

Lean Enterprise Academy



LEA e-letter – September 2007

What is lean?

Dear Lean Community Member

I am always surprised how many times top managers ask me “So what is Lean?” This is depressing when they come from automotive or manufacturing firms whose operations folks have been struggling with Lean for a decade or more without their help or understanding. On the other hand it is encouraging when they come from healthcare or service organisations hungry to make progress and ready to lead from the top. For me Lean is actually about a new business model that delivers far superior performance for customers, employees, shareholders and society at large. Initially this superior performance is delivering exactly what customers want without any problems, delays, hassles, errors and fire-fighting. Very quickly it is also freeing up the capacity to deliver a third more value from existing resources with few additional costs.

But really it is about learning how to reconfigure these assets and relationships with supply chain partners to make a step change in creating additional value for customers. Being able for instance to organise the diagnosis and treatment of a non-urgent medical condition in a matter of hours when everyone else takes several months. Or being able to compress the typical supply chain from raw materials to end consumer from 11 months to 30 days, while hitting every delivery on time and in full.

Over the next decade I have no doubt that this lean business model will replace the prevailing business model originally developed by Alfred Sloan at General Motors, analysed and described in many books by Peter Drucker and later refined by Jack Welch at GE. The power of lean is the growing recognition by leading organisations in all kinds of sectors that Toyota, the lean pioneer, is the reference model for our age. Quite rightly their common aspiration is to become the Toyota of their industry.

This is given added urgency as corporations well down their own path to lean demonstrate their ability to fundamentally redefine the nature of competition in their industry, as their competitors struggle to keep up. Just look at the big strategic rethink going on at WalMart even before Tesco opens its first Fresh and Easy store in the US market, and the growing success of the acquisition and turnaround strategy of early lean pioneer Danaher.

The fundamental insight behind lean is seeing that customer value is created by the actions of lots of different people across many departments and organisations. Linking these together into a seamless end-to-end process or value stream for each product family reveals literally hundreds of opportunities for streamlining the flow, eliminating non value creating

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steps and aligning the rate of flow with customer demand. This is lean in operations that most people are familiar with.

But it applies throughout the organisation, not just on the shop floor. All the support activities in the office can be redesigned using the same principles and tools. Indeed we need to learn to see our organisations as a collection of horizontal processes or value streams as well as the more familiar vertical organisation of functions and departments. Vertical functions are the right way to organise knowledge but value is created by horizontal value streams.

This focus on processes requires a very different form of lean management. Someone needs to turn these separately managed activities into end-to-end value streams and to manage the process of improving them over time, maybe through several product generations. Instead of managing using the rear view mirror of last month's results lean managers frequently go and observe the current progress at every point in their value streams in order to help employees meet the current plan for the hour or the day and to plan further improvements. It is also their responsibility to lease with the relevant functions for the resources to do so, within a policy management process that aligns all these activities with the needs of the organisation and its customers.

The growing interdependence of each step in every value stream will reveal all the underlying problems and the challenges from a changing marketplace. To solve the root causes means problems must be visible and not hidden. The true power of a lean organisation is when every employee can take the initiative to solve problems and improve their job, in a way that provides value for customers and prosperity for organisation.

Yours sincerely

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