Achieving excellence through people and productivity

Management Services

Lean is a cultural issue

Summer 2010
Volume 54 Number 2
ISSN: 0 307 6768
Summer 2010 Volume 54 No 2
ISSN 0 307 6768

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Editorial deadline for the Autumn 2010 issue is 30 July
Publication date is 31 August

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Published by
The Deeson Group Ltd on behalf of
The Institute of Management Services

Printed by
Advent Colour

The Deeson Group employ a positive paper recycling policy, soft proofing system and, where possible, uses paper manufactured from woodpulp sourced from sustainable forests and Elemental Chlorine Free pulp bleached papers.

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The Institute acts as the qualifying body for the Management Services profession in the UK, focusing developments in practice and knowledge and acting as a forum for information exchange. This in turn enables our members who work under a variety of job titles across the whole of the UK economy, to make a more effective contribution to the well-being of their own organisation and to the nation’s economy as a whole.

In addition to creating and upholding professional standards for the practice of management services through the adoption of a code of ethics and the provision of a system of qualifying examinations, the Institute of Management Services collaborates with national and international professional bodies in similar fields.

The Institute is a member of, or represented on, a number of other bodies including the World Confederation of Productivity Science, the European Federation of Productivity Services, and the European Institute of Industrial Engineers.

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We also want your news and points of view about what appears in this journal. Something you disagree with? Tell us about it.
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A study of the diverse effects and significant impacts of implementing new performance measurement and management systems in an energy company.
A few weeks ago we had the General Election and witnessed the spectacle of the three main party leaders all telling us how they were the best person to lead the country out of the present financial nightmare. As we all know, the election resulted in no one party being able to form a Government and the Conservatives and Liberal Democrats finally agreeing to work together and form a Government. It will be interesting to observe how such an unlikely alliance progresses.

Clearly great scope exists for increased efficiency in many Government departments which should see the increased application of productivity techniques to achieve this increased efficiency.

Wider application
In November 2004, the Inland Revenue introduced Lean working practices into its Lothian processing office and then into its Portsmouth and Cardiff offices. In 2007, a Director of the HM Revenue & Customs (HMRC) indicated that the Lean trial introduced in 2004 indicated that the wider application of Lean in HMRC could achieve ‘better customer service in addition to efficiency savings’.

I suspect anyone who has dealt with HMRC in recent years would not agree with this statement, as one has to spend long periods on the telephone trying to contact revenue helplines that seldom answer and, when they do, are not very helpful. I know of one retired colleague who has been trying to resolve an issue with HMRC for two months and has so far had correspondence from eight different HMRC offices in the UK. My colleague has been sent demands for immediate payment of £22,000, been threatened with legal action, and finally been told by an officer of HMRC that they think an error has been made but it will be another three months before the paperwork can be reviewed and this error rectified. I am not really convinced that this indicates any degree of customer satisfaction or even efficiency on the part of HMRC.

Clearly the use of productivity techniques like Lean can play a key role in bringing about cost savings in Government departments like HMRC but, equally, cost savings do not always equate to increased customer satisfaction. The real key is to make systems more efficient while also increasing customer satisfaction.

Recognition
The Institute is continuing to implement its strategy for the future. We have contacted all our overseas members seeking information on education providers abroad with a view to making our examination system more widely available worldwide. It is interesting to see the national companies like Asda, Tesco and Waitrose, who are now sending staff on our Certificate Course and recognising the valuable role the techniques learnt on the course can play in making their companies more efficient.

We have reviewed the IMS website and plan changes to its format and structure. Our Journal continues to be recognised as the main source of productivity articles and information on increased efficiency.

As always, I am available if any member wishes to contact me to discuss any matter, my email address is blanch2203@googlemail.com.

David Blanchflower
Chairman
A busy calendar
There will be a visit to Jodrell Bank Radio Telescope Array on 7 July. Please arrive at the Visitor Centre at 1.30pm to be ready to start at 2pm. The Centre lies just off the A535, between Holmes Chapel and Alderley Edge, about six miles from junction 18 on the M6. Entrance costs around £1.50 and numbers are limited. Those wishing to attend should contact Harry Hogg on 01942 863776.

A talk entitled ‘Recollection of Working Days’ will be given by Robert Fletcher on 22 July at the Methodist Theatre Church, Seymour Road, Bolton. Please arrive at 10am with a view to starting at 10.30am. Topics will include engineering, textile studies, education, work study and consultancy. This is a Probus Group meeting but Robert has kindly invited NW Region members to attend.

For further information, please contact Robert Fletcher on 01204 524279 or Keith Gowing on 01619 620367.

The winners of the competition in the Spring 2010 issue of the Journal were: Mike Hack of Manchester; Michael Starford of Wakefield; and A Jayanthi of Bangalore, India. They will all receive an Institute Tie for correctly answering the questions in the Productivity Quiz.

The answers were: 1 b; 2 c; 3 d; 4 b; 5 b; 6 d; 7 b; 8 d; 9 b; 10 a; 11 c; 12 b; 13 d; 14 b; 15 b; 16 b.
Obituary

Arthur Hulme - Honorary Fellow IMS (1916-2010)

It is with great sadness that I report the death of Arthur Hulme, Hon FMS. Arthur passed away suddenly but peacefully on 14 March 2010, aged 94. He will be fondly remembered by all his colleagues in the NHS and IMS.

Arthur was married to his wife Vera for over 60 years. They were not blessed with any children. Arthur was a proud Lancastrian and moved south to join the NHS.

In 1957 the Ministry of Health issued a directive allowing each Region to appoint up to seven ‘organisation & methods’ (O&M) work study officers. Their purpose would be to carry out in-depth efficiency studies into methods of working – covering domestic services, laundry and linen services, gardening, laboratory procedures, nursing and other selected clinical areas.

Arthur Hulme joined the Manchester Regional Hospital Board as one of three work study officers in 1958. He had formerly been carrying out similar work in a range of industries. In September 1960, he became the East Anglian Region Hospital Board’s first Organisation and Methods Work Study Officer.

He quickly discovered that his appointment was generally viewed with trepidation and was faced with the prospect of having to ‘sell’ himself.

The Region Medical Officer referred to the O&M work study as a ‘gimmick’ yet to be put to the test. The Treasurer was not convinced, particularly about what financial savings could be achieved.

The Regional Engineer was interested but fell silent when told Arthur was an expert on laundries.

The climate among the 12 Hospital Management Committees (HMC) had yet to be tested. Arthur arranged a series of one-day seminars in Cambridge and all the heads of the HMCs attended. Within two weeks, large numbers of invitations arrived in the secretary’s office requesting work study surveys in the many departments of the region’s hospitals. With only one man team it was proving a difficult task.

The first study was carried out in February 1961 on the portering services at Newmarket General Hospital. It generated more than 60 recommendations. An understanding was given that there would be no redundancies and that staff cuts, if necessary, would be by natural wastage. This policy was pursued throughout the region and further in-depth studies followed.

Eventually, management became more accustomed to the new services and within two years demand had grown. Between 1961 and 1967, more staff were recruited and it was decided to set up ‘out-posted teams’ of officers in the main hospital centres of Norwich, Ipswich, Peterborough and Cambridge.

In 1966, another milestone was reached (apart from England winning the world cup). The region became the first to be allowed to carry out an experimental incentive bonus scheme, choosing for this purpose the group laundry at Bury St Edmunds. The scheme created nationwide interest and Arthur was eventually appointed to a national committee on pay and productivity in the NHS.

In 1968, the Government established a ‘Prices and Incomes Board’, which produced the important ‘Report 29’. The main thrust of this report was that staff employed in the public sector were among the lowest paid and that their productivity was very low. It recommended that steps should be taken to improve the situation.

The report led to the introduction of incentive schemes in many areas, including ancillary staff in the NHS. All schemes had to be self financing, which meant that the new working practices would have to produce savings to cover the bonus payments. These schemes were also valuable from another viewpoint. They provided weekly ‘management controls’, so that section managers could see how their departments were working. Such a system had never been known before in the NHS.

From its inception in 1961 until 1981, some 1100 efficiency studies were carried out, resulting in considerable financial benefits and better working methods.

Arthur was a founder member of the Cambridge Branch of the IMS. He was also a member of the Eastern Regional Board, which he served with distinction. He was very active in the formation of the Health Services Specialist and served on its board as secretary for over 20 years. In 1981 Arthur received the ‘Geographical Services Award’ for outstanding contribution to the work of the Institute.

Despite his heavy workload and commitment to the IMS, Arthur still found time to carry out other activities. He was a member of the local rambling club, the bowling club and even a keen cyclist. Even at the age of 94, he cycled to the village every morning for a copy of his beloved Guardian.

He was also founder member and vice-president of the Cambridge branch of the NHS Retirement Fellowship. At our last meeting before he died, we were discussing matters relating to the Institute. He loved our profession and all it stands for. I am proud to have known Arthur and worked with him.

Harry Downes
Companies from all business sectors send delegates to Scott-Grant to study for the IMS Certificate, the industry standard professional qualification, but it was the retail sector that provided the top students in 2009.

Simon Wadsworth joined Waitrose Ltd three years ago as part of the graduate scheme. He moved to Productivity Systems in June 2008, keen to change from a branch role to one involving a more strategic direction. Everyone in Productivity Systems at Waitrose needs the IMS Certificate, so he started studying with Scott-Grant.

Simon attended the four week course in Manchester, passing each exam well. Just how well became clear on the day when he was told he had achieved the highest marks of all Scott-Grant delegates throughout 2009 and was declared their Student of the Year.

To celebrate his success, Simon was invited back to Scott-Grant’s head office and training centre in Manchester, along with his manager, Rob McCoy. There they met the IMS Chairman David Blanchflower, some of Scott-Grant’s directors and managers and the runners-up.

Retail success
Tying for second place were delegates from the retail divisions of Asda and Tesco: Andrew Harber, a Productivity Process Analyst with Tesco Stores Limited and Industrial Engineer Kathryn Firth at Asda Limited. Kathryn was accompanied by her boss, Productivity Manager Rory Graham, when they came to Scott-Grant’s offices in Manchester to receive their awards.

Waitrose is no stranger to Scott-Grant’s Student of the Year presentation; only two years ago Rob had come to Manchester with Fiona Felton, then a Productivity Systems Analyst, who was a runner-up in 2007.

Simon was presented with a certificate and cheque and was awarded life membership of the Institute from IMS Chairman David Blanchflower. Scott-Grant’s Training and Technical Director Mike Seaman presented Simon with a framed certificate, bottle of champagne and a personal gift. Simon commented: “I worked hard but I really enjoyed the course; it was relaxed, with plenty of humour and a really effective learning environment.”

Simon has been using much of what he learnt on the course in his work as part of a team building a new system to manage branches’ pay budgets. “All the data from the work measurement studies over the last few years is in Standard Minute Values, so I’ve been able to put all that into the new system. We’re about to trial it in the branches, so it’s really exciting.”

Almost perfect
Training and Technical Director Mike Seaman felt that special recognition should be given to Jon Northwood, Logistics Project Manager (Hovis), for his outstanding achievement in Module 2. He turned in an almost perfect Time Study Practical exam with 99.5%.

Mike said: “All the delegates we’d trained in 2009 were of a high standard – Jon’s Time Study work was particularly impressive.”

Gifts and certificates were given to all the successful students; after the presentation all attendees headed for a celebratory lunch.
Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN of the forty fifth Annual General Meeting of the Institute to be held at Charter Room, The George Hotel, Bird Street, Lichfield, Staffordshire WS13 6PR on Friday 22 October 2010 at 11.00 am to conduct the following business.

1) To receive the Annual Report and Accounts

2) To confirm the following Bye-Law No 1/2010

   Membership subscription for 2011 shall be for Life Membership at a rate of £250.00 for all members. An annual membership fee of £130.00 will be available on request.

3) To re-appoint Leftley Rowe and Company as Auditors for the ensuing year.

