



# **Removing the Barriers to Successful 'Lean' & 'Agile' Implementation**

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LESS 2010, Helsinki, 20 October 2010

# The aim is to challenge your thinking!



- ✗ Not about incremental improvement
- ✓ Rethink how you do what you do and do it differently!
- ✓ Desire for further knowledge
- ✓ Energy for change

# Why consider Lean Thinking & Agility?

- **Business environment?**
- **Greater efficiency?**
- **Better customer responsiveness?**

# Volatility and Uncertainty are Now “Business as Usual”

## EUR/USD - Last 2 Years



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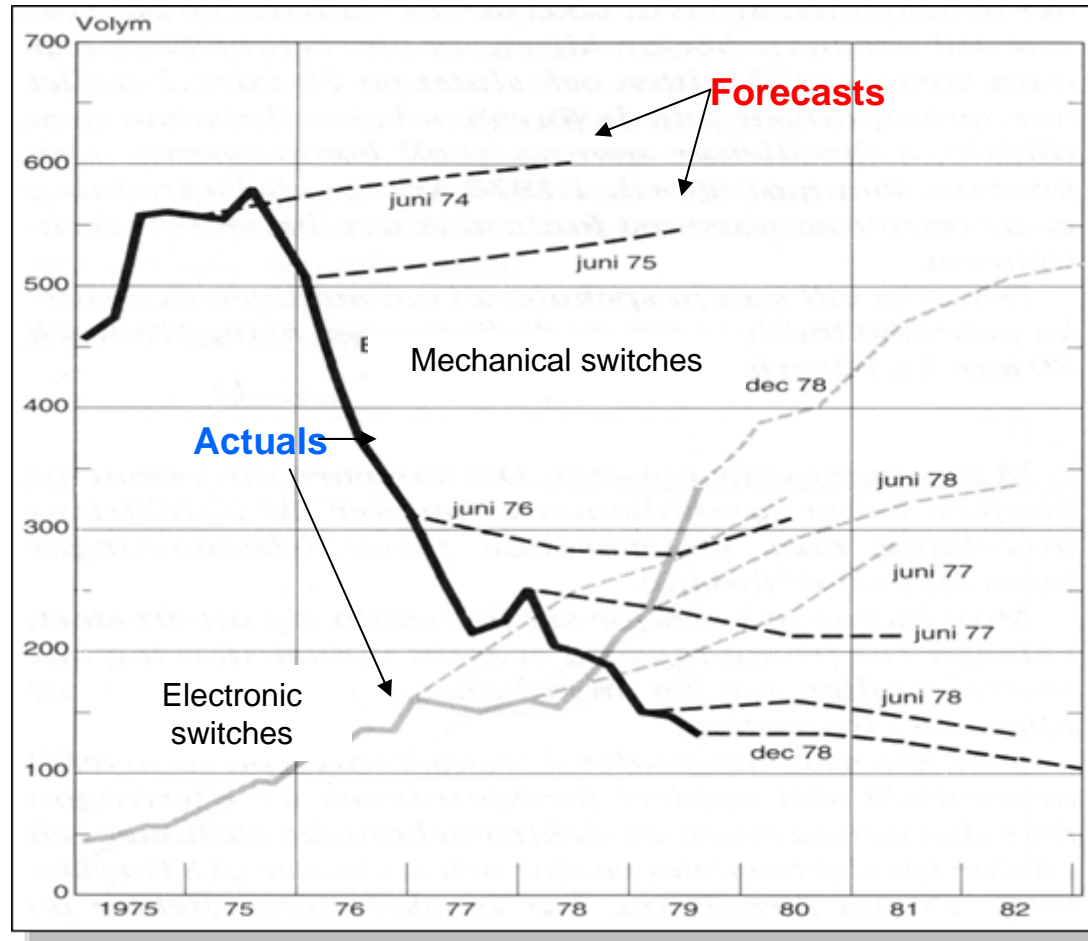
<http://uk.finance.yahoo.com/>

Source: <http://uk.finance.yahoo.com/q/bc?s=USDEUR=X&t=2y&l=on&z=l&q=l&c=>

[www.bbrt.org](http://www.bbrt.org)

Beyond  
Budgeting® **BBRT**

# Is your business predictable?



Source: Jan Wallander, Budgeten - ett onödigt ont, 1994, p24

# Formula for successful change

Formula for a successful change programme

$$f(D \times V \times S) > R$$

D = Dissatisfaction

V = Vision

S = Strategy and steps

R = Resistance

# Lean & Agile

- Organizations need to be lean & agile to thrive
- Agility - ability of an organization to *thrive* in a continually changing and unpredictable business environment.
  - > Produces competitive advantage for a company and high levels of satisfaction for its customers
- Agility – comprehensive response to challenges posed by business environment dominated by change and uncertainty
- Lean and Agile - couples lean thinking with an organization that is physically, technologically and managerially structured for rapid and unpredictable change

# Lean concepts

- Specify the value desired by the customer
- Identify the value streams for each product providing that value and challenge all the wasted steps
- Make the product (or service) flow continuous
- Introduce “pull” between all steps where continuous flow is impossible
- Manage toward perfection so that the number of steps and the amount of time and information needed to serve the customer continuously falls

Lean focuses on efficient process execution, but is this enough in a world of increasing change and uncertainty?

# Agile organization conditions

- Decentralised & devolved decision-making
- Leveraging employee creativity across the organization
- Eliminating departmentalisation within the organization
- Forming partnerships in the supply chain
- Treating each customer as an individual and providing a whole solution
- Ability to address niche markets rather than merely addressing mass markets

# Toyota - the source of Lean



**TOYOTA**

**TPS**

- Consistently profitable for over 30 yrs
- Top of JD Power customer satisfaction ratings. #1 car maker in world (goal is 15% of global sales by 2010). Net margins of 8% dwarf big 3 rivals.
- TPS (Toyota Production System) based on 'Pull', not 'Push' leads to "half of everything"
- Costs seen through 'process' lens; NVA costs eliminated
- Simple organization; Job rotation in teams
- Continuous improvement (Kaizen); Aims for perfection
- Resources as required (JIT); Self coordination at team level (Kanban); Visual controls (Andon)
- No top-down controls; information is in the line; No fixed performance contracts.

# A quick look at Toyota



<http://www.youtube.com/watch?v=x0x8EqTE6Ts>

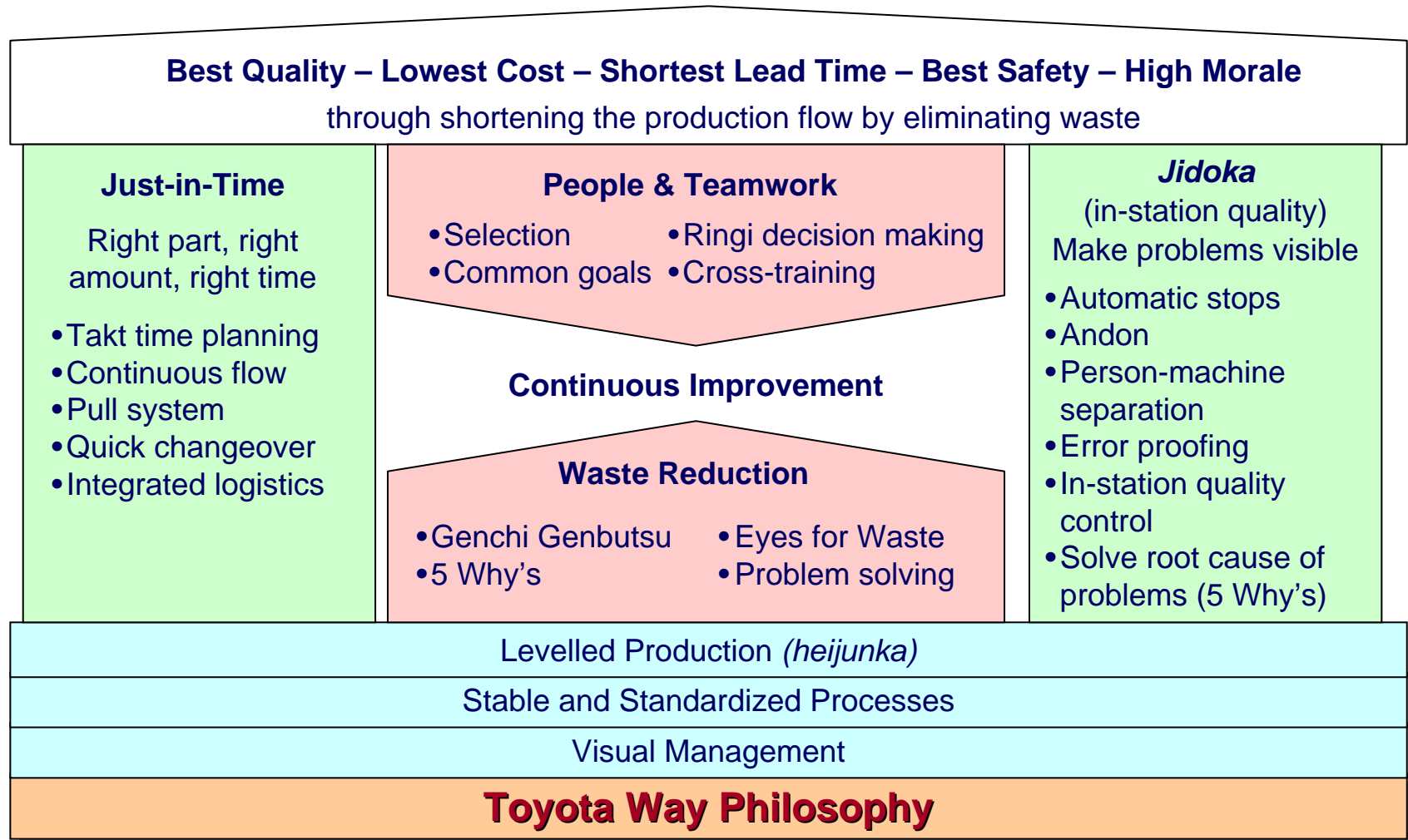
# Understanding Toyota's success

*To understand Toyota's success you must delve deeply into the underlying management principles and culture*

