

This chapter is concerned with the core of the art of “Continuous Improvement” transformation and delves into the key characteristics and constituents necessary to take the enterprise business to the next level to continue to exist in the long term. Subsequent chapters provide guidance to enterprises management and to professionals engaged in the “Continuous Improvement” initiative implementation and enable them to structure and manage its implementation successfully.

2.1 Setting the Stage

As an enterprise business executive, the only reason why you should ever consider starting a “Continuous Improvement” transformation initiative is to generate more profits in the short-term, sustain these gains in the long-term and make your enterprise business more competitive. If a “Continuous Improvement” transformation initiative is launched to improve customer satisfaction or employee morale, it will do that. But you should look at the “Continuous Improvement” thrust as a business investment that is either going to add to or detract from long-term, net favorable balance of the profit formula. The profit formula is the blueprint that defines how your enterprise business creates value for itself while providing value to the customer. It consists of the following:

1. *A Revenue Model*, which is equals the price required to deliver the customer value proposition (CVP) times the respective volume of products and services. The volume can be thought of in terms of market size, purchase frequency, ancillary sales, etc.
2. *A Cost Structure*: direct costs, indirect costs, economies of scale. Cost structure will be predominantly driven by the cost of the critical resources required by the business model. The critical resources are assets such as the people, technology, products, facilities, equipment, channels, and brand required to deliver the value proposition to the targeted customer. The focus here is on the key elements that create value for the customer and the company, and the way those elements

interact. Every enterprise business also has generic resources that do not create competitive differentiation.

3. A *Margin Model*: given the expected volume of products and services and cost structure, the contribution needed from each transaction to achieve desired profits.
4. A *Resource Velocity*: how fast you need to turn over inventory, fixed assets, and other assets – and, overall, how well you need to utilize resources – to support your expected volume of products and services and achieve your anticipated profits.

Traditionally, enterprises executives and managers commonly seek to meet the goal of “increase income, lower expenses, maximize profit” in the short term by setting sales goals, establishing quotas and targets, launching advertising campaigns, creating new products or packaging old products in new ways, or raising prices to whatever the market will bear. At the same time, in order to lower expenses the executives and managers decrease the workforce, cut back on inventory levels, provide lower levels of service, and slash all indirect expenses.

As a result, the enterprise as a whole (businesses and customers), is trapped with decreasing levels of service and with a growing sense that everyone is increasingly harried as employees are left to do more work with fewer resources. Within the enterprise, every department, and often every individual within a department, is in competition for scarce internal resources, and cooperation is rare. As individual within the enterprise scrambles to take care of his or her own turf, the business suffers, and so new waves of cost reductions are put in place, continuing the downward cycle.

When the goal of “increase income, lower expenses, and maximize profit” is not met at the corporate level, the corporate business units get new goals and performance targets. When the business units’ goals and performance targets are not met, the departments get new goals and performance targets. And when the department goals and performance targets are not met, the manager is reprimanded and individuals are given “stretch goals.” In the long term, this leads to a cover-your-anatomy mentality in which the need to survive the internal competition becomes dominant, taking precedence over the needs of the business and the needs of the customer. The enterprise often becomes little more than a collection of assets to be reorganized, stripped, sold, and resold, with decision-making driven by individual advocacy and self-interest. Sound familiar?

Why do most enterprise business executives and managers so often choose to make decisions that systematically decrease the long-term value of their businesses? One reason may be that they appear to be captives to the “zero sum”¹

¹ In economic theory, “zero sum” thinking is a representation of a situation in which a participant’s gain or loss is exactly balanced by the losses or gains of the other participant(s). If the total gains of the participants are added up, and the total losses are subtracted, they will sum to zero. Cutting a cake is a zero-sum situation, because taking a larger piece reduces the amount of cake available for others. In contrast, non-zero-sum describes a situation in which the interacting parties’ aggregate gains and losses is either less than or more than zero.

thinking, thus most enterprise business executives and managers define their enterprise businesses' interests too narrowly.

If these enterprise business executives and managers define the enterprise business' self-interest (and consequently its goals) too narrowly – for example, to maximize this year's or this quarter's reported earnings – they will view that interest as being at odds with the interests of their customers and employees. From that perspective, in the short term every unit of money spent on employee training is viewed as a unit of money of lost profit. Every additional unit of money squeezed out of a customer, even if it comes at the cost of poor service or price gouging, improves this quarter's results.

This narrow view is powerfully reinforced by financial accounting systems that were well adapted to the industrial economy, but are inadequate in today's economy. The accounting and finance conventions of the industrial age are good at valuing tangible assets, but they largely ignore the value of harder-to-quantify or intangibles assets like employee satisfaction, learning, R&D effectiveness, customer loyalty, etc. In today's economy, those intangible assets are far more important than the assets that traditional accounting systems were designed to measure.

Enterprise businesses which operate with the “zero sum” thinking of self-interest may stumble into a downward spiral of poor decision-making, which is difficult to reverse. For example, as illustrated in Fig. 2.1, as reduced employee training and compensation lead to low employee morale and poor performance, and as underfunded R&D allows a product line to age, customers can become dissatisfied and begin to defect.

In situations where customers are “locked-in” owing to large investments in proprietary equipment or some other temporary monopoly effect, they may not defect immediately. Instead, they will become increasingly alienated and defect as soon as a product or technology shift, regulatory change, or competitive offering allows it. When customers finally do defect, profits shrink, tempting management to cut back even further on training, compensation, and R&D, thus accelerating the spiral of customer and employee dissatisfaction and defection.

Here are just a three of the areas where zero-sum thinking rears its consequences in the enterprise business arena:

1. *Squeezing suppliers* – In the quest for cost-cutting, enterprise business executives and managers have focused on squeezing the prices of their suppliers as much as possible. The result has been deteriorating trust and relationships with key business partners. Too many enterprise business executives and managers under-estimate the opportunity of working together to make both parties stronger and deliver even more value to the marketplace.
2. *Growing focus on intellectual property protection* – There are certainly valid concerns here, but too often enterprise business executives and managers seek to protect their existing stocks of knowledge at the expense of the opportunity to participate in broader relationships that could significantly refresh these stocks.
3. *Marginalizations of innovation* – With some obvious exceptions, large enterprises have generally become consumed with the quest for cost-cutting – again, for understandable reasons. In the process, though, the opportunity to create

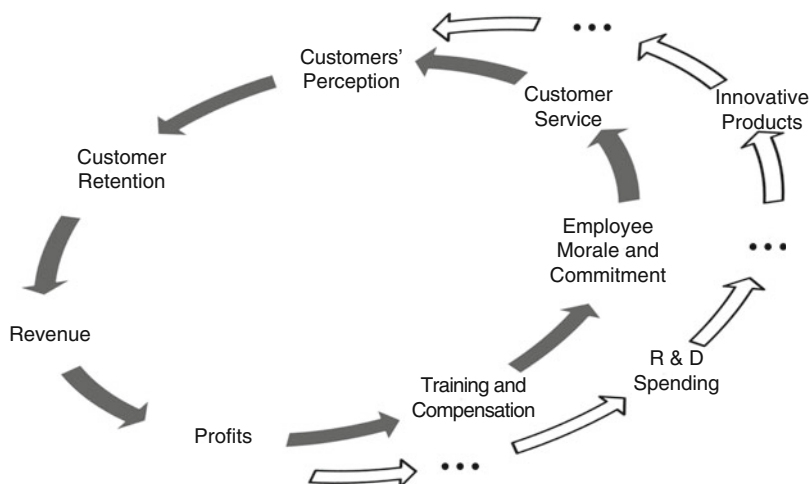


Fig. 2.1 Path for generating customer defection

new forms of value through innovation has been shunted aside. Innovation has been placed in compartment into R&D departments that have been squeezed for cost-savings along with everyone else.

