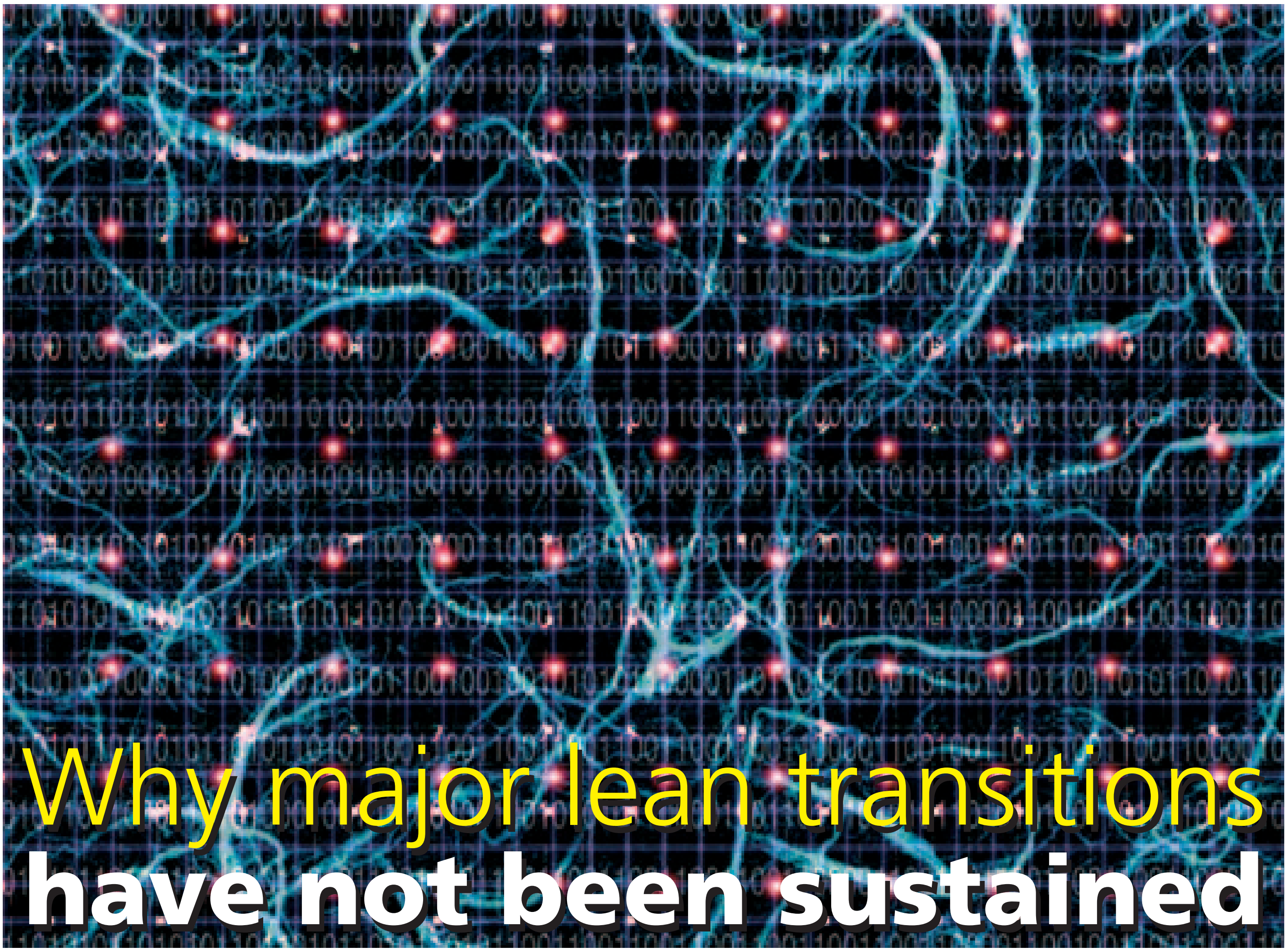


Why major lean transitions have not been sustained

The key is to learn from failure, says John Lucey, Nicola Bateman and Peter Hines.