By Order of Council of Management

6 June 2010

Harry Downes
Secretary

Institute of Management Services

FORM OF PROXY – FOR CORPORATE MEMBERS ONLY

I (full name)…………………………………..…….of (full address)…………………………………………………..

…………………………………………………………………………….…………………………………………………..

Membership Grade……………………………………..… Membership No ………….……………………………...

______________________________

Hereby appoint D Blanchflower of ‘Rose Cottage’ 2 Lady Anne Close, Scarisbrick, Ormskirk, Lancashire, L40 9PZ or failing him the Chairman of the meeting to vote for me and on my behalf in accordance with the directions, if any, given hereunder at the forty fifth Annual General Meeting of the Institute to be held at Charter Room The George Hotel, Bird Street, Lichfield, Staffordshire WS13 6PR on Friday 22 October 2010 at 11.00 am and at every adjournment thereof.

RESOLUTION NO 2 FOR / AGAINST *
(Bye-Law No: 1/2010)

RESOLUTION NO 3 FOR / AGAINST *
(Appointment of Auditor)

*delete as applicable

as witness my hand the………………………….day of ……………………………………………………..2010

Signed…………………………………………………..

This proxy form must be deposited at the head office of the Institute by not later than 10 am on Friday 24th September 2010.

The name of D Blanchflower has been inserted (or chairman of the meeting) to ensure that your vote is cast in the way you have indicated. You may however, insert another proxy holder if you wish who must be a corporate member of the Institute, but your vote will not be recorded if he or she is not present at the meeting.
If I was to give you the following list of headings, you would be forgiven for thinking they were part of a political manifesto in the run-up to the general election that was held on 6 May 2010. Yet these were ideas expressed some 200 years ago by Robert Owen, of New Lanark fame, as part of his campaign for a better and fairer society.

- A new society for the new millennium;
- Education;
- Social inclusion/early intervention;
- Parenting classes;
- Working conditions;
- Employment training;
- Child care;
- Workplace nurseries;
- Women’s rights;
- Health, preventive medicine and health education;
- Care for the elderly and infirm;
- The environment;
- Universal harmony;
- International co-operation.

Robert Owen was born in 1771 in Wales. In 1799 he married Caroline Dale, whose father owned the New Lanark Mills. On New Years Day 1800, he became manager of the mills and decided to try an experiment. His plan was to introduce changes that would improve the lives of those living and working in the village. He hoped these changes would help to make them good and happy citizens.

I first visited New Lanark more than 30 years ago and have been back several times since. It is a special place and one can understand why it has been granted World Heritage Status by UNESCO. My interest in Robert Owen was rekindled recently when a friend of mine advised me that there was a campaign in the Scottish Parliament to have Owen’s image printed on the new bank notes. In my opinion, such recognition is well deserved for this truly remarkable man whose ideas remain amazingly relevant today.

A new society for the ‘New Millennium’?
Robert Owen often talked of the ‘New Millennium’; a time, he hoped, society would be greatly improved. When he opened the Institute of the Formation of Character on New Year’s Day 1816, he gave an address to the Inhabitants of New Lanark, in which he outlined his hopes for the Millennium, his plans and his notion that education was the means of achieving a better and fairer society.

The address included these memorable words: “What ideas individuals may attach to the term ‘Millennium’ I know not; but I know that society may be formed so as to exist without crime, without poverty, with health greatly improved, with little, if any, misery and with intelligence and happiness increased a hundredfold; and no obstacle whatsoever...”
intervenes at this moment except ignorance to prevent such a state of society from becoming universal.”

**Education**

Owen’s campaign for education as a means of eradicating society’s problems, and making people happy and more fulfilled, was prominent throughout his working life: “To train and educate the rising generation will at all times be the first object of society, to which every other will be subordinate.” (The Social System, 1826).

“"The three lower rooms (in the Institute) will be thrown open for the use of the adult part of the population, who are to be provided with every accommodation requisite to enable them to read, write, account, sew or play, converse or walk about. Two evenings in the week will be appropriated to dancing and music, but on these occasions, every accommodation will be prepared for those who prefer to study or to follow any of the occupations pursued on the other evenings.” (Address to the Inhabitants of New Lanark, 1816).

**Social inclusion and early intervention**

Social Inclusion and early intervention have both been key aspects of the government’s social policy in the 1990s and early 21st century. Robert Owen was including them in his plans for the Institute back in 1816 when he stated that the building would accommodate more than just the children of New Lanark, and that anyone in Lanark or the surrounding neighbourhood who could not afford to educate their children, would be at liberty to send them to it, where: “They would receive the same care and attention as those who belong to the establishment. Nor will there be any distinction made between the children of those parents who are deemed the worst, and of those who may be esteemed the best members of society; indeed I would prefer to receive the offspring of the worst, if they shall be at an early age; because they really require more of our care and pity and by well-training these, society will be more essentially benefited than if the like attention were paid to those whose parents are educating them in comparatively good habits.” (Address to the Inhabitants of New Lanark, 1 January 1816).

**Parenting classes**

“One of the apartments (in the Institute) will also occasionally be appropriated for the purpose of giving useful instruction to the older classes of the inhabitants. For, believe me, my friends, you are yet very deficient in this regard to the best modes of training your children, or of arranging your domestic concerns.” (Address to the Inhabitants of New Lanark, 1816).
Working conditions
Owen's extremely advanced system of factory management, which he pioneered at New Lanark Mills, gained him credibility, not only as a successful businessman, but also as a benevolent employer. He proved that commercial success could be achieved without exploitation of those employed; his approach to social and economic organisation was extended beyond the mill floor into every aspect of village life.

“...The working classes may be injuriously degraded and oppressed in three ways:
1. When they are neglected in infancy.
2. When they are overworked by their employer, and are thus rendered incompetent from ignorance to make a good use of the high wages when they can procure them.
3. When they are paid low wages for their labour.”

(On the employment of children in manufactories, 1818).

“The lowest stage of humanity is experienced when the individual must labour for a small pittance of wages from others.”

(From a paper dedicated to the Governments of Great Britain, Austria, Russia, France, Prussia and the United States of America, London, 1841).

“Eight hours’ daily labour is enough for any human being, and under proper arrangements sufficient to afford an ample supply of food, raiment (clothing) and shelter, or the necessaries and comforts of life, and for the remainder of his time, every person is entitled to education, recreation and sleep.”

(From the Foundation Axioms of Owen’s ‘Society for Promoting National Regeneration’, 1833).

Employment training
“Train any population rationally, and they will be rational. Furnish honest and useful employments to those so trained, and such employments they will greatly prefer to dishonest or injurious occupations. It is, beyond all calculation, the interest of every government to provide that training and that employment; and to provide both is easily practicable.”

(A New View of Society – Essays, 1813-1816).

Child care/workplace nurseries
“The Institution has been devised to afford the means of receiving your children at an early age, almost as soon as they can walk. By this means, many of you, mothers and families, will be able to earn a better maintenance or support for your children; you will have less care and anxiety about, while the children will be prevented from acquiring any bad habits, and gradually prepared to learn the best.”

(Address to the Inhabitants of New Lanark, 1816).

Women
Robert Owen’s views had particular appeal for women. At a time when men were hostile to women’s rights, he courted controversy by denouncing marriage, as it then existed, as a form of slavery for women.

“Women will no longer be made the slaves of, or dependent upon men.... They will be equal in education, rights, privileges and personal liberty.”

(Book of the New Moral World: Sixth Part, 1841).

Rules for the inhabitants of New Lanark
Robert Owen drew up a list of rules for the inhabitants of New Lanark. These encouraged community responsibility, religious tolerance, and other good habits amongst the villagers.

“Parents shall be answerable for their children, and householders for their lodgers.”

“None of the inhabitants of same village shall injure any fences about it, or upon the farm, whether stone, dyke, or hedges; nor any of the houses, ground, or plantings, nor any of the company’s property, of whatever nature it may be; but, on the contrary, when they see children or others committing such damage, they shall immediately cause them to desist from it, or if that shall not be in their power, give notice at the principal counting-house of the offences, and who are the offenders.”

“As there are a great variety of religious sects in the world (and which are probably adapted to different constitutions under different circumstances, seeing there are many good and conscientious characters in each), it is particularly recommended,
as a means of uniting the inhabitants of the village into one family, that while each faithfully adheres to the principles which he most approves, at the same time all shall think charitably of their neighbours respecting their religious opinions, and not presumptuously suppose that theirs alone are right.” (All of above from the Rules and Regulations for the Inhabitants of New Lanark, 1800).

Health, preventive medicine and education

“The advanced members of the medical profession know that the health of society is not to be obtained or maintained by medicines; – that it is far better, far more easy and far wiser, to adopt substantive measures to prevent disease of body or mind, than to allow substantive measure to remain continually to generate causes to produce physical and mental disorders.” (Book of the New Moral World, Third Part, 1842).

“Care for the elderly and infirm

“In advanced age, and in cases of disability from accident, natural infirmity or any other cause, the individual shall be supported by the colony, and receive every comfort which kindness can administer.” (The Social System – Constitution, Laws, and Regulations of the Community, 1826).

The environment

“They will be surrounded by gardens, have abundance of space in all directions to keep the air healthy and pleasant. They will have walks and plantations before them.”

“To obtain and preserve health in the best state to ensure happiness, pure air is necessary. It is at once obvious that large cities and extensive manufactories are not well calculated to permit pure air to be enjoyed by those who live in the one, or who are employed in the other. The advantage of pure, and the disadvantage of impure air are experienced each time we breathe, and all who understand the causes of disease know that an impure atmosphere is most unfavourable to the enjoyment of health, and an efficient cause to shorten human existence within the natural life of man.” (Book of the New Moral World, 1842).

Campaign for universal harmony

“Is it not the interest of the human race, that everyone from birth, should be well educated, physically and mentally, that society may be improved in its character – that everyone should be beneficially employed, physically and mentally, that the greatest amount of wealth may be created, and knowledge attained, that everyone should be placed in the midst of those external circumstances, that will produce the greatest number
of pleasurable sensations, through the longest life, that man may be made truly intelligent, moral and happy, and be, thus, prepared to enter upon the coming Millennium.” (A development of the principles and plans on which to establish self-supporting home colonies, 1841).

**International co-operation**

“There is but one mode by which man can possess in perpetuity all the happiness which his nature is capable of enjoying – that is by the union and co-operation of ALL for the benefit of EACH.

“Union and co-operation in war obviously increase the power of the individual a thousand fold. Is there a shadow of a reason why they should not produce equal effects in peace; why the principles of co-operation should not give to men the same superior powers, and advantages, (and much greater) in the creation, preservation, distribution and enjoyment of wealth?” (The Social System, written in 1821, published in 1826).

It is evident from the above, that Robert Owen was truly a remarkable man; the international cultural influence of his campaign for a better and fairer society is one of the criteria by which New Lanark was assessed by UNESCO as being worthy of World Heritage Status. For these reasons the inclusion of his image on a new bank note would indeed be well deserved.

Finally, I headed this article ‘An 1810 lifestyle reality or a 2010 political ambition?’ – is it not truly amazing that after 200 years, politicians are still trying to woo us with the promise of a better and fairer society than Robert Owen achieved in New Lanark in the early 1800s?

For further information, visit the official New Lanark Trust website at www.newlanark.org, or better still, visit New Lanark, a World Heritage Site.

Extracts taken from www.newlanark.org/robertowen are reproduced with kind permission from the New Lanark Trust.

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Dr Andrew Muir

Dr Muir joined the Institute of Management Services in 1972 and was elected to Council in 1990. He is currently serving as Deputy Chairman. He began his career in 1962 as an engineering apprentice at HM Dockyard Rosyth, and transferred into analytical estimating in 1967. In 1968 he moved into local government work study and had a progressive career with various authorities until he retired in 2002 as lead officer for corporate best value. Andrew has a DMS, an MBA and was awarded a DBA from the University of Abertay for his research into performance management. He has published numerous papers and received several awards for his academic work including the Napier Medal. He was elected a Fellow of the World Academy of Productivity Science in 1999.
Rethinking Lean Service

In part two, John Seddon and Brendan O’Donovan explore the standardisation of service organisations.