Rather than assigning innovation to the ghetto of R&D, why not liberate innovation and view it as an activity that everyone in the enterprise should be pursuing every day? Of course, that means breaking the mindset that innovation is about product development. After all, innovation is ultimately about finding ways to deliver new value to the marketplace from existing enterprise resources, whether this value is in the form of products, new work practices, improved business processes, new management techniques or new business models.

This cycle of destruction is seen in many enterprise businesses today. In fact, most initiatives to improve enterprise business performance fail to deliver. Whether the aim is to increase income, lower expenses, or maximize profit, the majority of initiatives to improve enterprise performance fail to accomplish their goals. Most of these efforts do not reduce costs, improve productivity, increase customer satisfaction, or raise revenues to the levels that executives expect or have promised to their stakeholders. Some initiatives, in fact, fail outright because of a blindness ignorance and a lack of understanding of the constituents required to improve performance in an ongoing basis and consistently. Under the zero sum thinking, the track record of improvement initiatives within most enterprises businesses is a disastrous one.

Alternatively, if enterprise business executives and managers define the enterprise business' self-interest (and consequently its goals) broadly enough to include the interests of customers and employees, an equally powerful spiral of value creation can occur. Highly motivated, well-trained, properly rewarded employees deliver outstanding service, while effective R&D investments lead to products that enjoy a significant value-adding advantage and generate higher margins. Satisfied, loyal customers (and new customers responding to word-of-mouth referrals) drive

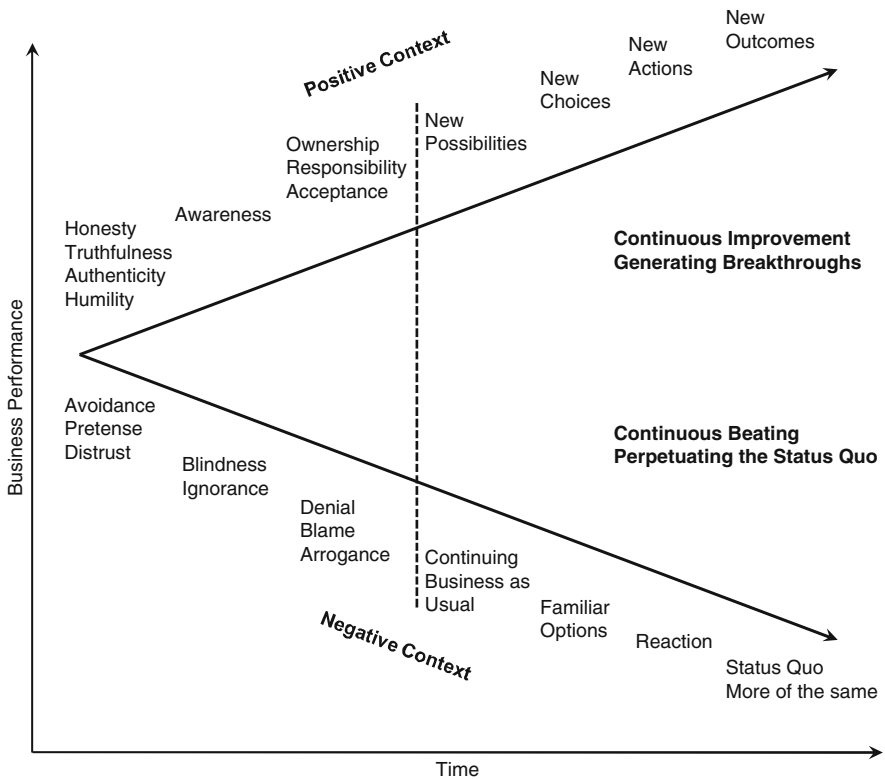


Fig. 2.2 Two paths: generating breakthroughs through continuous improvement versus perpetuating the status quo through continuous beating

revenue growth and profitability for shareholders. Clearly, the undesirable reinforcing processes described in Fig. 2.1 can work in reverse.

The business imperative in these times of severe economic turmoil is not just to perform excellently, but to perform excellently consistently. While the objectives of increased revenues, reduced expenses, and increased profits are legitimate in the short term, the real question is always “how these goals will be met in the short term and sustained in the long term?” The answer is “Continuous Improvement” as alternative is to “Continuous Beatings” with stuttering failure of the traditional approach described above and illustrated in Fig. 2.2.

2.2 What Is “Continuous Improvement”?

How do we define “Continuous Improvement” and what are its key characteristics and constituents? Ideally we need a clear definition of “Continuous Improvement” in order to clearly understand what it is, how it differs from other constructs, what it is related to, and how it should be measured.

To address these questions, we adopt the systems theory framework throughout the remaining of this book for viewing the enterprise as a whole. We also use the concept of maturity which is popular today, with new models emerging describing many aspects of individual maturity, professional maturity, team maturity, process/program/project maturity, and enterprise maturity.

An enterprise, by its most basic definition, refers to an assembly of people working together to achieve common objectives through a division of labor. An enterprise provides a means of using individual strengths within a group to achieve more than can be accomplished by the aggregate efforts of group members working individually.

Enterprise businesses are formed to create value through the provision of goods or services to consumers in such a manner that they can realize a profit at the conclusion of the transaction. Over the years, business analysts, economists, and academic researchers have pondered several models that attempt to explain the dynamics of enterprise businesses, including the ways in which they make decisions, distribute power and control, resolve conflict, and promote or resist organizational change.

2.2.1 System Thinking

We shall think of a system as:

A deterministic entity comprising an interacting collection of discrete elements.

From a practical standpoint, it is necessary to specify further what aspects of system performance are of immediate concern. A system performs certain functions and the selection of particular performance aspects will dictate what kind of improvements are to be conducted. For example: we are interested in whether the system accomplishes some task successfully; are we interested in whether the system fails in some unpredictable way; or are we interested in whether the system will prove more costly than originally anticipated?

The “deterministic” nature of the entity considered implies that the ‘system’ in question be identifiable. It is entirely ineffective to attempt to improve performance of something that cannot be clearly identified. Furthermore, a system must have some purpose – it must do something. Enterprise businesses, organizations, school systems all have definite purpose and do not exist simply as figments of the imagination.

The “discrete element” of the entity considered must also, of course, be identifiable; for instance, the individual business unit of an enterprise business. Note that the discrete element themselves may be regarded as systems. Thus, a business unit of an enterprise business consists of departments, line groups, and so forth; each of these, in turn, may be further broken down into subsystems, etc.

