of the dashboard
Performance shared with all employees

This version of the lean corporate dashboard used at Graphic Controls is similar to that used in other companies. It is not the same as a plant dashboard.

Figure 4.

throughout the company apprised everyone of the progress being made and provided a clear basis for celebration — and corrective action when necessary.

As the dashboard became better understood, our monthly business reviews began to be more about managing to make the next period’s performance successful. A strong sales and operations planning process took hold.

Energizing an organization along the path to lean enterprise is hard work, as we all know. Having a clearly defined strategy, a few well-focused initiatives, and disciplined follow-up provided the line of sight to enable our people to act and empowered an organization to execute and excel.

Maybe a new buzzword for “Lean” is needed to arouse the interest of corporate leadership so they recognize the performance impact it can and should have. "Holistic Customer Value-driven Performance Leadership" is the essence of it, but that phrase is too glib even for Madison Avenue. Maybe the spin-doctors can come up with a better one that would have more zing and marketing pizzazz. In the meantime, the few company leaders who have raised the expectations of their company’s performance to the heights a lean enterprise can achieve will drive value into their business, and continue to win market share at the expense of their competitors that don’t quite get it yet.

Ken Rolfe has more than 30 years’ experience in general management, new product development, supply chain and cost management, turnarounds, acquisitions and divestitures, and various financial transactions including IPO, private equity, and venture capital financing. Currently an AME Champion and western region board member, he has been an active AME volunteer for many years.

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