*Prof. Jeffrey Liker*

Forward to Hino, Satoshi (2006) *Inside the Mind of Toyota*

# The Toyota Production System (TPS)



Source: Liker, J.K., (2004) *The Toyota Way*. New York: McGraw-Hill

# Customer First

*All we are doing is looking at the time line from the moment the customer gives us an order to the point when we collect the cash. And we are reducing that time line by removing the non-value-adding wastes.*

*Taiicho Ohno*

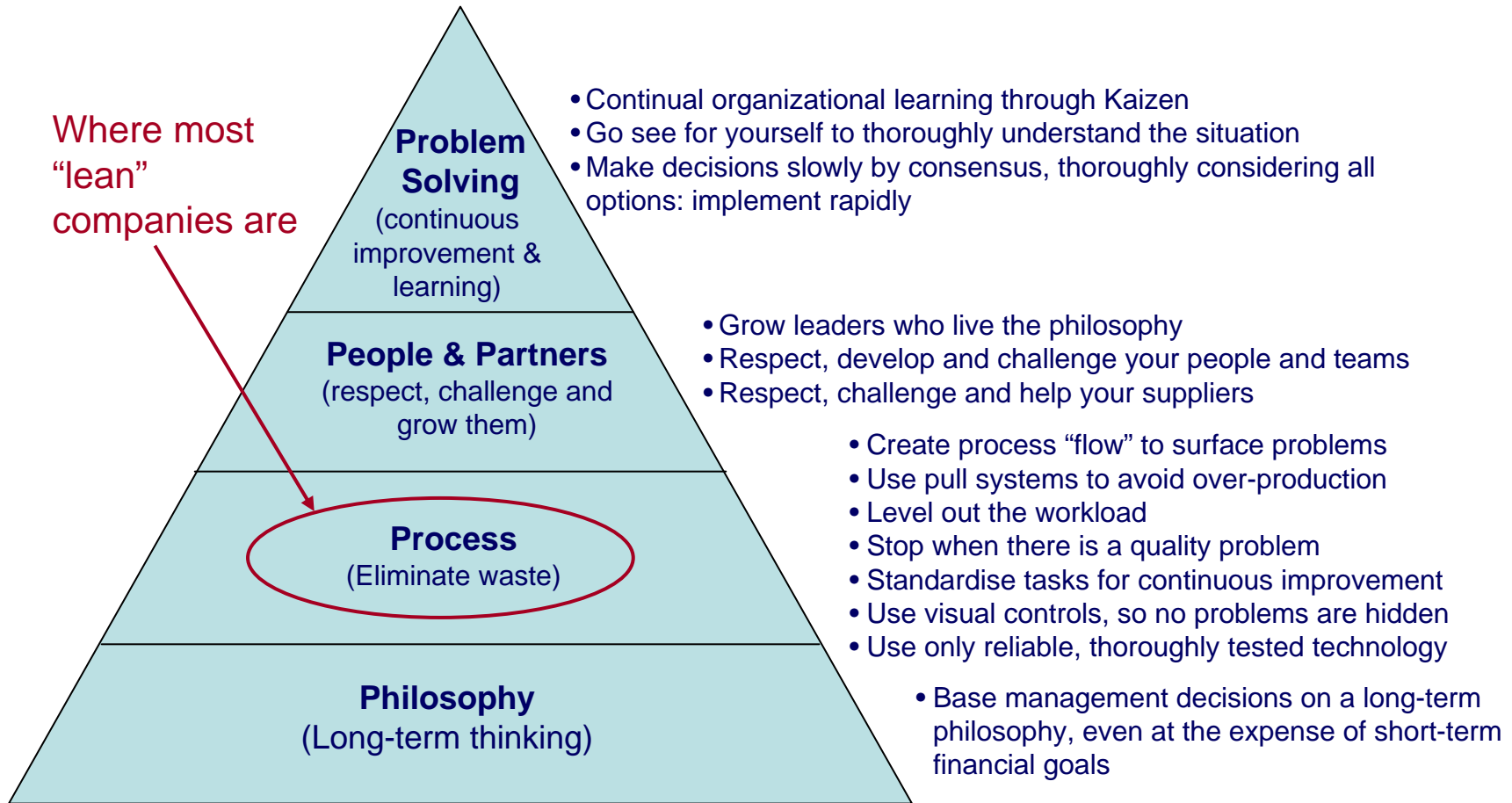
(Ohno, Taiichi. (1998) *Toyota Production system: Beyond Large-Scale Production*.  
Portland OR: Productivity Press

# The Toyota Way - 2001

***“We have identified and defined  
Toyota's fundamental DNA”***

Fujio Cho, Chairman Toyota Motor Corporation

# A “4 P” model of the Toyota Way



Source: Liker, J.K., (2004) *The Toyota Way*. New York: McGraw-Hill

# Adding value

*The only thing that adds value in any type of process – be it in manufacturing, marketing or a development process – is the physical or information transformation of that product, service or activity into something the customer wants.*

*Taiicho Ohno*

(Ohno, Taiichi. (1998) *Toyota Production system: Beyond Large-Scale Production*.  
Portland OR: Productivity Press

# Making lean work at Toyota

- Strategy based on economies of flow, *not economies of scale*
  - > Costs down, less inventory and fewer problems
- “Pull” orders through the system from customer order, *not “push” to satisfy top-down accounting and targets*
- Every step in a continuous flow working at the same rate
  - > Consumes only the resources required to advance customer order
  - > Costs are as low as they can be
- No targets, budgets, standard costing systems, or other accounting or production controls (no ERP or MRP II)

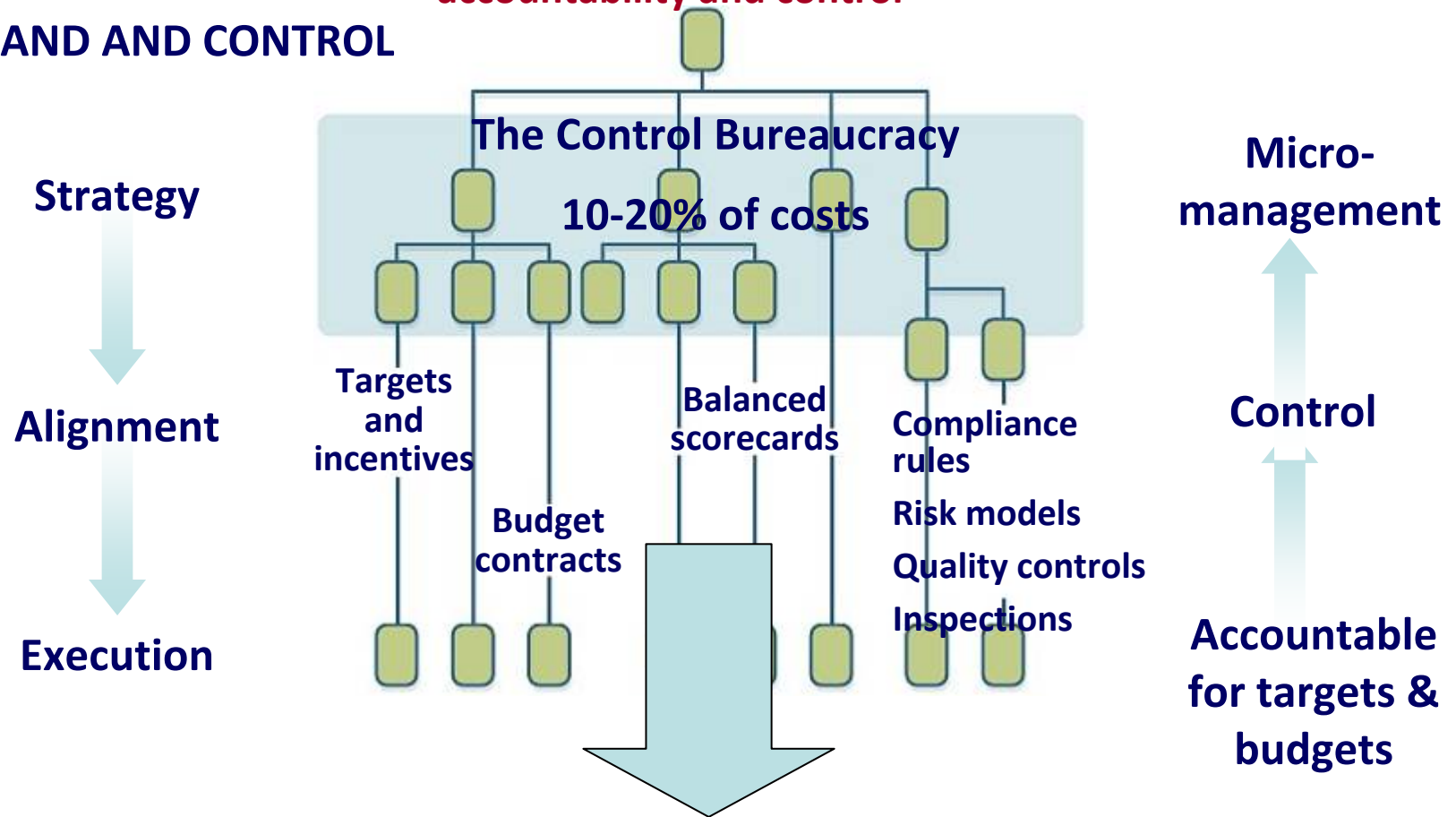
# What inhibits success?