Understanding service organisations

To return to transactional service organisations, when we set out to comprehend them as systems, we learn, as Deming argued, that what he called the present style of management (described here as based on the ‘Core Paradigm’) has fundamental flaws.

One flaw is the assumption that all demand is ‘production’ – work that has to be done. By studying demands customers place on transactional service systems, from the customer’s point of view, you learn that much of the demand is waste and, worse, it creates further wasteful activity.

Value and failure demand

In services, there are two high level types of demand entering the system: ‘value’ and ‘failure’ demand. Value demands are the ones companies want customers to place on the system, the reason that the company is in business is to serve these demands. Failure demands are: ‘demands caused by a failure to do something or do something right for the customer.’ (Seddon, 2003, p26). When service organisations do not do something that the customer has been expecting, customers call back, turn up again, or otherwise create more demand and hence more work. These, and failures to do something right from the customers’ point of view – not solving a problem, sending out a form that a customer has difficulties with and so on, represent a significant means to improve service delivery and reduce costs. Treating failure demand as though it is just more work to be done is to fail to see a powerful economic lever.

If we were to use Deming’s language, failure demand is a form of sub-optimisation. In Ohno’s language, it is a type of waste.

It is noteworthy that failure demand is not among the ‘seven types of waste’ promoted by the lean tools literature. Failure demand is a systemic phenomenon that is peculiar to service organisations; it is, also, the largest form of waste in transactional service systems, when managed according to the present style of management. Given the economic leverage its removal provides, it is a poignant illustration of the general argument against ‘lean’ as

“Treating failure demand as though it is just more work to be done is to fail to see a powerful economic lever”
tools. Starting an intervention with tools is to ignore the priority to know first your problem(s).

Ohno saw the purpose of the TPS as the eradication of waste: ‘The most important objective of the Toyota system has been to increase production efficiency by consistently and thoroughly eliminating waste.’ (Ohno, 1988, pixiii). And: ‘The preliminary step toward application of the Toyota production system is to identify wastes completely.’ (Ohno, 1988, p19).

Failure demand is waste. Predictable failure demand is preventable, a ‘common cause’ in a system, to use Deming’s language.

In the authors’ experience, all transactional service organisations have largely predictable demand. Predictable failure demand points management’s attention to services that need to be re-designed. By understanding value demands from the customers’ point of view, management’s attention is drawn to the advantage of designing the organisation to absorb variety. While Ohno’s (TPS) purpose was to build cars at the rate and variety of demand, a transactional service system’s purpose is, we argue, to absorb the variety of customer demand. Understanding the problem leads to tools (or methods) with which to solve it.

Waste cannot be removed without understanding its causes. It is axiomatic that the primary cause of failure demand is the failure of the system to absorb the variety of customer demands. The single greatest reason for transactional service systems to fail to absorb variety is standardisation. To the prevailing style of management, this realisation comes as a significant shock. To give just one example of the impact of standardisation on performance, we return to HMRC (HM Revenue & Customs), where the standardisation of taxation services has created failure demand, not only back in to HMRC but also to many organisations ‘down-stream’ that are consuming resources dealing with the failure of the primary service(s) to work: local authorities, housing associations, advice centres, voluntary agencies, legal services and the courts are filled with demand created by the failure of HMRC (and the Department for Work and Pensions) to provide the primary service effectively (Advice UK, 2008).

In transactional service organisations, standardisation, central to the present style of management and valued by managers as a way of managing costs, can often drive costs up. Customers can ‘see’ the waste: they know how many times they need to call to get a service from their point of view, they are irritated by interactive-voice-response systems that fail to get them to someone who can help them and hence mean they have to repeat themselves, they are infuriated by service workers who follow their scripts or procedures and thus fail to listen to or solve their problem.

While we have explored the genesis of standardisation in service management literature and practice and the fit with the lean tools movement, it is worth pausing to reflect on the lean-tools promoters’ arguments for starting any intervention with standardising the work. They often argue that Ohno said: ‘first you must standardise before you can improve’. While this is essential in manufacturing, in a service organisation to standardise would diminish the system’s ability to absorb variety. Moreover, in keeping with the current top-down conventions, the standardisation of work in service organisations is typically determined by the hierarchy and/or experts and imposed upon workers; a common feature of tools-based interventions. By contrast, Ohno placed importance on workers writing their standards themselves: ‘Standards should not be forced down from above but rather set by production workers themselves.’ (Ohno, 1988, p98).

It is a central feature of the TPS (Toyota Production System) that improvements are made by workers adhering to a scientific method, an essential component in organisational learning (Spear and Bowen, 1999). Missing this essential emphasis, Womack,
Jones and Roos (2007) placed the responsibility for standardisation with management: ‘The work process itself, along with the management process, must be absolutely standardized by managers, and by manufacturing and industrial engineers as well, before a work team can have any hope of improving it. Standardisation in this context means creating a precise and commonly understood way to conduct every essential step in every process.’ (Womack, Jones and Roos, 2007, p290).

In service organisations employing lean tools, the work typically has been standardised and industrialised from an internal, cost-focussed point of view. Managers dumb-down the first point of contact (or out-source it) to employ cheaper labour and fragment the flow of work (again, to reduce training time and lower labour costs). The consequences are more handovers; meaning more waste, and an increasing likelihood of failure demand (further waste). The consequences are more handovers; meaning more waste, and an increasing likelihood of failure demand (further waste). The more work is fragmented – sorted, batched, handed over and queued, the more errors creep in. Every time a file is opened, it has to be re-read (duplication). These problems are exacerbated as workers are working to activity targets.

This is a further flaw in the ‘Core Paradigm’: holding workers accountable for their work activity. Managers pay attention to activity statistics, monitoring workers and doing ‘one-to-ones’ with those who fail to meet their activity targets. As Deming pointed out, this is to focus on the wrong things: ‘I should estimate that in my experience most troubles and most possibilities for improvement add up to proportions something like this: 94% belong to the system (responsibility of management) 6% special.’ (Deming, 1982, p315).

Deming knew that holding workers to account for these variations in the system was a nonsensical proposition – for example, things that would make the calls in a call centre longer or shorter. Imagine the potential causes of variation in a call centre worker’s performance: the nature of the call, the type of customer, whether processes have been designed from a customers’ point of view (and as managers rarely study demand, that is unlikely), whether the IT system works today, whether people in other departments have told customers things they did not tell people in the call centre, the knowledge of the worker and so on. These are the things that affect performance and are the things managers should be focused on (the ‘94%’ in Deming’s terms). When management’s attention is on the system (the 94%), significant performance improvement follows (see, for example, Pyke, 2008).

The better alternative
Following Deming and Ohno, the better way to design and manage service organisations is to understand and manage the organisation as a system. The systems archetype below describes a design for managing transactional services in such a way as to see and remove waste continuously (a feature that it shares with the TPS).

By understanding the demands from customers, it is possible to train workers against the high frequency, predictable value demands (‘things we know we are going to get a lot of’) that are hitting the system. The consequences are shortened training times and more productive employment of the worker. When the worker receives a customer demand for which he or she is not trained, the required expertise is ‘pulled’ as needed. In this way, worker training is directly related to the requirements of the work. The worker aims to achieve single piece flow (to deal with each demand as it enters the system right through to resolution for the customer, before beginning with another demand) or, if the work has to be handed on to a flow, then the worker is focussed on passing it ‘clean’: it must be in such a state that

![Diagram: Systems archetype for transactional service systems]

Key measures: Capacity and capability

*HFPVD = High Frequency Predictable Value Demand

**Figure 3: The systems archetype for transactional service systems**
the next person has everything they need to take the next step. Workers have measures which relate to the customer’s purpose in their hands (one-stop capability, measures of end-to-end flow) and hence, like Ohno’s workers, have the latitude to experiment with and improve the work design.

Training workers against demand and ensuring they are responsible for what they do is preventative (the better alternative to inspection). All arbitrary measures (standard times, cost, targets and standards) are removed from the system and instead real measures are used to help managers and workers alike understand and improve the work. It is better, for example, to know the actual time it takes to complete transactions as ‘one-stop’; this improves resource planning. Similarly, it is better to know the true experience of the customer for any work that goes through a flow (end-to-end time or on-time-as-required) in order to improve the flow and, consequently, reduce costs. There are many examples of these principles in use, published examples include Pyke (2008), McQuade (2008), ODPM (2005), Jackson, Johnstone and Seddon (2007), Seddon and Brand (2008).

At its heart, the systems archetype is concerned with designing against customer demand, managing value rather than cost. And this is the heart of the paradox: when managers manage costs, costs go up; when they learn to manage value, costs fall. It is a counter-intuitive truth.

**Counter-intuitive truths**
Ohno discovered a series of counter-intuitive revelations in creating the TPS. The most notable of these was to discover that costs were contained in the flow of work, not in creating economies of scale: ‘To think that mass-produced items are cheaper per unit is understandable, but wrong.’ (Ohno, 1988, p68).

This can be re-written for service organisations as follows: In service organisations to think that service activity is equivalent to cost is understandable but wrong.

Ohno’s innovation might be termed ‘economy of flow’ (Seddon and Caulkin, 2007) as compared to economy of scale. We have shown here how ‘economy of scale’ actually creates waste which is kept hidden by management’s practices. Commenting on this distinction, H Thomas Johnson said that scale economy: ‘is a concept that should be discarded.’ (Caulkin, 2008).

Taken as a whole, these truths represent a different ‘systems thinking’ philosophy of management, comparable to the philosophy behind Ohno’s TPS, and in opposition to the prevailing style of management.

**Change as emergent, not planned**
Ohno placed high value on the need for gaining an understanding of an organisation as a prerequisite for making any changes. To make the fundamental change that moves from the present style of management to managing the organisation as a system requires managers first to understand their problems. As they study their organisation as a system, managers discover the problems they thought they had are not their real problems’.

**Ohno said: do not codify method**
The ‘lean tools’ movement is directly in conflict with the beliefs of the architect of the TPS. Taiichi Ohno asserted...
that method must not be codified:

‘While most companies focused on stimulating sales, Mr. Ohno believed just-in-time was a manufacturing advantage for Toyota. And for many years, he would not allow anything to be recorded about it. He claimed it was because improvement is never-ending – and by writing it down, the process would become crystallized.’ (Ohno, 1988, p100).

To codify method is to impede understanding

Writing about the differences between what Henry Ford intended (for Ohno saw Henry Ford as a fellow ‘flow-thinker’) and what subsequently occurred in the Ford Motor Company, Ohno said: ‘As in everything else, however, regardless of good intentions, an idea does not always evolve in the direction hoped for by its creator.’ (Ohno, 1988, p100).

The same could be said for Ohno’s ideas. The TPS has been codified as a set of ‘lean’ tools; the tools have been promoted to managers preoccupied with managing costs and while some minor process improvements may have ensued, it is also probable that many tools interventions have raised costs. Not only does this represent a missed opportunity for significant performance improvement, the impact of these interventions on morale has been palpable. ‘Lean’ has become ‘mean’.

The TPS was and is a system. Operating at the system level provides the greatest lever for performance improvement and it hinges on management’s preparedness to do as Ohno did: to gain knowledge that challenges current assumptions. Johnston’s (2005) appeal for the development of frameworks and techniques to provide greater rigour to the field of service management remains both relevant and urgent.

Footnotes

1. For example: financial services, telecommunications, IT services, police, local authority, government agencies and housing services.

2. The first published use of the term ‘lean production’ was by John Krafick (1988), a researcher with Womack, Jones and Roos on the International Motor Vehicle Program (IMVP) at Massachusetts Institute of Technology (MIT). However, it was Womack, Jones and Roos’ book which brought the term ‘lean’ into widespread use.

3. (See http://www.timesonline.co.uk/tol/news/uk/article1289640.ece for the coverage in the Times on 5 January 2007).

