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Creating the business processes for ongoing quality monitoring may increase productivity by 5-8% and increase customer satisfaction. However, if you have high employee turnover, increasing employee job duration based on new hiring strategies, reward and recognition programmes and other labour retention tactics can increase your productivity by 10-30% while simultaneously increasing quality. Greg Borton tells all on page 28.
Institute News

Deputy Chairman’s Column

I am pleased to once again be able to write this column and in so doing update you on what is happening in the Institute. Contained in this issue are the finalised audited accounts for 2006. I am sure you will be pleased to note that financially the Institute is very healthy with reserves in excess of £600,000. The current UK economic climate is also a healthy one for the Institute as we are achieving high rates of interest on our investments. The accounts for 2006 indicated a small operating deficit which is what we expected as the bulk of our members now hold life membership status and as such our income from membership fees has declined. As an Institute we should take pride in the decision taken to move towards life membership as it indicates the progressive nature of our organisation. I see no reason why the life expectancy of the IMS should not be in excess of 20 years based upon current income and expenditure projections.

It must be stressed that the Institute seems to have a structure and operating system that meets the needs of our membership. The lack of concerns raised by members illustrates that they are very satisfied with the present structure and level of service provided by the Institute, not surprising as members now receive all these items free of charge.

The Institute is still a vibrant and growing Institute with an increasing membership base and Council continues to develop and expand the resources available to members. Over the past year we have produced new training resources for our examinations. We have reproduced our acclaimed management services training videos in DVD format. In recent weeks we have sourced and secured access to new Rating DVDs for the membership, full details can be found on the opposite page. Our journal is now available in pdf format on our much improved website.

We have succeeded in restructuring the Institute in a way that no other professional body has ever achieved. We are now running the Institute as a very modern and efficient business rather than in pre 1999 days when we seemed to spend money on a series of ideas that really benefitted no one and just drained away our reserves. It is worth recalling that in 1999 the Institute had a life expectancy of less than five years now we are looking at a future extending beyond 20 years and all free to our members.

You will perhaps recall that in 2005 I promised you that in moving from a monthly to a quarterly journal we would provide exactly the same number of pages of technical content. I am pleased to indicate that our editor Mel Armstrong and the Editorial Panel have kept to this promise and continue to provide us with what I believe is a quality journal. I hope you enjoy reading this issue of the journal.

Finally may I remind you that the 42nd AGM of the Institute will be held on Friday 5 October 2007 at the Guild Hall, Bore Street, Lichfield at 10am. Full details appeared in the Summer 2007 issue of the journal.

I am always happy to hear members’ views and also ideas for improving the services the Institute provides, you can email me at blanchflower@merseymail.com.

David Blanchflower
Deputy Chairman

Apology

It was wrongly stated in the Chairman’s column, Management Services Journal Spring edition, that Dennis Whitmore had been nominated for Council. In fact Dick Bridges was the nominee and will assume office following the AGM.
The very best professional help

We are always keen to help members and any enquirers of the Institute in their quest for knowledge or assistance when it comes to productivity issues. We’d like to draw readers’ attention to the following solutions for help with Performance Rating, which is still an internationally used technique.

New rating films for professional analysts
We have explored the possibility of creating new rating films but found the costs quite prohibitive. We were advised by Scott-Grant Ltd, one of our accredited training providers, that they had recently produced a new and comprehensive series of 12 rating films on DVD and we have fortunately managed to secure access to them. The rating films show examples of real jobs being undertaken in the workplace and the industries include manufacturing • electronics • engineering • distribution • timber • needle trade • retail • manual work • warehousing • high volume distribution

All the films are intended to develop the application skills of analysts. They are an invaluable means of professional development for re-calibrating and maintaining the rating accuracy of every professional analyst, to ensure that the high standards of the Institute are maintained.

Performance Rating explained
Scott-Grant have also produced “How do you rate?” – a practical, 35 minute DVD to explain clearly how to use Performance Rating when measuring work. We would encourage every industry to use this film if they want to improve productivity in their workplace. Although the subject matter is very serious, “How do you rate?” delivers its message in a relaxed and entertaining way. Above all it is designed to be informative, practical and memorable.

Within 20 minutes viewers will have the opportunity to assess performance in carrying out a simple task, using the criteria explained in the film.

Please contact Lynette at the Institute head office Tel 00 44 (0)1543 266909 for more details.

Eastern Region Meeting
We would appreciate your support for this meeting – facilitated by our IMS President John Thurso, MP – in the Macmillan Room, Portcullis House Westminster, on Wednesday 10 October 2007, from 6-8pm.

Subject: ‘Lean Management’
An opportunity to learn more about this subject and express your views on its future application.

Radical Simplification – Lean in Boots Manufacturing UK
Speaker: Geoff Mansfield, lean consultant Boots Manufacturing.
Boots Manufacturing is the largest supplier to Boots Retail. This talk outlines the programme of radical change designed to improve Boots Manufacturing position in a competitive market place.

The Practical Realities of Working in a ‘Lean’ Environment
Speaker: Phil Shankley, managing director of GEFCO UK.
An overview of the competitive pressures on GEFCO – one of Europe’s top transport and logistics groups – providing services to international companies, eg Peugeot, Citroen, Toyota, Honda.

Lean Management
Speaker to announced later
As already indicated, a wide variety of factors contribute to productivity development. It is in fact impossible to state, within even broad bands, the relative impacts of these contributing factors. However, all the following contributing factors are important, each interacting with the others, ensuring that productivity is a holistic concept in which changes in one domain have, inevitably though not always predictably nor positively, repercussions on all others.

Economic growth
Expressed succinctly, economic growth is a state in which the amount of goods and services produced is increasing. Experience shows that the positive development of society depends on economic growth. The dynamics of the economic process lead, through thriving enterprises, to the overall development of society and the economy; however, there is no automatic mechanism ensuring a balance between economic sectors and regions in the wake of structural change. One of the general tasks of economic policy is to try to avoid – or at least alleviate – the deleterious consequences of structural change.

In this context the concept of socially sensitive enterprise restructuring (SSER) must be mentioned. Restructuring that helps achieve both long-term competitiveness and minimises social costs at all levels (enterprise, industry, and national) is an issue whose importance is emphasised by all constituents of the ILO: governments, employers and workers. If this is not achieved, problems arise for the further development of the economy and society. This is the situation in all contemporary societies, representing a challenge for economic and productivity policy.

Since most national economies are open systems, economic growth and structural change are not just influenced by
Competition is the driving force behind the development of productivity and growth

Productivity without quality is as meaningless as quality without productivity

the national input structures but also by the global economic situation. In this respect the policies of the European Union should be mentioned. On the one hand, it's importance as a determinant of economic/industry policy is growing all the time; on the other, it is currently deliberating whether in the future it should be more or less interventionist – ‘picking winners’, despite this having almost always led to costly failures nationally in the past.

Competition and quality

Competition is the driving force behind the development of productivity and growth as every enterprise strives to enhance its position on the sales and procurement markets. On the other hand, strong productivity increases and economic growth intensify competition. Nor is it just enterprises but also national economies which compete with one another.

In economic theory, enterprises and economies are presumed to be confronted with equal competitive conditions. In the real world, competitive conditions differ very much from one national economy to another and among individual enterprises.

Thus, for instance, circumstances are clearly not equal as regards natural resources, the economic and societal infrastructure and the size and qualitative structures of the workforce.

Moreover, differences in size between enterprises and national economies have, at least until recently, been seen to represent unequal competitive conditions. Certainly, large enterprises can bring to bear a completely different market power on the procurement and sales markets; and because of their size, they often draw on other resources for coping with temporary crises than are available to smaller firms. Similarly, developed economies with large domestic markets and strong positions in foreign markets might be better equipped to withstand competitive pressures than smaller economies. But Europe now has a nearly complete ‘common market’ of some 330 million consumers. And the fact that new (small) firms create the bulk of jobs has led to a growing realisation that countries’ futures will be determined not by size but by enterprise and entrepreneurship; this in turn has brought to the fore the links between productivity and entrepreneurship.

Although costs remain significant in determining the outcome of competition, ‘quality’ in all its aspects continues to assume ever growing importance. For quality is defined as a product or service’s precise ‘fitness for use’ and its design customised to meet the needs of the client over its total life-span.
the associated lower operating costs of getting things right, first time – are far more important to the discerning purchaser than the initial cost. In fact, ‘productivity’ and ‘quality’ are two sides of the same coin which, though sometimes looking different, are inseparable in the long run. Since quality stresses customer satisfaction, its enhancement is likely to enable sales and production volumes to be increased, thus facilitating productivity increases.

Quality is also concerned with the elimination of waste, before, during and after the consumption of a good or service. This forcefully contributes to improving the productivity of the production process in ways which are environmentally sustainable.

Productivity without quality is as meaningless as quality without productivity. In this perspective the vital role that workers play in improving quality, individually and in teams, has to be stressed. Moreover, improving the organisation of people’s work (social capital) supports and fosters this role of workers.

**Innovation and technology**

Innovation – as a reaction to competition – is the dynamic element of production and growth. Without innovation, further development by enterprises, the economy overall and society is stymied; without innovation there are also no really sustainable productivity developments.

Innovation is driven by competition and is strengthened by creativity. Successful innovation is mostly market-driven, but successful technology-push innovation also depends on the market. Technology is one of the main contributing factors to productivity development; but on its own it does not make the enterprise or organisation competitive.

Indeed, without carefully considering the ‘human factor’ as well as the organisational structure and culture, the adoption of new technology in innovation is doomed to failure.

Good communication and cooperation are key prerequisites of this concertation with the human factor. Workers play a key role in product and process innovation and technology upgrading (human capital), provided that workers’ participation and organisation of the work (social capital) are optimally applied. Yet many organisations underestimate the need for participative preparation and for training to ensure that technological change within the organisation is smooth from both the economic and safety and health viewpoints.

The potential of technology to stimulate innovative products, services and processes has remained high, as is shown by the continuing rush of developments in such domains as information technology, bio-technology, communications and pharmaceuticals. What is less often realised is that much of the potential of innovation is lost, when too much focus is put on technical ideas and research and the rest of the innovation process is neglected and badly managed. This brings out the importance of such factors as: carefully planning the dissemination process; designing the overall organisation, as well as the individual workplaces to foster continuous improvement; developing cultures which are supportive of continuous change; and ensuring the availability of adequate capital to enable management to concentrate on the innovation and continuous change processes, rather than spending excessive time worrying about how to pay the next invoice. Thus, any major technological or organisational change should be well prepared and followed by a period of continuous improvement, allowing the organisation to adjust step-wise to the new situation.

The speed of innovation is important for developing productivity and growth. However, there are no benchmarks in this field – ‘more haste’ can indeed mean ‘less speed’ if there is insufficient human factor involvement in innovation. The overall trend, both at the enterprise and macro-economic level, for the speed of innovation to be accelerating, has given rise in part to the problems of structural change of the western industrialised countries over the past 20 years. ‘Time’ remains a relatively neglected factor for productivity development.

Innovation must lead to new products and services, to enhanced performance processes and to renewal of the economy overall. This means that innovation must not be confined to matters of new production technology but must also lead to new products and services and contribute to improving work organisation and working conditions.

**Employment**

On the level of the economy overall, increased productivity has, for the past two centuries, gone hand in hand with increased employment: the countries with the best rates and levels of productivity performance are those which have generated and sustained the best levels and rates of employment increase.

However, at the enterprise level what appears to be good labour productivity performance has often been achieved either through a reduced workforce doing the work of previously more numerous colleagues or – more frequently – through functions previously performed by the workforce now being carried out by units outside the enterprise (outsourcing to lower wage countries or companies). Furthermore, in the past two decades, low (by previous standards) economic growth and productivity performance have had negative impacts on employment – jobs disappear and there is under-employment of the available potential.

In addition to this as innovation and customer value become more important factors for productivity in a globalised economy, an enterprise whose productivity strategy aims primarily or exclusively at cutting back on labour as an input may find itself less competitive. Recent research findings show that downsizing employees does not lead to long-term improvements in the quality of products or services, nor to sustainable productivity improvement.