- ☀ **The way we manage**
- ☀ **Our performance management system**
- ☀ **Only see the tools, not philosophies**

# How organizations typically manage

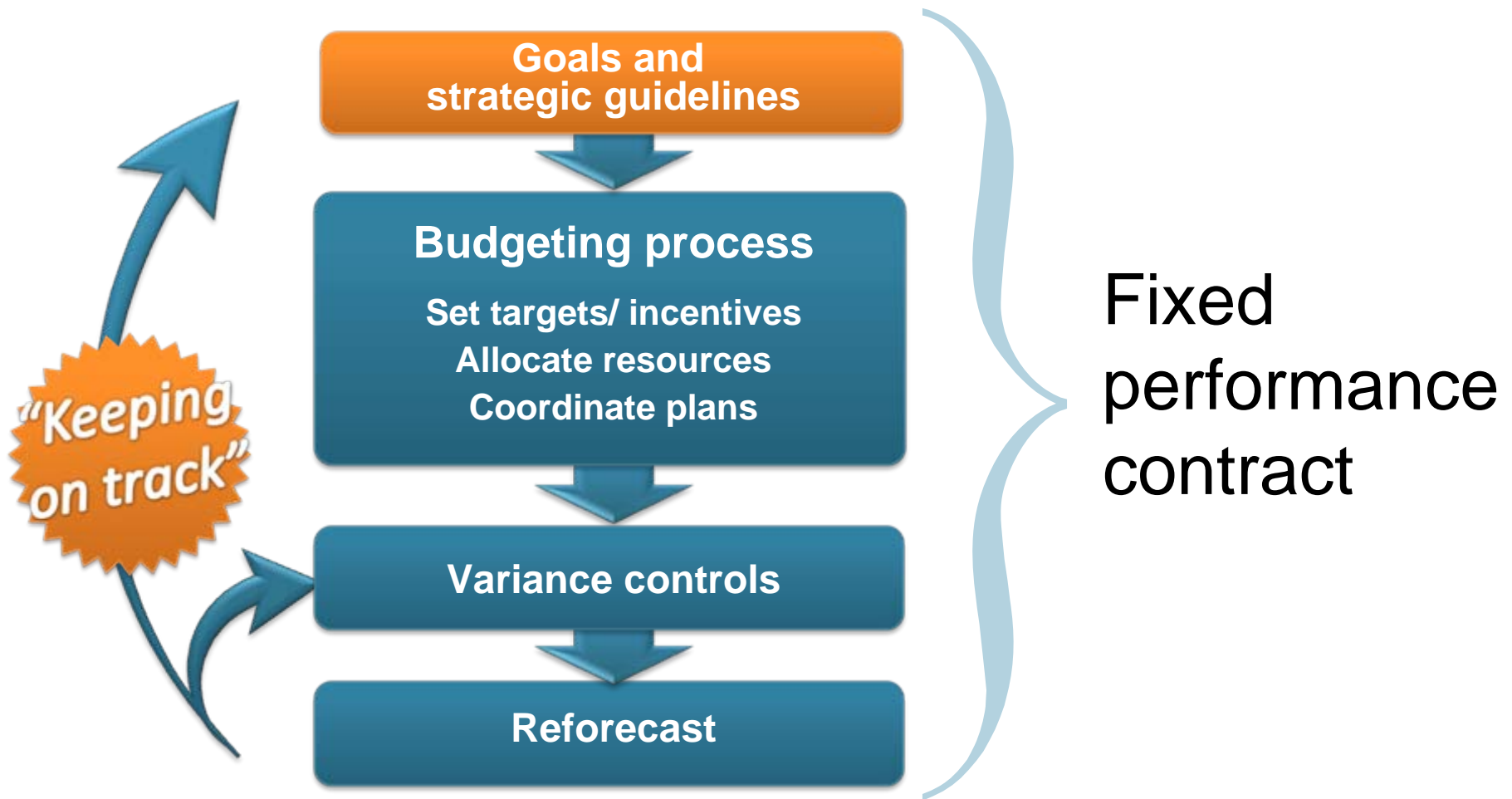
Many leaders believe that more micro-management provides more effective accountability and control

## COMMAND AND CONTROL



More... cost centres, budget lines, cost allocations, data errors, scorecards, targets, risk models, reports, inspections

# The trouble is that the budgeting process is annual, negotiated and fixed



# Budgets drive the wrong behaviour

**We always provide forecasts that bosses want to see**

**We always spend what's in the budget**

**We always negotiate the lowest targets and the highest rewards**

**We never share knowledge or resources with other teams – they are the enemy**

**We always make the bonus, whatever the risk!**

**While we like to please customers, our sales targets come first**

**We always ask for more resources than we need, expecting to be cut back to what we actually need**

# Too many forecasts are tied to the budget and provide little value



- Forecasts are tied to year-end targets that lead to “gap-filling” decisions
- Forecasts are treated as performance contracts that lead to bias
- Forecasts are prepared for “corporate” and dilute local ownership

# Lean implementation approaches

## *Rapid Improvement Events (Kaizen Blitz)*

- Provide fast return for effort
- Higher visibility
- Less challenging to existing management style
- Lack of overall visibility
- Only shorter, simpler projects
- May not embed culture of continuous improvement

## *Full Implementation Approach*

- Complete cultural shift
- Sustainability of changes
- Whole system change
- Links changes with strategy
- Bigger implementation challenge
- Greater potential for resistance
- **Challenges existing management styles**

Source: Radnor et al (2006) *Evaluation of the Lean Approach to Business Management and its use in the Public Sector*. Scottish Executive Social Research

# Findings from Scottish Executive study

- Lean improvement initiatives were not integral to organizational strategy
- Need to more clearly allocate resources to improvement activities to sustain success in the longer-term
- More sustained and effective Lean application would link strategy and operational improvement in a whole systems approach




***“The long-term aims of its Lean programme could not be achieved purely through a succession of operational-level RIEs without some form of strategic level direction.”***

Source: Radnor et al (2006) *Evaluation of the Lean Approach to Business Management and its use in the Public Sector*. Scottish Executive Social Research

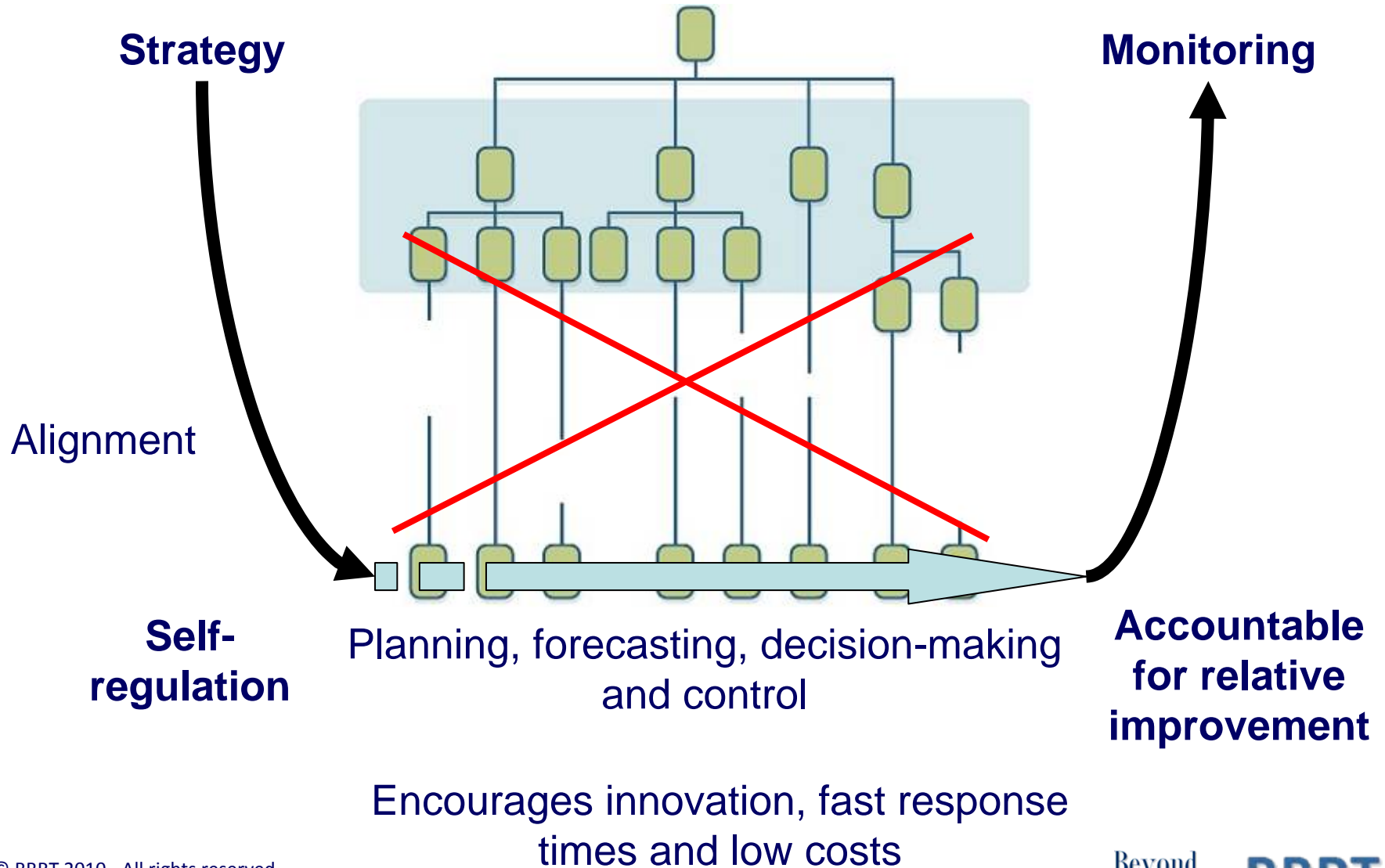
# Key to successfully embed Lean & Agility

- See lean and agility as philosophies, *not tools-based projects*
- Dismantle apparatus of 'make-and-sell' model
- Switch from belief in 'economies of scale' to economies of flow'
- Abandon targets and use measures to learn and improve
- Treat inventory as a liability, *not an asset*
- Create standardized tasks and flexible teams
- Design quality into the process
- Involve and trust the workforce
- Focus on solving problems
- Promote frugality
- Reduce complexity

# How can we realise the full potential?

-  **Change the way we manage**
-  **Go from command-and-control to empower-and-adapt**
-  **Start trusting**