4. While Deming was not the first or only ‘guru’ associated with the Japanese miracle, he became the most well-known, following his appearance in the (US) nationwide airing of a television programme entitled ‘If Japan Can Why Can’t We?’ in 1980.

5. Methodological principles for studying and acting on failure demand are summarised in: ‘Failure demand – from the horse’s mouth’ (Seddon, 2009).

6. Yet the extent remains unknown in HMRC. In presentations of their lean tools initiative, HMRC personnel demonstrate no knowledge of failure demand on their system.


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Management Services
Summer 2010


My Time is Money

The next International MTM Directorate meeting is scheduled to take place on Saturday, 12th June 2010, at the Ramada Hotel, Salford Quays, commencing at 10:30am. Any interested person may attend and listen to the discussions, and within reason comment on any matter, but may not vote, this is restricted to the board members. There will be a delegates dinner on Saturday evening, and a local coach tour for members on Sunday, 13th June, additional information may be obtained via email to ukmtma@googlemail.com.

Further, the AGM of the UK MTM Association 2000 Limited will be held at the Rainbow Nursery, Barlow Close, Tamworth, on Saturday, 19th June 2010, commencing at 10:00am. All interested parties are invited to attend, but only registered paid-up members may vote. A board meeting will be held immediately afterwards to discuss other business of the Association and any members may attend. During the past financial year the Association has maintained its position amongst training providers and has completed the training of in excess of 60 new practitioners.

The new web-site is now established and available for perusal, http://www.ukmtm.co.uk. Available for members only is a forum area, accessible by password, additional information may be obtained via email to ukmtma@googlemail.com. Comments are invited from any readers as to how to raise the profile of the Association.
SEE Productivity: Shared value is not a zero-sum game

If you are involved in productivity, you have either heard something directly or implicitly, associated with SEE Productivity. The first thing I must now do is clarify the concept of zero-sum and non-zero-sum games. Poker is a zero-sum game: I win, you lose – you win, I lose. It's been my thesis for over 40 years in the academy and through almost 50 years of married life that most of the really important 'games' in life are non-zero-sum games, but they are played as if they are zero-sum games.

The way you win a zero-sum game is to compete. The way you 'win' a non-zero-sum game is to collaborate. That's going to be central to the ideas I explore in this article.

To define productivity, I will reference Tom Friedman's book, 'The World Is Flat': “Productivity is a process wherein value or wealth is created by the transformation of systems to generate goods and/or services.” It is also important to think about context because context dictates how we experience the world. It dictates effectiveness and efficiency with which we operate, manage and/or transform organisations, products and/or services. In other words, context shapes productivity.

In a 2007 Global Survey by McKinsey and Company, 70% of executives from around the world said that global, social, environmental and economic trends are increasingly important to them. However, the report goes on to say that global trends that they think will affect them most and, among the few who do, 17% at that time said that there was a return on their investment. If we look at the responses of the executives, we learn something very interesting. The responses of the executives indicate that companies may be missing out on opportunities due to:

- A shortage of skills and resources;
- Higher strategic priorities, or;
- A lack of possible responses to these trends.

This indicates that they see other factors as more important.

Power and responsibility
In 2007, I had the opportunity and honour of being invited by the United Nations’ Global Compact to attend their Leaders Summit in Geneva. The Secretary General, Ban Ki Moon, invited 1000 of his ‘closest friends’ to come to Geneva and join in this event. He was the major keynote speaker and stayed at the meeting for the entire two and a half days, which the Secretary General doesn’t do very often. In his remarks he said: “Global interdependence brings with it a fundamental realisation. Power cannot be separated from responsibility. For businesses to enjoy sustained growth, they need to build trust and legitimacy. For markets to expand in a sustainable way, they must provide those who are currently excluded with better and more opportunities to improve their livelihoods.”

From my point of view, the Secretary General was actually talking about SEE productivity. He ended his speech by saying that: “We are just beginning to act on this understanding.”

SEE productivity
In response to the changing global productivity context, the World Confederation of Productivity Science (WCPS) is promoting SEE productivity.

In WCPS President John Heap’s Riggs lecture, at
the World Productivity Congress in Sun City, South Africa, he introduced the term SEE productivity. The notion of SEE productivity has been around for a while. To give it a name and to define what’s involved in productivity more clearly was really a breakthrough realisation. WCPS is going to do its best to brand SEE Productivity.

The Venn diagram above describes what SEE productivity is all about. It’s social, environmental and economic productivity and the intersection of the three is sustainability.

SEE productivity requires shared values. A shared value is an explicit or implicit fundamental belief, concept or principle that underlies the culture of an organisation. The core values of the organisation are reflected in the decisions that the people in the organisation make, and by extension, the stakeholders in that organisation.

Inherent in the SEE productivity paradigm are values that emerge from the global awareness of the need for sustainable growth and stewardship. If we have heard anything since this programme started, it’s sustainability and the need for sustainable growth. We can’t continue to do business as usual. These shared values reflect an emerging corporate consensus that Corporate
Social Responsibility (CSR) makes business sense.

When people first started talking about CSR, those talking about it were viewed as the ‘tree huggers’ of the social network. They were people who just thought it was a good thing to do and did it because it was good. Very honestly, I don’t think CSR has gotten much respect as a result of that.

In 2009, a Wall Street Journal report from a research group in Germany (Professor Lutz Kaufmann of the Otto Beisheim School of Management, Germany) suggested that: “A commitment to improving social and environmental conditions in the developing countries where a company operates is the key to maximizing the profits and the growth of those operations.”

Their conclusion after studying over 200 companies was that: “The companies most engaged in social and environmental sustainability are also the most profitable.” So CSR is not doing good for the sake of doing good, it’s profitable.

The Global Compact

There are two Non-Governmental Organisations (NGOs) that I want to Discuss: the United Nations Global Compact (UNGC) and the World Confederation of Productivity Science. I’m an officer in WCPS, and I’ve also recently been designated as the ‘single point of contact’ between the UNGC and WCPS.

Let me tell you a little bit about the Compact. In June 2000, when Kofi Annan was Secretary General of the UN, they officially launched the Global Compact. It links companies (whose actions it seeks to influence) with governments, labour organisations, and civil society organisations, that create the context in which businesses function. This is why context is important. The UNGC is part of the context in which we are practicing productivity today. There are now over 5982 participants affiliated with the UNGC, including 4619 companies in 100 countries around the world.

Consider that there is a difference in the core values of the UN and businesses. The UN focuses on peace, poverty reduction and the protection of human rights; businesses focus on profit, stakeholder value and growth. What is so interesting is that these objectives increasingly overlap.

The ten principles of the UNGC reside in four major categories:

**Human Rights**

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

**Labour Standards**

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. eliminate all forms of forced and compulsory labour; 5. effectively abolish child labour*; and 6. eliminate discrimination in respect of employment and occupation.

**Environment**

7. Businesses should support a precautionary
approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and

Anti-Corruption
10. Businesses should work against corruption in all its forms, including extortion and bribery.

There are people today, and you can find them anywhere in the world, who say bribery is a cost of doing business. The UN say bribery cannot be part of the cost of doing business. It must be abolished.

When an organisation signs on to the Global Compact, it agrees to be guided by these principles in the way they do business and the way their customers and suppliers do business. Organisations that affiliate with the Compact agree to communicate their progress and to be held responsible for compliance. Non-complying organisations lose their affiliation. In 2009 the Global Compact Office announced that a total of over 1000 companies had been removed from its list of participants for failure to communicate progress.

Case Study: Hashem Brothers
One of the people in my break-out group at the UNGC Leadership Summit was Sohaila Hashem, Managing Director of Hashem Brothers, an Egyptian corporation.

They are one of the leading companies in the production and export of essential oils and aromatic products. The business serves three international industries: fine perfumery and cosmetics, flavours, and pharmaceuticals. One hundred per cent of their products are exported. They grow it, pick it, pack it and send it away for someone else to process it and continue the value chain.

Employees who were not union members were strongly encouraged by the top management to join the labour union. They have even built an office for the union, right next to the plant. (This supports UNGC Principle 3: Freedom of Association.)

Hashem Brothers has worked with a local NGO in the area to fund micro credit loans to the mothers of the working children. The NGO has helped the women to think of alternatives to sending their children to work in the fields. This has reinforced the notion that education is a very important factor in the elimination of child labour.

Hashem Brothers has built two school buildings – one primary and the other secondary – next to its factory in Kalyoubeya governate. The ownership of both was donated to the Egyptian Ministry of Education. The two schools have 1000 students enrolled. This gets the children out of the farms and into school. (It supports UNGC Principle 5: Abolish Child Labour.)

The company has set up a special programme to eradicate illiteracy, offered in a small lab built by the company. This education is available to women, eliminating discrimination and giving them a competitive entry into the market. They have computer terminals and
are learning computer skills and reading and writing. The Ministry of Communication has provided CDs designed to combat illiteracy of Egyptians. (This supports UNGC Principle 6: Eliminate Discrimination.)

In support of UNGC Principle 8, to promote environmental responsibility, Hashem Brothers sponsors families in the village making containers from palm branches, which are then purchased by the company. They then use the containers to ship their products. The remaining leaves are used to fabricate small baskets which the farmers attach to their belts while collecting flowers at the farm. To quote one of the company’s progress communications to the Global Compact: “We have learned that the fastest and most effective solution is always economic, providing a source of income to those families.”

So when you impact the local economy, you make it pay for the people and they will return it for you.

This case study echoes the words of UN Secretary General Ban Ki Moon: “Increasingly, as companies, you are embracing the Global Compact not because it makes for good public relations, or because you have paid a price for making mistakes... you are doing so because in our interdependent world, business leadership cannot be sustained without showing leadership on environmental, social and governance issues.” This is SEE productivity at its most basic level.

The World Confederation of Productivity Science

Finally, I want to introduce you to WCPS.

The WCPS Mission is "to enable the sharing of knowledge, wisdom and skill among people and organisations whose mission it is to improve productivity."

The WCPS Vision is "to produce global conditions promoting peace and prosperity through the creation and equitable distribution of wealth that results from improved productivity. World peace is the ultimate vision."

Regarding organisational structure, the Confederation has two operating divisions: The World Network of Productivity Organizations (WNPO), and The World Academy of Productivity Science (WAPS). WNPO links groups, typically national productivity centres. WAPS links individuals who have been recognised and acknowledged by the WCPS as leaders in the productivity field around the world.

The UNGC, WCPS and our affiliated enterprises and National Productivity Centres will offer their knowledge and skills to:

* Shape special initiatives and supply chains;
* Develop tools and conduct research;
* Assist business participants in the practical implementation of the UN principles;
* Promote effective and ethical alliances; and
* Create conditions conducive to World Peace.

Where do we go from here?

In many developing (and developed!) regions of the world, there remain great areas of growth that are unaware of, and/or are untouched by the potential value and promise of enhanced productivity. This presents a golden opportunity for these organisations to join forces and globally advance their respective missions in the quest for a world at peace.

For more information about SEE productivity, visit www.wcps.info and www.unglobalcompact.org.

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The WCPS has network partners in: Australia, Barbados, Botswana, Brazil, Canada, Chile, China, Colombia, Costa Rica, Egypt, Ethiopia, Estonia, Finland, France, Germany, Ghana, Great Britain, Greece, Iceland, India, Indonesia, Iran, Ireland Israel, Japan, Latvia, Malaysia, Mauritius, Mongolia, Nepal, Nigeria, Norway, Pakistan, Peru, Philippines, Poland, Singapore, Slovak Republic, South Africa, Sri Lanka, Sweden, Tanzania, Thailand, Turkey, Ukraine, United States, and Zambia.
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Production Solutions Technical Resourcing
Open Innovation

John Heap explains how seeing Intellectual Property as a commodity to be traded rather than a secret to be protected can deliver results and... innovation.