Note also from the definition that a system is made up of parts or subsystems that interact. This interaction, which may be very complex indeed, generally insures that a system is not simply equal to the sum of its parts. Furthermore, if the performance

of any part changes – for example any type of failure – the system itself also changes. This is an important point because, should determining factors changes be made as a result of a system improvement, the new system so resulting will have to be subjected to an improvement of its own.

Of the various organizational models that have been put forward in this realm, the "system thinking" has emerged as the most widely known. System thinking focused on overall system properties and characteristics which appeared to apply generally to all living systems from a simple biological cell to a complex social organization such as a business. These critical system properties appeared capable of providing an overall explanation of system behavior and this was used in the analysis of industries' chronological development as well as product life cycles.

Koehler candle's life cycle analogy provides a good and very simple explanation of the performance of system (Koehler, 1938). At first when a light is put to its wick the candle may spit and sputter and possibly go out several times before the wax achieves the temperature for ignition and is successfully lighted. This birth, introduction or infancy stage is characterized in many systems by volatility and high rates of infant mortality whether we are considering lighted candles, human babies, electronic components, business start-ups or new products.

If the candle successfully lights then the flame quickly burns up to its full size. This adolescent or growth stage is again typical of many systems in the speed and continuity of its growth up to a certain ceiling level characteristic of its mature phase.

As the candle reaches this ceiling it exhibits a generally applicable characteristic of volatility before settling down to a "mature"-phase steady state. The candle's volatility is manifested in a short period of flickering; adolescent human beings exhibit extraordinary volatility as any parent will vouch; the volatility of enterprise businesses and products as they move from growth to maturity is also remarkable, for example, as growth predictions have to be permanently downgraded, forcing management's attention on to a different set of problems.

In its "mature"-phase steady state, the candle exhibits the general systems characteristic of maximum strength, effectiveness and efficiency. This is the phase when the candle burns the wax fastest and gives off the greatest light. It will maintain this maximum energy conversion steady state as determined by its inputs of wick, wax and oxygen and its system characteristics of size and composition of wick and diameter and length of candle. Human beings exhibit similar characteristics, in their "maturity" being at their strongest and physically most efficient stage. Enterprise businesses also appear to be at their most efficient and intrinsically most profitable, cash generating stage.

The steady state will only end when one of the determining factors changes. For example, the wax is used up to the extent that there is no longer a full quantity available for burning. At this stage, the system goes into a decline, but again the change from the "mature" phase to decline is marked by further volatility as the candle flickers and putters and frequently goes out prematurely, i.e. before it has used up all its wax.

One of the intriguing characteristics of this general model is the apparent breadth of its applicability. All manner of systems appear to share these general characteristics and be subject to parallel pressures and influences at the different stages.

A start-up enterprise business, for example, is likely to be dominated initially by the need to survive. If it survives this first phase, it will be able to turn its attention to growth and the development of competitive strength. As it progresses through adolescence it is quick, flexible, opportunistic, and focused on satisfying its shareholders and its customers' needs. It carries no spare weight, no passengers. It is lean and fit, quick on its feet and builds its strength through constant striving and exercise.

This phase sees the enterprise business change from being the creature of the founding entrepreneur with a simple structure, to employing an increasing number of professional specialists concerned with either the technological development or the development of its various management functions.

In a growing market, the adolescent enterprise business has to run fast in order simply to maintain its market share. If it fails to do this, it will probably not survive the first shake out when market growth starts to weaken. In a static market, there is not the same necessity to grow. Many enterprise businesses remain small, providing relatively stable employment for small numbers of people. Nevertheless, other businesses are more ambitious and grow rapidly in order to achieve the critical mass at which the new specialists can be profitably supported. Growth in static markets can only be achieved by increasing market share or by moving into new markets, both of which may be problematic in highly competitive situations.

To achieve "maturity" is the goal of all systems. In the case of an enterprise business, "maturity" is the phase when value creation and wealth creation is maximized, when the most surplus cash is generated, when the enterprise business achieves its position of greatest power and influence, and when the enterprise business should be able to focus, with the least inhibition and interruption, on the achievement of its long-term intended objectives.

Maturity connotes experience, wisdom, and effectiveness. An enterprise that is maturing is getting better – much better. Maturity is the result of successful infancy and adolescence. The success is usually based on doing the right things right and the enterprise business progressively becoming more expert. It learns successful ways of doing things. It finds out what its shareholders and its customers like and gets good at delivering those things. It develops its technological expertise. It uses recipes which work and it becomes efficient. And it becomes effective. All this happens as a result of deliberate management initiatives – it is by no means automatic.

On the human development literature, there are concepts that are very clearly associated with maturity. They include: the development of wisdom; the eagerness to confront reality; the need to learn from the past; the will and wish to act independently; the need to know when to conform; the ability to adapt to ongoing change; the need to remain open to new ideas; the willingness to question one's own belief system; the aptitude for not being threatened by questions from others; and many more.

For a successful enterprise business, however, it is difficult to make a fundamental change in what has established its leading position. This is especially the case with any technology when a successful mature enterprise business is likely to have major investments sunk in the old technology. Getting into something new may mean writing off huge capital assets which will weaken the balance sheet and in the short term wreak havoc with profitability. Also, there are psychological investments in the old technology.

One of the fruits of “maturity” is the ability to pay top salaries and thus attract top highly qualified people. Many of these highly qualified professionals may have built their entire careers on the old technology and their very natural response to such a change is likely to be defensive and reactive. Nor is it at all certain that leadership in the new technology will necessarily follow being a leader in the old; giving up a leading position should certainly not be done lightly.

A successful mature enterprise business, as the system model suggests, is likely to generate substantial surplus funds which are not required in order to maintain the status quo. How these funds get invested depends very much on the circumstances of the individual enterprise business.

Like all organisms, an enterprise business exists primarily for its own survival and improvement: to fulfill its potential and become mature or as great as it can be. In this perspective, we can think of maturity as the progressive realization of the enterprise full potential. It is a process of a continuously innovative course of actions of improvement, introducing the new, eliminating waste, reducing costs, improving quality, and so giving the customer a better deal than competitors do. This is the mindset which drives an enterprise business management across all its responsibilities in operations, marketing, finance and technical management, focusing on ever better use of resources so as to ensure the enterprise business’ survival and its ability to win in its chosen markets.

Accordingly, the progressive realization of the full potential of the enterprise business provides the possibility to continue to develop beyond anything that is currently known. There is no final end of the road to this progressive realization of the enterprise business full potential. However, there is a state of “becoming” – becoming more relevant; becoming more functional; becoming more powerful.

Thus, we define a state of “Continuous Improvement” as any state of “being” beyond the state of “becoming.” It is the highest stage of maturity that an enterprise business as a whole can attain. Attaining this highest stage of maturity does not happen overnight; it takes time!

Most of our client organizations think of “Continuous Improvement” transformation as something that happens periodically, like a project, a workshop, or campaign: they make a special effort to improve or change when the need becomes urgent. But this is not how “Continuous Improvement” transformation, adaptation, and sustained competitive advantage actually come into being. Relying on periodic improvement or change efforts should be seen for what it is: only a sporadic add-on to a system that by its nature tends to stand still.