The scale of major transition failure is difficult to determine because the majority of failures go unreported. Strebel (1996) states that change management is not working as it should. In a telling statistic, leading practitioners of corporate re-engineering report that success rates in Fortune 1000 companies are well below 50 per cent; some say they are as low as 20 per cent. Ernst & Young (1992) stated that three-quarters of all transformations fail, as do 50% - 75% of re-engineering projects. Over the past decade, more than eight out of 10 US companies underwent at least one major business transformation.

A Chinese proverb says that the beginning of wisdom is to call things by their right names and transformations are no exception. Bridges (2002) states that it is not the change that is the challenge, it is the transformation. Change is not the same as transformation. Change is situational: the new site, the new boss, the new team roles, the new policy. Transformation is the psychological process people go through in order to come to terms with the new situation. Put simply, change is external, while transformation is internal.

Alexander (1985) surveyed 93 private sector companies using a questionnaire to determine which implementation problem occurred most frequently as

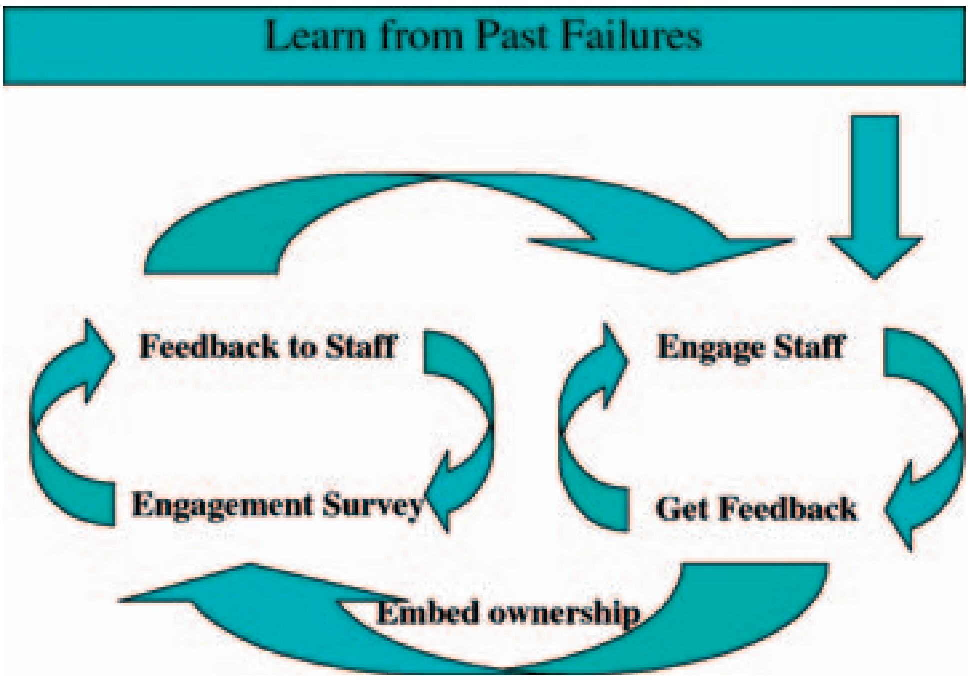


Figure 1 - Long term sustainability model. Lucey 2004. The model commences with learning from past failures, focuses on engaging all staff, embedding operational ownership and then regularly surveying staff to monitor the level of employee engagement on an ongoing basis.

	Ten most frequent implementation problems	%
1	Implementation took longer than planned	76
2	Major unanticipated problems occurred during implementation	74
3	Co-ordination of implementation activities was not effective enough	66
4	Competing activities and crises distracted attention from implementation	64
5	Skills and abilities of implementation team were lacking	63
6	Training and instructions to lower level employees was not good enough	62
7	Uncontrollable factors in the external environment adversely affected implementation	60
8	Leadership and direction provided by department managers was not good enough	59
9	Key implementation tasks and activities were not defined in enough detail	56
10	Information systems used to monitor implementation were not adequate	56

Table 1 - Most frequent implementation problems. Alexander 1985.

the businesses tried to implement strategic decisions. Most of the 22 potential problems were identified from a literature review. Chief executive officers in interviews conducted by Alexander suggested a few. The number was reduced to 10 by only using the ones rated as problems by more than half of the sample group. Table 1 details the results.