Moreover, with the growth of the services’ society, the relationship between measured productivity development and employment has become less clear. The so-called ‘productivity paradox’ appears to indicate that the high rate of employment increase in services has been accompanied by a slowdown in the rate of productivity growth.

However, some analysts claim that the problem is one of measurement: the tools available have been unable to capture the productivity advances which have been significant and have...
Economic success and corporate competitiveness are of prime importance both for the enterprise and its workforce.

helped generate increased services’ employment.

What is clear for the future is that in order to combine the development of productivity and economic growth in such a way that they generate positive employment impacts, new approaches to sharing productivity advance must be developed and implemented in the economy. One important – albeit only one – aspect in this respect is the relationship between productivity development and financial rewards.

In the countries of the member organisations of the EANPC, unemployment is a considerable challenge for economic policy. Member organisations contribute to tackling this issue in two ways: on the one hand, through measures (already mentioned) to foster productivity, competition, growth and innovation aimed at strengthening enterprises and thereby to making jobs more secure, even in an era in which the percentage of those employed having lifelong employment is declining; and, on the other, they can develop and use innovative approaches to increasing employment, notably in the flexible management of the entire range of the factors of production: knowledge, labour, capital, materials, time, and space. However studies show that the productivity and the competitiveness achieved by all these measures is short lived if the restructuring is not managed properly. Socially sensitive enterprise restructuring could overcome this risk. Examples from practice show that there are enterprises which have successfully adopted socially sensitive enterprise restructuring principles.

Work organisations and learning organisations
The way in which work is designed – from the physical layout of the individual workplace through to the way in which the enterprise is ‘articulated’ with its environment, notably its suppliers and customers – is a significant source of productivity development. And, on the other hand, the quality of work organisation is influenced by a number of factors, one of which is productivity development. Particularly as, over the past few years, the rate of economic growth has declined, competition between enterprises has intensified and the pace of economic structural change has quickened, the quality of work organisation has become more important as a factor influencing productivity development. In this respect, new forms of employment, such as part-time work, project and teleworking, virtual and mobile work play as important a role as forms of work in which the workforce has more freedom of initiative, enhanced skills and greater responsibility for their collective work (such as team-working, one-off projects and working time arrangements). The exponential growth of applications information and communication technology has enabled cooperation between people on distance through virtual teams,
in cyberspace: a worker is able to work independent of place and time and communicate with colleagues and customers. There are four forms of virtual work: mobile work; virtual teams; shared services, and virtual networks, of which mobile work is the most popular. Virtual work can increase productivity but research has shown that mobile work for instance may lead to increasing workload and hence work stress. Thus not all changes have been for the better: not only work intensification may occur because of innovation but also de-skilling has continued to occur as new products and processes replace those existing. Enterprises have reduced their hierarchical levels, decentralised responsibility (‘empowered’ their workforces) and sought greater flexibility in their organisation. These and other change processes have been driven forward by a range of organisational design and management approaches. These include programmes for improving the linkages between living and working conditions – family life is clearly a ‘productivity factor’ for mothers, but also for a growing number of fathers – as well as a variety of management philosophies such as socio-technical systems design, lean production, the learning organisation, just-in-time management, business process re-engineering, and total quality management.

Moreover, the skills’ demands on the workforce have increased. It is not just that new skills have to be learned, but also that old skills have in some cases to be renewed and, in others, to be unlearned. The productivity challenge is to ensure that the greatest possible proportion of the existing workforce is willing and able, to continuously upgrade its individual and collective skills. And this can only be achieved by a judicious blend of learning off-the-job and on-the-job. To promote such synergy, work must be designed in such a way that it is conducive to the application of the more theoretical off-the-job training. Thus does ‘the quality of work organisation’ depend on both structures (the actual shape of the organisation) and processes (the changing skills – both collective and individual – which people actually use to satisfy their customer). The important contribution of workers in innovating and developing the work organisation and organisational learning is increasingly recognised. Effective communication channels can identify early problems in work design and more genuinely empower workers to take on more responsibilities as work becomes more decentralised.

Safety, health and working conditions
Economic success and corporate competitiveness are of prime importance both for the enterprise and its workforce. For development which is future-orientated, enterprises increasingly need qualified, motivated and efficient workers who are able and willing to contribute actively to technical and organisational innovations. Healthy workers working in healthy working conditions are thus an important precondition for the enterprise to work smoothly and productively. An enterprise’s economic goals do not – or should not – conflict with its goals relating to working conditions; rather, they complement each other. Unfortunately, working conditions show that the health of the workforce is not always sufficiently recognised as a productivity factor. Certainly there are now fewer ‘classical’ health risks such as those brought about by heavy work or work in bad weather conditions; but there has been an upsurge in burdens such as work intensification, time pressure, greater responsibility without balancing authority and high concentration or, on the other side, monotony and social isolation.

These burdens show up as health disorders (such as musculoskeletal disorders), stress and the burn-out syndrome, increased absenteeism and lack of motivation.

In a broader meaning, safety and health at work extends into the management fields of working time organisation, training and learning, work design or individual career development. Sensibly designed, all such elements can have positive impacts
on the health of the workforce. Moreover the workforce itself, by labour-management committees, can contribute to improving safety and health conditions on their own workplace.

Skills/qualifications
In times of rapid economic and structural change, technological developments, continuously changing markets and tougher national and international competition, an enterprise’s productivity and efficiency depend increasingly on the deployment of a highly skilled workforce. In a situation in which enterprises world-wide operate at a technologically similar level, high skills have become a key competitive factor for productivity and economic efficiency. Efficiency and motivation, knowledge, skills and key qualifications (such as flexibility, cost-awareness, client orientation, meeting deadlines) need to be developed and used in all areas and for all jobs.

This can only be achieved in enterprises which design and implement coherent policies and practices to enable their workforce to learn continuously and to develop company structures which enable the workforce to better meet the needs of their customers.

There is a clear connection between the level of qualifications of the workforce and productivity development. On the one hand, working productively in the present technological, economic and organisational conditions prevailing within the Member States of the European Union demands a broadly skilled workforce. On the other, the existing skills and qualifications of the workforce limit the possibilities for the enterprise to react to the changing demands of the market. Thus, from an economic viewpoint, ‘human resources’ can no longer be understood as an elastic, technically substitutable factor, but rather a limitation factor on productivity, innovation and economic success.

That means that it takes time for an employee to become qualified for his specific job in order to be optimally productive. Through on the job training and encouraging colleagues to participate in more formal training to put that training in use, workers disseminate knowledge and skills. Studies show that this informal human resource development plays a large role in upgrading the skills of workers. Hence workers are essential in promoting a culture of upgrading of skills in the workplace.

Environmental protection
Paying due attention to the environmental protection aspects of production and product development – ‘green productivity’ – is no longer a luxury; it is not something which can be afforded only by large enterprises in good times, by the producers of ecological niche products or by supposedly ‘over-regulated’ economies, such as the German. Environmental protection and know-how of environmentally-friendly production and work processes is an important factor to competitiveness. The yardstick for this is no longer the existence of legal requirements and limits, but rather the knowledge and availability of technology which protects the environment. These today constitute an important technological asset, as is indicated by the environmental initiatives of Japanese enterprises (hugely supported by government), the market-leadership positions of American enterprises which produce environmentally-friendly goods, and European design which builds in a complex product, ease of dismantlement after its useful life in order to maintain environmental standards.

‘Green productivity’ also impacts favourably on other factors contributing to productivity development. Linking environmental management opportunities with safety and health at work can be a significant contribution to improving working conditions since enterprises’ internal and external environments are very closely associated. Thus, it opens up good economic development opportunities for SMEs. Finally the important role that workers can play in identifying and eliminating waste and monitoring green production strategies is to be stressed.

Social partnership
The significance of the lone entrepreneur as a driving force of economic development is undeniable: the individual ruggedly taking his or her idea from conception through innovation into successfully marketed goods, services or processes. Indeed, all European countries need to foster the spirit of entrepreneurship.

However, productivity development is increasingly dependent on cooperation and teamworking. For advance in any working community can only be achieved by the willing involvement of all concerned, pulling together towards mutually accepted ends.

Such ‘social partnership’ has been the very basis of EANPC member organisations. For they (or their predecessors) were constituted with the direct involvement of governments, employer bodies and trade unions who see them as actors in significant areas of overlapping interests: the pursuit of socio-economic change (notably in the eight areas already discussed), deliberated in advance, and flanked by measures aimed at ensuring the continuing employability of those who are likely to suffer from the change in question.

Partnership can take many forms, ranging from working agreements at the national and regional levels (with various pacts having been worked out by the ‘social partners’) down to the enterprise, plant and work-groups levels, with the growing importance of ‘value chains’. What the co-operative (rather than confrontational) processes might lose in rapidity of decision-taking, they gain through the committed backing and understanding of all parties.

Partnership helps to build social capital on all levels in the enterprise. We have seen that social capital together with human capital constitute the human factor, essential to productivity improvement. Studies show that there is a significant correlation between an enterprise’s willingness and experience with partnership with its own workers and its success in developing key partnerships in alliances, joint ventures and partnerships in its value chain.

This article is from the EANPC publication Productivity: The High Road to Wealth and reproduced with their permission.
Lean and six sigma: The same or different?

Both are often referred to as programmes, but that is not accurate. Six sigma may be a programme, but lean is a philosophy. As a programme, six sigma uses a methodology called DMAIC (determine, measure, analyse, implement, and control) to identify and eliminate waste. As a philosophy, lean is all about continuous improvement through the elimination of waste.

People
Six sigma is about exclusion. A six sigma team is identified for a specific area or project. The team may include several green belts led by either a black belt or master black belt. The team may disappear for several days of extensive training in DMAIC, team building, communication, and so forth, before it starts plotting and gathering data for the ‘six sigma’ project. Because of the complexity of six sigma, it does not make business sense to train everyone, or assign all employees to projects.

There is great excitement within the six sigma project team: learning, participating and contributing. But everyone else becomes a bystander, waiting for change that may or may not have included his or her participation.

Countless stories tell of huge successes and cost savings from six sigma projects. Testimonials abound as trade publications provide articles on six sigma. I have even witnessed and led some of these successes in accounting, material management and manufacturing.

However, in most of those cases, only the manufacturing people know about the manufacturing projects; only the accounting staff knows about the accounting projects; and only the materials group is aware of the materials management project. There is little or no participation beyond the project team. While organisations realise huge cost reductions, there is no effect on the culture or the organisation as a whole.

What happens at the end of the project? Unfortunately, some six sigma projects become personality driven. When the team leader goes on to another project, the team members fade away. Once in the spotlight, getting attention and recognition, they now may feel no one remembers them. Has there been a permanent behaviour change? When the project loses visibility, will improvement be sustained?

Lean is inclusive. Lean teaches us that success is achieved when the entire value stream improves, not when one discrete element of it does. In a successful lean implementation, the entire organisation may be involved in improving the value stream. All systems must be aligned. Purchasing, scheduling, manufacturing, engineering, accounting and human resources must all be active believers and participants in the lean journey.
Without 100% inclusion, the effort will stall when it reaches the excluded part of the organisation. The lean organisation educates, engages, and empowers the entire workforce to identify and eliminate waste throughout the value stream.

Approach to change
Transformational change and change management are two approaches to effective implementation of planned changes. As change management, six sigma tends to focus on cost, quality, and schedule. This narrow focus is apparent even in the names of project teams: inventory reduction team, accounts receivable cycle time team, manufacturing scrap reduction team, etc.

Lean is a transformational change, one that moves the organisation to a planned state. It involves the business strategy, organisational design, structure, culture, and processes of the entire value stream. It creates and reinforces the concept of continual change through the elimination of waste, improving the entire value stream’s effectiveness. A lean change transfers knowledge and creates a learning organisation.

Improvement philosophy
Six sigma is aimed at specific targets in the value stream. The objective is to realise a level of improvement using the structured approach offered by DMAIC. The project teams keep the group focused on specific goals and objectives.