As illustrated here above, the system approach offers a way of understanding enterprise businesses. Enterprise businesses and particular organizational situations can be analyzed in terms of the various interacting systems they comprise. These may be social, organizational, or technological. System thinking provides the basis for a structured and consistent way of thinking and managing an enterprise business to improve performance, and yet, allows for creativity and adaptation. Creativity and adaptation must always be built into the system and ad-hoc decisions can be taken when the need arises.

The system approach to transformation builds on an understanding of the interactions and interdependencies within and across the constituent subsystems. It highlights the ability to analyze subsystems interconnections, identify system improvement opportunities, and create strategies to translate those opportunities into value.

Adopting a system thinking approach makes the impacts of various components of an enterprise business as a whole more visible and thus more manageable. For example, taking a system view may reveal that the root cause of why the enterprise business cannot meet its cost, quality, and delivery objectives is not something that lies exclusively in any one of the functional areas of marketing, material acquisition, manufacturing, or logistics, etc. but rather in the integration across all its constituent functional areas.

System thinking should happen at all levels of an enterprise business: at the strategic and operational level as well as the interaction between them. The Deming circle of Plan – Do – Study – Act, is an example of this. System thinking would suggest that in the progressive realization of the enterprise business full potential, management creates a 'Plan' of what it would like to 'Do'. This goes into the Execution mode that may either resemble a process, a project or smaller set of activities. The outcome of the 'Do' step needs to be 'Studied' and/or 'Monitored' over time and at the completion of the activity. As a result of the outcomes, there will be triggered a need to take action (i.e. Act). The following are four situations that make the achievement of systems thinking and acting difficult or impossible to achieve.

1. *You cannot achieve your target, unless you manage it* – Targets and goals are rarely met without the involvement of “management” and management action. If the targets are met without management involvement, then they simply were not ambitious enough. Management provides guidance and ensures that the various pieces of the puzzle fit together. Management requires clear definitions of roles and responsibilities, including ownership.
2. *You cannot manage what you do not measure* – Management requires measurement. While the popular “management by walking around” is an important tool to gain a sense of what is happening “on the workshop floor”, it can never be the only tool, nor replace true measurement of process and people performance.
3. *You cannot improve without management* – There are still many enterprise business that have a low level of business process management maturity and yet still attempt to start business process improvement activities without firstly establishing the management required for these processes. Even if the enterprise business does achieve some process improvement, the gains will rapidly

disappear unless the business processes are managed for sustainability. In our experience, many Lean Six Sigma initiatives fall into this category.

4. *No alignment without governance* – Process governance is critical to the systems thinking figure. Process governance must ensure that the target, execution, management and improvement activities are aligned. This is crucial as the various roles for these aspects are distributed among different people within the enterprise business. A pragmatic approach to process governance within an enterprise business will increase the commitment and adherence of all concerned.

2.2.2 Characteristics of Enterprise Business Maturity Stages

An enterprise business maturity determines the enterprise business ability to continuously improve, and is a key determinant of its future performance. Although some maturation occurs naturally through normal learning and experience, it is generally accepted that systematic development interventions will enable the attainment of higher stages of maturation more quickly.

Research also indicates that only 20 % (one in five) of organizational efforts, for progressive improvement toward the “Continuous Improvement” stage of maturity, achieve long-term sustainability. We believe that this is because there is rarely an understanding of the determining factors for real maturation. One of the main reasons we wrote this book is to help enterprise businesses and organizations accelerate the movement from their actual maturity stage to higher stages of maturity.

As illustrated in Fig. 2.3, progressive realization of the full potential of the enterprise business generally undergoes five stages. These are:

1. Ad Hoc and Static stage – Disaster
2. Reactive stage – Learning Tools
3. Structure and Proactive stage – Tools Master
4. Managed and Focused stage – Transformation, and
5. Continuous Improvement stage – Winning Team Culture.

2.2.2.1 Stage 1: Ad Hoc and Static: Disaster

The lowest stage of maturity, “Ad hoc & static,” characterizes enterprise businesses that do not have any strategic planning or management in a formal sense, tending to plan in an ad hoc and uncontrolled manner, normally by senior management behind closed doors, and never addressing long-term strategy. Such enterprise businesses were organized for the industrial era, utilizing command and control orientations that are inadequate for today’s environment. At this stage, there is relatively little performance measurement above and beyond what is legally required. Any performance measurement that does exist can best be described as sporadic and unplanned.

Thus, a “Stage 1” maturity enterprise business is a disaster. There are so many problems in an enterprise business at this level that no one has the time or interest in attempting a performance improvement initiative. One can argue that they should, but typically this would not be perceived as the most important action currently

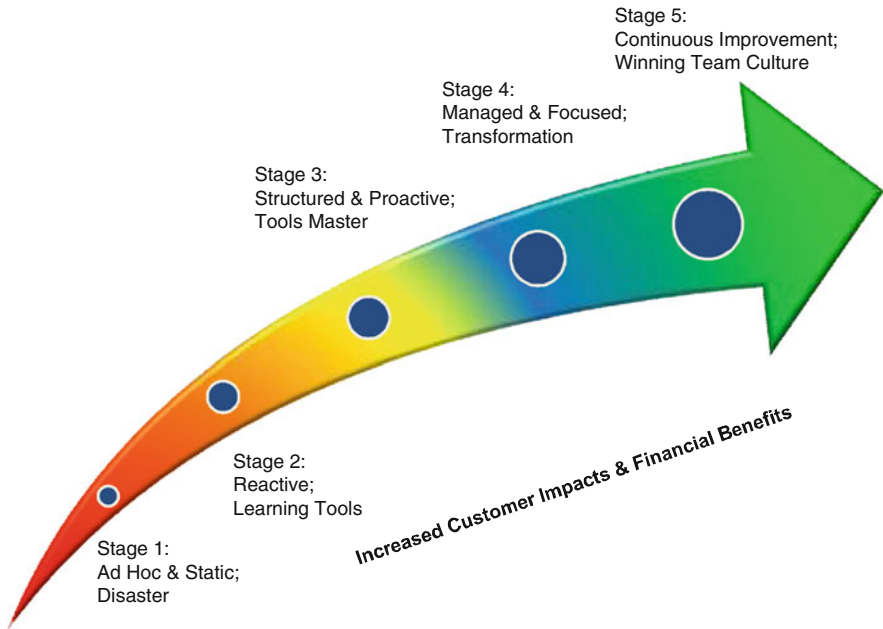


Fig. 2.3 Enterprise business progressive maturity stages

needed. “Fires need to be extinguished first,” would be the typical reaction within such enterprise businesses. This category includes enterprise businesses that are significantly underperforming their industry.

2.2.2.2 Stage 2: Reactive: Learning Tools

The second stage of maturity, “Reactive,” characterizes enterprise businesses that have developed some elements of effective planning with strategic performance management being applied, only in an inconsistent fashion and often with poor results. Planning discipline is unlikely to be rigorous, and only happens in reaction to events or to temporarily please a specific individual within the enterprise. Enterprise businesses at this stage of maturity might measure performance and performance measures might be used by enterprise managers merely to get rewards and to punish underperformers.