This survey indicates a lack of adequate resources, the absence of a detailed implementation methodology and an absence of project management. Kotter and Schlesinger (1979) pointed out that no matter how good a job one does in selecting a change strategy and tactics, something unexpected will occur during implementation. That was more than 20 years ago and it would seem to be the case today. Kotter (1996) states that major transformations have helped organisations such as GE, Allied Signal and Motorola adapt significantly to shifting conditions but, in too many situations, the improvements have been disappointing and the carnage has been appalling, with wasted resources and burned out, scared or frustrated employees.

Kotter goes on to stress that the downside of change is inevitable. Whenever a business is forced to adjust to shifting conditions, pain is ever present and a significant amount of waste and anguish is unavoidable. The key issue is knowing how to enact change and, of course, it is important to have a clear vision and to get everyone in the organisation supporting it.

Managing transformations

There is often some confusion between management and leadership. A great deal of literature talks about managing transformations. Bennis (1994) refers to differences between leading change and managing change in table 2.

Moore (2003) supports Bennis and states that leaders foster change and create an environment where change is the norm, whereas managers stabilise the organisation and assure that the changes are well implemented. Which is more important? The fact is that both sets of behaviour are necessary to achieve excellence and people who have Bennis' leadership characteristics tend to be better at fostering change. The fact is that different approaches may be needed, depending upon where you are in the transformation.

There is a strong correlation between employee engagement and lean sustainability

Kotter (1999) makes the same point. Management is not leadership; it is more about controlling and problem solving and producing the short-term results expected by the various stakeholders. Leadership is about establishing direction, developing a vision of the future and setting strategies for making the changes needed to achieve that vision.

Manager	Leader
Administers	Innovates
Is a copy	Is an original
Maintains	Develops
Focuses on systems and structure	Focuses on people
Relies on control	Inspires trust
Has a short-range view	Has a long-range perspective
Asks how and when	Asks why
Has his eye on the bottom line	Has his eye on the horizon
Imitates	Originates
Accepts the status quo	Challenges the status quo
Classic good soldier	Is his own person
Does things right	Does the right thing

Table 2 - Difference between leaders and managers. Bennis 1994.

Leadership is about aligning people, communicating the direction by words and deeds to all those whose co-operation may be needed. Influencing the creation of teams and coalitions that understand the vision and accept their roles in the implementation of strategy. Leadership is about motivating, inspiring and energising people to overcome major political, bureaucratic and resource barriers to change by satisfying basic but unfulfilled needs. Leadership produces change - often dramatic change - and may produce extremely useful change such as new products and new approaches to labour relations.

Such leadership can produce what Kanter (1989) calls the Jesuit principle of management: it is faster to go ahead and, if challenged, it is easier to beg forgiveness than ask permission in the first instance. This is particularly good advice for middle managers who want to press ahead but often face roadblocks from senior managers.

The concept of employee engagement

The concept and importance of employee engagement is not generally well known or appreciated. Coffman, et al, (2004) chronicle the findings of Gallup's study of more than 10 million customers, 3 million employees and 200,000 managers. In the forward to Coffman, et al (2004) James K Clifton, CEO of Gallup Organisation, states that, "The success of your organisation does not depend on your understanding of economics, or organisational development, or marketing. It depends, quite simply, on your understanding of psychology: how each individual employee connects with your company and how each individual employee connects with your customers."

Put another way, you must harness the power of human nature by engaging all staff. In 2000, the Gallup organisation developed the Engagement Index to determine just how large a proportion of the employed population were actually uncommitted to their jobs, that is 'emotionally unemployed'. The national trend indicates that only about one-third of the workplace in the United States is engaged, while approximately one-fifth is actively disengaged. Since then, these estimates have been available quarterly in the *Gallup Management Journal* and the *Wall Street Journal*. This is the macro picture affecting the economy and the competitiveness of each country.