Open Innovation is a term promoted by Henry Chesbrough, of the Center for Open Innovation at UC Berkeley, in his book ‘Open Innovation: The new imperative for creating and profiting from technology’. It is based on the concept that in a connected, networked, knowledge-based world, an organisation cannot rely on its own innovation capability and capacity but must exploit the thinking of others – by buying or licensing external intellectual property (IP). The term ‘open innovation’ was suggested by the open source, software concept whereby collaborative projects involving previously unlinked individuals or groups can result in concerted and co-ordinated effort towards agreed goals.

Once, really clever – and especially well-educated people – were rare... and they could be kept in ‘intellectual aquaria’ such as R&D departments. Over the last few decades, though, the world has seen the rise in education so that bright, young, well-educated minds are everywhere. Procter & Gamble initiated their open innovation programme when they learned that for each of their 7500 R&D people, there were 200 people outside the company with equal skills and competencies. They realised that ‘not all the smart people work for us’. What a resource, if it could be (at least partially) tapped.

Collaboration

So those companies who have seen this potential now look outside – as well as inside – their organisations for new ideas and new technologies. They may start with their own suppliers but then realise the world is contracting with the use of electronic communications and that it is now completely feasible to collaborate with others on the other side of the globe. They also realise that you do not have to invent a technology, a product or a process to profit from it.

There is now an open innovation ‘movement’ and a number of organisations that act as ‘knowledge brokers’ (or ‘ideas matchmakers’) to assist in the process of locating and licensing appropriate Intellectual Property (such as innocentive.com) and a number of tools that claim to facilitate open innovation.

www.openinnovation.eu has been established to help develop open innovation in the European business community. It sets out its objectives as doing this through:

• functioning as an interface between academia and the needs of practitioners;
• developing management tools and in-company training;

John Heap

John Heap is Director of the National Productivity Centre, President of the World Confederation of Productivity Science, President-elect of the European Association of National Productivity Centres, co-editor of the International Journal of Productivity and Performance Management and a member of Council of the Institute of Management Services.

John’s views on productivity can be found in his blogs www.blog-prod.blogspot.com and www.donotcomplicate.blogspot.com. John also tweets (on Twitter) about productivity issues as @ProdGlobal.
• exploring new application fields for open innovation;
• contributing to the awareness with respect to open innovation in Europe;
• research and publication in the field of open innovation, focusing on the best practices in Europe and around the world;
• stimulating the exchange of knowledge (eg, best practices) between experienced practitioners;
• developing an online OI-scan for companies to test their OI-expertise vis-à-vis a benchmark of other companies.

The ‘movement’ has also expanded and branched into other concepts and areas of practice such as ‘crowdsourcing’ (a word coined in 2006) – the practice of issuing a call for ideas or collaboration and ‘stitching together’ as many of the respondents as possible (a form of ‘distance brainstorming’).

Partnerships
In part – but by no means in total – Open Innovation is ‘new clothes for old practices’. Much of the claimed open innovation practice seems to be between commercial organisations and university research departments. This has always gone on but now they call it by a new name!

However, the real developments in open innovation have been in the partnerships created by and between commercial organisations and university research departments. This has always gone on but now they call it by a new name!

(Chesbrough, in his book, talks about ‘disruptive innovation’ that changes the way we live, work and learn.) Of course, a move from ‘closed’ to ‘open’ innovation can cause tensions within an organisation – the R&D department that thought it was responsible for innovation might feel ‘squeezed out’ (though relying on R&D departments for innovation was never a good recipe for innovation in my book). As such, they might be ‘protectionist’, espousing open innovation but not practising it. An open innovation initiative should be led – or at least championed – by a senior executive who can change behaviours.

The aim is to be open enough so that potential partners see you as the partner of choice – the easiest to deal with.

Adopting open innovation can help smaller companies get access to resources that would otherwise be outside of their reach. However, if they partner with larger, more established organisations there is a risk that they lose their voice. There is also the risk that the flexible, creative, small organisation gets ‘frozen’ into rigid work practices by their larger partner.

A change in culture
Involving customers or users is helpful – but not enough. They can help direct innovation towards customer needs (knowing WHERE to innovate is always a good thing!) but open innovation, involving external partners, also looks at HOW that innovation might be delivered.

Apple would probably disagree even with going that far. Stephen Fry, superstar technophile, wrote in Time magazine that: “Apple never holds focus groups. It doesn’t ask people what they want; it tells them what they’re going to want next.”

As with innovation itself, open innovation often needs a change of culture – to one focused strongly on teams and on ideas and the mix of the two. There are things you can do – temporary co-location of teams, assigning overlapping tasks to different organisational ‘silos’, frequent prototyping and review, etc – to help change the culture but it only works if the key individuals at the top of the organisation ‘walk the walk’ as well as ‘talking the talk’. It also needs a different attitude to intellectual property – seeing it as a marketable asset, which can be bought, sold and traded rather than simply protected.

Open innovation is not easy to accomplish – but it can offer new inputs into the organisation and it can deliver.... innovation!

Further information is available at: www.openinnovation.eu and www.15inno.com.

Reference
fewer stops on the start-up road

Business start-up may not yet be a one-stop activity but David Walke explores how countries around the world are adopting the idea of a one-stop shop.

When a group of eminent economists met in Copenhagen in 2004 to consider what would be the most cost-effective use of an additional $50 billion budget for international aid, their final list of ten programmes included such items as control of HIV/AIDS, combating malaria and improving water supplies. It also included ‘lowering the cost of starting a new business’ (Lomborg (ed), 2004).

Faced with complex, costly and long-winded requirements, a person who does not know how to get around the rules might well abandon a good business proposition while the more determined may be tempted by the perceived benefits of the grey economy. In either case, the potential benefits for the community at large will be lost. Formal businesses not only contribute by way of taxation: they also have greater potential for growth and employment. Meanwhile, governments cannot support businesses that they do not know exist. The economists recognised not only that there was a problem, but that it was a problem that could be overcome and that the investment involved would be well rewarded.

In 2003, the World Bank conducted the first of a series of annual surveys regarding the business environment around the world. Amongst other things, this included assessing the number of activities, the time and the cost involved in satisfying the formalities associated with starting a business. The first Doing Business report (World Bank, 2004) considered what was needed to start a limited company in the main commercial city of each of 145 countries. On average, the various administrative procedures took 51 days. By 2009, this had been reduced to 29 days. Some countries had not reformed at all, and in some the situation had actually deteriorated, but others had made dramatic improvements. For instance, Azerbaijan reduced the timescale from 105 days to ten.
What had become clear was that, with willing support from a variety of aid programmes, a competitive spirit was brewing. Every country wanted to present itself as a good place to do business and there were now some recognised benchmarks in the form of the World Bank’s Doing Business reports.

The concept of a one-stop shop for business start-up roused particular attention in several countries. This was fine, but for the fact that everyone seemed to have a different idea of what a one-stop shop actually was. The World Bank, eager to establish ‘best practice’ which could be replicated elsewhere, launched a review (Walke, 2009).

On the admittedly arbitrary basis that a one-stop shop was an organisation which handled business registration and at least one other function, such as tax registration, 67 countries out of the 183 reviewed by Doing Business in 2009 had a one-stop shop. As a group, these clearly outperformed the other 116 countries.

Before coming to the conclusion – as some have done – that a one-stop shop is a cure-all for all problems, it is important to recognise that some countries perform well without a one-stop shop while others fail to impress despite having one. The United States ranks sixth out of 183 countries in terms of the ease of starting a business, but New York does not have a one-stop shop, at least, not in the terms defined here. Gabon has a one-stop shop, but it still takes 58 days to start a business.

**Reform**

It soon becomes evident that the best performers only implemented a one-stop shop as part of a much wider programme of reform. The best advice for someone considering a one-stop shop is actually to forget the idea until they have analysed their existing processes and rationalised the procedures. This type of analysis regularly highlights activities of which managers are unaware, which duplicate action elsewhere in the organisation or which serve no obvious purpose. The key feature, which will inevitably involve consultation with the private sector, is establishing what customers want or, to be more precise, what they need. Members of the business community may be so accustomed to poor standards of service from government offices that they do not realise what is possible.

The reasons for burdensome procedures will vary from country to country. They may lie in outdated legislation, heavy-handed bureaucracy or lack of adequate computer systems. Often it will be a

<table>
<thead>
<tr>
<th>Average</th>
<th>Number of procedures</th>
<th>Number of days</th>
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<tbody>
<tr>
<td>67 countries with one-stop shops</td>
<td>6.1</td>
<td>19</td>
</tr>
<tr>
<td>116 other countries</td>
<td>9.3</td>
<td>46</td>
</tr>
</tbody>
</table>

Source: World Bank, Doing Business database
combination of all three. Constraints may take the form of lack of capacity in the legislative timetable, conflicting requirements of various arms of government or limits on proposed expenditure.

This is where there is a need for a clear plan. The experience of the Chambers of Commerce in Colombia was that the wish-list of reforms and new services was becoming so long as to make the project unmanageable. Some things, while desirable, had to be deferred in order to ensure an achievable outcome within the constraints of time and available finance. Much of the initial planning was about deciding what not to do.

**Different approaches**

Responsibility for business registration varies according to legal traditions. The chambers of commerce in Colombia are private non-profit corporations with both official duties and others of general, sectoral or collaborative interest. Official duties include the maintenance of the Trade Register.

Motivation for reform came from the chambers themselves and their members. Azerbaijan has followed the example of the Russian Federation and Georgia in establishing a single business register held by the Ministry of Taxes.

In countries with a French or German legal heritage, ultimate responsibility for the registers has generally remained with the courts, though there are numerous examples of one-stop shops providing an interface with the court system.

There have been occasional complete breaks with the past, as in Rwanda, where a new Rwanda Commercial Registration Services Agency has taken over registration functions previously exercised by the courts. The number of procedures involved in start-up fell from eight to two and the timescale from 14 days to three, contributing to Rwanda being declared the Doing Business ‘top reformer’ in 2008/09.

Burkina Faso and Egypt provide evidence of one-stop shops which, for different reasons, did not achieve everything that might have been expected. In both cases, those responsible realised that the principle of a one-stop shop was valid but the manner of implementation meant that it had not achieved its potential. Both had considerable success at their second attempt.

**Burkina Faso**

In the early 1990s, Burkina Faso established a Centre for Enterprise Promotion in the Ministry of Commerce and Trade, including also representatives of the court, the police, the finance ministry and others. The aim was to centralise, simplify and rationalise functions and to speed up the formalities associated with trade and investment.

The problems started with the court. The Tribunal de Grand Instance was responsible for maintaining the statutory register and all applications had to be passed to the President of the Tribunal for formal approval. The lawyer sent to the one-stop shop could accept applications but would then need to bring them to the court. Not only was this a poor use of resources, as the lawyer concerned was unavailable to deal with other issues, but it was seen as limiting his experience and thus his career prospects.

There were similar problems with the finance ministry, which could not easily spare an experienced tax officer to attend at the one-stop shop or provide a substitute when the nominated officer was not available. At times, applicants at the one-stop shop were simply advised to go to the tax office themselves.

Faced with complaints from the private sector about unnecessary bureaucracy, delays, cost, uncertainty and corruption, the government accepted a proposal for the establishment of a Maison de l’Entreprise at the Chamber of Commerce to provide a range of business services for small and medium-sized businesses.

“Before coming to the conclusion – as some have done – that a one-stop shop is a cure-all for all problems, it is important to recognise that some countries perform well without a one-stop shop while others fail to impress despite having one”
This was to include a Centre de Formalités des Entreprises, following the French model, which was implemented with support from Bordeaux Chamber of Commerce. CEFORE opened for business in January 2006. While constrained by an international agreement on business laws (OHADA, 1997), which meant that registration needed to remain a responsibility of the court, there was still scope for significant rationalisation of registration procedures. One feature of the reforms was the introduction of a single form to meet the requirements of all the authorities concerned.

Registration in 2005 involved 12 separate procedures and took 40 days. By 2009, there were only four procedures, taking 14 days, and an expectation of continual improvement. With World Bank support, CEFORE now occupies a new building, which it shares with whole departments – rather than just single representatives – from the tax and social security offices.