Industry performers at this level are usually just learning an improvement methodology or they are going back to improvement basics. The typical sequence of events within enterprise businesses at this stage of maturity is as follows:

1. Someone with influence in a “Stage 2” enterprise business decides an improvement need exists, or an executive becomes captivated with a new methodology that he or she has discovered.
2. Then, a Champion of Improvement is appointed to lead the enterprise business’ initial efforts at learning and using the relevant tools.

3. Training events teach employees about the improvement tools (e.g., 5S, Value Stream Mapping, Statistical Process Analysis, Lean, Six Sigma, supply-chain management, etc.).
4. Then the enterprise business embarks on a journey to prove the tools work in their environment.

Also, the results in a “Stage 2” maturity enterprise business include a number of common traits:

1. People get excited about the opportunity to make some changes and address issues.
2. The enterprise business wrestles with the difficulty of aligning improvement projects with the enterprise business planning and sustaining the gains from improvement projects.
3. Leadership wants it to work, but does not become personally engaged, hoping the employees it is been delegated to will follow through.
4. Therefore, the enterprise business ends up with isolated islands of improvement that fades over time. Improvements people wish to make often bump up against functional lines of authority and die a slow death. But some improvements do stick, and the enterprise business is getting better. Unfortunately, they are doing it at a slower pace than the rest of their industry, so they are slightly losing ground from a competitive perspective.

2.2.2.3 Stage 3: Proactive: Tools Master

The third stage of maturity, “Structure & Proactive,” characterizes enterprise businesses that have developed formal structures and processes within the enterprise to comprehensively and proactively engage in strategic planning and management activities. These key activities occur on a fairly regular basis and are subject to some degree of improvement over time. Performance measures are somewhat aligned with the enterprise intended strategy and employee accountability is taken seriously.

At this third stage, there is a well planned, systematic and foundational performance measurement and management effort. This basic stage enables enterprise businesses to take advantage of at least some of the functionality that performance measurement and management have to offer. However, in order for the enterprise businesses to tap into the real power of performance measurement and management, and process improvement and management, it is important to progress far beyond this basic stage.

At this third stage, an enterprise business knows the improvement tools very well. It has a number of employees who would be considered as Tool Masters (e.g., Black Belt, Master Black Belt in Lean Six-Sigma environments). Because of the tool emphasis, the improvement activities are run by a select group of Tool Masters. Those individuals may serve as project team leads or facilitators. Enterprise businesses at this level are slightly gaining ground on their overall industry. Here, the enterprise business tends to focus on improvement projects, so most improvement primarily happens through project team activities.

An enterprise business at “Stage 3” maturity is very likely to have a vice president or director of improvement who coordinates improvement activities. People inside such an enterprise business are probably not aware of this, but the way they are going about improvement is a very normal approach, and very similar to how most of their competitors are going about it.

At this third stage, several people inside the enterprise business know the improvement tools very well and could also be considered Tool Masters. A few people on the executive management team are more engaged in the improvement activities than in “Stage 2” maturity enterprise businesses. But the improvement structure exists in parallel to the line organization running the business, so the improvement process is not actually part of how the business is managed. There is also more of an operations focus. Marketing, sales and administrative activities are typically not as engaged in improvement as the operations portion of the business.

People feel very good about their accomplishments, but for the most part, the gains are still hard to fully sustain. Improvement efforts tend to focus on functional departments directly linked to operations. Business performance measures focus more on the functional silos rather than cross-functional process performance. Authority still primarily sits in functional silos. Therefore, enterprise businesses at this third stage of maturity largely try to do a better job of what they already do versus creating new cross-functional business capabilities.

Enterprise business leaders in a “Stage 3” maturity certainly want the improvement initiative to succeed, but executive management members are typically busy running the business, and they expect the improvement experts – that is, the parallel organization to deliver project savings.

When this occurs; that is, when the executive management members abdicate their improvement responsibility to a staff group, a new power structure is created in the enterprise business. The enterprise business staff will complain about the lack of executive management support, but they will take on more responsibility trying to find the “right” things to improve. It is a chicken and egg problematic situation in which a desired outcome or improvement solution is impossible to attain because of a set of inherently illogical rules or conditions set within the enterprise business by the executive management team behavior.

While the staff leaders are trying to do the right thing, they remove responsibilities from the line organization. The improvement staff takes more responsibility for shepherding what should be improved, rather than line managers. And the line managers are busy with the real business, so they let the staff take that responsibility. That cycle continues, with the line organization never effectively assimilating daily improvement responsibilities. The strengths that got them that far to the third stage of maturity, which are now used to excess, become a weakness that inhibits the enterprise business’ ability to transform. Therefore, the improvement initiative will likely remain isolated, and the enterprise business effectively fenced in at a “Stage 3” maturity.

In monthly or quarterly meetings, executive management board review improvement projects as an independent subject, separate from conversations about how well the business is operating. They often have a hard time getting in touch with

reality relative to their competitors and to true customer needs. They are too inwardly focused.

Enterprise businesses at this stage of maturity have implemented meaningful changes, and they are better than average in their industry. Unfortunately, leadership often believes that they are at a “Stage 4” of maturity because so much has improved in the way the enterprise business operates. This disconnects from reality, relative to the outside world, becomes a major roadblock and decreases the probability of real transformation; it could fence in the enterprise business in its “Stage 3” of maturity. We are all blinded (trapped) to a degree by the assumptions we make, beliefs we hold, and the limited number of data points we know about.

Furthermore, at this stage of maturity, millions in savings might have been reported, but cost savings in a “Stage 3” maturity enterprise business is a pretend world. Based on the reported “savings,” a “Stage 3” maturity enterprise business may appear to have improved, but the key business performance measures (financial, market share, etc.) often do not show a significant change. A “Stage 3” maturity enterprise business might be doing better than 50 % of its respective industry, and people believe that process cost savings results reported from projects will be a seamless addition to the bottom line of the cash flow statement, but the reality is often very different. Half of the savings reported are most likely “soft savings,” where time or capacity was made available. And although no one reports this, the feeling is that somehow these soft savings will automatically turn into hard dollar savings.

Unfortunately, soft savings only turn into hard savings when leadership proactively does something to make it happen (i.e., cut expenses or use the freed-up capacity to make and sell more products or services to the customers). By primarily focusing on cost savings, leadership is not taking a hard look at what needs to be done to grow the business and foster better relationships with customers. Those conversations probably do take place in the enterprise business, but they happen elsewhere, and not in conversations regarding improvement initiatives. This often separates the enterprise business’ performance improvement initiative from the real business.

2.2.2.4 Stage 4: Managed and Focused: Transformation

The fourth stage of maturity, “Managed & Focused,” characterizes enterprise businesses where the intended strategy drives focus and decision making for the enterprise. Organization-wide standards and methods are broadly implemented for strategy management. Enterprise business executives, managers, and leaders formally engage employees in critical activities and performance measures and accountability help drive strategic success for the enterprise.