# Emerging Management Model

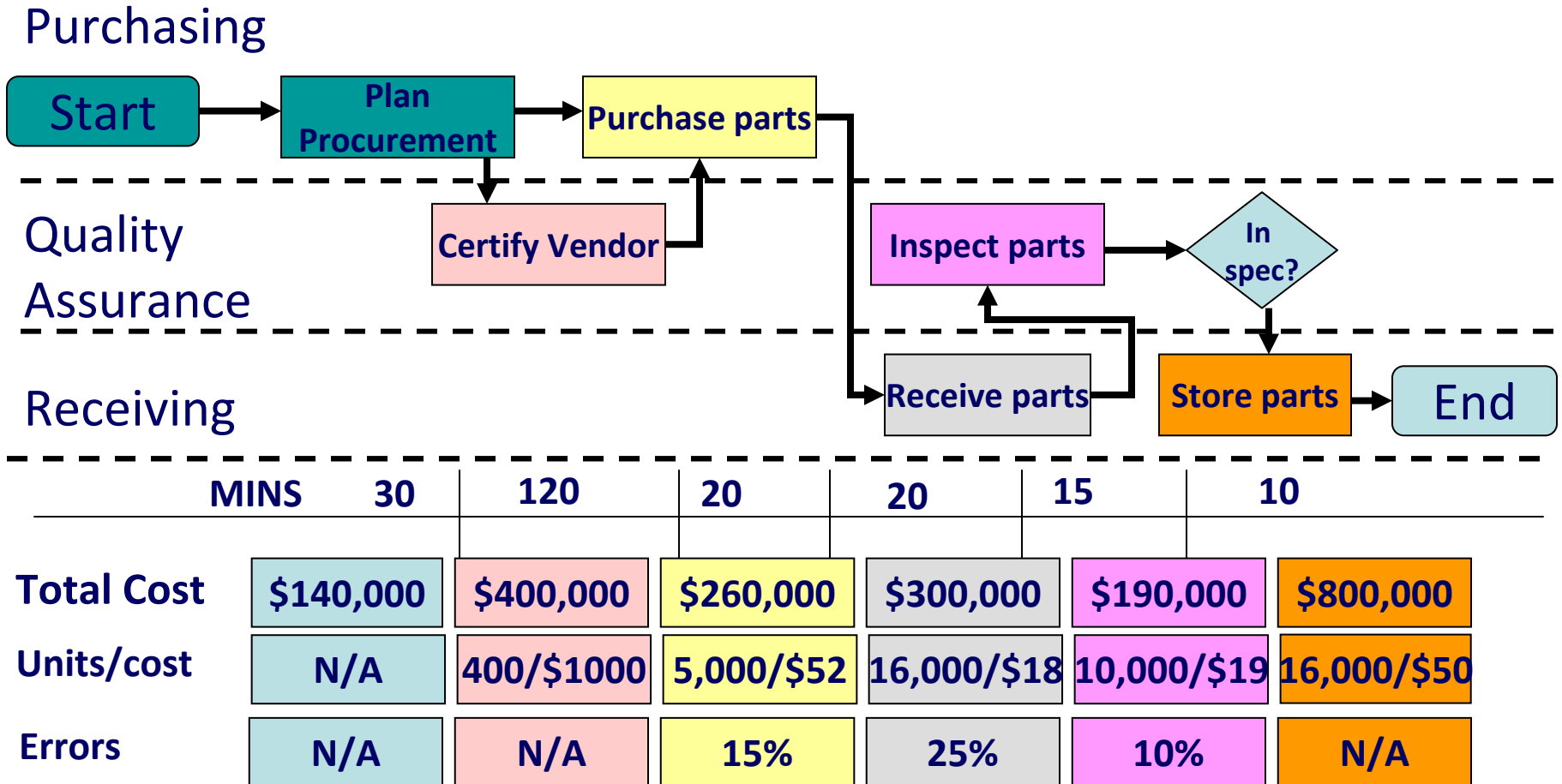


# Do budgets lead to effective performance? – An example from procurement

	\$000s	\$000s	\$000s	Primary reason
	Actual	Budget	Variance	
Purchasing				
Salaries	290	270	-20	Overtime
Expenses	110	100	-10	
Quality Assurance				
Salaries	420	440	20	Fewer inspections
Expenses	170	160	-10	
Warehousing costs				
Salaries	700	660	-40	Disruption caused by fire
Expenses	400	380	-20	Disruption caused by fire
TOTAL COSTS	2,090	2,010	-80	
Number of Purchase Orders	5,000	4,500	-500	Volume of business
Number of inspections	10,000	10,500	500	

How would you agree next year's target?

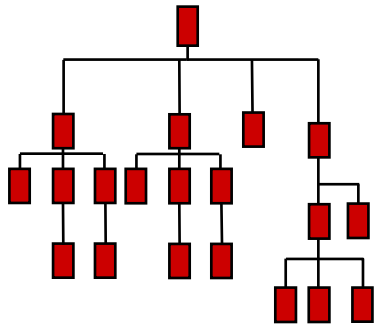
# Now let's look at the same costs through the lens of a "process map"



**TOTAL TIME 215 minutes: TOTAL PROCESSING COST: \$2,090,000**

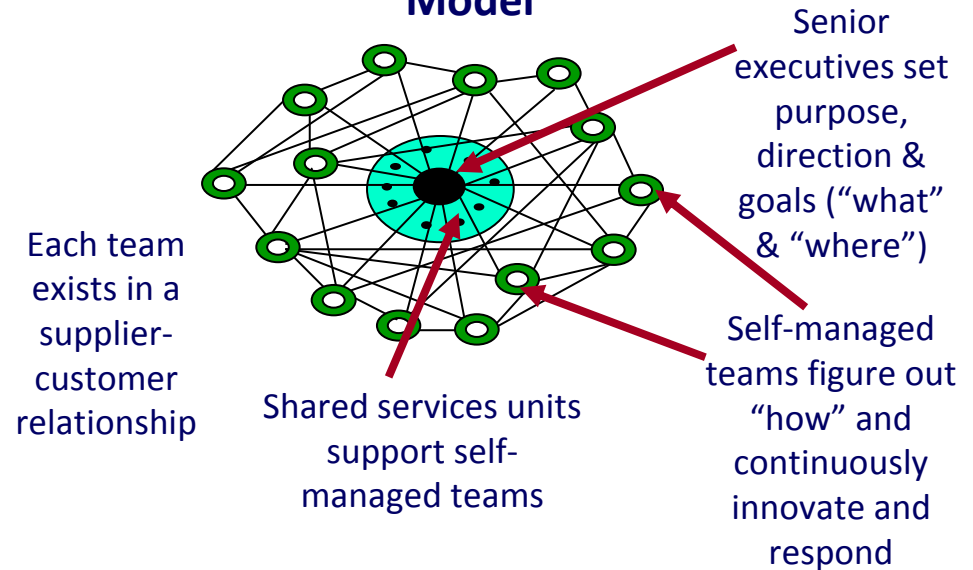
# Changing mindsets

## 'Command and Control' Model



- Organizations are obedient machines
- Organizations are a collection of replaceable parts (parts determine performance of the whole)
- Organizations comprise of 'cause and effect' relationships that are predictable
- Organizations need central planning, coordination & control
- Change is reactive and project driven

## 'Beyond Budgeting' or 'Empower & Adapt' Model



- Organizations are adaptive systems
- Organizations are holistic systems (whole system determines performance)
- Organizations are webs of relationships that are unpredictable
- Organizations are self-organizing and self-regulating
- Change is integrative and adaptive

# 12 Beyond Budgeting Principles



## Six 'leadership' principles

### **Governance & transparency**

1. Values	Govern through a few clear values, goals and boundaries, <i>not detailed rules and budgets</i>
2. Performance	Create a high performance culture based on relative success, <i>not meeting fixed targets</i>
3. Transparency	Promote open information for self management, <i>don't restrict it hierarchically</i>

### **Accountable teams**

4. Organization	Organize as a network of lean, accountable teams, <i>not around centralized functions</i>
5. Autonomy	Give teams the freedom and capability to act; <i>don't micro-manage them</i>
6. Accountability	Focus everyone on improving customer outcomes, <i>not on hierarchical relationships</i>

## Six 'process' principles

### **Goals & rewards**

7. Goals	Set relative goals for continuous improvement, <i>don't negotiate fixed performance contracts</i>
8. Rewards	Reward team-based success based on relative performance, <i>not on meeting fixed targets</i>

### **Planning & controls**

9. Planning	Make planning a continuous and inclusive process, <i>not a top-down annual event</i>
10. Coordination	Coordinate interactions dynamically, <i>not through annual planning cycles</i>
11. Controls	Base controls on relative indicators and trends, <i>not on variances against plan</i>

### **Resource management**

12. Resources	Make resources available as needed, <i>not through annual budget allocations</i>
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# Exemplars of the new vision

The image features a large, light blue arrow pointing to the right, which serves as a central visual element. Surrounding the arrow are several company logos, arranged in a way that suggests a progression or a collection of examples. The logos include:

- Google
- Park Nicollet
- GORE Creative Technologies Worldwide
- A globe icon
- Statoil
- TOYOTA
- Handelsbanken
- UBS
- GUARDIAN
- Tomkins
- GUARDIAN
- ALDI
- Unilever
- AMERICAN EXPRESS
- SOUTHWEST
- WACHOVIA
- Egon Zehnder International

# Europe's best performing bank

## Svenska Handelsbanken



- Swedish bank but growing rapidly in UK
- \$5bn revenue
- Lowest costs in Europe (cost/income ratio around 40%)
- Customer focused model (highest customer satisfaction)
- Transparent information
- No bureaucracy, no budgets
- 600 profit centres; Peer comparisons drive performance improvement
- Branches 'run their own business'

# Beyond Budgeting at Statoil



- 1 October 2007 - merger between Statoil and Hydro's oil and gas activities
- About 29,500 employees in 40 countries
- The world's largest operator in waters more than 100 metres deep
- Operator for 39 producing oil and gas fields
- Market capitalisation worth more than \$70 Billion
- Production averages more than 1.7 million barrels of oil equivalent per day
- World leader in the use of deepwater technology and carbon capture and storage
- Strong collegiate culture
- Over 800 value centres using "Ambition-to-Action" scorecards that drive growth and innovation
- No budgets or fixed contracts
- Fast, continuous investment decisions

# Best airline?



- Icon of Corporate America - consistently profitable for >30 years; highest shareholder returns of peer group
- Top of independent customer satisfaction ratings in USA + lowest number of customer complaints for last 13 years
- Best productivity and safety record.. Company that graduates most want to work for
- Puts employees first and customers second. 'Hires for spirit and trains for skills'. Unleashes the imagination and energy of its people. Makes work fun
- No fixed performance contracts. 'Budgets' treated like rolling forecasts. 15% of pre-tax profits paid into profit sharing pool and paid into a retirement fund for all employees according to base salary

# Park Nicollet



- Non-profit serving Minneapolis-St Paul area
- Four primary sub-units:
  - > Methodist Hospital (426 beds, 960 doctors)
  - > Park Nicollet Clinic (25 locations)
  - > Park Nicollet Foundation (money-raising)
  - > Park Nicollet Institute (research)
- Implementing both **Lean Management** and **Beyond Budgeting**
  - > Both centred on CFO's office

