

# Can Lean Business Model Transform Manufacturing Companies into Well-Tuned Machines

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## Introduction

The United States is the largest manufacturing economy in the world, according to the National Association of Manufacturers. Manufacturing in the U.S. is also the largest driver in the nation's economic growth.

Yet, manufacturing in the U.S. is at a crossroads. Jobs are down but productivity is up. Exports rose in 2011 by 14.5% over the previous year. Still, companies are struggling to fill positions in order to meet consumer demand for production.

Most important, CFOs in the manufacturing sector cite the ability to maintain profit margins as the top issue on their list of internal, company-specific concerns, according to Duke University/CFO Magazine Global Outlook Survey, released December 2011. Weak consumer demand tops the list of macro-economic or external concerns.

## Successful Companies

In today's brutal economy, companies face intense pressure to compete. To do so successfully, companies must look for ways to improve their effectiveness and efficiency. They must develop a process that enables them to compete and to grow. Part of that process involves CFOs and their determination if any of the following applies to their respective businesses.

- Customers want products or services faster; demands are accelerating.
- Competition is fierce and getting stronger.
- Niche competitors have shorter product development/delivery cycles.
- Customers demand lower costs with proven value added.
- Competitors are aggressive, forcing rapid changes.

If one or more of these issues are impacting business, then companies should be aggressive in their desire to gain competitive advantage. Without delay, they should begin to develop a lean business process model.

## **Lean Business Process Model**

CFOs should take the lead. They will want to achieve the following results.

- Integrated Enterprise Framework – defined.
- Set of Standardized Process Descriptions – documented.
- Boundary Issues – identified, eliminated.
- Business Realignment – leveraged for strong processes.

## **Integrated Enterprise Framework**

First, companies must decide which processes they wish to consolidate or integrate. A standard look and feel in all their processes is essential to take maximum advantage of the current economic recovery. The companies also will reap rewards from a methodology that ensures continuous process improvement. Further, companies must focus on facilitating cross-talk and cooperation between and among different processes if they expect immeasurable gain.

### **Executive Sponsor**

Companies must tailor their approach based on their particular corporate culture and specific needs. An existing team, currently maintaining the processes, may be used along with a small consultant team. Another company may choose to rely on a team of outside experts. However, in all cases, an executive must be identified who will agree to sponsor the work effort and is empowered to make the key decisions in this business transformation.

The entire process is not a short project but typically can be completed in several months, if the right resources are dedicated to the work effort. An executive sponsor or “business owner” will keep others, especially high-ranking stakeholders, focused and aligned on the lean business process model. This should prevent any stalling or shifting of priorities.

### **Outside Experts**

Objective experts should be a part of the resources dedicated to the project. Companies often feel they can complete this work without the help of outside experts. However, too often this approach results in priority conflicts as internal staff is pulled in different directions by the daily needs of the business. Furthermore, internal staff can be at odds with each other over tough issues or be unaware that certain issues are the basis of unresolved conflicts, such as the case in many times with duplication and gaps.

Certain conflicts will be unavoidable but this should not be viewed as necessarily a bad sign. Conflict is normal and should not be viewed as a problem. One of the greatest outcomes of streamlining business operations is finding and eliminating costly duplication.

## Standardized Process Descriptions

Documentation of existing processes must be gathered. At this stage, overlaps and gaps should be identified, such as two or more processes performing the same function and work not addressed or clearly documented. Ground rules and boundaries for roles and responsibilities will need to be established. Process documentation should be standardized. In addition, the identification of little used or redundant processes is critical. These processes are generally the “sticking points” that slow growth and recovery.

## Boundary Issues

Typically, when boundary issues or gaps are identified, a standard approach is used to resolve the situation. First, all parties must agree that a valid issue exists. Next, the parties agree to either resolve the issue, thereby eliminating the issue altogether, or they agree to mitigate the issue, developing a satisfactory “workaround” process that will significantly reduce the impact of the issue.

Boundary issues to be addressed, include:

- Hand Shake
- Overlap or Duplication
- Process Gap or Workaround
- Information Gap

Roughly defined, a hand shake is a significant process execution that is required by another process. One example would involve the sales department receiving a request from the contracting department.

An overlap or duplication is the situation involving two processes that want to own, define and execute the same significant process contest. An example would be the supply chain organization and the finance payable organization both wanting their own payables function.