Thus a “Stage 4” maturity enterprise business has begun to transform its business. Enterprise businesses at this stage of maturity have a pretty good knowledge of the basic improvement tool set, but more importantly, the entire enterprise business – not just the Tool Masters – is driven to serve customers and stay ahead of the competition. Leaders in “Stage 2” and “Stage 3” enterprise businesses strive to serve customers better, but a “Stage 4” maturity enterprise business is much more

effective at doing this. Enterprise businesses at “Stage 4” maturity begin to create new businesses, entirely new value streams, and add value to their customers in meaningful, systemic new ways. This transition from “Stage 3” maturity average to “Stage 4” and “Stage 5” greatness is a major challenge.

2.2.2.5 Stage 5: Continuous Improvement: Winning Team Culture

The fifth stage of maturity, “Continuous Improvement,” characterizes enterprise businesses where the strategic planning and management excellence are part of the daily activities within the enterprise and are continuously improved in a formal sense. This means that as the enterprise performance is evaluated, the enterprise analyzes how it is performing towards its intended strategic goals and assesses and adapts as necessary how effective the strategic planning and management processes are. Excellence in strategic management drives the enterprise competitive edge or performance success.

Thus, a “Stage 5” enterprise business has a culture different from any of the other four stages. “Stage 5” maturity enterprise businesses are also very rare (less than 5 % of an overall industry). Enterprise businesses at this level tend to focus less on how good they are and more on how good they are not. Employee engagement and commitment in a “Stage 5” maturity enterprise business is more than twice as high as a “Stage 3” maturity.

Leaders in a “Stage 5” maturity enterprise business are very much in touch with reality. People do not try to hide problems or resolve them quietly out of sight. Leaders are just as concerned about a near miss as they are an actual defect or error. These enterprise businesses are very process and outcome focused: they are constantly striving to create the “perfect” process for their main business activities. Perfection is their primary goal and they measure their progress in terms of how far short of perfection they fall. A “Stage 5” enterprise business is on the journey toward True North.

Enterprise businesses do not automatically progress through the five levels. A “Stage 2” maturity enterprise business can certainly mature from learning about the tools and become a “Stage 3” tool master. The important challenge is to move beyond “Stage 3” into the top of the industry, and that is the primary focus of this book. Most enterprise businesses never progress beyond “Stage 3” maturity. The better job an enterprise business does of being a tool master, the less likely it is to progress into the top of its industry. That tool strength, when used to excess, actually becomes a weakness that prevents the enterprise business from progressing to the next stage of maturity: in other words, the enterprise business gets trapped in “Stage 3.”

2.3 How to Realize a State of “Continuous Improvement”?

Moving an enterprise business to a higher maturity stage is one of the highest leverage activities that any enterprise can perform. Too many businesses have tried, but have failed miserably to develop the capabilities to improve incrementally and

on an ongoing basis by adopting short-term “process improvement programs” or changing superficial aspects of their enterprise structure, systems, or technology without handling all the determining factors that characterize the “Continuous Improvement” maturity stage.

Successful enterprise businesses have to balance two needs – (1) the need to look backward in order to maintain the existing business and its current customers and (2) the need to look forward in order to explore and achieve performance breakthroughs and to identify and attract new customers and new sources of value. Achieving this balance requires specific and intensive actions along eight overarching determining factors of strategic management, that matter the most, among dozens:

1. Leadership
2. Culture and Values
3. Strategic Planning and Management
4. Performance Measurement
5. Performance Management
6. Alignment and Commitment
7. Process Improvement and Management
8. Sustainability

As indicated already in the introduction chapter, these overarching determining factors of strategic management were designed by The Balanced Scorecard Institute in its Strategic Management Maturity Model (SMMM) to:

1. Help enterprise business leaders – from CEOs to supervisors – perform a quick assessment of where their enterprise business stands in terms of strategic management;
2. Monitor progress in improving maturity of their enterprise business; and,
3. Allow benchmarking across organizations, or departments within one organization, in order to identify best practices.

We focused on these eight overarching determining factors of strategic management because they are the ones that matter the most and they are frequently causes of business improvement stagnation and failure. Also, they are rarely covered in context with the popular continuous improvement methodologies that enterprise businesses so earnestly use to get maximum leverage for their journey to competitive advantage.

If these eight problematic determining factors of strategic management are not in place, most business performance improvement efforts will fail to significantly change an enterprise business’ competitive position. However, once an enterprise business grasp and do these eight well, its journey will not end. The eight overarching determining factors of strategic management are only meaningful because most (average) enterprise businesses do not perform them well. If more enterprise businesses begin to address these eight overarching determining factors of strategic management, that ups the ante. Then, they will need to push the frontier working these determining factors at a more sophisticated level in order to further improve their competitive position.

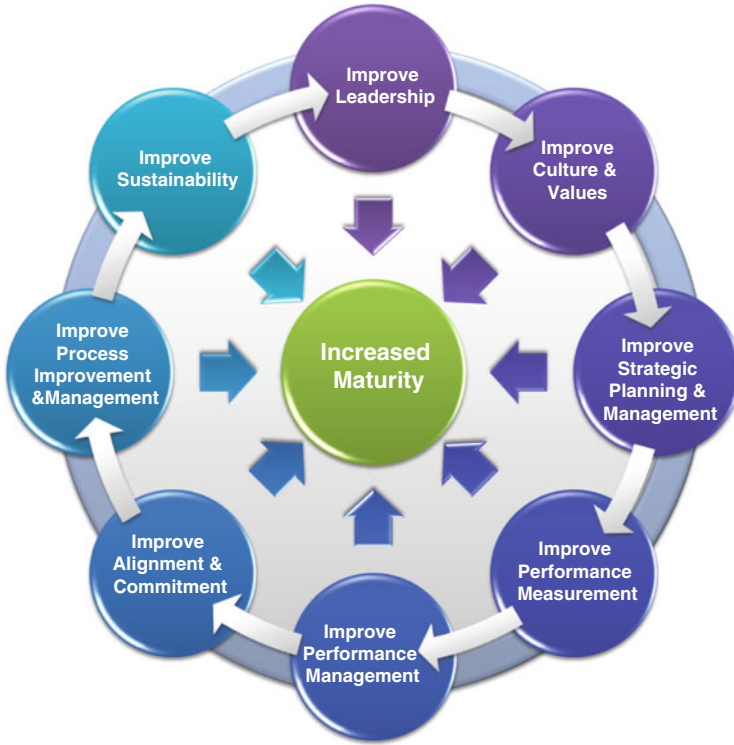


Fig. 2.4 Enterprise business maturity and dimensions' influence

Figure 2.4 depicts the influence of these determining factors – dimensions – on the enterprise maturity stage. Making progress toward the “Continuous Improvement” maturity stage requires improving simultaneously each of the eight determining factors. Thus the enterprise business maturity stage is a matter of both breadth and depth. Breadth indicates completeness of the eight overarching determining factors of strategic management. If any one these factors are weak or missing, then the results of the whole are jeopardized. Depth indicates the level to which the overarching determining factors of strategic management are performed, relative to a “world-class” standard.

Very few enterprise businesses manage to achieve performance of an overall maturity stage reaching “Stage 5” (i.e. “Continuous Improvement”): this is nearly 5 % of an industry. It is a challenging target. As more enterprise businesses begin to exhibit what used to be a “Stage 4” or “Stage 5” maturity stage, the leaders have moved on. They are not standing still. This is one of the reasons why some enterprise businesses, notably Toyota and GE, have been so hard to catch. Every year such enterprise businesses focus on how they can do a better job of getting better. It will keep an enterprise business humble, if it can maintain that mindset – something Toyota is currently trying to regain.