To demonstrate how dramatic the engagement index is on the American economy, consider this: The figures show that only 30 per cent of the US workforce consists of engaged employees. Over half - 54 per cent - are not engaged, while 16 per cent are actively disengaged. The study of these three groups is important because it represents a continuing benchmark against which individual companies can compare themselves. It also reveals the competitive position of one national economy against another, particularly its most important trade partners and competitors. And it can be used to measure the impact of important events on the productivity and health of the workplace.

The side-by-side existence of engagement and disengagement within the same organisation is a global problem. In 2001, Gallup conducted a national benchmark of the engagement index in a host of countries. The numbers are detailed in table 3 and are sobering:

The term 'emotional economics' has been coined to assess the total cost of disengaged employees. Interestingly, the most important differences among countries do not reside in their relative numbers of engaged employees, but in how many of their workers are actively disengaged. Employee disengagement costs money. Using the most conservative scenarios, Gallup has calculated that the cost to the US economy of actively disengaged employees is in the range of $254 to $363 billion annually. This amount is larger than the US budget for either education or national defence. Still, with a mere fraction of engaged employees, the US economy manages to thrive. Imagine how much it could grow and accomplish by doubling the number of these pivotal workers. Great organisations can boast that close to 50 per cent of their employees are actively engaged.

Transformations need to be led by a person who has a clear vision

The benefits of employee engagement

The *Gallup Management Journal* reports that engaged employees are 15 times more likely than actively disengaged workers to recommend their company as a place to work and 16 times more likely to say that their current role employs their individual strengths. Additionally, they are three times more likely to be satisfied with their current compensation plans and benefits and to spend their entire career at their present company.

The level of engagement also affects the self-assessment of quality of life. Engaged employees are 11 times more likely than their actively disengaged comrades to indicate that they are extremely satisfied with their current company as a place to work. They are four times more likely to evaluate their condition of life as excellent, and twice as likely to say that they are extremely satisfied with their personal lives.

In contrast, actively disengaged employees represent real trouble. They account for most of the waste in terms of lost workdays, incredibly high safety costs, higher levels of turnover, low productivity and customer defection. Collectively, these employees represent a negative economic force at work within the organisation. They exist at all levels, in all functions and teams and can be very disruptive during periods of major change. They are nine times more likely than engaged employees to say that they are less secure about their jobs than they were a year before. They are three times more likely to indicate that their stress-related work has caused them to behave poorly with their families, and twice as likely to indicate that they have less time to do the things they want to do. So any organisation that believes that employees leave their personal concerns behind when they come to work, and park their work concerns at the office door at the end of the day, is doing their employees, and themselves, a big disservice.

Kotter (1993) supports this view and states that in a rapidly changing world, a strong culture promotes excellent performance only when they contain norms and values that help to adapt to a shifting competitive environment. This kind of culture will have a positive impact on the bottom line. Company statistics are available and there is clear evidence that engaged staff produce better results and are less likely to resist change. The negative impact of employees who are 'actively disengaged' is a major hurdle to the successful transaction of major change. This group must be neutralised if the benefits are to be realised and the change sustained, Currently, few organisations measure employee engagement, consequently they have no idea of the proportion of their staff who are engaged, not engaged and actively disengaged. Companies who do measure and actively manage employee engagement have seen stunning results.

Results of the research

To develop a successful change strategy,. In an effort to get a balanced view, research involving three groups of professionals who deal almost exclusively with change was undertaken in 2002. The objective was to compare and contrast the three groups and see if there were any common views.

The first group were successful consultants who had been involved in major change transitions over a number of years and had experienced both success and failure. The range of experience covered high profile companies in manufacturing, finance, purchasing and information technology. It was interesting to note that the first consultant had developed a series of questions for the

Country	Engaged %	Not Engaged %	Actively Disengaged %
United States	30	54	16
Chile	25	62	13
Canada	24	60	16
United Kingdom	17	63	20
Germany	16	69	15
Japan	9	72	19
France	9	63	28

Table 3 - National index of employee engagement. Gallup 2001.