The teams work hard to identify root causes, test hypotheses, validate their analysis, implement their recommendations, and monitor them to ensure expected results are attained. When the projects are complete, the group celebrates, disbands, and the individuals return to their previous jobs. At best, they leave metrics or control charts to prevent roll-back.

Control charts, however, only encourage maintaining the status quo. Now before the statisticians get alarmed, remember that for a process to be in control there should be an expected deviation around the average. Processes that show a number of points above or below the centre line are considered ‘out-of-control.’ Unfortunately, even if the trend is positive, indicating continuous improvement, statistical thinking will still consider it out of control. The negative implication can make the typical human being flinch after having made a large investment in time and energy in a six sigma project.

Lean is all about continuous improvement. The philosophy says there will always be waste to be extracted from the value stream. Lean is an ongoing celebration of waste removal, a never-ending process. In the transformed learning organisation, members are continually building skills and improving, making lean a daily part of their lives.

Summary
The differences between lean and six sigma are greater than the similarities. When the differences are recognised, returns can be maximised by knowing when lean or six sigma is the right choice.

About the author
Douglas Ferguson, president of Ferguson and Associates, has more than 30 years experience in manufacturing and distribution, and has promoted improvements through people and technology, including the use of lean and six sigma. Doug can be reached via email at fergd@comcast.net.

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Not much is written on how to implement lean manufacturing. Some firms stumble through with trial and error. Others rely on repeated Kaizen events. Another approach emphasises phases:

1. Stability
2. Continuous flow
3. Standardise work
4. Pull system
5. Level production
6. Continuous improvement

These phases are supposed to roll through the plant like tsunamis. For most firms this is unrealistic and likely to fizzle.

What guidance we do have is highly prescriptive. ‘Do these things (followed by a list) and everything will be OK.’ This is like a physician with a list of the top twenty drugs. He gives the same list to every patient, regardless of symptoms. Examining the matter more strategically raises several questions:

• Do we need the entire list of ‘tools and techniques’?
• If not, which do we employ?
• Which elements come first?
• Do we implement plant-wide or

in focused areas?
• How does Kaizen fit into the picture?
• How detailed should the plans be?
• How long will it take?
• How do we know when we are really lean?

The Toyota model
Wickham Skinner does not consider lean manufacturing to be an actual manufacturing strategy. He likens it to ‘blocking and tackling’ in football, a necessary skill but insufficient for consistently winning games.

Skinner’s point is legitimate. However, many manufacturers cannot even ‘block and tackle’ and lean manufacturing is a good way for organisations to learn these basics. We will use the term ‘lean manufacturing strategy’ to refer to a lean implementation that is well thought out and rationally adapted to the company involved. This contrasts with ‘lean manufacturing’ that refers to blind imitation of Toyota, repetitive Kaizen events or ‘list thinking.’ ‘Manufacturing strategy’ refers to an approach that starts with corporate and marketing strategies and then designs a manufacturing system to support them. Understanding the history and background of lean manufacturing can help sort out your implementation approach. Taiichi Ohno and Shigeo Shingo developed lean manufacturing at Toyota over a period
of 20-30 years. Their intention was not to develop some sort of ‘unified field theory’ for all manufacturing. They simply wanted to solve Toyota’s specific problems. The solutions they chose, while broad based, do not necessarily apply in all situations.

Ohno first visualised an ideal production system, primarily in terms of workflow. Ohno’s ideal production system, inspired by Ford, had a series of adjacent workstations, balanced and synchronised with no inventory between stations. It delivered finished product to the customer exactly when needed (just in time) and drew materials from suppliers, just in time.

According to legend, Ohno then asked Shingo and others what prevented the realisation of this ultimate, no-inventory system. As the reasons for inventory surfaced, Ohno requested that his deputies ‘eliminate the reasons.’ All of the subsequently developed elements of lean manufacturing aim at eliminating (or at least reducing) the reasons for inventory. Ohno understood that inventory mirrors waste.

For Toyota (and many other manufacturers) the foremost ‘reason for inventory’ involved the intertwined issues of equipment scale, setup, batching and workflow. The causal diagram (below) illustrates.

The problem starts with equipment that is larger and faster than required for a single product. This causes multiple products to run on the same equipment. Two effects ensue:

1) Changeovers become necessary
2) Different products follow different routes

Large-scale equipment often requires difficult and time-consuming setups. The combination of changeover and long setup forces large batches that bring high inventory. Different routes force functional layouts with their complex material flows that also increase inventory.

High inventory brings all sorts of waste in material handling, space and quality (not shown). This diagram is over-simplified. In reality, it has multiple, subtle reinforcing loops that exacerbate the problem over time.

Shingo attacked both root causes. First, he developed the SMED system that reduced changeover times and, thus, batch sizes and, hence, inventory. Second, he scaled down the equipment, where possible, thus enabling cellular manufacturing and its simplified workflow.

Understanding the history and background of lean manufacturing can help sort out your implementation approach.
Ohno and Shingo were ‘systems thinkers.’ They visualised causes and effects, interactions and dynamic behaviours. This contrasts with ‘list thinking’ that is static, obscures cause-effect and treats elements of a system as independent.

SMED and workcells did not become part of the Toyota production system because they had cosmic virtue. They were employed because they reduced inventory and waste in the Toyota context. Other techniques addressed other issues. For example, some buffers at Toyota were large because of equipment breakdowns. Total productive maintenance (TPM) addressed this breakdown problem. If your machines do not breakdown frequently, there is no reason for TPM. The key point is:

- Do not copy specific tools and techniques; they are not universal
- Copy the thinking and analysis methods; they are universal

Developing a lean strategy
To develop a lean manufacturing strategy and implementation plan, we recommend five general steps:

1. Evaluate the current state
2. Determine the future state workflow (in principle)
3. Identify future state infrastructure (in principle)
4. Identify precedents and priorities
5. Develop the plans

Evaluate current state
Our lean manufacturing assessment is a good tool for this. It examines nine key areas and points the way to appropriate improvement techniques. To download this tool, visit our website.

Determine the future state workflow
Workflow is a product of process and layout. What equipment does the work and where it is. For many (but not all) manufacturers, workflow is the best place to start. With a streamlined workflow, many other things become easier.

In the beginning, you will not know the final layout and arrangement of the factory. However, you should be able to determine where cellular manufacturing will probably apply and where it may not. You should be able to identify probable Focused Factories. You may be able to identify where a few new machines might untangle portions of a complex workflow. In addition, you can revise misguided equipment utilisation and ROI policies that discourage cellular layouts.

For shops with hundreds or thousands of parts and a functional layout, this requires considerable experience in group technology. Without such experience, it is difficult to see how cellular manufacturing can work. The paradox is that the larger the number of parts, the more likely it is that workcells will be viable and efficient. I have known many firms that had abandoned the idea of cells because of this apparent difficulty. It does take a lot of work to untangle the mess and identify the cells. It often requires sophisticated methods. Our web pages on group technology address this.

Determine future state infrastructure
Infrastructure consists of supporting elements in a manufacturing
system. These do not touch the product or add value, but they enable or assist the process. Infrastructure includes scheduling, training, culture, organisation structure, quality methods, utility systems, costing systems and investment policies and a host of other elements. Some of these elements are embedded in attitudes, habits and culture rather than explicit policies. Here, again, experience in lean manufacturing is important. Not because the problem is difficult, but because the paradigm is different.

Identify your own lean elements
Based on the above vision of the future state, pick the appropriate elements of lean manufacturing from the lean laundry list. You may also identify other advanced manufacturing techniques that are not on the usual lists of lean manufacturing.

Identify precedents and priorities
Next, identify priorities and precedents. Precedence may require the use of certain elements to make some other element practical. For example, Rapid Setup (SMED) may be necessary to enable kanban and workcells make kanban simpler and easier. Workcells also function better with small lots. The precedence might therefore be Workcells + SMED + kanban. In reality, these are likely to be concurrent as much as sequential, but more on this later.

Priorities depend partly on precedence but they also depend on ROI. By giving priority to those elements, products and areas that promise the fastest and largest returns, the system transformation becomes self-financing.

For example, many companies want to start with 5S. They want to clean the place up. This seems like a good thing and Martha Stewart would surely approve. However, generally, cellular manufacturing is a better place to start for the following reasons:

- The return on 5S is lower, less immediate, and less obvious than the return for workcells
- If workcells are implemented after 5S, much of the 5S work must be redone after the rearrangement

The rearrangement into workcells will automatically entail much of the cleanup, fix up work of a 5S program

- Workcells are smaller, tighter and more focused than functional areas. As a result, they are easier to clean and keep clean. With workcells in place, 5S becomes easier, faster and more effective
- The inventory and material handling reductions from Cellular Manufacturing make the plant neater and easier to manage and clean

Another factor in setting priorities is the ‘low hanging fruit’ principle. For a variety of reasons, it may be very quick and easy to implement one or another of the selected elements. It thus makes sense to give such elements higher priority.

Develop the plans
With a broad overview of the situation and a vision for the future and knowledge of precedents and priorities, we can begin to plan our course of action.

Phasing
We suggest three broad phases for lean manufacturing:

I. Core disciplines
II. Consolidation
III. Continuous improvement

Phase I implements the minimum essentials necessary for the system to work effectively. These are often (but not always) the core disciplines on the home page. Perhaps 60-80% of the benefits accrue from Phase I. The changes in Phase I are dramatic, the results immediate and the benefits clear. When people speak of a lean implementation, they usually think of Phase I.

Phase II builds on the core disciplines of Phase I. It includes the later, secondary techniques honed by Toyota and others. Examples include 5S and quick and easy Kaizen. Phase II fine-tunes and improves the initial system. It includes methods and training that inculcate basic values that sustain the system for years to come.

Continuous, incremental improvement is the hallmark of Phase III. Here, the changes are less dramatic, but more important. Phase III never ends; a core value at Toyota but unappreciated by most imitators.

Timeframes
The time required for Phase I varies significantly; It depends upon the size of the firm, the product-process mix, culture, leadership and many other factors. Let us assume a ‘typical’ factory of, say, 500 employees, 2000 or so manufactured parts, a dozen product lines, and competent leadership. Phase I will
probably require 3-6 months to see substantial results and 12-36 months for completion. ‘Completion’ is a rather vague term in this context and the transition between Phase I and Phase II is not always clear.

Phase II is evolutionary. It will probably require an additional 1-3 years.

Many firms who do well in Phase I never progress further. They are so proud of themselves that they sit down to contemplate their own greatness and never arise. The supreme wisdom of Taiichi Ohno was that he never fell victim to this self-delusion.

**Implementation project plan**

With the elements, precedents and priorities identified, it is time to work out a project plan with tasks, assignments and costs.

**Strategic flexibility**

Our knowledge at this point is very incomplete. Unexpected problems will arise that change any plan. Unexpected opportunities will also arise and this is where master strategists excel. Rommel, for example, was successful in the North African desert because he often deviated from his original plans to take advantage of unforeseen opportunities.

The only sure thing is that the plan will change. However, tasks in the near future are less likely to change than tasks that are many months away. I suggest two plans:

- A short term, detailed plan for the next 3-6 months
- A long-term, general plan for the next 6-36 months

The long-term plan sets direction and plans budgets. The short-term plan tracks specific tasks, activities and accomplishment. When problems and opportunities develop, it is easy to change these dual-plans.

**Concentration**

One of Von Clauswitz’ principles of war is concentration: concentrate the maximum force in the smallest area. Business strategy has a corresponding principle, but for a different reason.

Few individuals or organisations cope effectively with more than 2-4 multiple, high priority objectives. As the number of objectives increase, efforts are scattered and people flit from one task to another. Everything slows down and the work that is done is half-baked. Most importantly, new practices fail to become institutionalised.

In developing an implementation plan, ensure that no more than 2-4 major initiatives occur simultaneously. In addition, particular individuals or groups should not be heavily involved in more than one or two of these objectives. Maintenance and engineering are the groups that most frequently become overwhelmed.