Improvement of these determining factors does not necessarily occur in a particular order, it is important that all eight determining factors be incrementally and simultaneously improved. While improvements occur along these determining factors, maturity (at the center of the diagram) increases. This maturation process is about movement to a higher stage of development, whereas improvement in each overarching determining factor is about “change in form, quality, or state, over time.” Here, time is the “ether” of change and we judge that change has occurred against the background of time.

Not all changes result in improvements, thus we use metrics on the background of time for assessing when changes occur, the rate of change, and the extent of change, and also to establish the opposite of change, stability. It is the focus on change and an understanding of the basic principles of improvement that leads to efficient and effective improvement efforts in each overarching determining factor. Improvement has meaning only in terms of observation based on given performance measure.

In developing changes in form, quality, or state, over time, it is useful to distinguish between changes that are needed to sustain a determining factor at the current level of performance (reactive changes) and changes that are needed to create a new system of performance for the determining factor (fundamental changes).

Reactive changes in form, quality, or state, over time, are required to maintain a determining factor (or its constituents) at its current level of performance. Here are some aspects of reactive change:

1. They are often made routinely in reaction to a special circumstance, which may also affect other parts of an enterprise business.
2. They often result in putting the determining factor (or its constituents) back to where it was some time before.
3. They typically take the form of tradeoffs among competing interests or characteristics (such as increasing quality but also increasing cost, reducing errors but also reducing volume, or speeding up delivery but reducing customer service).
4. Their impact is usually felt immediately or in the near future.

When one faces a problem, making a reactive change in form, quality, or state, over time is often the best approach to immediately solving the problem and restore the performance of the system of interest to its previous level. The ability to make reactive changes in form, quality, or state, over time is very important for any enterprise business.

Reactive changes should not, however, be confused with fundamental changes. Fundamental changes in form, quality, or state, over time are required to improve a determining factor (or its constituents) beyond historical levels. Here are some important aspects of fundamental change:

1. They result from design or redesign of some aspect of the system (process, product, or service) or the system as a whole.
2. They are necessary for the improvement of a system that is not plagued by problems.

3. They fundamentally alter how the system works, what people do and how people perceive the system.
4. They often result in improvement of several aspects simultaneously (quality and cost, or time-to-market and errors).
5. Their impact is felt into the future.

A change in form, quality, or state, over time is characterized by its characteristic rate, rhythm, or pattern of work or activity (Weick & Quinn, 1999). It can be episodic or continuous. Episodic change in form, quality, or state, over time is conceived to be “infrequent, discontinuous and intentional,” while continuous change in form, quality, or state, over time is conceived as “ongoing, evolving and cumulative.”

The two forms of change in form, quality, or state, over time are associated with different metaphors of the enterprise business, analytical frameworks, conjectures of intervention, and roles attributed to change agents, as shown in Table 2.1. The distinction between episodic and continuous change in form, quality, or state, over time is correlated with several others, including incremental versus radical change continuous versus discontinuous change, first-order versus second order change and competence enhancing versus competence-destroying change.

Improvement in each determining factor may incorporate elements of both continuous and episodic change in form, quality, or state, over time. Continuous change in form, quality, or state, over time generally occurs at the micro level of system behavior and concrete actions that move processes through (episodic) stages.

Whereas stage change in form, quality, or state, over time is conceptualized as episodic. Stage wise change presumes an underlying continuous process of activity as a means for constructing the stages. Thus, episodic change is best understood from a macro or global analysis, while continuous change is better discerned through micro level or local analysis.

As we consider the enterprise maturity, from the perspective of systems theory, it is important to remember that “Continuous Improvement” maturity is not about strength in any one aspect of the enterprise, but about the health of the enterprise as a “total system.”

Some enterprise businesses excel at one, two or three of the eight determining factors. However, for any enterprise to achieve superior results, it is essential that all eight determining factors work in tandem with each other.

For example, without the right leadership, the other factors will be meaningless – because if you do not influence people and to gain their genuine commitment to accomplish common organizational goals, you will not be able to create the right culture, you will not be able to plan and manage strategically, you will not be able to improve the enterprise performance, you will not be able to improve internal processes, and you will not get the right results.

On the other hand, even with the right leadership, without positive culture and values, people won't be motivated to improve the right things, employees will tend to focus on what will bring them the largest personal rewards, and will tend to have an adversarial posture toward whatever it is that the enterprise initiates.

Without the right alignment and engagement, improvement initiatives will stand alone, individuals and functions will not be properly aligned, and there will be a natural tendency to maximize individual gains, often at the expense of other parts of the enterprise. Without frequent interaction relative to performance measurement,

Table 2.1 Comparison of episodic and continuous change

Characteristic	Episodic change	Continuous change
Metaphor of enterprise business	Enterprise businesses are inertia-prone and change in form, quality, or state, over time is infrequent, discontinuous, and intentional	Enterprise businesses are emergent and self-organizing and change in form, quality, or state, over time is constant, evolving, and cumulative
Analytic framework	Change in form, quality, or state, over time is an occasional interruption or divergence from equilibrium. It is externally driven. It is seen as a failure of the enterprise business to adapt to a changing environment	Change in form, quality, or state, over time is a pattern of endless modifications in work processes and social practice. It is driven by organizational instability and alert reactions to daily contingencies. Numerous small accommodations cumulate and multiply
	Perspective: Macro, distant, global	Perspective: Micro, close, local
	Emphasis: Short-run adaptation	Emphasis: Long-run adaptability
	Key concepts: Inertia, deep structure, or interrelated parts, triggering, replacement and substitution, discontinuity, revolution	Key concepts: recurrent interactions, response repertoires, emergent patterns, improvisation, translation, learning
Conjectures of intervention	Intentional change: Unfreeze, change, and refreeze	Redirection of existing tendencies
	Change in form, quality, or state, over time is inertial, linear, progressive, and requires outside intervention	Change is cyclical, process based, without an end state, equilibrium-seeking, eternal
Role of change agent	Prime mover who creates change in form, quality, or state, over time by finding points of leverage in the enterprise business	Sense maker who redirects and shapes change in form, quality, or state, over time
	Change agent changes meaning systems, schema, and punctuation	Change agent recognizes, makes salient, and reframes current patterns. Change agent unblocks improvisation, translation, and learning

performance management, and strategy, none of the other determining factors can really function.

When all eight determining factors of strategic management are working together synergistically, the creative energy within the enterprise is released to make a real difference – a transformational difference – in your enterprise!

2.4 Where Does Your Business Fit?

The first step that enterprise business executives and managers must take for a “Continuous Improvement” transformation program implementation must be to assess their current enterprise maturity stage by scoring their stage of performance on each of the five maturity stages, and for each of these eight dimensions.

In assessing the enterprise current maturity stage, a review and analysis of the enterprise practices and behaviors must be conducted in sufficient details and benchmarked against the models descriptions illustrated in Table 2.2 adapted from the Balanced Scorecard Institute online publication on the Strategic Management Maturity Model (SMMM).

