NEW PERSPECTIVES IN BUSINESS ORGANIZATION: LEAN MANAGEMENT

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INDICE

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We face, nowadays, a relevant change both in theoretical approaches to organizational life as in business organization reality.

We may affirm that, a century long function–oriented, busisness organization is coming to an end. Entering into a new reality where functional structure is changed by a human oriented organizative structure, that is, based in peoples´ skills to fulfill their functions and assume their processes. This is what lean management really means.

This change in organizational thought and individual´s function within it, has an environmental explanation, more than a consecuence of an internal reaction.

I. INTRODUCTION[1]

Business world has suffered a radical changing process in the last 10 years. Fresh air in new business designs is not coming from the theoretical framework, nearly exhausted with traditional designs, but

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1. Comunicación presentada al First European Academies of Management Conference on *Managing Interfaces* en Bruselas los días 25 y 26 de agosto de 1995.

from business practices. Organizational development is needed as a consequence of:

* *Technology*: The skill to translate technological advantages and scale economies to smaller units, create a new work division. Besides, dynamics in technological evolution makes work division much more changeable, and organizative designs more difficult to manage.

* *Opening of economies*: Work division as the basis of organizative design, has been constantly modified as result of the last 30 years with an ongoing opening of the economies, mainly in Europe. This opening carries an increase in competence which enforce companies to reduce their "organizational costs". Organizations mature rapidly as new more efficient competitors with lower "transactional costs" (prices) come up to market.

  Thus, due to its key importance, we should consider the costs in organizative structures, not only from the economic perspective, but basically the "cost" in human behaviours and the time cost needed to change from a given work division to another one. Both factors posses a great influence in the P/L statement, and they could even affect the very same business sustenance.

* Third, we are assisting to an important *changing of value* patterns in society and people. This change of values

carries larger requirements to people in organizations. Thus, the changing value trends offer a greater weight to the human within the institution than to the traditional function. We are facing what could be defined as a radical change. A strong orientation towards structures and functions (*organizational chart culture*) is being replaced by an *organizative change culture*.

Therefore, a company's success in an open and dynamic social and economic structure depends on:

*   Flexibility oriented to organizative and structure changes
*   Speed to deal with the changing process
*   Costs of the adapting process

Thus, the need of more dynamic organizative structures, able to answer to the requirements in changing processes. This is the issues that will be analysed in this paper:

II. TRADITIONAL ORGANIZATIVE STRUCTURE: THEORETICAL APPROACH AND DESIGN IN BUSINESS PRACTICE

This chapter will analyse the basic elements which define last century's organizational structures and processes as a comparison with lean organization, in order to clarify the change patterns in this

revolution. We may affirm that we are assisting to an historical rupture.

Classic organizative design could be defined, as we see in Figure 1, as:

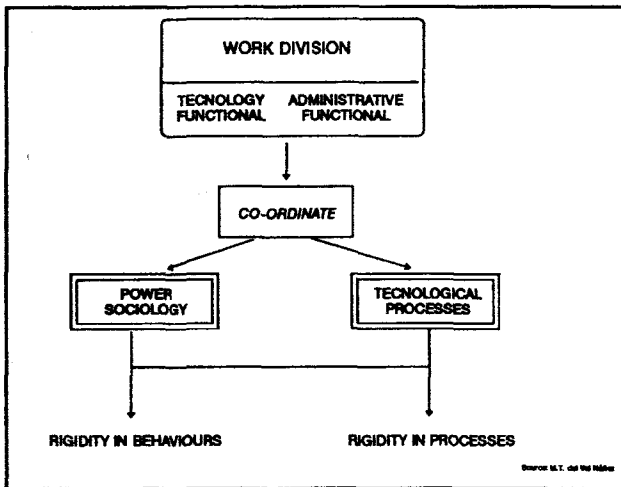*   Work division evolves from *technical* and *administrative* parameters

Figure 1

*   Organization uses two criteria to co-ordinate this work division:

    –   *Sociology of Power*; which means to create a hierarchy of functions–people according to a concrete

power distribution scheme. This scheme is usually highly subjective despite bureaucratic approaches.

–   *Technological processes*, or the way functions, their scope and layout are ordered and their completion measured.

Both co–ordination criteria, power share and technological processes, take us to:

_   A rigidity in processes, or a difficulty to modify process structures

–   A rigidity in human behaviours, or a clear difficulty to modify human behaviours, implied in the organi– zative design.

Both features create great adapting difficulties in changing environments, as well as an increase in costs.

Clearly, the given organizative design corresponds to:

*   Constant or supposedly constant environments, that is, with a low competence intensity, and with low requirements to the structures and organizative processes.

*   The assumption of given power structures due to technolo– gical and human features.

After the fifties, given the increasing adapting difficulties of this kind of organizations and the technological evolution, there is a trend towards *decentralisation* both in functions as in activities or business units.

Therefore, during the sixties there is a growth in matrix and divisional organizative structures.

