

LMJs 1<sup>st</sup>  
Anniversary  
edition!

# All that counts cannot all be counted

This sentiment from Albert Einstein could be paid better heed by the instigators of many lean programmes in pressured economic times. This issue examines the difficulties of discovering true customer value and adhering to its optimisation despite cost concerns.

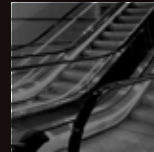
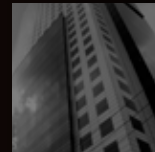
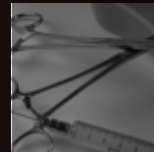
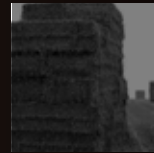
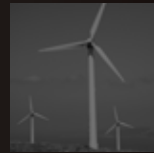
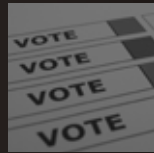
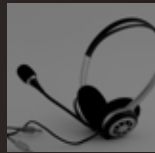
## In this issue:

**Customer value matters** – Wendy Wilson, senior teaching fellow at WMG, puts the concept of value into context.

**The cost of a cost focus** – Zoe Radnor, associate professor at Warwick Business School examines lean applications in UK public services and reflects on the impact of budget cuts on the focus and objectives of these projects.

**Thinking outside the box** – Ken Rohleder, executive VP of packaging service providers, Packsize, clarifies how a new and honest perspective on customer value led to the creation of their unique on-demand business model.

**A lesson well learned** – Responding to the lean education and training focus of LMJ issue 06, Gary Griffiths, partner at lean consultancy SA Partners, describes his vision for the development of lean expertise with meaning.

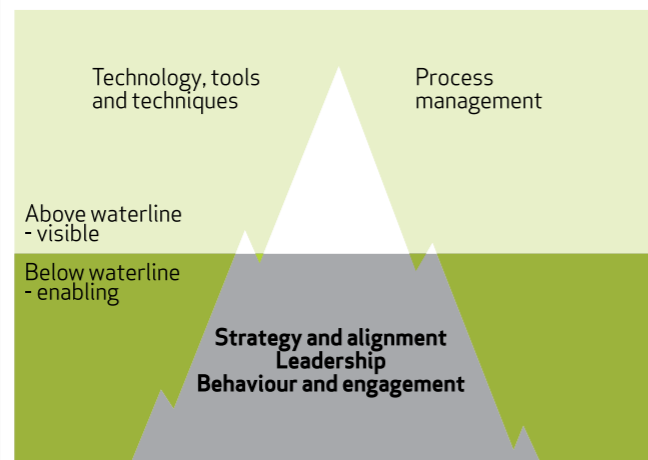


The Lean Management Journal is supported by the Lean Enterprise Research Centre, Cardiff Business School

Pauline Found, co-author of *Staying Lean: thriving not just surviving* investigates with Michael J. O'Brien and Lynne Oliver of The Pacific Institute the dynamics of organisational cultures, their influence on bottom line results and the role of leadership in building constructive lean cultures.

# Culture and results

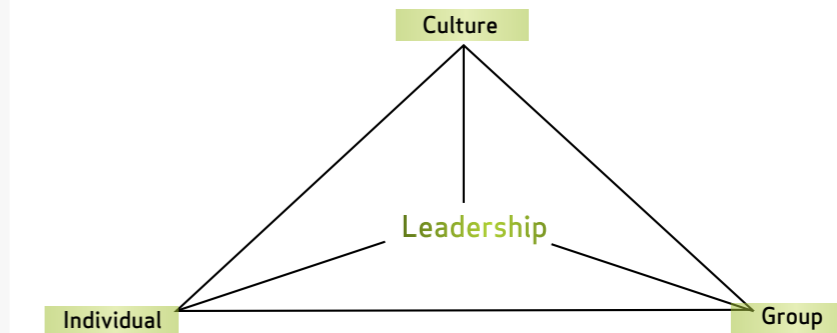
Fig 1: The lean iceberg model



Every successful lean implementation starts with an honest and accurate understanding of the current situation or current state and the development of a future state aspiration. In order to bridge the gaps between these current and future states lean practitioners must understand that there are two sides to the lean journey. One focuses on technical skills and tools and the other on culture.