A quick assessment can be made by observing the practices and behaviors within the enterprise. To do this, scan the five maturity stages from this table, then locate and circle the characteristics that best describe your enterprise. A pattern should begin to emerge, identifying your enterprise's maturity stage, primarily in a single stage. All your circles may not be confined to one stage, however, because some business functions will be more developed than others.

Keep in mind that if you rate your effectiveness at a "Stage 4" or "Stage 5" maturity, you are claiming there are things your enterprise business could teach to the best companies in the world – organizations as sophisticated as Toyota or GE – about how to more effectively improve for that particular trait. The purpose of this quick assessment is not to see how high of a number your enterprise business can score. The assessment is intended to assist your enterprise business in having an open dialogue about what is important to improve.

After having identified your enterprise current maturity stage, use the next maturity stage as a vision to focus on the improvement concerns that you are facing now – and may face at the next maturity stage.

It may be helpful to display the result on a radar graph as illustrated in Fig. 2.5. This is necessary to attract management's attention and interest on the current status of maturity of the business and to set a vision and objectives for closing the required horizontal (maturity) and vertical (dimensions) gaps.

The identified horizontal (maturity) and vertical (dimension) gaps are of course opportunities for business improvement. The identification of maturity gaps can also be used to evaluate the quality of the enterprise's forward strategic and business planning.

The continuous discovery of maturity gaps may indicate that unrealistic targets are being set, or that the assumptions and theories upon which these targets are being based are incorrect. These gaps can also reveal something about the enterprise's capacity for effective strategic planning and management, as much as about its operational performance. The specific methodology to be used to close the determined gaps is described in our next volume.

Before getting to the next chapters of the present book, let's mention that when people rate their performance, there is a bias toward a higher self-rating than the actual reality. Most of us believe we work hard, we believe we do the right thing, and mostly we are simply not capable (at the beginning) of seeing how much opportunity for improvement exists, all around us. So when you look at the instrument, focus mostly on the descriptions given in Table 2.2. Which description most fairly describes your enterprise business reality? And how can you do a reality check?

In the following chapters, we will look at the essentials of each of these eight overarching determining factors of strategic management with the purpose of giving both:

Table 2.2 Enterprise business maturity stages and dimensions assessment

	Stage 1: Ad hoc and static	Stage 2: Reactive	Stage 3: Structured and proactive	Stage 4: Managed and focused	Stage 5: Continuous improvement
Leadership	Leader dictate, command and control; otherwise disengaged	Leaders dictate but gather feedback sporadically	Leaders engage with direct reports only, but no model desired behaviors and values	Leaders empower many employees through ongoing engagement	Leaders and employees fully engage in a continuous dialog based on a team-based culture
Cultures and values	Vision & Values undefined or not shared	Vision & Values published, but not lived	Vision & Values communicated and understood	Vision & Values collaboratively developed	Vision & Values fully integrated into enterprise culture
Strategic planning and management	No strategic planning occur within the enterprise; no goals defined	Strategic planning is the responsibility of a small team and dedicated to the enterprise	A structured and open planning process involves people throughout the enterprise every couple of years	Plans are developed and revised regularly by trained, cross-functional planning teams	Strategy drives critical enterprise decisions and a continuous improvement planning process is maintained
Performance measurement	No data, or only ad hoc performance measures are collected	Performance data collected routinely, but mostly operationally focused	Strategic performance measures are collected, covering most strategic objectives	Strategic measures are broadly used to improve focus and performance and inform budget decisions	Measurements comprehensively used and routinely revised based on continuous improvement
Performance management	No emphasis on using performance as a criterion to manage the enterprise	Performance reviews required but not taken seriously; no accountability for performance exists	Measures are assigned owners and performance is managed at the organizational and employee levels	Measurement owners are held accountable and performance is managed at all levels	Enterprise culture is measured and accountability focused; decisions are fact based
Alignment and commitment	Work is narrowly focused based on enterprise structure, with little customer input	Customer needs and feedback start to influence more aligned decision making	Employees know their customers and align strategy to those needs	Vision, customer needs, strategy, and employee reward and recognition systems are cascaded and aligned	All structures and systems are aligned with strategy, and organizational alignment is continuously improve
Process improvement and management	Processes are undocumented and ad hoc with evident duplication and delays	A few key processes documented, and process improvement model introduced	All key processes are identified and documented, and strategy guides successful process improvement initiatives	All key processes are tracked and improved on a continuous basis and new process improvement ideas are accepted	Employees are empowered and trained, and a formal process exists for improving process management
Sustainability	Lack of structure and champions lead to short-term focus on tasks	Strategy champions identified	Formal enterprise structure in place to maintain focus on strategy	Enterprise has an “Office of Strategy Management” or equivalent	Strategic thinking and management are embedded in the culture of the enterprise

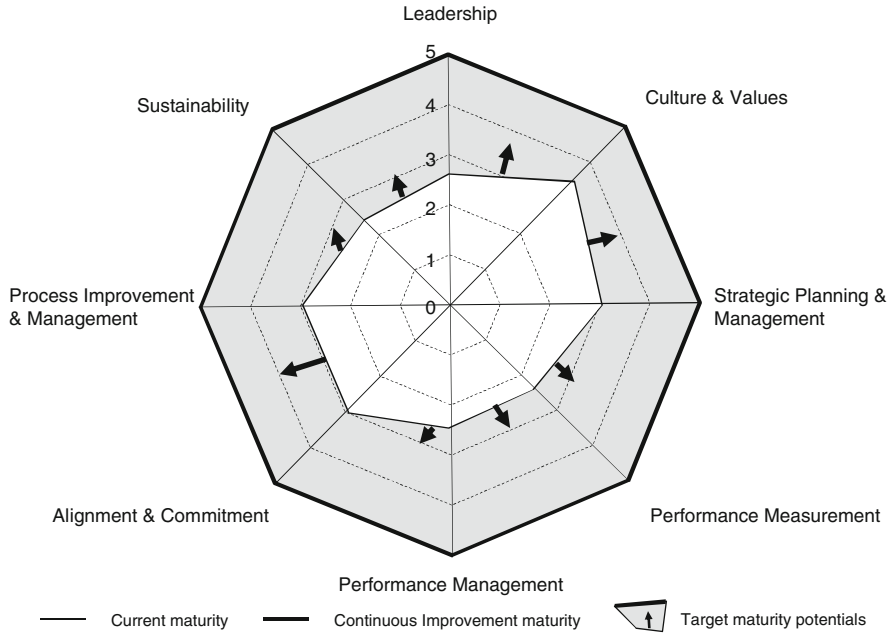


Fig. 2.5 Current and target maturity potentials

1. The necessary understanding to our readers' enterprise business leaders – Project Managers, Green Belts, Black Belts, managers at all levels, and process improvement professionals – on the issues that matter most to achieve transformation, survival and success; and
2. A reality check for your enterprise business capability to progress toward a "Continuous Improvement" maturity stage.

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van Aartsengel, A.; Kurtoglu, S.

2013, XIII, 204 p., Hardcover

ISBN: 978-3-642-35903-3