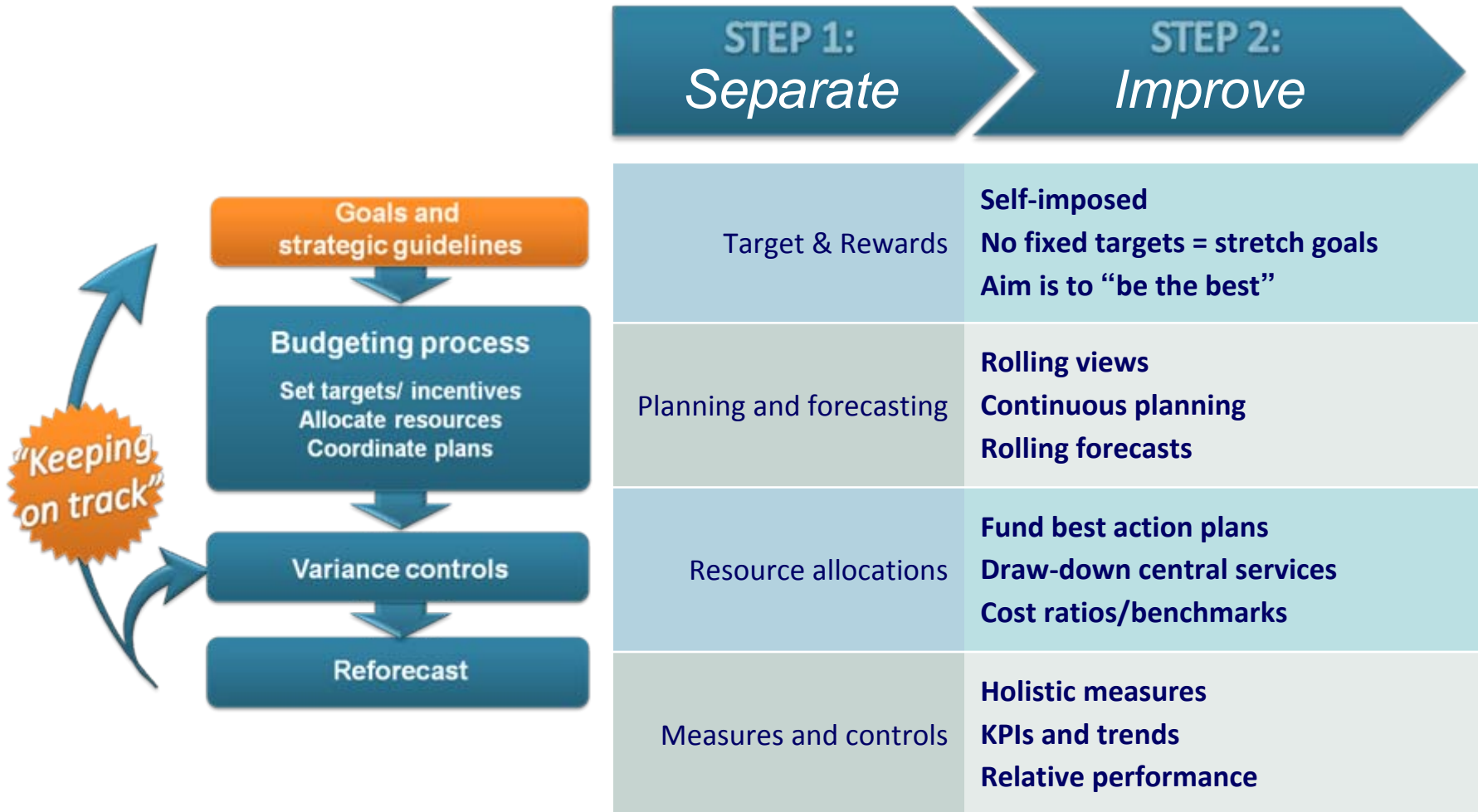
# Lean Management at Park Nicollet

- A few KPIs had to replace detailed budget reports
- Set targets for improvement and track actual performance to them
  - > No comparison with forecasted performance
- 2005 – dual system
- 2006 – no annual budget
- Example of process difference to manufacturing:
  - > Key “inventory” – number of patients waiting → communication
    - Wait times at urgent care centres updated on web site every 30 minutes

# Budgetless Reporting at Park Nicollet

- Financial planning process – for finance, not for operational managers
- Better processes deliver better services at lower cost
- Finance keeps a check on cash flow
- Six-quarter rolling forecast updated quarterly by CFO
  - > Not distributed to operational leaders
- Capital spending plan based on cash flow from prior years
- Senior managers direct money where it's needed without budgets
- Measure their unit's performance by KPI:
  - > Units of service per WTE
  - > Actual cost per unit of service
  - > Margin on units of service
  - > Total expenses
  - > Units of service per square foot