Unfreeze (Plan and prepare) Reasons for failure	Consultants 1	2	3	Academics 1	2	3	Writers 1	2	3
Lack of clear executive vision and leadership	✔	✔	✔	✔		✔	✔	✔	✔
Lack of effective communication strategy	✔	✔	✔	✔		✔	✔	✔	✔
Failure to create a sense of urgency		✔	✔	✔	✔		✔	✔	✔
Poor consultation with all stake holders	✔	✔	✔	✔		✔			✔
Failure to recognise company history and culture					✔				✔
Change ambition can outstrip reality	✔		✔						

Table 4 - Why major change transformations fail in the unfreeze stage. Lucey 2002.

Change (Transact the change) Reasons for Failure	Consultants 1	2	3	Academics 1	2	3	Writers 1	2	3
7. Absence of dedicated and fully resourced implementation team	✔			✔			✔		✔
8. Lack of structured methodology and project management	✔	✔				✔	✔	✔	✔
9. Failure to plan and manage quick wins							✔		
10. Failure to fully mobilise change champions			✔	✔	✔		✔		✔
11. Lack of sympathetic HR policies	✔	✔		✔		✔			
12. Using an outsider to transact the change				✔					

Table 5 - Why major change transformations fail in the change stage. Lucey 2002.

Refreeze (Embed the ownership) Reasons for failure	Consultants 1	2	3	Academics 1	2	3	Writers 1	2	3
13. Failure to monitor and evaluate the outcome	✔	✔		✔		✔		✔	
14. Failure to continually recognise and celebrate success							✔		✔
15. Failure to engage employees	✔						✔	✔	✔

Table 6 - Why major change transformations fail in the refreeze stage. Lucey 2002.

prospective client to answer. Essentially these were numbers 1 and 4 on table 4, numbers 7 and 8 on table 5 and number 13 on table 6; if the client was not prepared to commit to these, he would decline the assignment on the basis that it would inevitably fail. The second group were academics; two had considerable experience of working in manufacturing, predominantly lean manufacturing, and the third was a 'pure' academic. The third group of writers/authors are well known and have a considerable amount of experience covering a wide variety of international businesses.

The consultants and academics were interviewed and a literature review was conducted on the writers/authors. The notes of the interviews with the consultants and academics were subsequently shared and validated with the interviewees. In total, 15 reasons why major change transformations fail were identified. To aid analysis and structure, these reasons were summarised and classified using Lewin's (1947) renowned three stage change model of unfreezing, changing and re-freezing. The interpretation of this analysis is dealt with stage by stage and signals a number of key messages.

Table 4 is an analysis of the reasons why major change transformations fail in the unfreezing stage. In the unfreeze stage the first four reasons are well supported by all three groups and there is a great deal of agreement between the consultants who scored 11 out of 12 and the writers who scored 10 out of 12. The academics scored 8 out of 12 and two of the three academics were in agreement with the consultants and the writers. Notwithstanding this, there was broad agreement on this stage by all three groups.

In the change stage, the results were more varied – Table 5. Reason 8, which was the lack of a structured methodology and project management, was the most supported with 6 out of 9. The failure to mobilise change champions scored 5 out of 9 and the lack of sympathetic human resource policies scored 4 out of 9.

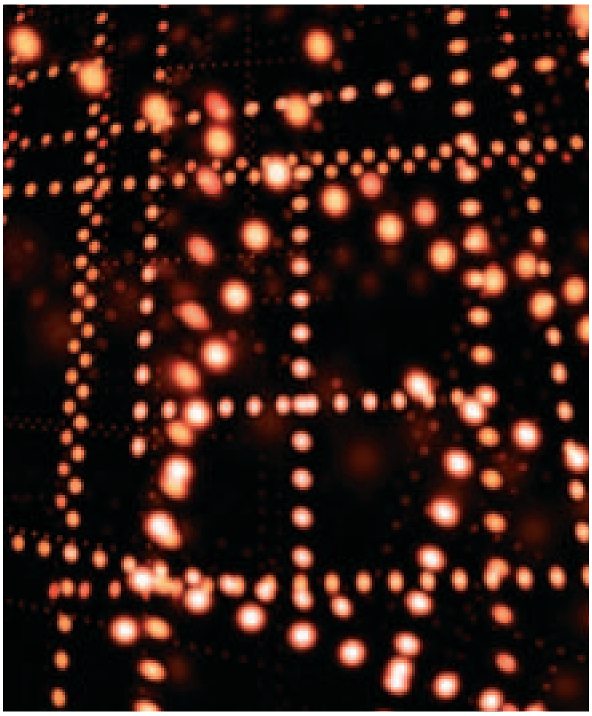
In the refreeze stage, Table 6, the failure to monitor and evaluate the outcome scored 5 out of 9 followed by the failure to engage staff with 4 out of 9.