The role of leadership in the cultural side of progression from current to future state is central and will require leaders to understand that behaviours in their organisation are part of an interrelated system. If we refer to the lean iceberg model pictured

Fig 2: Interdependent relationships



above, and explained in *Staying Lean*, we can see that it requires focus on the below waterline elements of change.

Organisational culture – the collective behaviours of the organisation – is influenced by leadership, the groups and individuals that direct the organisation. However the relationship is interdependent and leadership will in turn be influenced by the individuals and teams they are responsible for. Fig. 2 illustrates this interdependent relationship.

Behind this network of influences are the beliefs which prompt behaviours. In order to shift culture leaders need to acknowledge these beliefs and understand why they exist. This model does not take into account the skills and knowledge that exist in organisations but it does help to explain inconsistencies between skills and actions; the reasons why capable individuals may not always apply their talent in the best way due to the influences of superiors, peers or the overall culture of the workplace.

The key point of culture is that it shapes the beliefs of organisational members about what behaviour is appropriate regardless of whether it is productive or not. While there are many factors that determine a culture, leadership is the single strongest influence.

So how can a leader influence beliefs to create lean behaviours? First, an individual has to believe that something is right for them, and is consistent both with their own values and the perceived values of the organisation. Second, they need reassurance that the people they respect would behave in a similar fashion. Finally, they have to believe that they have the necessary skills and resources to make change possible. Organisational culture is the shared belief system that guides the way we think, behave and interact within the organisation.

Linking this to the all-important issue of productivity and profit, the extent to which organisational culture affects an enterprise's ability to be adaptive has been shown by Kotter and Heskett (*Corporate Culture and Performance*, Free Press, 1992) to be related to key performance factors. Based on interviews with key stakeholders they categorised organisations as either adaptive or unadaptive and contrasted that with published data on their performance over an eleven-year period (1977-1988). Fig 3 shows a startling difference in growth between these two groups of companies. One subtle, but very important, piece of data on this table is the 1% growth in net income for the unadaptive companies. After eleven years and 166% more revenue (a growth

of 10% per year) the bottom line has not moved significantly. All that additional revenue has been used to fund increasing overheads – more appropriately defined in lean terms as waste. At the same time, the adaptive companies' net income has grown faster than their revenue, which means that they are not only growing revenue, but they are also eliminating waste and overhead.

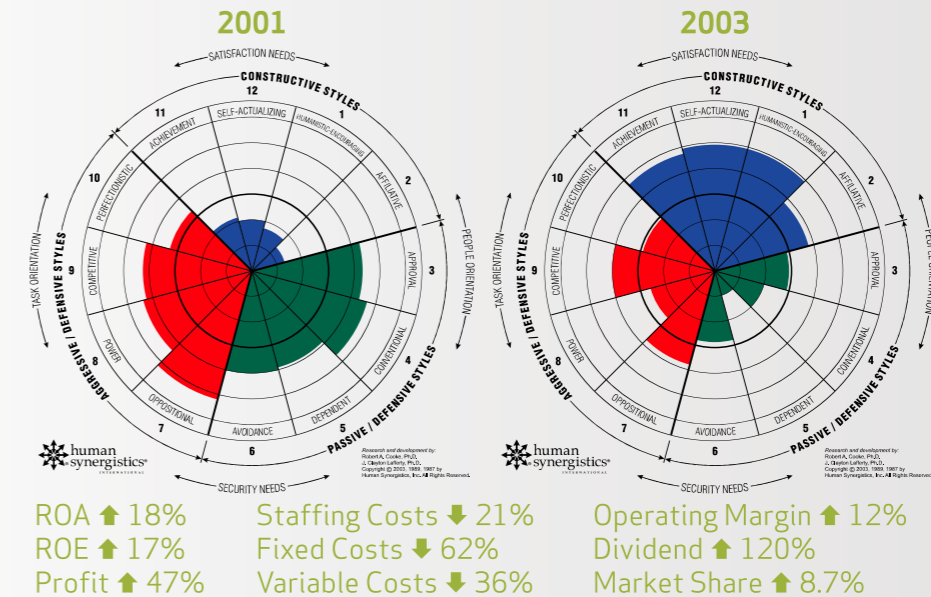
	Unadaptive Culture	Adaptive Culture
Revenue	166%	682%
Workforce	36%	282%
Stock prices	74%	901%
Net Income	1%	756%