Although the aim of matrix and divisional organizations was to improve, through decentralisation, the changing capacity in complex environments, the real output was an increase in co-ordination "control costs" of those decentralised divisions. This new type of control has forced the development of new co-ordination instruments, as strategic controlling and planning; but in the other side, there is a control element that measures whether the established rules are being obeyed among implied employees.

Actually, classic designs, even when trying to decentralise, do not allow to:

* Change organizations rapidly

* Change behaviours rapidly

* Change both power and technological structures rapidly.

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CLASSIC ORGANIZATIVE SYSTEMS

DO NOT ALLOW TO CHANGE RAPIDLY

    ☞    ORGANIZATION
    ☞    BEHAVIOURS
    ☞    STRUCTURES
                * POWER
                * TECNOLOGY

WE SHOULD CHANGE TO:

    ☞    INSTITUTIONS OPEN TO CHANGES
    ☞    CHANGE ABLE ORGANIZATIONS
    ☞    MORE GLOBALIZED AND FLEXIBLE HUMAN
         BEHAVIOURS
    ☞    LOWER COORDINATION COSTS
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Figure 2

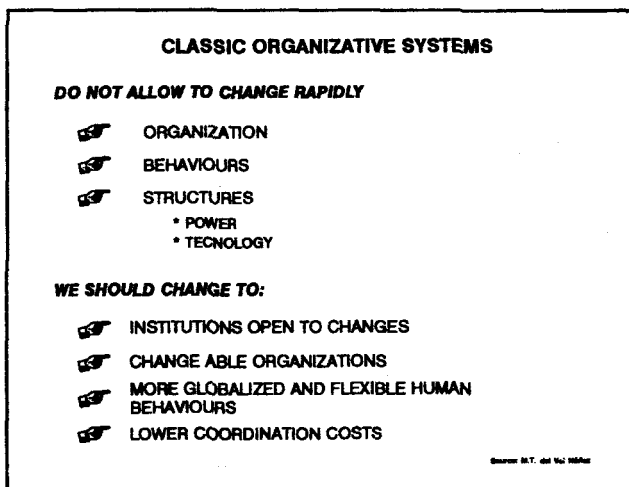The changing process, we are facing in the last years lead us to search:

* New institutions open to changes

* Organizations with adapting capacity

* More globalized and flexible human behaviours

* Lower co–ordination costs in companies, that is, lower organizational costs.

Thus, new organizational designs should respond to these aspects, resting on three key elements in all business activity:

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* Institutional design as a value system (Corporate Philosophy and Culture)

* The way processes are defined, with a clear orientation to changes

* Human being recovery as the basic actor in organizative design.
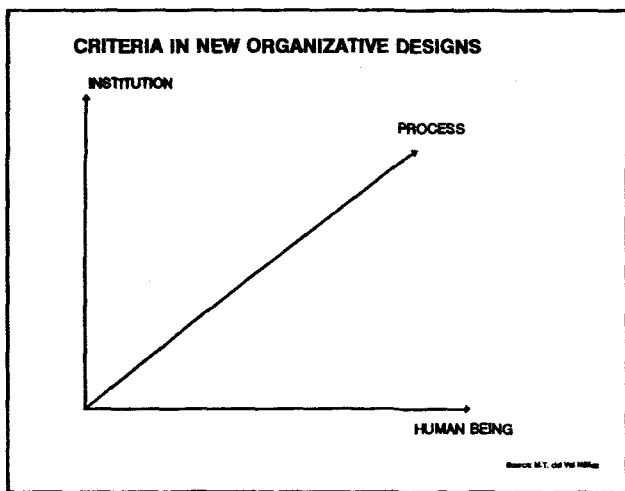
Figure 3

In changing moments, the flexible and dynamic organizations will be those resting on people's organizative and executive skills. That, finally, are engaged in the behavioural change.

Thus, as we show in *Figure 4*, we need a value system where human skills go before: as, open mind, communication skills, and basically oriented towards human resource management.

MANAGERIAL VALUES

	Value
ENTHUSIASM ABILITY	99
ETHIC PRINCIPLES	91,9
IMPLEMENTATION CAPACITY	85,7
COMMUNICATE IDEAS	78,6
ANALYTICAL CAPACITY	77,3
OPENDMINDED PERSON	74,7
LOYALTY	71,5

☐ Actual ☐ Future
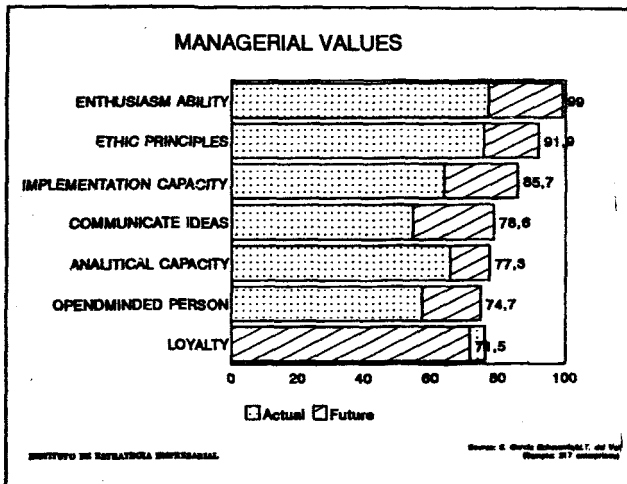
Figure 4

Flexibility and change are achieved through people's skills and not through structures and functions.