Egypt

Egypt had faced falling investment during the 1990s. In 2001, the General Authority for Investment and Free Zones (GAFI) calculated that a new investment proposal could involve up to 22 ministries and 78 governmental entities. Investors might need any of 349 approvals, permits or licences and were expected to comply with 200 business licensing regulations (Stone, 2006). The solution was seen to be one-stop shops to provide ‘all investment-related services’. These were established in Cairo, Alexandria, Ismailia and Assiut, with up to 11 organisations represented in each location. The one-stop shops provided services for companies which qualified for investment incentives but, as the incentives were restricted to certain sectors, the new arrangements excluded many of those who might have benefited.

Following the passage of a new Investment Law in 2004, GAFI was redefined as an investment facilitation and promotional agency and the only body to which investors of any size, whether international or domestic, needed to apply in order to establish a company. The existing Companies Authority was abolished. Even so, and to the disappointment of many, by 2006 the country still had a poor rating in terms of the ease of starting a business. It was then accepted that there were numerous procedural weaknesses and that costs were still high. By identifying and addressing these, Egypt became the 2006/07 ‘top reformer’.

The present system involves the applicant (usually a lawyer acting for the founders) sitting with a GAFI lawyer, who keys relevant information into a computer system in order to produce a tailored application form for signature. This information is then available for subsequent stages of the registration process. The system calculates relevant fees and produces an invoice. All fees are paid at the bank. There is a bank in the same building. There are no cash payments in the one-stop shop.

While the present system may not be altogether ‘one-stop’, it is clearly providing a much improved service to the business community and, together with other initiatives, has contributed
Mauritius – Starting a business as a limited company

<table>
<thead>
<tr>
<th>Before the reforms</th>
<th>As it is today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apply to Registrar of Companies to reserve name</td>
<td>Pay fee to Local Authority within 15 days</td>
</tr>
<tr>
<td>Apply to Local Authority for trading permit</td>
<td>Collect incorporation certificate and business registration card</td>
</tr>
<tr>
<td>Await inspections</td>
<td>Respond to approaches from Social Security and inspection authorities</td>
</tr>
<tr>
<td>Notary prepares documentation</td>
<td>START BUSINESS</td>
</tr>
<tr>
<td>Apply for incorporation</td>
<td></td>
</tr>
<tr>
<td>Collect incorporation certificate</td>
<td></td>
</tr>
<tr>
<td>Apply for tax registration</td>
<td></td>
</tr>
<tr>
<td>Apply for Social Security registration</td>
<td></td>
</tr>
<tr>
<td>START BUSINESS</td>
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Mauritius had substantially reformed company registration. There was a new Companies Act in 2001, based on the New Zealand model and new arrangements for registration of unincorporated business, drawing on experience in Singapore. Business registration itself was functioning smoothly, but the requirements for registration with the tax and social security offices and the need for local authority inspections of premises meant that the overall start-up process was a protracted one. While business registration was not the problem, it was able to make a major contribution to a solution – a new computer system centred on a business registration database hosted, not by the Companies Division, but by the Government Online Service.

As all government offices were given direct access to relevant information, there was no need for registration anywhere other than at the Companies Division one-stop shop. A single registration form was used to collect all necessary information. With parallel initiatives to enable a fee to be paid to the local authority and inspections to be carried after business had commenced, a company could start trading as soon as the incorporation certificate was issued. In 2006, the start-up process took 46 days. By 2009, the figure was six days and the costs involved had halved.

European Union

Under the Lisbon Strategy for Growth and Jobs (European Commission, 2006), a requirement was introduced that all EU countries should provide one-stop services for business start-up, but the manner of implementation has varied between member states. In 2009, Poland implemented a series of reforms. There was a 90% reduction in the minimum capital requirement (Commercial Code, 2009), a significant reduction in the overall cost and the number of steps was reduced from ten to six. By registering in the National Court Register, it is now possible to obtain a statistical number, a tax identification number and registration with the Social Insurance Office. As all government offices were given direct access to relevant information, there was no need for registration anywhere other than at the Companies Division one-stop shop. A single registration form was used to collect all necessary information. With parallel initiatives to enable a fee to
being, overridden the need to rationalise procedures in the various offices concerned.

**Lessons from experience**
There are various lessons to be drawn from the case studies.

- **Top-level commitment is essential**
  All the successful reforms have involved a commitment from the highest level, meaning active support from presidents and prime ministers. This has been essential to ensure the ready cooperation of a range of bodies and to overcome the various vested interests. But someone has to have the vision to present a case for reform which is not just politically acceptable, but essential to further political aims, such as encouraging investment or supporting development of the private sector.

- **“We must have a one-stop shop” is not the place to start**
  A one-stop shop should not be an objective in its own right. It is only relevant as part of a wider programme of reform.

  It is important to analyse, critically review and revise procedures first. The review needs to extend across all government bodies involved in business start-up formalities and will need to take account of views from the private sector. Any such review is likely to impinge on the law and existing computer systems, as well as forms and procedures. New laws and systems should provide for online filing and access to information – a mandatory requirement in the European Union (Directive 2009/101/EC) – even if most customers will still expect to present paper documents.

- **The reform project needs to be managed**
  Managing significant reform is likely to involve more than an add-on to someone’s existing full-time job. There needs to be a proper structure to the project – which may well involve a number of sub-projects – and an effective project plan which is regularly monitored. It is important to recognise constraints, including possible delays in passing legislation and availability of finance, and to establish clear project boundaries. The discipline of an recognised project management methodology will help to ensure the success of the project.

- **Deciding on a one-stop shop**
  Even though this should not be the starting point, a meaningful analysis of the requirement will almost certainly conclude that there should be a one-stop shop. But there is no absolute standard to determine what this should look like. Simply co-locating representatives from different government offices will rarely be effective, though there may be merit in moving whole departments. Ideally, the customer should only need to deal with one person. Data should move rather than people. Careful analysis can be expected to indicate that the various government offices involved probably do not need paper documents, even if they think they do.

**Moving on**
Of the 67 one-stop shops, nine were established during 2008-09. In many cases, other reforms have included the introduction of online incorporation facilities and access to registered information. In some developing countries, online filing may initially seem premature, but in practice it is likely to be welcomed by at least some lawyers and accountants. A web-style interface to enable officials to enter data will also need little adaptation to make it available to a wider range of users at a later stage.

There are now numerous examples of what works and what does not in terms of a one-stop shop and, even though each country’s administration may be unique, the need to remove obstacles to new businesses is a universal one. Registries are now actively exchanging ideas, both bilaterally and through the Corporate Registers Forum (www.corporateregistersforum.org) and the European Commerce Registers Forum (www.ecrforum.org). The drive for business registration reform is proving infectious. There are, of course, still some who have not caught the bug and need to do so. It is in some of the poorest countries in the world
that it remains the most complicated and expensive to start a business.

References
Commercial Code, (2009), The Polish Commercial Code was amended with effect from 29 January 2009. The minimum capital requirement for a spółka z ograniczoną odpowiedzialnością (private limited company) was reduced from zł 50,000 (approximately £11,500) to zł 5,000.

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.
Philip Atkinson addresses the key issues that relate to culture change and ‘Lean manufacturing.’ He discusses the inability of most organisations to create the culture that will sustain Lean and any other programme of organisational improvement. Failing to plan for change equates to planning to fail. Currently, too much attention is focused on the technical aspects of Lean, rather than the ability to create a self-sustaining Lean culture, where change is seen as the norm and where resistance to change is never an option.

Organisations stand little chance of implementing ‘Lean’ unless they have paid at least equal attention to creating the right culture, and the conditions and circumstances which can become the foundation for implementing change. Just imagine what you could achieve if your organisational culture actively welcomed change. Consider how easy it would be to install the training, the techniques, the methodologies and the common language that accompanies any Lean strategy, if staff at all levels chose to perceive the change as an aid to their work, rather than as a hindrance and distraction from their daily, weekly and monthly targets.

What will Lean deliver organizationally?
It’s best to ask the question – ‘what do we want our business to look like after we have implemented Lean?’ How many layers of managers will exist? Which key processes will be critical to operating across the organisation? How will we be focusing all our attention on the ‘vital’ processes and cutting through red tape, duplication, rework and non value added activities? What development is required to support managers in working in the new organisation? How can we ensure that cross functional working is valued as highly as a technical proficiency? How can we destroy the ‘silo mentality’? What mechanisms can we use to reinforce the importance of working across boundaries?

Misconceptions about Lean
- Lean is often perceived as a ‘toolbox’ of concepts and methodologies that are forced on, rather than tailored to, an organisation.
- Lean is not a cost reduction exercise to take unnecessary costs out of
What is Lean?

‘Lean’ is a commitment, a process of continuous improvement that can significantly impact an organisation’s competitiveness. Lean is a strategic tool for resolving severe organisational problems and can unite several change initiatives that are running currently in a business. Research into ‘lean strategies and methodologies’ can be literally overwhelming in terms of the sheer range and scale of information available via case studies and journal articles. At this point, it should be realised that there is no one best way to introduce lean. Lean must grow from the culture – not be imposed upon it.

‘Lean strategies’ have evolved from the initial work undertaken with the Toyota Production System, and its evolving variants founded initially in the Japanese Automotive Industry. Any reference to the literature of the time will highlight a plethora of texts, many of which are captured in the cardinal work ‘The Machine that Changed the World’ and more recently ‘Lean Thinking’ by Womack and Jones.

“Organisations are social systems composed of conflicting interests focused on working to ensure that strategic goals are achieved”

...
the supply chain to be a seamless process with the absence of turf wars, politics, career positioning and ego stroking;
5. Establish a matrix culture and structure to ensure that relationships translate directly into continuous process improvement;
6. Focus on the customer and the supply chain, and recognise that nothing changes until behaviour changes internally.

Change is not just a technical-rational process. It is a behavioural, emotional and political process. In the past we saw organisational change as a technical-rational process because at that time most problems in manufacturing were perceived as being purely technical operations issues in nature. This pervaded the practice of operations management where focus lay in production possibilities, cost efficiencies, scheduling, charting, etc. Operations were to do with ‘things and logic’ not ‘people and relationships’.

In reality, change is a behavioural, emotional and political process
The effectiveness of change is based upon people and their motives and dealing with the friction, the management of egos, the escalation of conflict overflow into unhelpful behaviour and turf wars between functions and silos emerges. It’s not pretty or desirable. Lean rejects the negative for the positive in terms of cross-functional ‘win-win’ commitment to managing scarce resources.

Change agility is promoting acceptance, not fighting resistance
Change happens when those wanting the change to take place – the ‘sponsors’ – are in rapport with those who have to make the change work in their day-to-day operations. The success is down to how well the ‘external facilitator’ manages the relationship between those who ‘drive’ and those who have to ‘implement’ change. In many cases, organisations think that being trained in the Lean techniques is all they need in order to implement Lean. This is far from the truth.

It is necessary to confront unpopular but honest truths about the culture and get the culture right first. So employing only Lean trainers, rather than soliciting strategic cultural advice, will under utilise the benefits that could accrue to the business. In many cases, there is no objective external facilitator to orchestrate the process. If this is the case, ideally the role of line managers can be expanded beyond operations – so that line managers are developed to drive and install change locally and across the organisation. Now that gives companies a real competitive edge. Just imagine what you could achieve if you had an elite group of line managers equally equipped in change, as well as their professional and technical skills.

Cultural redesign
Most corporate cultures exist by accident or default. The original owners or architects who created their business ensured that their values of transacting business were central to ‘how things get done.’ This became their culture, but over time and with key players and new actors entering the scene, acquisitions, mergers and other crises and events, the organisational culture changed substantially.
Toyota: A culture of relentless improvement

I know Toyota has had its problems recently but we have to acknowledge its many successes in building its organisation using the ‘Toyota Production System’.