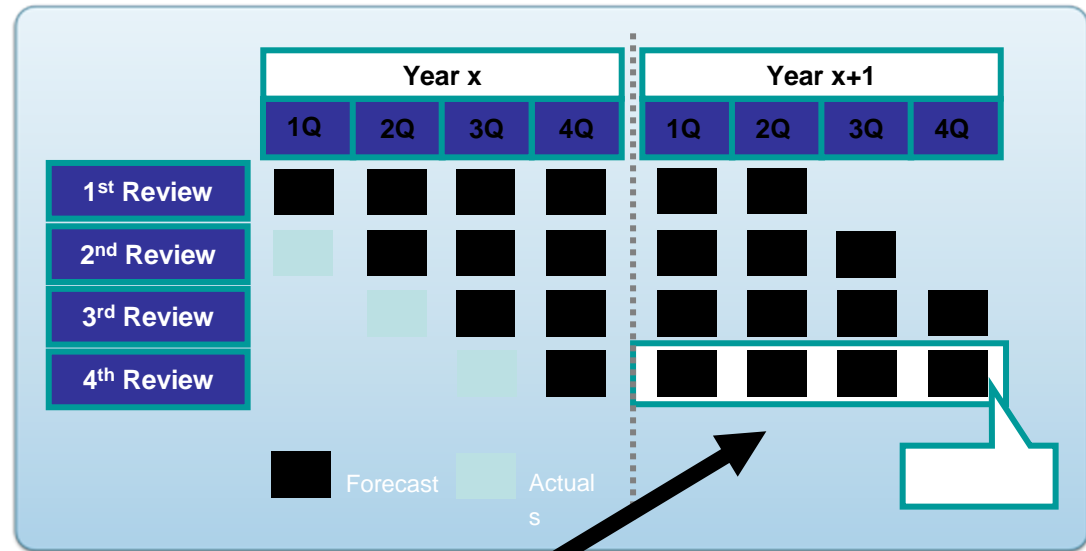
# They have all broken free



# How to organize and manage

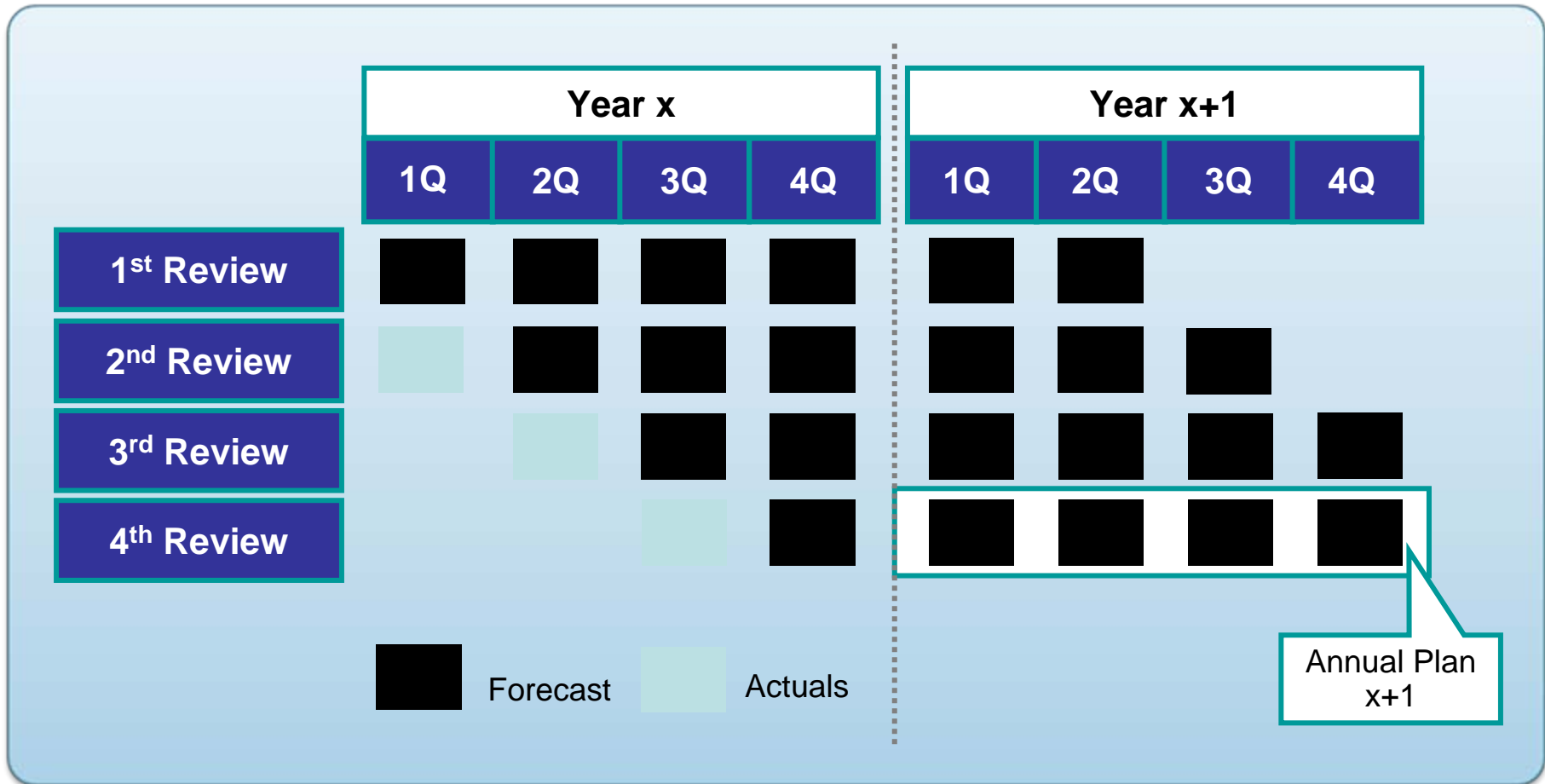


# Stop forecasting to the wall

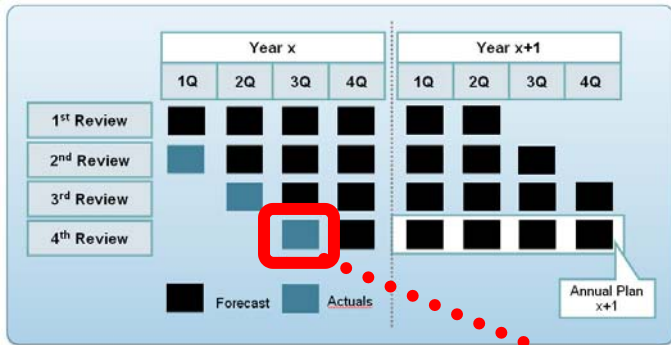


Make the annual plan the forecast 'window' that fits the fiscal year

# Instead implement a process based on rolling plans and forecasts



# Add rolling performance review process



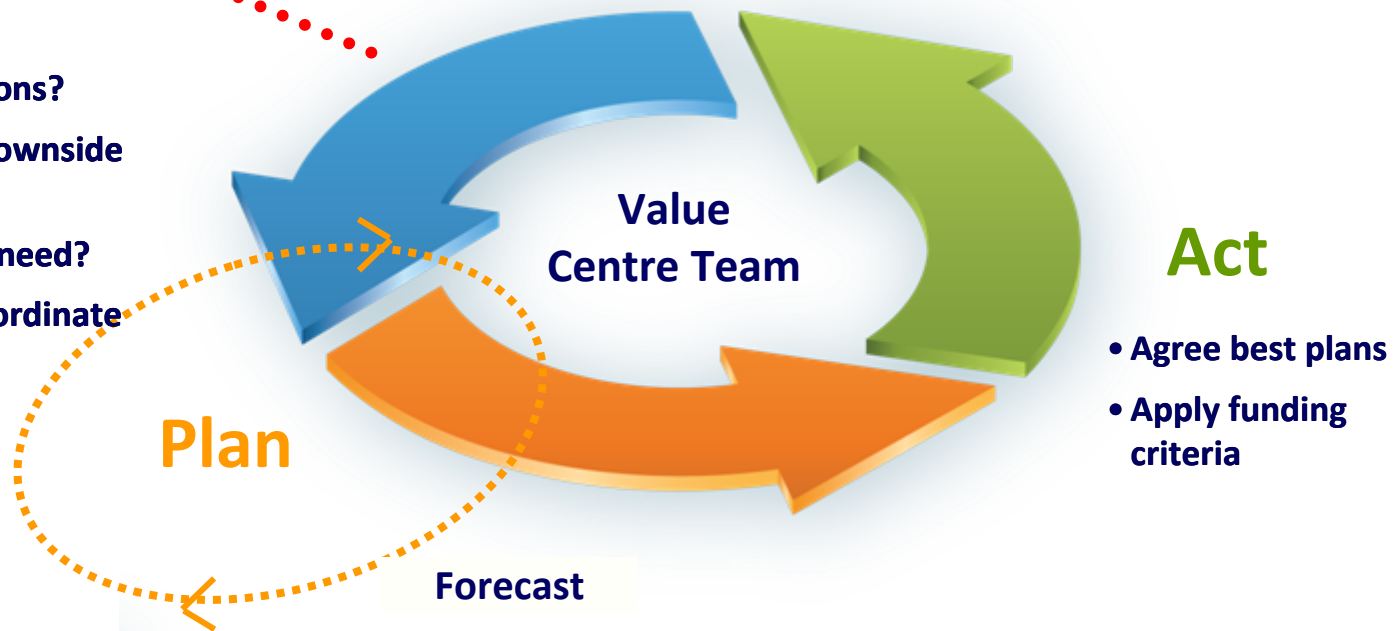
Strategy/Goal



Check

- Where are we now?
- Where are we going?
- How are we doing against goals, peers & best practice?
- Is our strategy working?
- DO WE NEED TO CHANGE?

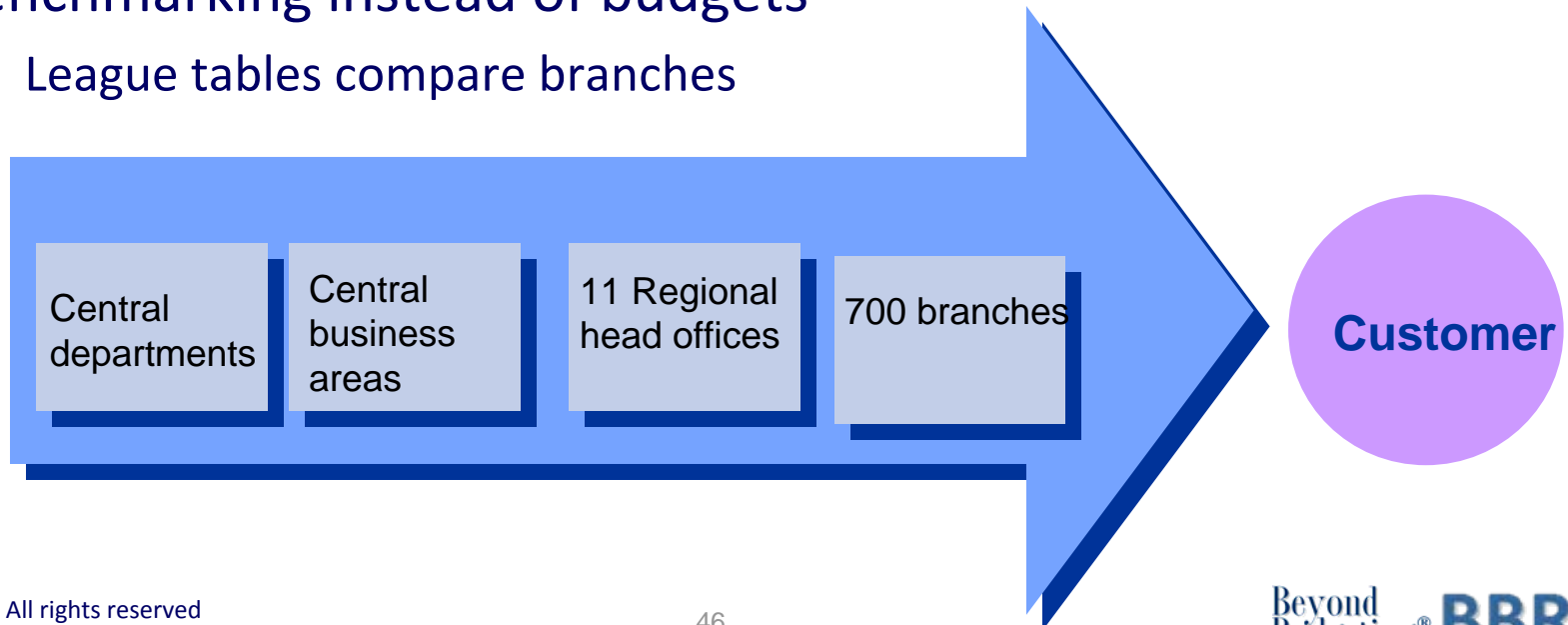
- What are our best options?
- What are the upside/downside risks?
- What resources do we need?
- Who do we need to coordinate with?



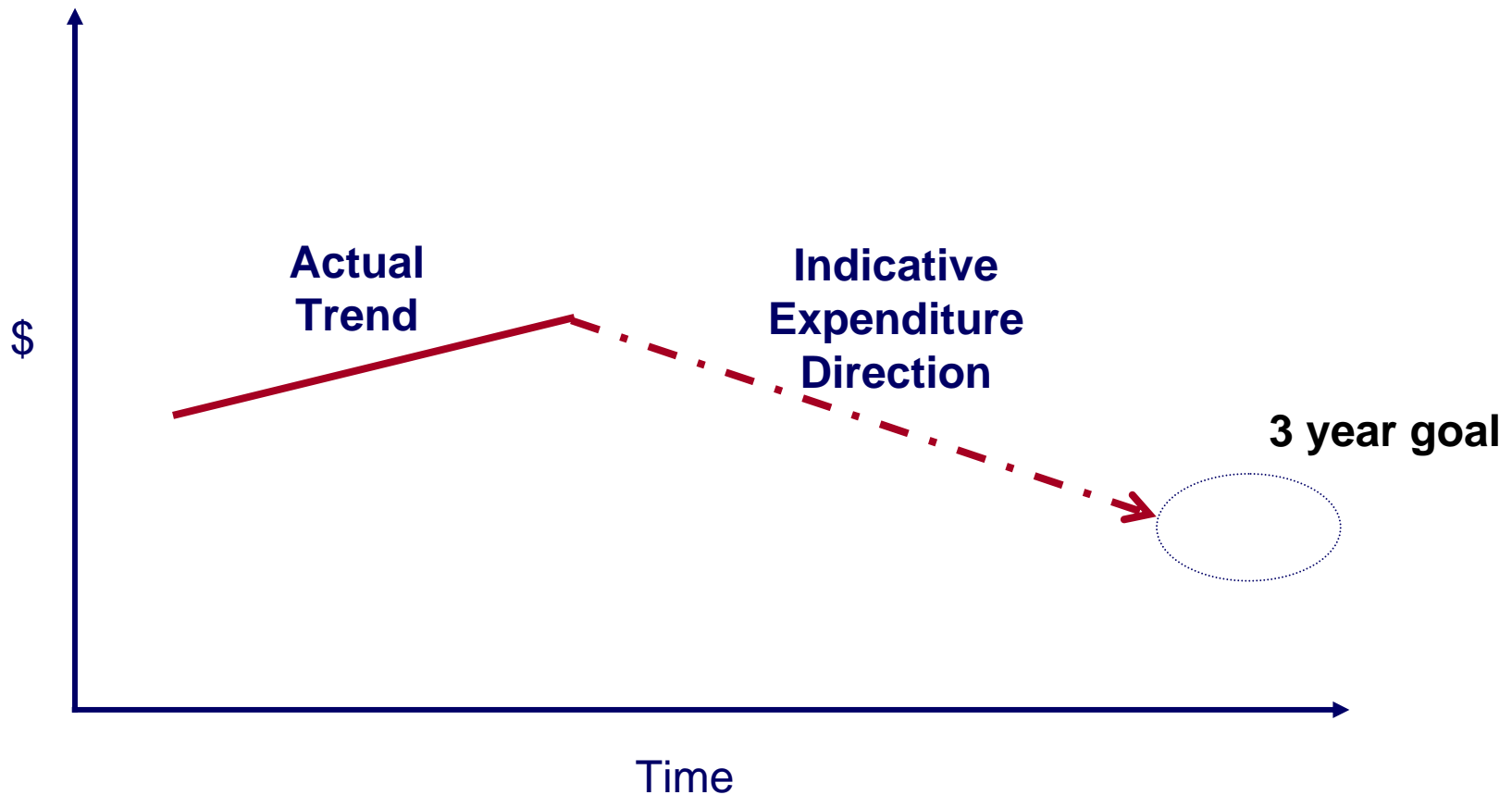
- Agree best plans
- Apply funding criteria