**The Beachhead strategy**

Many elements of lean manufacturing depend on and mutually reinforce one another. Individually, most elements make a modest performance contribution. Together, they interact and their effects multiply.

Implementing a particular element can take a long time. The larger the organisation, the longer it takes to migrate knowledge and experience. Consider that it took Toyota 30 years to do it all. Professors Kevin B Hendricks and Vinod R Singhal estimate that five years is required for an average company to completely implement TQM. If we attempt to implement and migrate one element at a time through an entire firm, it takes forever to get significant results. Moreover, it is difficult to sustain one initiative until the next wave comes along to reinforce it.

A beachhead strategy overcomes this by focusing on a small area or a product. All of the essential elements that are necessary for a self-reinforcing, sustainable system are deployed. Because the number of people involved is relatively small, it can happen very quickly. Others in the organisation can observe and learn from the initial efforts. They often begin to make their own changes before the official plan calls for them. Gradually, one product and one area at a time, the beachhead expands.

**The Kaizen blitz**

The Kaizen blitz is just such a focused, accelerated implementation and the technique suits a beachhead strategy. Kaizen has a strong appeal for many managers. It is fast, dramatic and often effective. Kaizen is used to implement workcells, reduce setups and also for 5S.

Use Kaizen with caution; there are significant dangers; among them are:

- Kaizen, by itself, is tactical, not strategic. It does not substitute for a well-thought-out manufacturing strategy. Nor can it substitute for overall planning of things such as sites and macro-layouts. At some point, we must step back for the big picture.
- Kaizen requires experienced and knowledgeable facilitators. Usually these facilitators are consultants with wide-ranging experience. Unfortunately, some Kaizen consultants, both internal and external, know only the Toyota rules. Their knowledge is detailed, dogmatic and shallow. They do not grasp Ohno and Shingo’s underlying philosophy as opposed...
to superficial rules and regulations.

- The learning in a blitz is superficial. There is simply not time to explore all possible solutions or delve deeply into issues. Much of this learning is through slogans, rules and edicts, not the fundamental reasons behind them. It works because the facilitator makes (or encourages) many decisions, often instinctively, that avoid serious errors.

**Implementation project example**

Here is a very simple example of a Phase I implementation that illustrates the principles. It anticipates three workcells. Each workcell will require rapid setup (SMED), kanban production control, total quality and team development. In addition, the plan anticipates a more general supplier development effort that will eventually bring suppliers into a kanban system.

The Gantt chart shows the timeframe for each activity. The workcells will be implemented sequentially. The more general supplier development and kanban is essentially separate. This schedule limits the number of tasks that a particular department must undertake at any one time. Chart 2 shows, for each department, tasks that require their heavy involvement. Note that no group has a heavy involvement with more than two simultaneous tasks. The implementation of lean manufacturing should not follow a cookie-cutter approach. Every factory is different and these differences require unique approaches. The elements chosen, their sequence of implementation and many other details differ from factory to factory. The originators of lean manufacturing, placed in different circumstances, would have developed different solutions.

The keys to success include: a fundamental approach, systems thinking, leadership, a flair for strategy and recognition of the practical limits on resources.

**References**


Quartermen Lee (‘Q’) started his career at the fountainhead of lean manufacturing, Ford Motor Company. He has worked in foundries, paper mills and a window manufacturing plant in positions from Engineer to Plant Manager. Since 1977 he has been consulting, training and writing. Mr Lee has authored two books and hundreds of articles and programmes. He is currently President of Strategos, Inc www.strategosinc.com.
Why aren’t we all excellent?
It should be easy, shouldn’t it? Take the EFQM excellence model as an example. Founded on the experience of Europe’s most successful organisations, based on widely accepted best practice, it provides a framework for assessing and improving organisational performance. And indeed in some cases it works very well – many organisations can demonstrate substantial performance improvements through having used this approach.

The problem is that this doesn’t apply everywhere. Both in the public and private sectors we find organisations that have tried the model and either found it wanting, or moved on anyway to other methods. Not to mention others that have never tried it in the first place. The excellence model is by no means the universal solution to improved competitiveness that it seeks to be.

The same is true of the Balanced Scorecard (although perhaps to a lesser extent because this approach is at a more evolutionary stage). Similar things can be said of other holistic management models, such as TQM, Systems Thinking or Value Management.

There must be a reason why these techniques seem to work for some organisations but not for others. This is an aspect of organisation development that is now attracting interest. From our own experience with clients, we can look back on what
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characterises successful exponents of the EFQM excellence model – what ‘makes it happen’ for them – and come up with a list of factors like

- Visible leadership commitment
- Defined objectives, realistic understanding and expectations
- Appropriate communication and involvement throughout the organisation
- The right method and resources
- Integrating the model with normal business
- Owning the outcomes of self-assessment

But check that list again. Doesn’t it look remarkably like the criteria of the excellence model itself: leadership, policy and strategy, people, partnerships and resources, processes and results? In other words, the model is a predictor of its own success. Organisations will use the model effectively if they are already good at – or at least committed to – its component elements.

More significant still is the converse. If an organisation does not have the fundamental capability, understanding, motivation and sheer willpower to transform itself, then it won’t. And no amount of conventional management modelling or self-assessment will do anything to change that.

Widening the picture

So how do we pursue real change and improvement in this situation? What is it that gives an organisation the necessary desire and capability to transform itself and hence to take on all of the other ingredients in the recipe for success? Not surprisingly, the answer has to involve people. Organisations are not amorphous entities but collections of many individuals, each with their individual views, attitudes, and perspectives on ‘life, the universe and everything’. This suggests the need for thinking that goes beyond the conventional boundaries of organisational management and seeks to get inside people’s hearts and minds.

This is an emerging field known as integral excellence. In essence, the idea is that everything starts with the individual. As individuals, each of us can enhance our technical expertise and general competence through personal development. This should benefit the organisation we work for, and indeed any other organisation that we may work for in the future. At the same time, how people work together is equally critical, and depends
on a commonality of purpose, aspirations, and above all values – what people believe in, and how they work is based on this. If we can align these individual and collective perspectives, we should achieve the sort of organisation that can take on any of the advanced management techniques that make an impact on the bottom line.

In one sense it’s obvious. Most organisations already give some thought to all of these aspects anyway, through individual development or collective team-based activities. And they recognise these as connected to, but not necessarily a component part of, their approach to organisational excellence. What is more difficult is the idea of ‘systematising’ this so that it all becomes part of a single overall approach to — yes, integral excellence.

Yet models of this kind do exist, in particular the ‘four quadrant’ model, developed by American Ken Wilbur, and summarised above.

If we accept this principle, the practical question is then what we do about it. In essence, the answer lies in managing each of the quadrants in parallel.

Of course, there are a lot of questions here and the answers are not easy. Moreover, these answers will be unique for every organisation – you can’t simply copy what another organisation has done any more than you can clone individuals. But it is possible. Ways of managing all of these aspects of development already exist, and are being improved all the time. The trick is to bring it all together. Manage the whole in this way and you could finally get rid of the attitude that says (in effect if not in words) ”I’m sorry, we’re not doing performance improvement today, we’re too busy”.

Teal Consulting is a management consultancy specialising in performance improvement. Its business is about helping public and private sector to improve their performance and achieve better results. Teal uses a range of services and solutions including lean systems, EFQM excellence model, the balanced scorecard and performance management to achieve clients’ goals. To find out more please visit www.tealconsulting.co.uk.
To summarise the argument of Step 1 (be prepared to change the way you think), our organisations are designed and managed as top-down hierarchies. It is this very thing – the design and management of the work – that precludes improvement. Thinking outside-in instead of top-down is much more than running customer surveys; it is to understand the nature of transactions you have with your customers. If you follow all of the steps in this series, you will discover for yourself how top-down thinking can actually impede performance. The control, for example, of costs can actually cause costs to rise. By contrast, the optimisation of flow – working outside-in – always reduces costs.

What is the purpose of your organisation? To survive and prosper of course. But the question is by what method? Your budgets can only be used to set targets; they will not help in a discussion of method. In fact if you rely on budgets as your primary management tool you will engage your people’s ingenuity in doing what it takes to be seen to make budget, that often means cheating, distorting and parts ‘winning’ at the expense of other parts ‘losing’. What you need is everybody working to improve performance and to do that you need the means to discuss method – how well the work works.

When you take an outside-in view of a traditionally designed (top-down) organisation, you always find an enormous amount of waste that in turn is associated with poor customer service.

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Thinking outside-in leads to better methods

Think about it this way. Your customers can only take their view of you from the transactions they have with you. If those transactions are positive for your customers they will be likely to come back; if they are amazing, the customers will tell their friends. If, at every point of transaction you could understand the ‘value’ work – what matters to the customer – and do that AND ONLY THAT, your service would improve and you would be more efficient. Why? Because you would have no waste: good service always costs less – a concept many managers struggle with.

Take, for example, a cable television company. Looked at from the point of view of its customers, it looks like this: Managers, taking a top-down view might think they are wise to squeeze down the costs of sub-contractors who dig up the road. But go too far and the sub-contractors will focus only on time and cost. When prospective customers want to get out of their drives how will they be treated? I know a number of examples where literally hundreds of prospective customers have sworn never to buy from ‘those ignorant people who dug up the road’.

Similarly, targeting installation crews on the number of installations per day can result in a predictable volume of problem calls into customer services. In a rush to meet their targets, crews leave jobs unfinished or untidy and/or the customers don’t know how to operate their set-top box. The costs of the re-work go on other departments’ budgets. The solution is not to allocate the costs of re-work to the installation department (a typical but fruitless managerial response) but to work instead on optimising installation – learning what it takes to install perfectly; causing no customer calls and no re-work.
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Moving on to customer services, you often find enormous amounts of calls caused by ‘failures’ of the organisation to get something right. Rude road diggers and poor installations might be two causes; there will be others like failure to understand the bill or failures to provide expected services. Rather than see these things for what they are – failures of the system – and acting to remove them, you generally find managers in customer services setting increasingly impossible targets for answering calls and hiring more staff to work on the ‘phones. The managers of customer services are, like their colleagues in other functions, trapped by their organisation’s design.

Working outside-in leads to improvement
When managers learn to think and work outside-in, the result is always significant improvement in revenue, service and efficiency. The starting place is the identification of your organisation’s transactions with customers. In the next two articles I will show you how to take measures that help you understand what’s happening at the points of transaction and I will give you some simple principles for working on flow.

In the meantime, if you follow the activity recommended here, you may also discover for yourself some other problems associated with top-down management thinking. These problems become evident when you study your organisation from the outside-in.

Two common examples:
Telling people what to do at the point of transaction by procedures or other methods. This only works when you can predict ‘value’ or ‘what matters to the customers’ in the customers’ terms. When you cannot – which is most often the case – the procedures enshrine waste of various kinds.

Setting service standards or service guarantees. They appear attractive but in practice focus people’s attention on meeting the standards or guarantees, which is not the same as responding to what matters to customers. Sometimes you find extensive standard-setting and controlling bureaucracies that in practice are adding massive costs and interfering with the organisation’s ability to serve its customers.

Customers define value
Customers want service to be customer shaped – they want to do business with organisations that respond to their particular needs in ways that suit their particular circumstances. Only by having intimate knowledge of customers, their attitudes, habits, their work and so on can one start to design products and services that are truly customer-driven.

The best way to begin a customer-driven transformation is to know the nature of customer demands on your organisation, to know what ‘value’ is associated with those demands and to know how the organisation usually works with those demands (flow).

Activity
Using the same schema as for the cable TV company: Draw the transactions between your organisation and your customers.

Now ask yourself:
• What do you know about what the customers’ experience at each point of transaction?
Taking the ‘inbound’ transactions – those where customers make demands on you:
• What do you know about the type of demands customers make at each point of transaction?
• What do you know about what matters to customers (the ‘value work’) at each point of transaction?