Toyota has implemented various strategies for continuous improvement including what we understand as ‘Lean’. Staff contributed ideas for improvement using Lean methods which resulted in each employee generating an average of 187 ideas each year, of which 98% were implemented. Note, with a workforce worldwide of 60,000 it means almost 11 million ideas for continuous improvement are being implemented each year. With a 250 day working year that means from dawn to dusk each day Toyota is working through 44,000 ideas for continuous improvement are being implemented worldwide of 60,000 it means almost 11 million ideas for continuous improvement are being implemented each year, of which 98% were implemented. Note, with a workforce worldwide of 60,000 it means almost 11 million ideas for continuous improvement are being implemented each year. With a 250 day working year that means from dawn to dusk each day Toyota is working through 44,000 ideas for continuous improvement are being implemented each year. With a 250 day working year that means from dawn to dusk each day Toyota is working through 44,000 ideas for continuous improvement are being implemented.

Now, how many ideas or suggestions are encouraged from your staff? More importantly, how many are implemented? Even more importantly, do you have a process for capturing ideas and reporting statistics as above?

Change was not always favourable so that ‘culture and the resulting behaviours’ became very different to how things should have been.

ROI of Lean

Energy expended other than on improving processes and shaping the culture to achieve these end goals, is non optimum. To create a self-sustaining culture the rationale is to demonstrate that ROI on every pound, dollar or euro invested on Lean generates specific outcomes that are attributed to that investment. The relationship between cause and effect, inputs and outputs must be the guiding principle to implementing Lean.

At the start of the process of implementation of Lean, the current culture really should be designed, mapped and measured against the achievement of strategic and business imperatives. Is the culture doing what it should be in delivering results? If not, change it so it does.

Fundamental to improvement and implementation of ‘Lean’ is a process that can be controlled and managed. Leading conglomerate, General Electric is a great example to illustrate this. Driven by a desire to be the ‘Number one or two’ in any industry and market, GE have modelled and shaped their way to become an incredibly successful business with earnings of hundreds of billions and double digit profits for 18 years (until the dip in their share price and profitability in 2008).

Jack Welch, the now retired CEO, was architect of this culture and much can be found on shaping their culture through the concepts of Lean, Work-Out and adherence to the ‘Change Acceleration Process’.

It proves it can be done but GE’s approach was to put the culture in place first and they started that in the 1980s with their commitment to ‘Work-Out’, which became their culture of continuous improvement.

So, what other businesses learn from the GE approach? The big issue is ‘Can you afford not to do it?’ What happens if you don’t commit to create a powerful culture to nurture and grow Lean? More importantly, what won’t happen to the business because you failed to develop that self-sustaining culture and Lean?

Creating a Lean culture

Lean can be a major strategic initiative focused on major cost efficiencies managed from the top of the business, or it can evolve in smaller discrete initiatives lower down in the organisation. The preferred route of a ‘top down’ approach will have a major positive impact. If managed effectively, ‘Lean’ can be the major philosophy uniting the organisation in a relentless drive for improvement.

An example of making Lean happen

This is a case study based in the

Bio Technology

Working with a genetics business, we highlighted that the production people were driven and measured by technologists who were brilliant scientists, but with little idea of operational issues. We re-engineered the core processes by involving both groups in redesigning the process – not listening just to the scientists which would have been the case previously. This resulted in tighter processes driven by all parties involved in delivering the process. From a functional structure, we created 49 virtual businesses all working to Lean principles.

“The culture must reside in the hands, hearts and minds of the staff of the business”
agricultural vehicle industry in the USA. The company wanted to communicate the importance of doing things better, faster, more effectively and at economical cost. This focused on two issues: how the teams could build the vehicles 100% right first time, and the processes that supported them in doing so. Getting the processes right was critical in delivering another ‘Lean’ project.

Processes which transcend silo thinking, and focus on service delivery across the organisation, are a critical success factor. This requires a key change in culture and behaviour. Instead of focusing on Lean techniques, we decided to get the culture right first. Strict application of the 5Ss or employing JIT is not Lean – merely tools in the arsenal of improvement. And perhaps this is a major stumbling block in implementing change – belief that an over reliance on the use of a tool will compensate for the culture not being right. These tools cannot be overlaid as a template on a silo based culture. Culture precedes toolboxes. Lean Thinking can exist only when we install a listening and learning culture, where process design is created by those who deliver the product or service.

Process design is a key driver of the culture
We need to constantly review processes, and introduce ‘process mapping’ as a key tool for continuous improvement. We argue strongly that teams should focus on designing the ‘perfect process’, cutting out any unnecessary stages, questioning time delays and over-inspection, and replacing unnecessary control with trust. Designing the perfect process has many advantages and looking at what we do currently enhances capabilities.

A Lean organisation is one where, at any time, those who work the process can apply ‘Process Mapping’ or variants of this to their core work activities. All businesses are driven by hundreds of processes – but focusing on the core and vital six or eight business processes, whether in a manufacturing or service organisation, will create a Lean culture.

What about those areas that support manufacturing or operations?
Don’t forget about those parts of the organisation which never touch the product or communicate with the end user or customer. They require exactly the same culture to support what you are doing at the sharp end. It is pointless having slow and bureaucratic Procurement, IS, HR and Finance functions contributing less than is best practice.

The ‘Lean’ concept has an incredible opportunity for improvement in most service organisations. In the early 1980s, TQM research estimated that as much as 40% of staff operating costs of businesses could be wasted reworking dysfunctional processes and relationships. Working with a provider of financial services (The Economics of Culture Change), our research identified over 200 activities of work associated with unnecessary reworking or errors and tasks, together with unnecessary appraisal, inspection and over checking. This work was in eight functions in a 1200 person business and highlights the importance of starting Lean type initiatives in the service or support areas first.

For introducing ‘Lean’ as a positive force, the following four step approach can work well.
1. Create the culture: Senior Management Team

The focus of senior management commitment is critical and the only activity worth pursuing is winning the collective heart and mind of the top team. Winning a strong psychological commitment to implementation is a critical success factor in implementing Lean. Failure to win over the ‘top team’ will result in cynicism from their direct reports and others. It’s true, there’s no change to Lean without leadership.

To support Lean, we have to better understand the culture in which we operate. Before we can shape the new culture that supports Lean, we have to see what works and what does not. Various diagnostic tools will complete this process speedily and with precision, otherwise it goes against the spirit of continuous improvement.

People are boss watchers

Leadership is critical in shaping the culture. Leadership does not reside solely with the CEO or the senior management team, but at all levels. Edgar Schien’s research tells us that the dominant factors that shape culture are ‘to what Leaders pay most attention’ and ‘how they respond to critical incidents’. Make no mistake, people watch the behaviour of their bosses!

Those in senior positions dictate how others respond to change. Either the leadership group supports the culture, or it does not. Breaking the silo mentality is critical to making the culture work. Egos are challenged, conflicts are won, heroes praised, cynics learn and those not committed to the process are encouraged to engage and behave in the way of the new culture.

2. Line managers as change agents

The behaviour and actions of line managers are critical in getting Lean established. Working with a provider of Motor Finance, a team of specially selected staff formed across five functional boundaries, Credit, Risk, Finance, IT and Customer Service, met to discuss how to streamline the credit approval process to provide better service to their motor dealerships and the eventual consumer of their product (the car buyer).

From their investigation, they discovered that too many steps existed in the process. Many of these were designed because managers did not trust their staff, so an unnecessary element of inspection and approval had been added. When the team designed the perfect process, they eliminated 14 unnecessary steps, devised a Training Plan to prevent people inputting and compounding errors, and set up self inspection audits, thereby reducing time taken to complete the process by 60%.

Further work resulted in this process being automated, resulting in spectacular results in the car showroom – that is, 98% of online applications being responded to within four minutes of the data being entered. This has had a significant impact on customer service for customers waiting for a response to raising finance for a car. This company can respond in minutes to credit applications, whereas many competitors still take days to respond.

Lean Thinking in GE Capital Motor Finance

Process improvement can be critical in getting Lean established. Working with a provider of Motor Finance, a team of specially selected staff formed across five functional boundaries, Credit, Risk, Finance, IT and Customer Service, met to discuss how to streamline the credit approval process to provide better service to their motor dealerships and the eventual consumer of their product (the car buyer).

From their investigation, they discovered that too many steps existed in the process. Many of these were designed because managers did not trust their staff, so an unnecessary element of inspection and approval had been added. When the team designed the perfect process, they eliminated 14 unnecessary steps, devised a Training Plan to prevent people inputting and compounding errors, and set up self inspection audits, thereby reducing time taken to complete the process by 60%.

Further work resulted in this process being automated, resulting in spectacular results in the car showroom – that is, 98% of online applications being responded to within four minutes of the data being entered. This has had a significant impact on customer service for customers waiting for a response to raising finance for a car. This company can respond in minutes to credit applications, whereas many competitors still take days to respond.

“Lean cannot exist in an organisation where the culture is against it”
of line managers is critical to deliver any culture change and a process for Lean and continuous improvement. This may require the support of an external facilitator or consultant – but the whole emphasis should be on developing ‘change agent skills’ as the core behaviour of line management. With a client (Ian Millar) in the USA, I wrote a book that focused completely on this process. The culture must reside in the hands, hearts and minds of the staff of the business. Find a trusted advisor or facilitator and work together on developing internal capability.

3. Prioritise Projects
This requires people at all levels to commit to take ownership, create challenging performance standards and metrics, and monitor progress. We find that to get Lean started, it is best to be discrete and work on specific projects, rather than commit to a generalised approach without precise and keen ambitions. All events and activities have to be closely led and facilitated. Lean should occupy a high profile and the project should engage all significant players in the project or process.

Projects for Lean and continuous improvement can range from manufacturing problems to customer service, cross-functional working on product development, creating new sales channels, quality improvement, as well as typical manufacturing, logistics, supply chain problems.

4. Focus on implementation, not theory
Success in implementation depends on the relationship between the external facilitator, internal line managers and the sponsor of the Lean project, including those who work the processes. People who are critical as ‘knowledge resources’ in resolving the issues, are quickly identified to become part of the team to drive and, more importantly, take action.

Summary
This article has used Lean to communicate the importance of creating the right corporate culture first. Cultures can evolve and become the driver of organisational change very quickly, and this should precede training in specific tools and techniques. By focusing upon discrete variables, it is possible to shape the culture of the business very quickly. Lean cannot exist in an organisation where the culture is against it. Lean requires such a high degree of cross functional working that any culture which counters this will fail.

Consider now the Lean culture that would equip your business with the ability to succeed. It has to be a culture where change is the norm, where resistance is experienced but quickly won over to support, and in which going to work is a joy. Given the choice whether to build that culture or not, what would you do?

References

"The 'Lean' concept has an incredible opportunity for improvement in most service organisations"
Impact of Performance Measurement and Management Systems

Part one. By Veronica Martinez and Mike Kennerley from the Centre for Business Performance, Cranfield School of Management, and Richard Harpley, Richard Wakelen, Kathy Hart and James Webb from EDF Energy Networks Branch.

Executive review
This report describes the results of a detailed research on the impact of performance measurement and management systems (PMMS). It presents the results of the first UK Survey on this specific theme. Then, it explains the effects of the implementation of a scorecard-based performance management system (PMS) within EDF Energy’s Networks Branch, the UK-based division of a multinational company.

Cranfield School of Management’s Centre for Business Performance has conducted this research, with funding from the Engineering & Physical Sciences Research Council. It has two phases: 1) a survey study in the UK manufacturing and service sectors and 2) an in-depth case based on multiple structured interviews.

The report addresses an analysis of the positive, negative, internal and external effects in the UK manufacturing and service sectors. It is extended to the analysis of EDF Energy’s experience of implementing a PMS, in the context of Cranfield researchers’ previous research findings in this field. In doing so, it describes the factors that contributed most to the PMS’s successful implementation and those aspects which, at least initially, tended to hold it back from achieving its full potential, and so draws conclusions and lessons from these research results.

The report also identifies moderating factors that influence these critical effects and highlights the vital importance of performance reviews at both executive and operational levels. It provides guidance too on where EDF Energy will need to make future adjustments to the ongoing development of its PMS.

