

Lean Beyond the Factory – March 2004

I've been thinking a lot recently about just what a business really is. As a lean process thinker, my best answer is that a business is a collection of value creating processes. Indeed, it's the sum of its processes.

Some of these are primary processes that directly create value for the customer, notably the product development process and the production process. Others - the great majority - are support processes that no external customer values but which are essential if the primary processes are going to create the value the external customer does desire. Examples include the hiring process, the billing process, the supplier selection process, and the sales process.

A bit of simple investigation will show that every action taken in a business is part of some process and perhaps of several processes. The challenge for lean thinkers is to make sure that every action contributes value to a value-creating process. As I look at most businesses, lean processes need to flow horizontally across the organization because practically every process touches more than one area, department, function, or business unit. And this is often a problem, because the predominant structure of most businesses is vertical. The areas, departments, functions, and business units are the primary organizational building blocks as well as the accounting units and career conduits.

Lean thinkers have made big strides in recent years to address this problem by creating smoothly flowing product-family value streams for production operations. These value-stream processes run horizontally through production operations from the receiving area to the shipping department. (Remember that "value stream" is simply another term for "process". Both mean the sequence steps required to create some increment of value.) However, in the modern world these primary processes in the factory are only a small fraction of the total business processes.

In every manufacturing firm there are numerous support processes in the office. And moving beyond manufacturing to the service organizations that make up the great bulk of the modern economy - retail, healthcare, finance and insurance, transport and logistics, communications, construction, government bureaus, we find primary and support processes everywhere, if we can only learn to see them. But until very recently the lean movement had little to say about these.

About a year ago I had the honor of speaking to the senior management of General Motors about the challenge of "leaning" the office. (Yes, this is the same General Motors that once was my classic example of mass production!) The occasion was the launch of an ambitious effort to apply the lean thinking principles of GMS (their Global Manufacturing System) to every office process in GM (even as the acronym GMS was transformed to the more inclusive term, General Motors System.) It is hardly possible to quickly "lean" every process in a vast business like GM, but the results to date have been quite remarkable and have caused me to think about expanding the lean movement to include the entire range of business processes.

I hadn't pursued this before because of the horrible experience of Business Process Reengineering. As you may remember, this consulting phenomenon came roaring

through North America and then Europe during the recession of 1991-92, when many big companies were desperate to cut costs as fast as sales were falling. The idea - as popularized by Michael Hammer in his best-seller "Reengineering the Corporation" -- was for special teams of process re-engineers (mostly outside consultants) to analyze key processes, identify the waste, and quickly remove it to create smoothly flowing processes at much lower cost.

The problem was that most of the re-engineers lacked a credible method or any experience and they gained little cooperation from employees. In the end, many employees were laid off to meet consultant promises to management for almost instant paybacks on investment. But few processes were successfully re-engineered. In fact about the only lasting effect of this episode was the American comic strip "Dilbert" whose beleaguered protagonist first came to public attention as the dogged survivor of re-engineering efforts in his office.

This experience was so negative that I was reluctant for the lean movement to tackle office and service processes until experience was gained about how to improve processes the right way, using a rigorous method and with employee buy in. During the past year, as I have watched the GM experiment I have also heard frequently from lean practitioners around the world who are moving from the factory into the office and into service businesses. As a result, I have concluded that we now have the knowledge and that it's time to expand our scope. As with any lean effort, the key steps are:

Identify the key processes to tackle (in the same way we draw up a product family matrix in the factory).

Draw an accurate current-state map of each process.

Apply the key lean principles to envision a leaner future state for each process. Implement this future state in a way that can be sustained.

However, there is a special challenge at the very outset. This is to be crystal clear about the value emerging from each office or service process, many of which are support processes with no cash-paying customer outside the organization. In one notable instance at GM, senior management concluded that an expensive process consuming many hours of management time actually created no value for anyone. Rather than improving it, the answer was to eliminate it. As you contemplate leaning your office and service processes just remember that in the absence of value, everything is muda.

I'm truly excited about the prospects for expanding the lean movement across the entire economy, and our ability to do so will be critical to raising living standards and providing fulfilling work in every country in the 21st century. I wish you luck and I hope you will be willing to share your experiences as we proceed.

Best regards,

Jim
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