Now go to the points of transaction. Listen and observe; listen to telephone calls coming in, go out with a delivery person, a salesman, or anybody who spends time dealing with customers.

• At that place look at what’s happening from the customers’ point of view.
• What types of demand do your customers make?
• What matters to customers with respect to each type of demand?
• Does ‘what matters to customers’ differ by type of demand?
• Ask the people who work there – what matters to customers with respect to each type of demand?

As you work on the activity, keep questioning ‘How do we know?’. To improve for the long term you will need more than opinion and anecdote, you will need measures that help you predict and control improvements to the ‘flow’ of work. I call these capability measures and they will be the subject of the next article in this series.

This series ‘Six steps to improving productivity’ is based on The Vanguard Guide to Understanding Your Organisation as a System, published by Vanguard Education. Downloaded from www.lean-service.com – improve service and cut costs.
Measuring the business impact of employee proficiency and the employee job life cycle.

By Greg Borton, Managing Partner, Listening Methods
Managing the job life cycle may be one of the most effective ways of meeting business goals

Managing the job life cycle may be one of the most effective ways of meeting business goals. It always a major portion of the employees who are not at full productivity. “Other than that, we don’t have good data telling us what is going on or whether our programmes are effective.”

If you have implemented the management and quality programmes previously mentioned, you are an unusually good business operation. However, the conversation shows that this group does not have the information to manage their employee proficiency or job life cycle of their workforce. In fact, if one visits a number of large organisations, it will quickly be found that few large operations track this job life cycle. In some cases this may not be important since simply knowing the attributes of the life cycle will not provide useful information for meeting the group’s goals. But in cases where there is a significant new employee learning curve and moderate to high job turnover, managing this life cycle may be one of the most effective ways of meeting business goals.

What is the employee job life cycle?
The job life cycle describes the evolving employee proficiency, quality, productivity and job retention of typical employees throughout the process of hiring, employment and termination. It picks out the most important performance data and measures it carefully for each of the different time periods in typical employees’ time with a company.

The following chart illustrates the high points of an employee job life cycle. Here, six different stages – job duration groups – have been chosen to describe the employee’s proficiency. Each stage has a different set of attributes which are:

1. Job life cycle groups – the different stages that an employee goes through as they become proficient on the job;
2. Duration of each life cycle group – the number of weeks that an employee is in each group;
3. Average weeks on the job;
4. The number of employees in the group at any one time;

Summary:
Implementing workforce scheduling and management may increase your labour productivity 5-10%. Creating the business processes for ongoing quality monitoring may increase productivity by 5-8% and increase customer satisfaction. However, if you have high employee turnover, increasing employee job duration based on new hiring strategies, reward and recognition programmes and other labour retention tactics can increase your productivity by 10-30% while simultaneously increasing quality. The cost of managing the employee job life cycles may be significantly less than that of other project opportunities. The data and conclusions in this White Paper are based on Mr Borton’s work at large companies.

Introduction
The VP of a large division is meeting with the management group...

“We actively use workforce management and scheduling to keep data about our employees and ensure that we meet our quality of service measures. “We should all be pleased with the improvements we have made due to our quality programme. Service is more consistent and productivity has improved by several percent. “But we seem to be missing something. There is still a high error rate, causing customer issues and call-backs. Our efficiency has improved, but I think there’s more room for improvement. “I have noticed that we seem to have an awful lot of new employees in our training courses. Does anyone have good data on the job retention rates?”

At this point in the meeting, the VP of human resources looks up: “Our turnover is high. As far as we can tell, we lose 20% of our new hires within the first few months and up to 35% by six months. “We also know that an employee doesn’t reach full productivity until they have worked at least six months. There is
5. The percent of the employees who have terminated their employment by the time they reach the end of this group.

The organisation portrayed in the above chart obviously has a problem – high turnover. In the first four weeks, 22% of the new hires leave. Almost 50% leave by the end of 16 weeks and 85% of the workforce stays less than one year.

This chart shows the ‘lopsided’ nature of this workforce. As can be seen, most of the employees are in the entry level production stage of their employee life cycle. They do not reach customer and other issues that cause a long-term learning curve; therefore, requiring an employee to have months of ‘on-the-job’ experience before they are able to quickly and accurately handle most issues that arise.

( NOTE: Greater than half of the employees are in the zero to six month category.)

full productivity until the next stage. As will be seen later in the paper, there is a very high cost associated with such a profile.

One would also be surprised to find out how often this profile occurs. Do you have too many low productivity personnel, due to their place in the employee life cycle?

It turns out that a number of organisations have high employee turnover in operations such as customer contact centres, back-office processing and inventory management positions.

Healthcare, communications, banking and insurance are more prone to these high turnover characteristics than other industries. The reasons are multifold, but in general, the environment in which these organisations perform forces them into these employee patterns. The characteristics of their environment are:

1. Employee compensation is low to moderate;
2. Upward mobility is generally not available to the employees in terms of significant increases in compensation or in more senior job opportunities;
3. High turnover due to hiring characteristics and competitive job markets;
4. Complex training, of which only a portion of new hires can actually accomplish; therefore, leading to a significant new employee drop-out rate;
5. The typical employee will encounter a wide range of customer and other issues that cause a long-term learning curve; therefore, requiring an employee to have months of ‘on-the-job’ experience before they are able to quickly and accurately handle most issues that arise.

This table provides a few questions that will predict whether you are ripe for harvesting some of the goals mentioned above.

### Opportunities for improvement

If you meet many of the above criteria, then you have significant opportunities to improve productivity, quality and reduce the stress on your management by pursuing programmes that reduce employee turnover. In particular:

- Productivity opportunities will range between 10-30% of the cost of labour and supporting infrastructure by increasing your workforce’s average job duration; thus, automatically leading to increases in productivity. This translates directly to a reduced requirement for full time equivalent employees (FTEs).
- Increasing the average job duration also leads to reduced errors, thus, increasing the quality of customer’s perception of quality of service.
- Lastly, there will be reduced stress on your management team and organisation by significantly reducing the number of new employees being hired. There is a more stable environment, working at a higher productivity and quality level. This enables the management group to focus more on strategic and business process issues instead of managing employee churn.

In fact, the opportunities for improving performance are as high, if not higher, from managing the job duration life cycle as they are from implementing a number of other technology and business process opportunities.

### The costs of doing work across the employee life cycle

The opposite chart, although showing data that is somewhat exaggerated, provides information about an example customer contact centre for each different job life cycle group. The data is derived from several large companies who meet the profiles...
In a high turnover environment, the management team feels powerless to confront and solve the high employee turnover.

First, for these customer contact centres, the variation in calls handled per hour is wide. In the early training it is four calls per hour. This is because most new calls are new experiences, with each call requiring careful learning and often, questions to supervisors. Call handling increases to six per hour during the apprenticeship and eight when an employee moves into the early production stage. Not until the employee has finished their sixth month, when they move into the 100% productive category, do they reach full productivity of 10 calls handled per hour. Of equal importance is the error rate analysis.

It is no surprise that during the early on the job training and apprenticeship stages that there are many of errors (upwards of 50% and more calls are handled with some problem). This declines to 25% in the ‘early production’ stage, and reaches a better 85-90% correct handling rate only after the agent has been working for six months.

These errors are very, very expensive. The cost of solving a customer issue when there is a mistake made during a call is often double or triple the cost of an error-free call.

The chart at the top of page 32 shows the ‘cost-per-call’ and the ‘cost-per-customer-issue-solved’ for each of the employee life cycle groups in a customer contact centre, based on the data above. Note that these costs are calculated based on both the longer durations for new employees and their higher error rates, which causes additional work to be done.

Note that in our example (see first table in this White Paper), more than half of the employees are in the ‘less than six months’ employment category. This means that more than half the overall employees are at the lower productivity rates and higher error rates. This should be of major concern to management.

Currently, it is the unusual group that receives reports, by each employee life cycle group, that enables them to understand and manage this process.

There is also another, cultural issue. It is often observed that, in a high turnover environment, the management team feels somewhat ‘powerless’ to confront and solve the high employee turnover. So it becomes accepted as a ‘de facto’ state. They turn their focus to other issues which can be solved more easily. In fact, this business problem can be addressed just as successfully as many other problems, often with a more significant positive impact on business performance than other options provide.

A 10 to 15 week increase in the average job duration has a massive impact on budgets. Table 2 on page 32) provides a baseline (where an organisation is now) and a Scenario (where an organisation could be) based on increasing the average job duration by roughly 10 weeks.

By comparing the agent populations in each of the groups, and the calls handled by each group, one quickly sees that by simply increasing the job duration 10 to 15 weeks there are major changes in the productivity of the organisation. This is due to the fact that in the baseline, most employees and work is handled in the ‘less than six months’ groups, which have lower productivity and higher error rates.

For large operations which have high turnover and a long learning curve, there are opportunities to reduce employee budgets by 10% to 20%
By aging the employee population, the majority of the employees are now in the greater than six months category; thus, reaching significantly higher productivity levels and lower error rates. This ‘movement of the bulge’ is shown in the graph opposite. The baseline, in the darker blue, shows the peak employees in ‘full production’, which is roughly comprised of those who are between four and six months of employment. Under the scenario, in the lighter pink, the bulk of the employees are in the last two categories which consist of personnel who have been on the job more than six months. The opportunity costs are immense. The annual budgets of the baseline and the scenario are also shown on the table. As one can see, the baseline budget is $39 million per year, whereas the scenario is showing a budget of only $28 million per year – a 28% productivity improvement. This may be a bit higher than the opportunity available to some organisations, but not by much. Due to the double impact of reduced hiring, higher productivity and fewer errors, there will be a significant impact even with a several week increase in the average job duration.

A required success factor – monitoring and managing the evolution of the employee workforce

In order to manage the employee workforce, it is important that the management group has a structured business process and the tools for monitoring and managing the evolution of its workforce. This can only be accomplished by having information that identifies, in a consistent manner across all major sites, the employees’ attributes in each job duration group. The data should include:

• Hiring and termination data across the employee population in order to identify job durations by site;
• Hiring, training, productivity and cost data for employees of each job group;
• Work activities, task details and business processes of each group, such as task duration, transfers of work, completed work, error rates and types, etc, in order to determine the real cost and productivity of each group;
• Estimates of error rates, and consequent re-work (for instance call backs in a contact centre) due to mistakes or omissions made when doing work;
• Good agent job termination reasons by group, so that management may better understand why agents terminate early in order to address these issues with retention programmes;
• Data to support correlation analysis on what factors most affect turnover – is it pre-job skills, compensation, training, etc. This can be captured from HR and with sample data, analysed to know specifically what the most important factors are for increasing job duration.

Capturing, analysing and providing monthly reports on the employee agent work force correctly and consistently, with scheduled monthly updates, will enable a management group to manage the trends in its labour pool. A company will be able to identify the productivity opportunities, qualify the business impact and value of project initiatives, and be able to measure the changes in the agent demographics, productivity, and costs as various initiatives are implemented.
What programmes are effective at increasing the employee job duration?
The goal of a strategy to increase average job life cycles is to make the business a fun place to work, in which most employees have no desire to go anywhere else. Over time, this means that good employees stay, that there is a large pool of prospective employees who want to join and there is a low attrition rate.
As has been shown above, the pay-off is very high. Programmes that are typically most effective include:

- Changing new employee hiring strategies

Strategic hiring practices reduce initial employee churn. In our case study, we show that employee churn in the first 8 to 16 weeks is very expensive since these short-term hires have high training and supervisory costs and very low contribution to the organisation. Often, the investment required to upgrade the new employee hiring strategy is low, and the return is almost immediate.

- Introducing aggressive reward and recognition programmes.

A good reward and recognition programme is not particularly expensive and often leads to not only longer job durations, but also increased efficiency. The goal is to make the workplace more fun, but in doing so, targeting behaviours and goals that improve quality and efficiency. This affects the entire workforce.

- Providing longer term upward mobility and career paths

A future is quite important to an employee, especially those on the lower rungs of a corporate ladder. This is a powerful motivator, which may or may not be available to larger organisations.