# How Handelsbanken manages costs

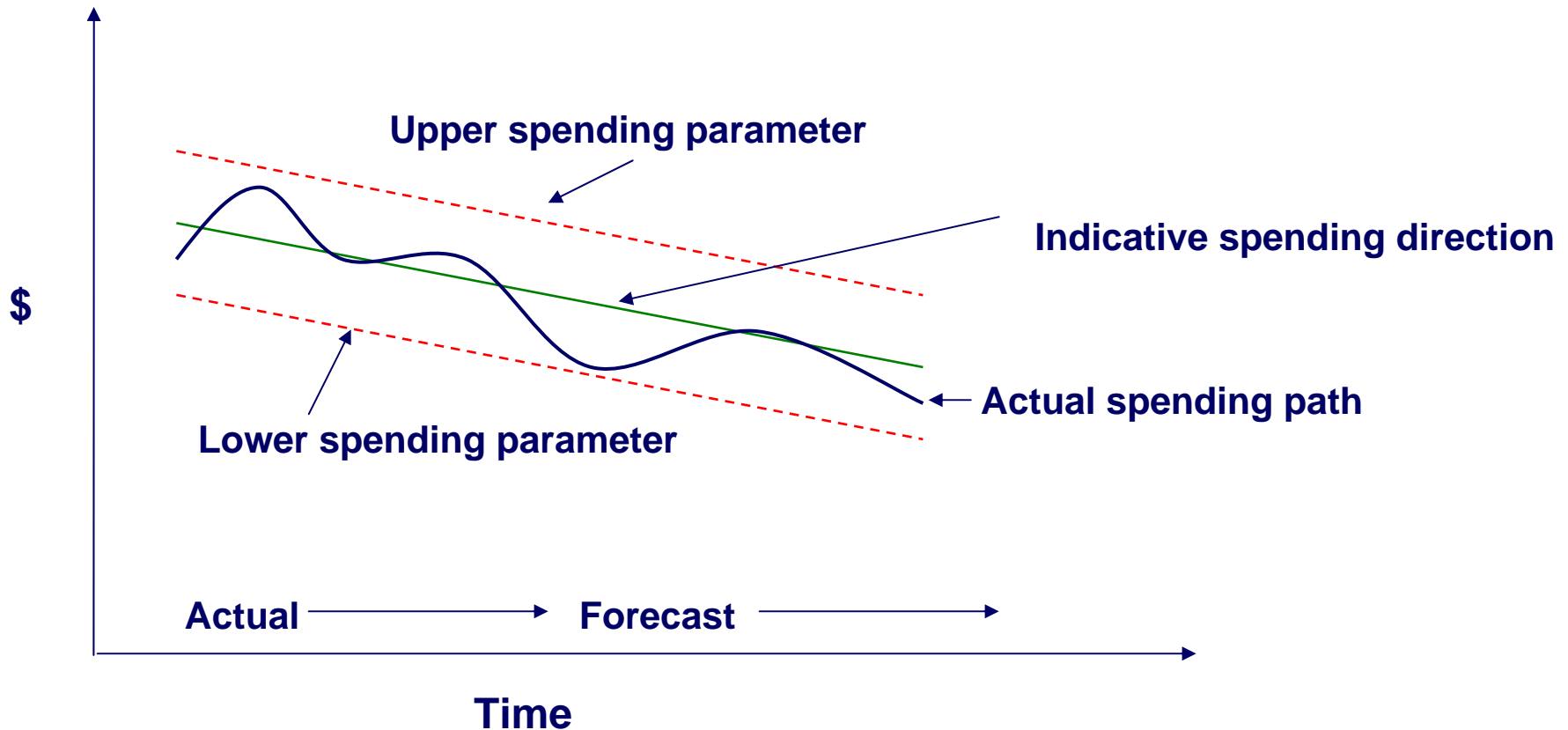
- The branch is responsible for all costs
- Each branch makes its own business plan
  - > The bank is managed “bottom-up”
- Monthly Profit & Loss and efficiency ratio (cost/income)
- Benchmarking instead of budgets
  - > League tables compare branches



# Setting directional spending guidelines

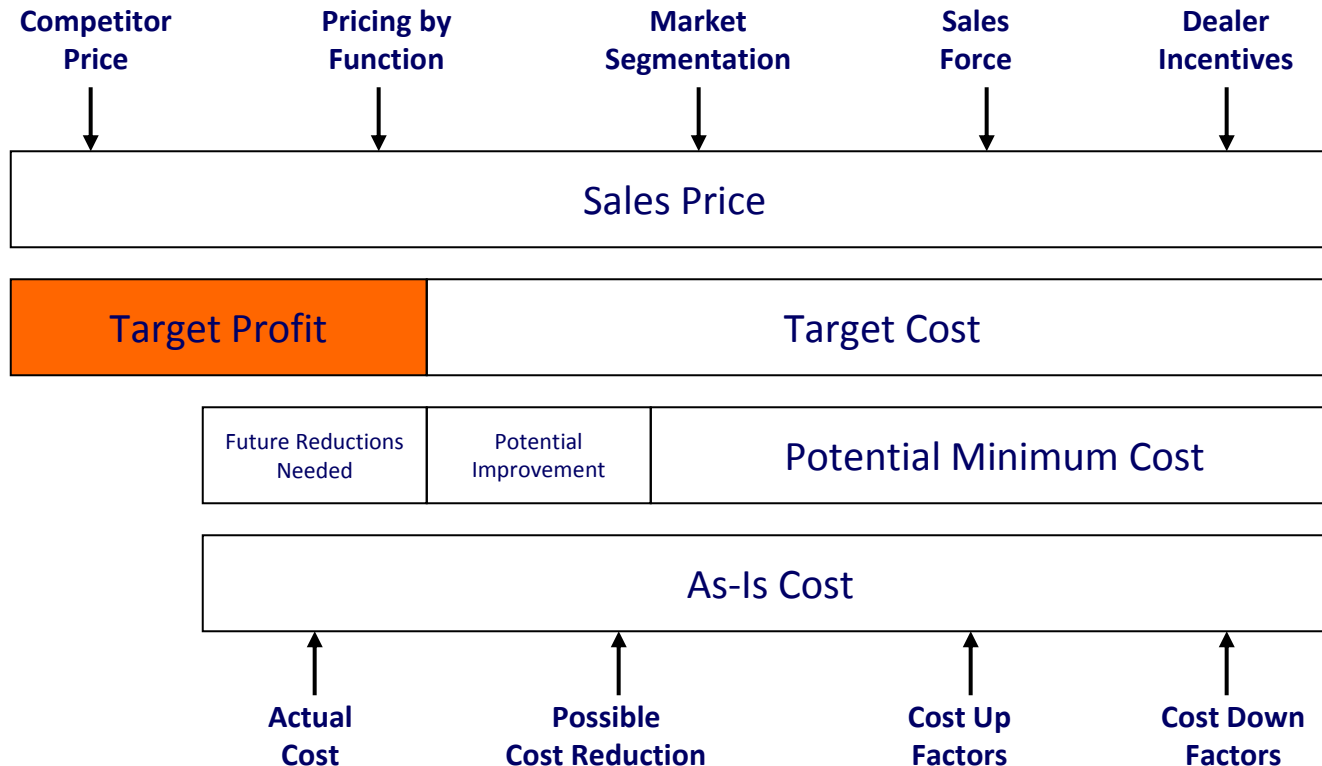


# Controlling directional spending



# Target costing process case study - Boeing

## Influences on Target Cost



Can you target your profits?

