



Industry Forum

Business Excellence Through Inspired People

March 2014

Lean Management, Operational Excellence and High Performance Working

A major business survey published last year found that employers in the UK are reducing training on teamwork and problem solving and putting more pressure on individuals to work harder. Does this mean that the lean approach has been exhausted and no longer offers a competitive payoff to firms?

Powerful evidence to the contrary has just been published by McKinsey in a 140 page report, The Lean Management Enterprise. This is the third in a series of reports about how much lean transformation can achieve when it unleashes the potential of each individual, reinforcing management skills and unlocking employees' problem-solving capabilities.



This general approach is termed “lean management.” Lean may start as a small, isolated success story but it can reach the entire enterprise, including functions that had hitherto seemed too difficult to transform, such as IT, product development, finance, marketing and sales, and communications. McKinsey suggest that the ability to develop lean management has the potential to be a differentiator between manufacturing firms in advanced economies and those in emerging economies.

There is a tendency to see lean as an approach which primarily pays off in manufacturing. McKinsey, on the other hand, have found that lean management has underpinned successful service organisations as well. For at least the last two decades productivity growth in manufacturing in the UK has been well ahead of the service sector. The more that value adding approaches can be spread throughout the service sector, the faster the productivity of the UK economy will recover from the dip that started in 2008.

Four disciplines make up lean management:

1. Delivering value efficiently to the customer
2. Enabling people to lead and contribute to their fullest potential
3. Discovering better ways of working
4. Connecting strategy, goals and meaningful purpose

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Each of these is supported by a set of tools and techniques that shape day-to-day work for both managers and frontline employees throughout the organisation. By adapting and implementing the tools it is possible to introduce performance targets for transparent results, redesign processes to be more efficient from end to end and build organisational structures that encourage cooperation and capability building.

A related piece of evidence in favour of this kind of transformation comes from the private equity (PE) industry. PE investors came out of the recession with a renewed focus on organic revenue growth, applying a more entrepreneurial mindset to working with their portfolio companies. Building organisational value within their portfolio companies has meant putting the right top management into each company plus ensuring that the new team follows a strategy of increased operational excellence.

Private Equity International run a set of annual Operational Excellence Awards. In 2013 the winner of the Large Cap Award was Terra Firm Capital Partners and its involvement with Deutsche Annington (DAIG) which is now the largest privately owned residential landlord in Germany, housing around half a million customers.

Terra Firma Capital Partners started the project in 2001 when DAIG was a set of 10 German Federal Rail housing portfolios with a disparate collection of real estate assets – comprising 64,000 units. The first step was to intergrate the various IT systems and create a pan-German customer care centre. DAIG then sought to grow its asset base through acquisitions. In 2005, the company secured another 138,000 further properties by buying Viterra, and in 2009 it added another 4,500 through the acquisition of Prima.

This scale of operation allowed the firm to bring the caretaking and facilities management functions in-house, by hiring 370 facility managers across its sites, and set up two joint ventures with local services provider B&O. In 2012, 200,000 small repairs were completed and almost 4,500 vacant flats refurbished. DAIG also targeted greater energy efficiency – via extra insulation, window replacement and new heating systems, which reduced the company's carbon footprint and its tenants' energy bills.

Effort also went into making apartments more habitable for the elderly, through improvements to building infrastructure, such as adding elevators, as well as installing more accessible showers. Other initiatives were intended to make apartments more attractive to all tenants, like installing balconies to let in more light or partnering with Deutsche Telekom to equip flats with fibre optic technology.

DAIG teamed up with the German Foreigner Association to offer free German language courses, designed to provide tenants and non-tenants with basic language skills. While DAIG is primarily a housing company it invested heavily in developing additional services to provide value to customers.



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“Terra Firma clearly did a lot of work here in professionalising what had previously been a quasi-state organisation,” said PEI Award judge David Currie. “They made some acquisitions along the way, but they also did quite a lot of work on improving management and the company’s service to clients.”

In July 2013 DAIG made its public market debut on the Frankfurt stock market floating 15.5 percent of its shares and raising €575 million in the process.

This case clearly shows that lean management and operational excellence are virtually identical. A third term which can add to confusion is High Performance Working (HPW), an approach which is advocated by the UK Commission on Employment and Skills.

An important part of accelerating the spread of lean thinking across the enterprise is to bring the HR department into the project as a partner in the early stages. It is almost always a mistake to start taking decisions that involve employees without getting HR involved. HPW effectively sets an agenda for HR involvement in this way.

For example, before launching a lean-management transformation, the enterprise must establish a central team to plan and coordinate the transformation and provide oversight for working-level change teams who will guide business and functional areas through the transformation. These teams will need top talent, both to meet the managerial demands inherent in a transformation, and to underscore the priority that leaders are giving to the transformation. High performing staff are always in demand across an organisation and HR usually has valuable experience in identifying the relevant staff and managing the conflicting claims for their deployment.



Pursuing operational excellence often means creating new roles and changing old ones significantly as the organisation breaks down internal walls and redesigns its operating patterns. This redeployment of both managers and employees will require extensive HR collaboration. The new way is likely to involve a new emphasis on coaching and feedback and these are skills that are probably best understood by some HR staff who will be major assets in spreading them across the organisation.

The required changes in leadership, team structure, and performance management can be deeply stressful for frontline employees and middle managers. HR’s expertise will be crucial in communicating the transformation, monitoring employee reactions to it and addressing concerns that will inevitably arise. The work on this must start at the earliest stages of a transformation, one through the development of a communications plan. Such plan has to be tailored to employee sensitivities and to contractual and statutory requirements, areas that HR professionals understand well.

Sustaining the lean-management knowledge base and transmitting the mind-sets to current and future workers will depend on HR’s talent systems for recruiting, training, people development, and compensation. Major adjustment

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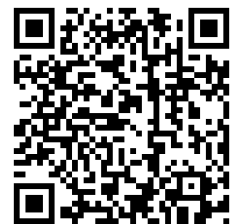
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to these systems may be needed as part of the progress towards operational excellence and if these adjustments are to achieve the desired results HR must be fully involved from the start in the redesign and roll-out.

Industry Forum has extensive experience of the design and implementation of cross organisational transformation and is always available to companies who want to take the next step to advise and help execute the changes needed.

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