- Changing the compensation to more senior employees sometimes is effective, but not always

Rewarding those who stay longer with increased compensation may have an effect in those markets where there is significant competition for employees. However, other programmes, such as those mentioned above, are often more effective at increasing retention. In addition, they are often less expensive to implement.

Conclusion
For those large operations which have high turnover and a long learning curve, there are opportunities to reduce employee budgets by 10-20% by increasing the average employee job duration an average of 10 to 15 weeks.
There is usually a vast amount of data available to human resources and management about hiring, retention, and job performance, but little of it:

- Shows the progression of new hires through their life-cycle, identifying the changes in employee proficiency.
- Identifies the true costs of handling issues (which may consist of more than one task, for instance phone calls) at each stage of the employee life cycle, then linking this information to the overall costs.
- Provides the ability to measure the impact on personnel, costs and returns of possible management strategies addressing these issues.

In order to manage towards the goal of job retention, it is necessary for an organisation to have a formal business process with continuously updating reports and key performance indicators and informing management about the workforce. This requires:

- Collecting solid information about the labour force, its costs and the changes in key factors such as average job duration, productivity, skills (both pre- and post-hire);
- Experimenting with multiple labour management strategies with a goal of increasing the average job duration and productivity;
- Tracking and measuring the impact of the various initiatives in order to select and optimise those that have the desired effect.

More importantly, by successfully implementing the programmes to reap the productivity opportunities, it will also reap significant increases in the quality of its work product and its customers’ satisfaction. A general relationship is that productivity opportunities are almost always directly linked to quality improvements. This will lead to more ongoing business from current customers as well as provide it with the track record to continue its growth with new customers.

About the Author
Greg Borton is the managing partner at Listening Methods. He provides consulting services and solution implementations related to capturing and using hard-to-get customer and agent interaction analytics information. This information is used to address high value business opportunities related to customer experience, sales processes, churn management and employee productivity. Greg has founded several successful software and consulting companies, selling one to Avaya and has been on the advisory board of six start-up companies in the contact centre and CRM markets. His engagements cross a range of industries, including financial services, telecommunications, manufacturers, and software products. Mr Borton is a graduate of Harvard University, cum laude, in the sciences.
Organisations that migrate to a process-driven structure can expect to enjoy glittering prizes, says Terry Richardson, managing director of Decision Focus.

In business, the quest for maximised profit and lasting success is as demanding and fraught with obstacles and perils as any quest undertaken in medieval fables by knights seeking the Holy Grail.

To win that Holy Grail today you need to run your organisation so that all your resources are focused around delivering your strategy and meeting the needs of your current customers, and are perfectly placed for meeting their future needs, too.

The Holy Grail isn’t won by blindly applying one of the many management fads that surface from time to time in business schools and industry conferences. Instead, it involves following a strategy that is down-to-earth, intensely practical and intimately wedded to the very reason for your organisation’s existence.

Above all, what you need to do is to orientate your entire organisation both culturally and operationally around the business processes that lie at its heart.

Your organisation’s processes are the mechanisms that focus resources and activity on delivering strategy, achieving your commercial objectives, keeping your existing customers happy and eager to come back for more, and winning new customers.

The nature of process in business
In business, a process can be defined as a series of steps that produces a specified deliverable to meet a targeted customer need.

This definition is precise: the steps of activity must actually meet customer needs successfully.

A series of steps that doesn’t meet customer needs can’t properly be regarded as a process, or at least not an effective one. All organisations must, by definition, have at least one process if they are going to be in business at all. If they don’t they won’t have any customers.

Whatever the precise nature of the process or processes an organisation carries out, the very fact that process is actually defined in terms of delivering a benefit to customers leaves no doubt that process is not only at the heart of the organisation, but is the heart of the organisation. The organisation is, in fact, the sum of its processes.

All business processes must contribute to delivering products and services to customers both now and in the future. Any business strategy must impact on that delivery either by satisfying existing customers more, satisfying more customers or by doing either with fewer resources.
Why do they overlook the overwhelming strategic importance of process?

There appear to be two main reasons

The first is that organisations often adopt the short-sighted approach that processes are nothing more important than the consequence of their strategic thinking.

To take just one example, a bank that decides to add an internet banking facility to its range of offerings might arrive at this decision because of a new strategic policy at board level to broaden the appeal of the bank to customers.

In this case, the board tends to see the process as simply the consequence of such strategic decisions, and not as a key element to be taken account of in strategy formation and particularly for strategy delivery.

In fact, as should be clear from the above, process is a key strategic variable, and changing processes is a critical element in effectively delivering a business strategy. Failing to take account of process capability and effective process management, means that a fundamentally less effective strategy will be implemented poorly – not a desirable option.

The truth of the matter is that the board must keep the organisation’s processes firmly in its sight – and mind – at all times. After all, unless a strategic decision made at Board level is indeed being implemented properly and successfully embodied in the organisation’s operations, the decision is really just hot air.
The second reason has to do with the way most organisations are structured. The problem here is that organisations are typically structured by function. Such a function-based structure is not friendly to the task of managing process properly, or even to being fully aware of what all the organisations’ processes actually are.

This basic structural problem is often such a major obstacle to successful board-level process management that even if the board wanted to manage process, it would find it very difficult to do so. For such organisations, the Holy Grail is not so much hard to find as shattered into numerous scattered fragments.

Why? Because any process encapsulates the sum total of steps taken across the organisation to meet a particular group of customers’ needs. Process is something that cuts across the entire organisation.

Developing, designing and implementing an internet banking system, for example, will involve most, if not all, of the organisation’s departments. The sales, marketing, customer services, IT and even human resources departments are all likely to be involved, and probably others, too.

This is the whole point. A process will involve the whole organisation, but most organisations are structured in such a way that makes effective process management across a variety of departments difficult and sometimes impossible.

Why is this? Because most organisations have a ‘silo’ infrastructure based on specialised functions headed by an executive director. Each function is given targets and the primary focus of activity is to meet those targets – not to implement strategy or meet customer needs. The inevitable tendency is that the people in each function focus on their targets and line management structure rather than their customers. Unless there is a process-focused counterbalance, individual functions can focus on the furtherance of their own agenda at the expense of the process and thus the customer.

Such a centralised, target-driven approach may, in a limited way, get the job done, but it is acutely unhelpful when the overall objective is the management of the organisation’s processes to achieve maximum benefits for the customer and the organisation. Basically the functional nature of the organisation radically limits the board’s ability to manage process properly and thus to direct resources to deliver the strategy and achieve the objectives. The need to be constantly focused on efficiently meeting customers’ needs throughout the business, in these dynamic and competitive times, is fundamentally constrained by today’s organisational structures.

The problems caused by function-based structure
What’s the consequence? The consequence is that, in most organisations, process tends not, in fact, to be properly managed at a senior level at all, and therefore neither is strategic delivery. Instead, what usually happens is that the management of process is fragmented and left to middle managers, while the board focuses (or tries to focus, if the complexities of its organisational structure permit this) on setting and monitoring functional targets.

Organisations that approach the management of process in this way and which imagine they are fulfilling their potential are like medieval knights who claim to be setting out to find the Holy Grail but get distracted from their goal, focusing on slaying dragons rather than their real quest.

The knights may gain glory but the quest for the Grail is forgotten. Similarly in organisations, people can be very busy achieving great things in their functional area, but if it is not supporting the strategic objectives of the organisation or
meeting the needs of the organisation's customers, then all the effort is at best misdirected, and at worst completely wasted.

**Showing how process-driven structure is more effective than function-driven**

A useful way of illustrating this is to look at points of direct comparison between the likely performance of an organisation that is primarily process-driven and one that is primarily function-driven. For the purposes of this illustration, a process-driven organisation is one which is focused on the activities that produce deliverables to meet the customer needs it exists to satisfy, whereas a functionally-driven organisation is one that is focused on the activities that enable each function to meet its targets.

A target-based system is hard to design and operate successfully. Measurement is such a powerful driver of behaviour that, if not very carefully constructed, it will push the organisation away from its intended strategic direction. A process-driven organisation has a large degree of self-correction built in, as, by definition, it is focused on the customer – present and future.

The various points of comparison are self-explanatory. At every single point, the process-driven organisation outscores the functionally-driven approach.

### Process driven organisations compared with functionally driven ones

<table>
<thead>
<tr>
<th>Silo / Functional view</th>
<th>Process view</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors direct functional units and focus on functional targets</td>
<td>Directors direct the way the organisation works. Focus on how the business works and the business targets.</td>
</tr>
<tr>
<td>Focus on boss (understand what the boss needs)</td>
<td>Focus on customer (understand what the customer needs)</td>
</tr>
<tr>
<td>Internal focus – Improvement focused on functions</td>
<td>External focus – Improvement focused on customer</td>
</tr>
<tr>
<td>More inter-functional conflict – functional objectives can conflict</td>
<td>Co-operate across functions with cross-functional teams. All working on the same process to serve the same customer so objectives tend to align.</td>
</tr>
<tr>
<td>‘us and them’ – other functions compete for resources</td>
<td>‘us’ – other functions are customers or suppliers</td>
</tr>
<tr>
<td>Political</td>
<td>Collegiate</td>
</tr>
<tr>
<td>Building empires</td>
<td>Building the business</td>
</tr>
<tr>
<td>Directive management – Individuals unclear of customer needs and therefore need more day-to-day management direction which, if not forthcoming, will lead people to pull in different directions.</td>
<td>Empowering management – people understand what the customer needs and need little direction to deliver it. People tend to pull in the same direction.</td>
</tr>
<tr>
<td>Decisions deferred to management</td>
<td>Decisions made by the individual</td>
</tr>
<tr>
<td>People unclear how what they do contributes to delivering the strategy and meeting the business objectives</td>
<td>People know how what they do contributes to delivering the strategy and meeting the business objectives</td>
</tr>
</tbody>
</table>

**Table 1: The process-driven approach to management compared with the functionally-driven approach showing the different consequences of these two approaches to managing the overall organisation.**

In particular, as the Table makes clear, and as we should really expect from the discussion above, the process-driven approach yields very significant and noticeable benefits to the organisation’s customers.

And this benefit is, after all, what really matters, as whether you are in business to make profit or provide a public service, meeting the targeted and identified needs of the customer is always going to be the focus of what you should be doing.

Today, the strategic concept of customer focus is more and more being used as a convenient thumbnail summary of the imperative to focus an organisation around the customer’s needs. Many organisations have attempted to become more ‘customer-centric’ by, for example, implementing CRM (customer relationship management) systems.

But the CRM system, like any other IT system, cannot deliver this by itself; it can only ever be an enabler. This is why so many CRM implementations can fail – if organisations rely on the technology to make them more customer-centric without a clear focus on the processes it needs to support, the implementation is likely to join the majority of system implementations that do not live up to expectations.

For all these reasons, shifting to a process-driven structure, while requiring some radical changes, is the map that leads to the Holy Grail of a customer-focused approach to business, with everyone working to deliver the strategy and fulfil the organisation’s potential.

So much for the overall strategic argument. But how exactly, at a practical level, should an organisation engineer a move to being process-driven?

1. Think of your organisation as a series of end-to-end processes, even extending beyond the organisation.
2. Build a process model to capture key knowledge. Capture information on the core processes, the customers, their needs, the deliverables the process is producing and who is accountable for its performance.
3. Develop an expertise in organisational change and spread that knowledge throughout your organisation.
4. Allocate core processes to owners who will be accountable to the business for their performance – the more senior the owners the better.
5. Build a supporting process infrastructure particularly for IT and HR systems ie, ensure your IT and HR systems support the operation and improvement of the core processes.
6. Build an understanding across the organisation of the importance of process in delivering the strategy and achieving the objectives. Build enthusiasm for process management.
7. Move from command and control to leadership and influence through vision.
8. Develop a culture of teamwork across (and beyond) the organisation focused on the customer.
9. Build an understanding that change is both inevitable and desirable.
10. Make process measurement a key part of your management system.