# Formula for successful change

Formula for a successful change programme

$$f(D \times V \times S) > R$$

D = Dissatisfaction

V = Vision

S = Strategy and steps

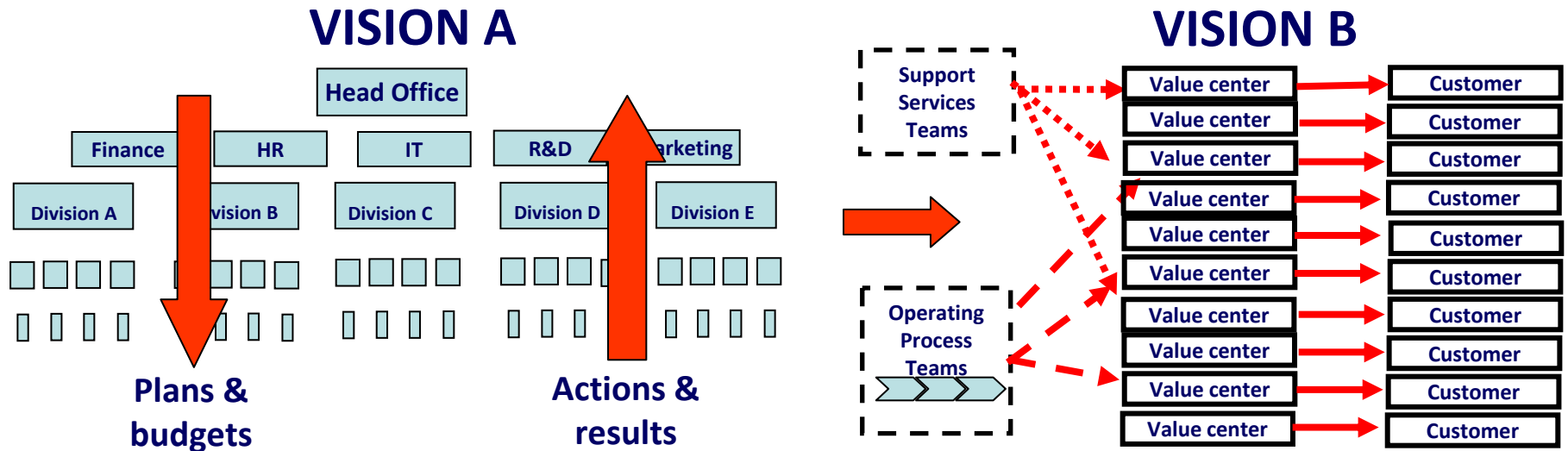
R = Resistance

# D – Create a compelling case for change

## Tap into what people really care about...

- 20% care about ***improving society*** (BB leads to more sharing, less greed and corruption, more sustainable investments and more ethical reporting)
- 20% care about ***improving the organization*** (BB leads to a better place to work, invest in and do business with (also lower costs, higher growth, etc))
- 20% care about ***improving the customer experience*** (BB leads to more ethical selling and more focus on keeping best customers rather than meeting sales targets)
- 20% care about ***improving the team they work in*** (BB leads to more team focus, more collaboration and more focus on internal/external customer outcomes)
- 20% care about ***improving their own position*** (BB leads to more opportunities for fast track development and more learning and self-improvement)

# V – Choose the right vision (B)



- More bureaucracy and targets
- More budget accountability
- More top-down compliance and control
- More cost centre analysis
- Finance 80/20 controller/partner

- More freedom and capability
- More value creating accountability
- More local planning and self-regulation
- More performance insights
- Finance 40/60 controller/partner

# R- The Wall of Excuses



The auditors won't like it  
The regulators will object

Group will feel threatened

We have too many other priorities

We can't do the ROI

We don't have enough time/money/staff

I can't sell the idea to the board

It's too much work

We're too busy

It's too risky

It will take too long

It's not my responsibility It won't work in our culture

We tried it before and it didn't work

Our systems can't handle it

The bosses won't like it

We don't need to change



# 7 Deadly Sins

7. Not continuing

1. Not holistic

6. Wrong style

2. Not engaged

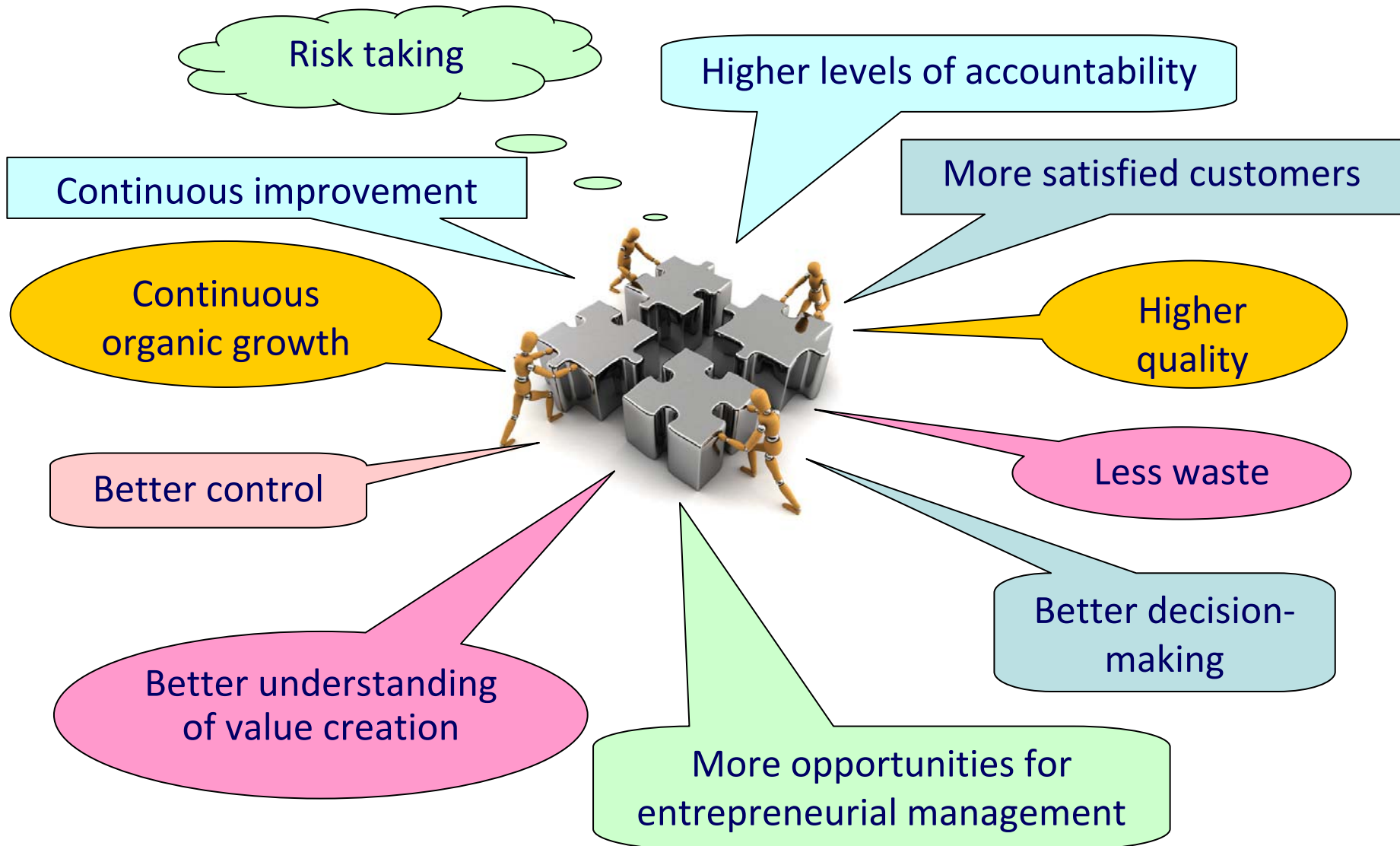
5. Not coherent



3. No vision

4. Wrong focus

# What you can gain



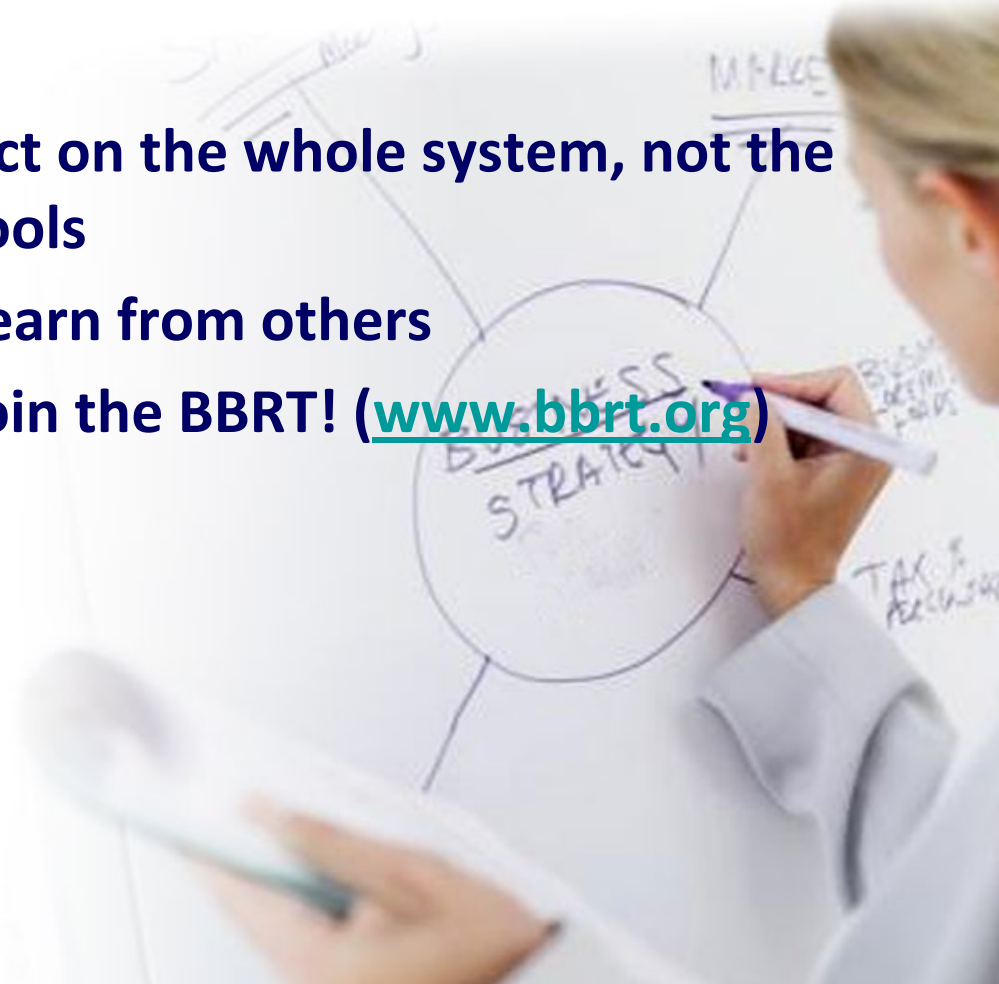
# Why have Lean & Agility taken so long to take root?

- The way we manage our organizations
- Barriers – attitudes to change within organizations
- Lack of understanding of lean & agility
- Shortage of right skills at management levels
- Cultural issues
- Migration from operations up the organization
  - > Encounter functional, hierarchical mindset
  - > Counter environment
- Not a 'quick fix'
  - > Sometimes results seem to get worse before they get better

# GET THE THINKING STRAIGHT BEFORE CHANGING



- Act on the whole system, not the tools
- Learn from others
- Join the BBRT! ([www.bbrt.org](http://www.bbrt.org))



Beyond  
Budgeting®

**Thank you**

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