A process gap or workaround involves business work that no enterprise process owns, defines or executes. Yet the function is needed by another process that is not currently being done. An example would be the sales department requiring a client’s credit validation at proposal time but neither finance nor treasury having a pre-order credit checking sub-process.

An information gap involves a process requiring data from another business area process that does not currently produce the required information. An example would be sales management requiring a consolidation human resources report for planning purposes but the human resources (HR) department only providing detailed HR reports which would violate company privacy guidelines.

## Process Execution

A few guidelines are in order for process execution. First, the core business executes the process or processes that it own, such as sales executes sales processes and finance executes finance processes. Additionally, one business area may execute a sub-process in its core business at the request of another enterprise process, so long as all parties agree. This is referred to a “request-respond” execution.

Furthermore, a process can be executed “hands-free” via automation of a sub process. However, the documentation for this process is still required.

Process definition remains the responsibility of the process owner. This process owner is responsible for defining the key business control points for that process. Audit then will execute against these key business control points.

What is important to remember is that companies must define what is being done so that they can verify that what is documented, e.g., the processes, is accurate with what is currently being executed. A key point is the identification of process owners. Sometimes, a process has multiple owners, each with a different piece of the action. When this situation is identified, it must be added to the issue documentation and resolved.

Continuous process improvement techniques also should be documented.

Processes with little or no documentation, e.g., cases where work is being done but without documentation, must be identified. In this case, the objective is to document what is being done to establish a base line. Further, linkages to the existing processes must be defined and agreed to by each process owner affected.

## Executive Reviews

When the company’s team and their partners, the outside experts, agree that the processes documented reflects the work that is actually being done, and only the unresolved issues remain, a series of interim executive reviews should be scheduled to assist in resolving the final issues. Obviously, up to this point, executive teams have already been called in for reviews, as part of the overall schedule to review milestones and the project’s progress. The ultimate goal is to resolve all remaining issues.

A final review with the executive sponsor should be conducted to determine the next steps. At this point, under normal circumstances, all issues have been resolved and the company has a complete set of process definition, integrated into a framework that has a plan for continuous process improvement.

This final review should include a “to be” plan, whereby next steps are outlined to revise or further streamline processes. One example is the company’s decision as a next step to use software applications to perform all or a part of a particular process.

## **Business Realignment**

Once an integrated business framework has been defined, the processes have been documented, boundaries and gaps resolved, process owners in place and a continuous improvement plan defined, the CFO should work with the executive sponsor to ensure the processes are aligned to meet the ever changing needs of the business. This is facilitated by the continuous process improvement plan in place which allows for routine and more easily executed process changes by the process owners.

## **Conclusion**

The first steps are critical and must be done crisply. If not, the project to transform a business into a lean business model will falter and other priorities will step forward, preventing success. If a company is to transform itself into a lean, well-tuned machine, that company must commit a dedicated staff to its work effort and see the project to completion. Only then can the company be assured of achieving the highest level of success.

Of course, someone in the company must take the initiative. The person most aware of the bottlenecks in the company is the CFO. In best practices of business transformation, the person is the CFO. However, no CFO can expect to transform a company by himself. He needs the support of the executive team. Consequently, before a single step is taken, the CFO must secure the agreement of the company’s executive team. Once this is accomplished, the CFO should seek outside assistance from an experienced business transformation consultant or company. Now, the CFO can expect to begin his journey to transforming his company.

## How We Can Help

In today's highly volatile environment, CFOs are being squeezed from all directions. They are expected to play a strategic role in a corporate world filled with regulatory requirements, inefficiencies, budgetary limitations, a myriad of financial and management systems, growing expectations and risk. This results in huge challenges. A major solution to these and other critical problems is business transformation.

Others in your industry have already implemented business transformation in developing their lean business model. The key is being able to identify which processes to leverage, which to improve and which to eliminate. We have experts who have helped companies worldwide in identifying gaps, solutions and implementations. We have access to industry best practices and can help you understand how they may apply to your company.

If you have questions, please contact us. We are available to talk about issues that are unique to your company's situation.

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## About the Company

J. Weiland, Slice & Co., LLC specializes in best practices in business transformation, targeting small to mid-market companies driven by volatile market forces to seek optimal business operations. Co-founder Jim Weiland and his team of experts are ex-IBM project executives with a diversity of worldwide management and consulting experience. As consultants, they help companies in need of Fortune 500 expertise but without the financial resources of a large corporation. The company is based in Charlotte, North Carolina, with consultants in Canada, Latin America and United States. Website is <http://www.jweilandslice.com>.