Changing from an organisational focus to a process focus is not just a superficial change; it’s a root and branch rethink of how the organisation should work. Delivering the Holy Grail of having all your resources focused on strategic delivery and on delivering effectively and efficiently to customers is the goal. The quest to find the Holy Grail will be the single most important business journey that you will ever make – and the most profitable.

Terry Richardson is managing director of Decision Focus, a professional services consultancy that specialises in rapidly delivering performance improvement through process. Decision Focus was founded in 1995 and has carried out significant projects for a wide range of organisations across the private and public sectors. Email: tarichardson@decisionfocus.co.uk, tel: 020 7242 7121 or visit www.decisionfocus.co.uk.
Understanding the Sources of Information Systems Project Failure

A study in IS project failure

By Dr John McManus and Professor Trevor Wood-Harper

Abstract

Previous research undertaken by the authors in 2002 highlights that only one in eight information technology projects can be considered truly successful (failure being described as those projects that do not meet the original time, cost and quality requirements criteria). Despite such failures, huge sums continue to be invested in information systems projects and written off, for example the cost of project failure across the European Union was 142 billion Euros in 2004. ‘Whilst our understanding of the importance of project failure has increased, many of the underlying reasons for failure still remain an issue and a point of contention for practitioners and academics alike. This paper examines through case research some of issues and casual factors of information systems project failure.'
Management issues accounted for 65% of causal factors identified with failed projects

A predominant paradigm in information systems project management is to view the development and delivery process as a three way trade-off between time, (business urgency), Cost (budget) and quality (product functionality or capability). This paradigm both influences and promotes trade-offs between product functionality, cost and schedule. Trade-offs are mitigated or eliminated entirely through arbitrage or negotiation and despite attempts to make software development and project delivery more rigorous, a considerable proportion of delivery effort results in systems that do not meet expectation and fail to meet user expectations.

Previous research and writings by McManus 4 5 suggest that project management in many software engineering firms currently ranges from undisciplined to chaotic. Few organisations have the infrastructure, education, training, or management discipline to bring projects to successful completion. Research 6 7 8 indicates that more than half of all information technology projects become runaways – overshooting their budgets and timetables while failing to deliver on their goals. The seemingly high level of project failures tied to the time, cost and quality paradigm (frequently reported in the news and professional press) is the motivation for this research, being informed by previous studies into project failure for example, the seminal work undertaken by the Standish Group International, Chaos Report in 1995, 7 and the literature on information systems and the author’s own published works and experience in information systems development and project management 1.

Prior research

Prior research by the authors 3 highlights a number of critical causal factors in failed projects. Findings from this earlier research were based on 42 information systems (IS) projects that were completed in the period 1994-2001. These earlier findings included inadequacies in management and technical practices. Management issues accounted for 65% of causal factors identified with failed projects 1 3.

Management causal factors account for 65% of the project failure rate

- Poor leadership in project delivery
- Poor stakeholder communication
- Poor competencies (and skill shortages)
- Poor stakeholder management
- Poor estimation methods
- Poor risk management
- Insufficient management support

Technical causal factors account for 35% of the project failure rate

- Inappropriate and ill defined software requirements
- Inappropriate technical designs
- Inappropriate development tools
- Inappropriate user documentation
- Poor test planning
- Poor technical support

One of the key findings from this earlier research was the lack of stakeholder communication and the need to pass on business and technical knowledge within project community and within the wider management hierarchy. The importance of continuous feedback to each of the participating stakeholders cannot be stressed enough. In particular, details of any mistakes made should be shared with the project community. Based on our analysis of the post implementation audits, there appears a broad consensus that mistakes are acceptable but failure is not. Failure was considered an absolute error that could not be recovered from. It was therefore concluded that success was in fact largely dependent on creating contingency plans and alternate approaches for projects that have a high perceived risk coefficient 1.

This research programme

Adopted methodology

It could be argued that the way research is conducted may be conceived in terms of: the research philosophy subscribed to, the
research method employed and the research instruments used in pursuit of the research objective. In the authors view research philosophy may be described as a construct about the way in which data (or information) should be gathered, analysed and used. Research should exhibit both rigour and relevance. The issue of what research approach and methodology might be relevant to information systems project failure has been vastly debated. Earlier research by the authors was undertaken using a ‘case’ based approach (since much of the material examined came from a single entity systems integration practice). The main attributes of this case based approach may be defined as:

- Researcher as observer;
- Exploratory, explanatory or descriptive;
- Focus on ‘How?’ and ‘Why?’.

Given the complexity of the subject area and the need to build on earlier research and to broaden the horizon an approach based on cases and surveys was deemed applicable. The surveys looked at different projects (and their team structures) at the same time, interviews were conducted with a selective number of project managers to follow up issues or clarify points of interest. In this study a larger amount of data was analysed than the earlier cases. More consideration was given to identifying sample projects (through literature reviews) and identifying the key attributes for data analysis. The period of analysis covered 1998-2005 the number of information systems projects examined across the European Community was 214 comprised of both public and private sector firms that included 63 projects from the public sector and 151 projects from the private sector (refer to tables 1 and 2 for breakdown by sector and project value).

**Validity of research**

When assuring the validity of information, it is always advisable to use different techniques to authenticate the substance and accuracy of the data and information used. In this respect triangulation was seen as a possible use for this purpose. Triangulation was used as a secondary source of information (eg to support an interview with data from a project). By undertaking this activity it was possible to find differences between what people said and what they did (ie, what they undertook).

**Practical outcomes**

One practical outcome envisaged from this research activity is a continuing debate amongst academics and practitioners in essence paving the way for new areas of study in relation to information systems project failure. The research should also provide an increased understanding of why information systems projects continue to fail.

**Research questions and data analysis**

This research builds on previous research undertaken and although by no means exhaustive this research aims to find answers to three questions. Namely:

1. At what stage in the project lifecycle are projects cancelled (or abandoned as failures)?
2. What is the average schedule and budget overrun?
3. What are the major causal factors contributing to failure?

### Table 1 Number of IS projects examined within European Community

<table>
<thead>
<tr>
<th>Rank</th>
<th>Sector</th>
<th>Number of Projects Examined</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manufacturing</td>
<td>43</td>
</tr>
<tr>
<td>2</td>
<td>Retail</td>
<td>36</td>
</tr>
<tr>
<td>3</td>
<td>Financial Services</td>
<td>33</td>
</tr>
<tr>
<td>4</td>
<td>Transport</td>
<td>27</td>
</tr>
<tr>
<td>5</td>
<td>Health</td>
<td>18</td>
</tr>
<tr>
<td>6</td>
<td>Education</td>
<td>17</td>
</tr>
<tr>
<td>7</td>
<td>Defence</td>
<td>13</td>
</tr>
<tr>
<td>8</td>
<td>Construction</td>
<td>12</td>
</tr>
<tr>
<td>9</td>
<td>Logistics</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Agriculture</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>214</td>
</tr>
</tbody>
</table>

### Table 2 Project value in millions of Euros

<table>
<thead>
<tr>
<th>Value range in millions Euros</th>
<th>Number of Projects</th>
<th>Percentage (%)</th>
<th>Accumulative (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 1</td>
<td>51</td>
<td>23.831</td>
<td>23.831</td>
</tr>
<tr>
<td>1 – 2</td>
<td>20</td>
<td>9.346</td>
<td>33.177</td>
</tr>
<tr>
<td>2 – 3</td>
<td>11</td>
<td>5.140</td>
<td>38.317</td>
</tr>
<tr>
<td>3 – 5</td>
<td>33</td>
<td>15.421</td>
<td>53.738</td>
</tr>
<tr>
<td>5 – 10</td>
<td>4</td>
<td>1.869</td>
<td>55.607</td>
</tr>
<tr>
<td>10 – 20</td>
<td>87</td>
<td>40.654</td>
<td>96.261</td>
</tr>
<tr>
<td>20 – 50</td>
<td>6</td>
<td>2.804</td>
<td>99.065</td>
</tr>
<tr>
<td>50 – 80</td>
<td>2</td>
<td>0.935</td>
<td>100.000</td>
</tr>
<tr>
<td>Totals</td>
<td>214</td>
<td>100.00</td>
<td>100.000</td>
</tr>
</tbody>
</table>
One notable causal factor in abandonments was the lack of due diligence at the requirements phase

Question 1
At what stage in the project lifecycle are projects cancelled (or abandoned as failures)?

When undertaking software development a number of different approaches and methodologies can be used however, the most common method in use is the waterfall method. It is also acknowledged that other approaches (eg DSDM, RAD, and Agile methods) could also be used in parallel with the waterfall method. Prior research by the authors identified that 7 out of 10 software projects undertaken in the UK adopted the waterfall method for software development and delivery. Although some of the projects analysed did use a mixture of software development methods through a process of normalisation the authors were able to overlay all 214 projects onto the lifecycle outlined in table 3.

Results from the analysis of cases indicates that almost one in four of the projects examined were abandoned after the feasibility stage. Of those projects completed approximately one in three were schedule and budget overruns.

Reasons for project cancellations
Of the initial 214 projects studied 51 (23.8% were cancelled) – a summary of the principal reasons why projects were cancelled is given in Table 4. Earlier research by the Standish Group found that 31% of projects were deemed failures and were subsequently cancelled. Although this research is based on a much smaller sample than the Standish Group work the two samples are nevertheless within acceptable standard deviations of each other. Results from this analysis indicate that the cancellation of projects (23.8%) can be attributed to a combination of factors that included the following (from Table 4):

1. Business process alignment;
2. Poor requirements management;
3. Business benefits overstated;
4. Differences between management and client;
5. Lack of management judgement (leadership);
6. Insufficient domain knowledge;
7. Loss of key personnel;

8. Poor communication with stakeholders;
9. Poor systems integration;
10. Poor change management procedures.

Our earlier research elaborated on the symptoms of information systems project failure in three specific areas: frequent requests by users to change the system; insufficient communication between the different members of the team working on the project and the end users (stakeholders); and no clear requirements definitions. Whilst communication between team and end users was still perceived as an issue within some projects; the top three issues from this study are: business process alignment; requirements management; and overspends. For example, the compatibility of the systems under development were in 28 instances found to be so far adrift from the core business processes that the projects were abandoned at a cost of tens of millions euros.

One notable causal factor in these abandonments was the lack of due diligence at the requirements phase, an important factor here was the level of skill in design and poor management judgement in selecting software engineers with the right skill sets. Equally the authors found some evidence in poor tool set selection in that end users found it difficult to sign-off design work – in that they could not relate process and data model output with their reality and practical knowledge of the business processes.

Question 2
What is the average schedule and budget overrun?
In examining the cases it was noted that the average duration of a project was just over 26 months (115 weeks) and the average budget was approximate 6 million euros, (Table 5). In many instances information on a project being over schedule and over budget will force senior management to act, however,
the search for the underlying factors should begin elsewhere in the projects history. The pattern that emerges from a synthesis of case data is complex and multifaceted. In a few of the of cases examined the project commentary and history was ambiguous; however, once a decision had been made to support a project which was over schedule or over budget the ends usually justified the means irrespective of the viewpoints of individual project managers or stakeholders. For example, one project undertaken within the financial services sector involved the design, build and implementation of a share dealer system for hundreds of bond brokers and other support staff which involved a multi-layer stakeholder community.

On completion of the project both the client and project managers regarded the project as a success. There were, however, a number of design and implementation problems that, with hindsight, could have been avoided. The client and senior management felt that the project was a success, although it was 20 weeks late and was 56% over budget. This was a good result based on client's previous track record in information systems delivery.