**Fig 3: This table presents the growth in select organisations from 1977 – 1988 from John Kotter and James Heskett *Corporate Culture and Performance*, Free Press, 1992**

### Culture and Performance

While Kotter and Heskett have clearly shown the relationship between culture and performance, the real test is: can you change organisational performance by shifting culture? At The Pacific Institute (TPI), the work of Drs Robert Cooke and J.C Lafferty of Human Synergetics, who created the Organisational Culture Inventory® (OCI®) have used the circumplex as a method for further investigation of this possibility.

In simple terms the OCI measures the extent to which the culture is constructive (adaptive) or defensive (unadaptive). Utilising the OCI as part of an integrated lean transformation process enables an organisation to measure the shift in culture and any corresponding growth in performance. One of TPI's first engagements with this new transformational process was with a shipping company in Asia. In a two-year period, the client achieved an amazing shift in culture and a corresponding shift in financial performance. The data below documents that change.



**Fig 4: OCI circumplex from Robert A. Cooke and J. Clayton Lafferty, *Organizational Culture Inventory*®, Human Synergetics International, USA. Copyright © 1987-2010. All rights reserved. Used by permission. (Reduced staffing costs came from reduced overtime and absenteeism (higher employee engagement) and without any staff reductions.)**

The circumplex model presented above plots the results of a culture audit along 12 behavioural styles grouped into three factors. For the purpose of this article we will focus on three factors: passive/defensive, aggressive/defensive and constructive.

The passive/defensive styles are at direct odds with the principles of lean, and represent wasteful behaviours. The underlying drive of a passive/defensive culture is to avoid risk by preventing the organisation from changing. The bureaucratic, unresponsive nature of these cultures stems from an entitlement belief and any proposed change to the organisation or its systems is seen as a threat to stability. These cultures resist change through inaction, creating more and more waste in the system. The customer, adding value, and striving for excellence is frustrated by "this is the way we have always done it!" This cultural style not only creates massive amounts of waste, it creates complexity that places undue burdens on disparate parts of the organisation

The arrogance that is the hallmark of the aggressive/defensive styles has clearly been shown to create uneven performance. Aggressive/defensive organisations will generally discover a new approach and utilise it blindly, well beyond its period of appropriate use, until a business critical issue forces a shift to a new paradigm. This creates a disruptive pattern of success and failure. The positivity just after a new approach is embraced causes the culture to lock onto it but means it is oblivious to early signs of changes in the market place that mean the approach is becoming redundant. Aggressive/defensive arrogance can become so strong that it not only ignores customer preferences but articulates that the customer is wrong. This is clearly counteractive to the creation of a true lean culture.

Readers will note that 'perfectionistic' is one of the four styles of aggressive/defensive cultures. It is important to understand that this is significantly different from a culture that strives for perfection. On the circumplex 'perfectionist'

cultures are defined by the extent to which they drive people to be perfect, accepting nothing less than perfection in all that is done. On the surface this may seem to be aligned to lean, but in reality it is an extension of the arrogance within aggressive/defensive systems.