The results of this research will make interesting reading for all executives involved in the PMS development process; and the report also contains valuable lessons for executives in other companies who wish to embark on a similar implementation process. We hope, therefore, that EDF Energy will be willing to share their learning experience with other executives in other industries. This report has, therefore, been structured in such a way that this can easily be enabled.

1. Introduction to performance management systems and research study
Today, many organisations place strong emphasis on the adoption and usage of broad-spectrum performance management systems (PMS) – as opposed to traditional financially focused systems. Partially, this has been driven by the popularity of ‘balanced scorecards’, a management framework developed by Kaplan and Norton over a decade ago. Evidence suggests, for example, that in 2001, the balanced scorecard had a utilisation rate of 44% worldwide: 57% in the UK, 46% in the US and 26% in Germany and Austria”. However, few of these adoptions are strictly what Kaplan and Norton advocate and a balanced scorecard has become a generic term for a PMS that extends beyond regular financial measurement systems.

Scorecards do not necessarily have to be built around Kaplan and Norton’s original framework, the sub-components of which have subsequently been patched and modified over time (not always satisfactorily) by the originators to try to compensate for the apparent absence of key aspects of contemporary management issues’. Other frameworks, such as the Performance Prism for example, arguably work much better in today’s business and public sector

“Sixty-two per cent of manufacturers and 48% of service providers agree that somehow PMS contributes to their employee’s satisfaction”
“Fifty-eight per cent of manufacturers and services agree that PMS help them in the achievement of key objectives.”

Recent research carried out by the Centre for Business Performance at Cranfield School of Management shows that organisations generally implement performance management systems to: (1) monitor productivity, (2) communicate strategy, (3) reduce costs, (4) review their business strategy, (5) support their compensation systems and (6) control operations. A few organisations suggested that they had implemented performance management systems because it became a legal requirement to report non-financial data. While others said that their PMS was a requirement to gain customers’ contracts – particularly in fast-moving environments, such as the telecommunications and automotive industries, where managing suppliers’ performance is critical to the business.

The objective of this research is to study the diverse effects and significant impacts of implementing new performance measurement and management systems in the way organisations operate. This report shows a) the results of a UK survey study in the manufacturing and service sectors carried out in 2006 and b) the results from eight months of research in EDF Energy’s Networks Branch carried out by Cranfield’s Centre for Business Performance during 2004-5. The data analysis used followed a rigorous and systematic methodology to analyse, interpret and distil data with a range of employees from top management level down to operational level. The results highlight the mixed effects (both internal and external) of PMS in EDF Energy’s Networks Branch.*.

*For brevity’s sake, EDF Energy’s Networks Branch is referred to hereafter as simply ‘EDF Energy’.

2. Link of Performance Management to Business Results: The Theory

A number of survey studies indicate that organisations with integrated and balanced performance management systems perform better than others. A US survey’s results shows that PMS, used as a management control tool, increases both organisational sales and profits, and reduces overhead costs by 25%; while another found that PMS improves the return on assets and stock market performance. Other researchers found less tangible benefits, such as customer or employee satisfaction. Indeed, some also show that PMS increases employee communication and collaboration while facilitating buy-in of the implementation of strategic objectives.

Despite the great promises from these survey studies, some organisations do not see the positive effects in their financial accounts. In fact, some suggest that it is very difficult to isolate the financial effect of PMS from other management systems. A couple of senior managers from fast-moving organisations reported that their general perception is that PMS might have a negative effect on their financial performance, because it consumes significant resources and time. On the other hand, some managers suggested that performance management systems create a greater business impact by driving people’s behaviours, and creating new practices and routines, than just by trying
These studies suggest to us that the effects of performance management systems need to be better understood in order to maximise their benefits. In doing so, we differentiated two types of positive effects; i.e., internal and external effects.

First, we defined the external effects of PMS as those that are reflected in the business results, such as profitability, market expansion, company reputation and leadership in the market. They are external expressions of the company’s performance and are perceived by different stakeholders, such as customers, suppliers and regulators (among others), as well as by industry competitors.

Second, the internal effects of PMS are reflected in the way the organisation operates, such as operational processes, organisational behaviour, culture, employees’ capabilities, and so on. The internal effects are embedded in organisations’ day-to-day performance; they are internal expressions of the company performance. Hence, they are mainly perceived and experienced by employees and some shareholders.

In general, organisations should pay more attention to the ‘internal effects’ of performance management because they directly affect the way that they operate. These internal effects are the engines that drive an organisation’s results (e.g., profitability, reputation, productivity, etc), but a time lag often occurs between the achievements of positive effects and organisational results. The following figure shows the effects of performance measurement and management systems.

### 3. Survey Results

The objective of this survey is to study the effects of performance measurement systems (PMS) in the UK manufacturing and services sectors. It is important to note that this is the first survey that analyses the effects of PMS in the UK context.

The population frame was taken from the FAME database, we used the SIC code to identify large UK organisations operating in the manufacturing and service sectors. Using a random sampling process, 500 organisations were targeted. The survey was supplied in two waves in 2006. One-hundred-and-twenty-one UK companies participated in the survey, 45% of organisations were from the service sector and 55% from the manufacturing sector.

The survey results show that 69% of manufacturing companies and 62% of services companies agree that Performance Measurement Systems improve people focus. Fifty-eight per cent of manufacturers and services agree that PMS helped them in the achievement of key objectives. Fifty-eight per cent of manufacturers suggest that PMS improve their operation’s feedback, in contrast to 49% of services. Sixty-eight per cent of manufacturers agree that PMS enhance their communications skills. Moreover, 49% of services and 45% of manufacturers suggest that PMS help them

"In 2001, the balanced scorecard had a utilisation rate of 44% worldwide"
Motivation. This study did find systems improve people’s performance. In addition, 52% of manufacturers and 48% of service providers agree that somehow PMS contributes to their employees’ satisfaction. Some 41% of services agree that PMS encourages employees’ participation in the discussions around performance improvement; whereas 58% of services report that PMS support them the most on sharing best practices.

Fifty-three per cent of manufacturers agree that PMS supports their sales growth as opposed to 41% of services. In general, manufacturers find more PMS support their financial performance and market share than service organisations. The major negative effect on the manufacturers and service front is the ‘Deflection of misleading prioritisation’, i.e., when a ‘red’ measure flashes (in a traffic-lights reporting visualisation) it attracts attention and resources – even if this measure might not be as important as other measures in ‘green’.

The tolerance to failure and getting employees involved in solutions to problems are the two strongest factors that influence the effects of PMS according to service organisations.

4. Case Example: EDF Energy

For the benefit of non-employee readers of this report, some brief context about its subject may be appreciated.

EDF Energy is part of EDF Group (formerly Electricité de France), one of the three largest energy groups in Europe. It is also one of the largest energy companies in the UK. It generates 7.6% of the UK’s electricity, employs over 13,000 people and supplies gas and electricity to over 5 million customer accounts. It has a turnover of more than £4 billion.

The creation of EDF Energy, in 2003, was the culmination of a merger between London Electricity and the Seeb Group of companies. The latter was acquired by London Electricity (already owned by EDF) from American Electric Power (AEP) in 2002.

EDF Energy is a vertically integrated energy company, including generation, distribution and supplying customers. Its operations are structured into four principal divisions (or branches) and the EDF Energy corporate:

- Energy Branch;
- Customers Branch;
- Networks Branch;
- Development Branch;
- Corporate.

The subject of this particular study is the regulated Networks Branch, which is responsible for the electricity distribution networks that provide power to 7.8 million homes and businesses across London, the East of England and the South East.

5. Implementing Performance Management Systems in EDF Energy: The Purpose

In 1999 (before the merger), business units initially implemented the scorecard because it was facing financial problems, i.e., a 3% income reduction and the consequences of re-adjustments by the regulatory regime; in particular it had strong pressure to reduce costs and improve customers’ supplies.

Based on the initial benefits of the scorecard, in 2002,
EDF Energy decided to adopt a performance management system to:
• Improve productivity and performance;
• Enhance EDF Energy’s reputation;
• Focus and align resources.

The company’s performance management systems support the integration of different stakeholders by providing a common language to communicate with and by sharing similar practices and routines across newly merged operations.

Like many other firms, EDF Energy has adapted Kaplan and Norton’s balanced scorecard framework – for example, the learning and growth perspective has been substituted by a people one. The customised PMS scorecard approach has been gradually deployed throughout the whole organisation.

6. Positive Effects of PMS in EDF Energy’s Performance: The Practice
As a result of the interviews conducted and our analysis of the results of these, we were able to identify eight main effects (from a list of 38) that were regarded as the most important positive contributions towards the success of EDF Energy’s PMS. The top one is the fact that performance management systems ‘focus employees’ attention on important issues to the company’, by linking key objectives to employees’ jobs and continuous reviews. Analysis shows that this is the main driver that contributes to EDF Energy’s customer satisfaction improvement.

One of the less visible, but nevertheless powerful, benefits at EDF Energy has been the change in employees’ behaviour. PMS has improved the tolerance to failure, improved the transparency of information, improved vertical and horizontal cooperation, and encouraged friendly competition between teams. As a result, the culture has moved from a reactive, command-and-control culture to an open and proactive one. Currently, the branch is focused on both customer satisfaction and continuous improvement – not always compatible bedfellows, but important objectives nevertheless.

The other effects of PMS in EDF Energy are discussed below. They are divided into internal and external effects.

5.1 Internal Effects
Our data analysis identified 38 internal effects of performance management in EDF Energy. These effects are divided into four categories: strategic management; organisational behaviour and people issues; organisational capabilities; and operations and tactical issues.

For schematic, see figure below left. (See Appendix 1 for methodology applied.)

**Strategic Management**
Our research shows that PMS enhances EDF Energy managers’ ability to focus their efforts by aligning strategy with operations. Moreover, it provides direction on the achievement of key strategic objectives, which closely relates to strategy execution. It improves the clarification of business priorities and reduces the ambiguity.

**Organisational Behaviour and People Issues**
PMS substantially changed employees’ behaviours: it enhances people’s attitudes towards improvements, allows accountability for actions, and creates better motivation. PMS has strengthened both the vertical and horizontal collaboration within EDF Energy, it can be noticed in the increment of integrated solutions on service delivery. Managers explained that, currently, EDF Energy has reached the level where employees propose process improvements and simplification of operations. They also express their opinions and demonstrate their expertise in the development of their activities. Our data analysis shows that there is a close correlation between the PMS maturity and the degree of proposed improvements and changes. This is further discussed in the section on factors that influence PMS.

**Organisational Capabilities**
The research analysis shows that PMS affects the way employees perform. In particular, it provides vital information to stimulate debates on performance and allow people to drill-down the data needed to identify specific problems and find relevant solutions.

In doing so, it enhances employees’ analytical thinking. This study shows an early correlation between the PMS’s
maturity and employees’ analytical thinking, ie, the higher the PMS’s maturity, the stronger employees’ analytical thinking.

We also identified that one of the most valuable lessons from PMS came from the discussion (at different organisational levels) about the generation of measures and goals, the prioritisation of objectives, and the delegation of tasks to improve performance. They enhance the performance practices, the understanding of partners’ and customers’ expectations, their relationship with other activities, partners’ trust, plus the sense of belonging and effectiveness of action plans.

Operations and Tactical Issues
The research analysis shows that PMS supports EDF Energy’s productivity by hitting and improving strategic and operational targets, such as customer satisfaction, customer minutes lost, safety, maintenance, and project development. Moreover, it supports the improvements in operations and integration of processes.

Table 2 summarises the internal effects of PMS in EDF Energy.

It is clear that the vast majority of internal effects of performance management systems concentrate on the development of intangible competencies, such as skills, behaviours and values. Intellectual capital theorists suggest that intangible competencies are the foundation of sustainable competitive advantage. Without significant and substantial internal effects, external effects cannot be achieved.

Part two and a full list of references will appear in the Autumn 2010 Issue of Management Services
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