In projects over six million euros, the understatement of

<table>
<thead>
<tr>
<th>Projects From Sample</th>
<th>2 (2)</th>
<th>11 (13)</th>
<th>19 (32)</th>
<th>25 (57)</th>
<th>12 (69)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule Run</td>
<td>11 weeks</td>
<td>29 weeks</td>
<td>46 weeks</td>
<td>80 weeks</td>
<td>103 weeks</td>
</tr>
<tr>
<td>Range Cost Overrun</td>
<td>Average Budget + 10%</td>
<td>Average Budget + 25%</td>
<td>Average Budget + 40%</td>
<td>Average Budget + 70%</td>
<td>Average Budget + 90%</td>
</tr>
<tr>
<td>Cost Overrun</td>
<td>600,000 Euros</td>
<td>1,500,000 Euros</td>
<td>2,400,000 Euros</td>
<td>4,200,000 Euros</td>
<td>5,400,000 Euros</td>
</tr>
</tbody>
</table>

effort, stakeholder and project management costs appeared to be a common feature and small budget overruns (less than 10%) did not generally reflect the cost or risk of the project. The fact that it took an additional 20 weeks and extra support and user personnel to iron out post-implementation problems ‘was initially hidden’ without too many problems, the important thing for the project manager and the senior management team was that the project could be held up as a success.

Question 3

What are the major causal factors contributing to project failure?

Judgements by project stakeholders about the relative success or failure of projects tend to be made early in the projects life cycle. On examination of the project stage reports it became apparent that many project managers plan for failure rather than success. As one project manager commented “…it seems to me one of the enduring problems in the organisation on these issues (project delivery) has been that, although there are a large number of very talented people in the organisation, I do not think it has had a sufficient depth of expertise on the very complicated range of technical issues, operational issues and market issues which are required to see the project through to a satisfactory and timely conclusion”.

When analysing success and failure, it is second nature to ascribe ‘cause and effect to events’. For example, the system went live more or less on time because the project was well-managed (with a highly respected project manager) or was late because system testing was not thorough enough. The idea of causality or the relationship between ‘cause and event’ is central to many conceptions of theory. When theory is taken to involve explanation and understanding, it is intimately linked to ideas of causation. Often, to ask for an explanation of an ‘event’ is to ask for its cause. Similarly, the ability to make predictions from theory can depend on knowledge of causal connections. For example, the knowledge that stakeholders (that is users) involvement contributes to the development of ‘successful’ information systems warrants the inference that if stakeholders are not involved in the development of a particular system then the system is less likely to be successful. This is emphasised in the following case.

During the implementation phase of one project studied the sponsoring organisation was undergoing a major reorganisation and was attempting to downsize some of its operations. The next 18 months were typified by intense political power struggles as the senior management team attempted to position themselves within the organisation. From the project manager’s perspective it seemed that the personal ambitions of the managers played a significant part in how the organisation would be structured and this influenced significant strategic decisions. Outcomes were legitimised in language that drew upon the business urgency, market pressures and customer
One of the major weaknesses uncovered during the analysis was the total reliance placed on methodologies service etc. It is, however, difficult to ignore the personal and organisational politics (risk) that bubble away continuously in the background, and if the management require a software project to fail, then, by and large, they could bring this outcome about. Similarly, if they wanted it to succeed then to a large extent they could also bring about this outcome.

If we consider the inherent complexity of ‘risk’ associated with software project delivery it is not too surprising that only a small number of projects are delivered to the original time, cost and quality requirements. Our evidence suggests that the culture within many organisations is often such that leadership, stakeholder and risk management issues are not factored into projects early on and, in many instances, cannot formally be written down for political reasons and are rarely discussed openly at project board or steering group meetings although they may be discussed at length behind closed doors.

A predominant paradigm in information systems project management is to view the development process as a three way trade-off between time, (business urgency), Cost (budget) and quality (product functionality and capability) \(^3\). This view sees product functionality, cost and time as issues to be traded-off. Significant trade-offs are mitigated or eliminated entirely through a process of arbitrage or negotiation. Despite attempts to make software development and project delivery more rigorous, a considerable proportion of delivery effort results in systems that do not meet user expectations and are subsequently cancelled (Table 3). In our view this is attributed to the fact that very few organisations have the infrastructure, education, training or management discipline to bring projects to successful completion. One of the major weaknesses uncovered during the analysis was the total reliance placed on methodologies. It could be argued that following a project methodology, such as PRINCE2 helps project managers and those involved in organising and delivering software projects and structured methodologies such as SSADM help developers in design and other technical activities but methods can become an almost immaterial factor in the face of stakeholder and personal politics. From experience of case study research into the implementation of SSADM, Wastell comments... “Methodology becomes a fetish, a procedure used with pathological rigidity for its sake, not as a means to an end. Used in this way, methodology provides relief against anxiety; it insulates the practitioner from risks and uncertainties of real engagement with people and problems”\(^12\). One explanation for the reliance on methodology is the absence of leadership within the delivery process. Processes alone are far from enough to cover the complexity and human aspects of many large projects subject to multiple stakeholders, resource and ethical constraints. The basis for developing and delivering information systems will require an extension of the discipline that is project management to provide capabilities and understanding in the interrelationships between leadership, stakeholder and risk management. The major challenge is to extend our understanding and capabilities within this domain so that it is possible to address the issues in information systems project failure.

Conclusions
Although our understanding of the importance of project failure has increased, the underlying reasons still remain an issue and a point of contention for both practitioners and academics alike. Without doubt there is still a lot to learn from studying project failure. As previously specified project management is intrinsically tied to the time, cost, quality paradigm and projects that are challenged are typically forced to make trade-offs in budget, time estimates, features and functions (quality). Such trade-offs lead to escalation in which key personnel are pitted against each other. Going back to the research undertaken there is little evidence that the issues of project failure outlined in table 4 have been fully addressed within information systems project management. Based on this research project failure requires recognition of the influence multiple stakeholders have on projects, and a broad based view of project leadership and stakeholder management. Developing an alternative methodology for project management founded on a leadership, stakeholder and risk management should lead to a better understanding of the management issues that may contribute to the successful delivery of information systems projects.

References
8 KPMG Canada, (October, 1997), What Went Wrong? Unsuccessful Information Technology Projects, (see: www.kpmg.com).
12 Wastell, D, (1996), The Fetish of Technique: methodology as a social defence, Information Systems Journal, 6, p 34.
It enhances trust. If employees know that you tell the truth, they will trust your words and actions more. You don’t have to remember whom you told what to. Mark Twain came up with this one: If you tell the truth, you don’t have to remember. It makes your life so much simpler.

It enhances ownership. Employees who know that you are honest will acquire a sense of connection, and one of the results of this connection is ownership. They will be more creative and take more initiatives.

It brings forth shared responsibility. This is another outcome of the connection that honesty draws out. Co-workers will sense the manager’s openness, obtain a greater sense of meaning, and dare to step up and claim more responsibility.

It elicits a sense of respect. Being honest to your employees also generates within them a feeling of being respected. In return, they will give you their enhanced respect as well.

It creates and enhances team spirit. Yet another result of the connection that honesty brings about. Team spirit can elevate the performance of your organisation by multiple degrees compared to competitors that lack this quality.

It engenders a healthier atmosphere. Honesty is contagious. Even people who initially didn’t mind telling a lie or two will start feeling compelled to tell the truth if such is the nature of the environment you create.

It acknowledges a sense of wholesomeness among colleagues. Honesty provides workers with a sense of being seen as equal, worthy and appreciated human beings instead of mere tools to get the job done.

It radiates the message of fairness like nothing else. If employees know that you are honest regardless of the circumstances and their level in the organisation, they will get encouraged to practice fairness as well.

It provides you with peace of mind and a sense of dignity. If you know that your integrity is in tact, you will feel more serene inside. This will positively affect other environments in which you move, so you will lead a more rewarding life in general.

Endnote: Just realise that being honest can be practised in various ways. Tact and sensitivity are crucial additives in making honesty an asset instead of a liability.

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Measuring the business benefits of corporate responsibility

Whilst many, including McKinsey now argue that responsible behaviour is a strategic issue for firms, many still see being responsible as a discretionary activity which needs to have a business case made for it.

Corporate responsibility is a key issue for modern businesses, whether it is questions about ethical sourcing, pollution and greenhouse gases, responsible hiring practices, responsible marketing or any other issue which may seem to appear as if from nowhere.

Some argue that being responsible is just something businesses should do: it’s about being ethical and how business should behave. Generically many arguments have been made for the business benefits from being responsible. Some of these are enhanced reputation with customers, better employee relations and thus more retention and easier hiring of top talent, reduced operating costs and lower business risk. But that argument won’t wash with most finance directors.

However, if managers think about corporate responsibility as being like any other business activity then it comes down to a case of prioritising resources, and routine decision-making. There are established ways of making these decisions – so why aren’t they used?

How businesses make these decisions is being researched by a team at Cranfield in a study of major companies, supported by the European Academy of Business in Society (and EABiS’s founding business partners, IBM, Johnson & Johnson, Microsoft, Shell and Unilever). Cranfield is looking to develop a standard approach that can be used by businesses.

To date much of the research in this field has focused on whether ‘good’ firms make better returns in the stock markets – but the stock markets are not actually efficient ways of measuring value. Remember the dot-com crash?

A far better way of establishing companies’ value is to look at the impacts on future cash flow – this is, after all, how finance directors evaluate capital projects and how stock market analysts assess the value of firms.

Therefore what managers need to do systematically is assess the impact of stakeholders on their firms.

Two-way relationships

When managers think about stakeholders it is often about what stakeholders want from the business – often for the business to stop doing something or to give them money.

Managers do not always evaluate what the business wants from stakeholders – this might be a licence to operate or more loyalty from employees or from customers.

So, for example, in our work with EDF we were looking at the impact of engaging the local community in building a hydroelectric dam and we were able to show that a priority for EDF was for the dam to open on time.

Figure 1. Flexibility Techniques
We could then model the risk of delays from protests and put a cost against them. In that context, paying relocation costs and providing other benefits to the local community make sense, and an appropriate budget can be established.

Cranfield will also be working closely with Lloyds TSB and Holcim to develop internal processes.

Box 1 shows the basic idea of mapping how stakeholder issues affect company value by focusing on the seven drivers of shareholder value – most often sales, costs, time and volatility.

But if it’s all so simple – what are the problems? We have looked further at the processes involved in making the trade-offs, and Box 2 sets out the steps.

We could then model the risk of delays from protests and put a cost against them. In that context, paying relocation costs and providing other benefits to the local community make sense, and an appropriate budget can be established.

Cranfield will also be working closely with Lloyds TSB and Holcim to develop internal processes.

Using Annualised Hours to Increase Flexibility

Two key steps seem to cause problems. First, the sheer number of stakeholders and their competing issues – we found that this degree of complexity can be reduced by looking at the stakes, rather than the stakeholders. In our dam case, for example, several groups had a common concern – the threat to fish.

The other key problem is prioritising stakes and stakeholders. Different firms go about this in different ways, often mixing issues such as ability to work with the stakeholder, degree of impact and the urgency of the issue. But this, in the end, becomes the key step. Managers need a systematic way to assess priorities and to rank these among competing interests. For example, one firm ranks stakeholders by rating the impact on the stakeholder on a scale of 1-5, the impact of the stakeholder on the firm on a similar scale and then ranking the organisation’s capacity to deal with an issue on a similar scale and multiplying the results to give a score out of 125.

An alternative approach is shown in Figure 3 where stakeholders are assessed in two dimensions – stakeholder interest in the firm or issue and then impact of the stakeholder on the firm. What is different in looking at corporate responsibility is that the managers need to look at the long-term impacts of their behaviours towards stakeholders and thus how those stakeholders might or might not be involved with the business in the future.

So, although stakeholders can be prioritised by more or less subjective measures, in the end the financial case has to be made using traditional financial tools. Many firms and managers might think there is little new in this approach and on many levels they would be correct. However this doesn’t explain why businesses often fail to take corporate responsibility into account and why so many heads of corporate responsibility in business are looking for metrics to assess the business corporate social performance.

The answer, we believe, is simply that senior managers have too limited a perspective on the strategic implications of corporate responsibility and so they fail to see the many benefits that arise from engaged corporate responsibility.

In general, like all managers, those working in the field of corporate responsibility are short of time and money, so putting some discipline into decision-making will help them and help make a robust business case. We believe that what is now needed is the will at senior levels to implement such an approach.

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