Summary

The unfreezing phase gets the biggest individual score from each group and accounts for half of the total. This supports Kotter (1995), who found that over 50 per cent of the 100 companies he studied failed in the first phase of their change programme. If a transformation fails at this stage, it is almost certain to be unsuccessful.

The change phase had almost the same number of reasons for all three groups although, as a percentage, the academics were ahead of the other two groups. The refreeze the change had the least number in all three groups but here the writers/authors gave it a much higher emphasis. The findings indicate that a much greater emphasis is given to the first two phases and the third stage is somewhat neglected. Little time is spent on engaging the staff prior to the start of the transition, which is the key to embedding and sustaining the change. If employees are not engaged, it is difficult to see how a major transformation will be a success, how the forecast benefits will be delivered, and the change sustained.

Lucey (2004) used a six monthly employee survey as part of action based research to test the correlation between employee engagement and the sustainability of lean transformation. A year later, the major lean transformation had been sustained and the employee engagement score had improved. Robinson et al (2004) published the results of a major study into employment engagement, which supports the view that engaged employees consistently produce better



results and they identify the strongest driver as a sense of feeling of being valued and involved.

From the research, the top 10 reasons for the failure of major lean transitions are as follows:

- Lack of a clear executive vision and leadership;
- Lack of an effective communication strategy;
- Failure to create and communicate a sense of urgency;
- Poor consultations with stakeholders;
- Lack of a structured methodology and project management;
- Failure to monitor and evaluate the outcome;
- Failure to fully mobilise 'change champions';
- Failure to engage employees;
- Absence of a dedicated and fully resourced implementation team;
- Lack of sympathetic and supportive HR policies.

Conclusions

Companies are beginning to realise that if they want to succeed in an ever increasingly competitive business world, they must look to their employees as the first line of defence. Without the active engagement of all employees, continuous major change will have a very small chance of succeeding. Furthermore, the anticipated benefits will not be realised and the change will not be sustained. There is evidence that the most enlightened organisations are beginning to make this connection, often after a sequence of failures.

Clearly, the right leadership is paramount and transformations need to be led by a person who has a clear vision, a long term perspective, challenges the status quo, focuses on people, and inspires trust. Such a person would probably be supportive of a regular measure of employment engagement. The majority of time and resources are used in the unfreeze phase while the change phase rarely has a fully resourced and dedicated implementation team. There was little evidence of a structured implementation methodology or project management. The refreeze phase, which is arguably the most important as it has the biggest impact on sustainability, seems somewhat neglected as managers seem to think that change phase is the end of the project and they can get back to their 'real' job.

The research indicates that there is a strong correlation between employee engagement and lean sustainability. The use of a regular measure of employment engagement allows managers to accurately assess the level of engagement and take the appropriate action to sustain and enhance it.

The cost associated with the actively disengaged employees is such that it is vital that they be identified and dealt with in an appropriate manner. An engaged workforce is a much more productive unit and the research indicates that it can have a substantial impact on profitability and competitiveness. Once established, future transformations will be sustained and benefits realised, furthermore a platform will be established for continual change as it becomes a self-perpetuating continuous improvement process.

Without active engagement of employees, lean transitions will fail

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John Lucey successfully managed healthcare and toiletries factories for the Boots company for 15 years, and is currently chair of the IMS. He is undertaking a part time PhD on the sustainability of lean transformation at Cardiff Business School. Dr Bateman is his first supervisor and Professor Hines is his second supervisor. Biographies of the interviewees and definitions of reason in tables 4, 5 and 6 are available from John at csaplc@hotmail.com