This disconnect starts with the belief that the organisation's current system is already perfect, and the only reason that the results do not follow, is due to people not following the system. This type of culture forces compliance, and when problems occur, the assumption is that it was an error in execution, not the system itself. This results in the organisation being past focused instead of future focused. It also perpetuates blame culture.

The concept of striving for perfection is a key characteristic of the achievement style of constructive (adaptive) cultures. Here there is a belief in growth through continuous improvement; an acknowledgement that no matter how good we are today, we can be better tomorrow. This is an essential belief for sustainable lean. Achievement along with the other three styles of the constructive cultures (self-actualising, humanistic and affiliative) help to reinforce and sustain lean by creating a culture that rewards and expects its members to do the following:

- Believe their effort makes a difference
- Be goal focused
- Be customer oriented
- Encourage and strive for growth through innovation
- Face problems with integrity
- Coach and teach others to achieve
- Cooperate and operate as a team
- Be proactive and accountable for their own performance

In a research project conducted by TPI to aid organisations in their implementation of quality improvement efforts, not only was the culture assessed but also the quality improvement program. Specifically, employees were asked the extent to which they agreed with the following statements:

1. The idea of quality improvement may sound good, but does not apply to everyone's job
2. People in this organisation put more energy into catching mistakes than into figuring out how to do things right the first time
3. I do not think this quality improvement program will have a lasting impact on this organisation

The answers to these questions were used to measure the overall attitude of employees towards the quality improvement program. Those who agreed with these statements the most (the top 15% of respondents) viewed the culture of their organisation as being extremely defensive, with very few constructive characteristics. However, those who did not agree with these statements (the bottom 15% of respondents) viewed their organisation's culture as highly constructive.

This data helps to confirm what makes practical sense; if you are in an organisation that is built on fear and distrust then any effort to improve the

organisation – such as lean – is going to be received with fear and distrust and lead to unconscious sabotage of the programme. Conversely an organisation that already expects innovation, accountability and cooperation (constructive cultures) would embrace the concepts of lean as a natural extension of who they are as an organisation.

Leveraging the model presented earlier in Fig. 2 the transformation process should recognise that to develop a constructive culture we have to address, simultaneously, the two components that influence it by:

1. Building efficacy at the individual level
2. Creating alignment within the leadership team

Building efficacy at an individual level is crucial since a characteristic of defensive cultures is a sense of being stuck without alternative options to the current state. To counter this you have to get individuals to believe their effort makes a difference. This shift in beliefs will move an organisation from the helplessness of the passive/defensive cultures to the goal focused approach of the constructive.

To support this education in personal change it is critical that the leadership is aligned. Leaders exert the single strongest influence over culture but in most organisations different members of the leadership team send different messages and expectations to employees. When employees cannot meet all the inconsistent expectations leaders tend to focus on what is not working and create policies to prevent the mistakes and failures of the past.

To create alignment the collective leadership team must work together and create focus by clarifying, simplifying and leveraging the organisational vision, values and strategy. Leadership need to devise plans using upward feedback which will grow constructive characteristics. It is likely that leaders will need coaching to enable this including training that appreciates how to tap into the teleological nature of humans and use this to lead people towards a desired outcome.

Having examined the complexity and interdependence of organisational behaviours the importance of the issues which lie below the waterline in the lean iceberg model (Fig 1) and their influence on the performance of an organisation become sharply defined. Senior leadership must acknowledge this relationship and look to develop constructive cultural characteristics while rooting out defensive traits with consistency and belief. **END**

### Brenton Harder comments

*Pauline Found makes a convincing case that clearly supports what we've all experienced as quality professionals; that we have a greater chance for success with lean initiatives and driving change in corporations with constructive and adaptive attitudes. Her use of industry data comparing revenue and net income to company culture coupled with a 12-point behavioral model clearly identifies both the visible and invisible traits necessary for success. Leadership is paramount within this model.*