Thus, we may affirm that traditional companies are characterised by:

*   High indirect costs

*   Rigid hierarchies

*   Up–down enhancement

*   Technology dependant

*   Strong centralisation

*   Low flexibility

TRADITIONAL COMPANY

➡ HIGH INDIRECT COSTS

➡ RIGID HIERARCHIES

➡ UP-DOWN OPTIMIZING

➡ DOMINATED BY THEIR TECHNOLOGIES

➡ HIGH CENTRALIZATION

➡ LOW FLEXIBILITY

Figure 5

Summarising, taylorist management rest on the following criteria:

*   Strong functional specialisation

*   Gap between planning and production, that is, the typical issue in the 60's and 70's about staff departments.

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*   Large security stock levels, with the corresponding high costs

*   Enough quality
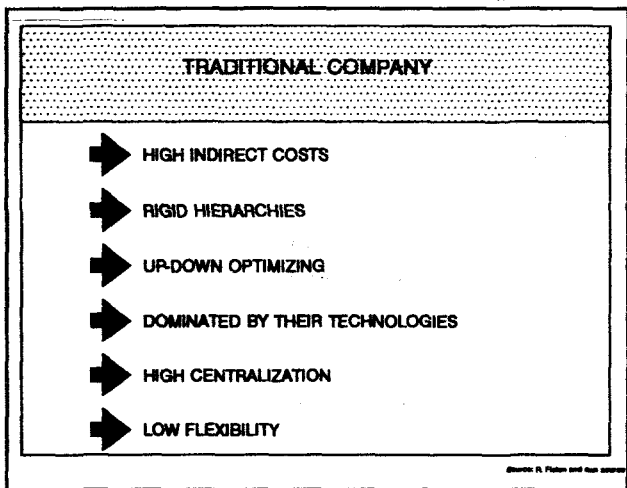
*   Control of results

TAYLORIST - FAYOLIST
MANAGEMENT

➡ HIGH FUNCTIONAL SEPECIALIZATION

➡ GAP BETWEEN PLANNING AND IMPLEMENTATION

➡ NEED OF SECURITY STOCKS

➡ ENOUGH QUALITY

➡ CONTROL OF RESULTS

Figure 6

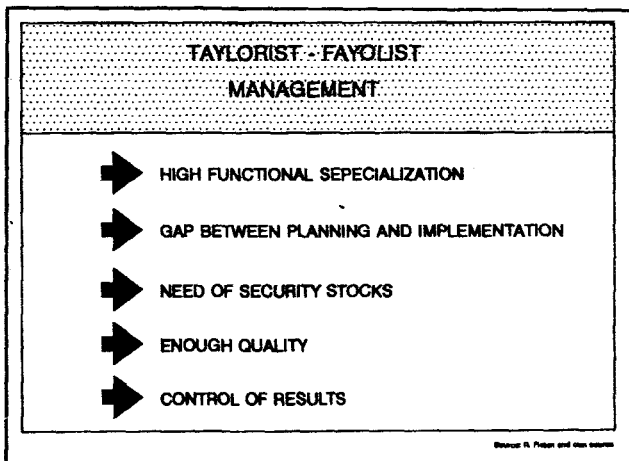With those criteria is not possible to respond efficiently in a competitive market, where, as we have remarked, we are facing a change of values.

Therefore, the development of classic organizations in the way we have explained, implies necessarily a large amount of financial and economic resources' investment, in order to leap the great co-ordination deficiencies. Large stock levels could be an example, and

we may affirm that they come as a consequence of a low flexibility, a poor co-ordination with clients and suppliers and a bad design of production processes. But at the same time, traditional organizations imply a given behavioural model both at a management level as in lower levels.

III. ORGANIZATIONAL DEVELOPMENT IN LEAN MANAGEMENT: STRUCTURES AND PROCESSES

Lean organizations start making sense once the environment suffers a great breakdown. Environment acts as the key change hint in all business organizative processes. That is, organizative process does not derive from an inner analysis, but, mainly as a consequence of the opening of technologies and economies. This opening obliges to reduce drastically business organizational costs following the reduction of transactional costs between different companies.

As we may appreciate in Figure 7, in a closed and administrative economy, relations between companies and environment are defined by an unchanging pattern, but very particularly by the assumption that we may design in a bureaucratic way all the organizative designs given the disposal of perfect information.

The perfect information scheme corresponds to a mechanist organizative design. On the contrary, as we may observe in the same Figure 7, open, dynamic and unstable environments lead to great requirements within the companies' organizative structures; and at the
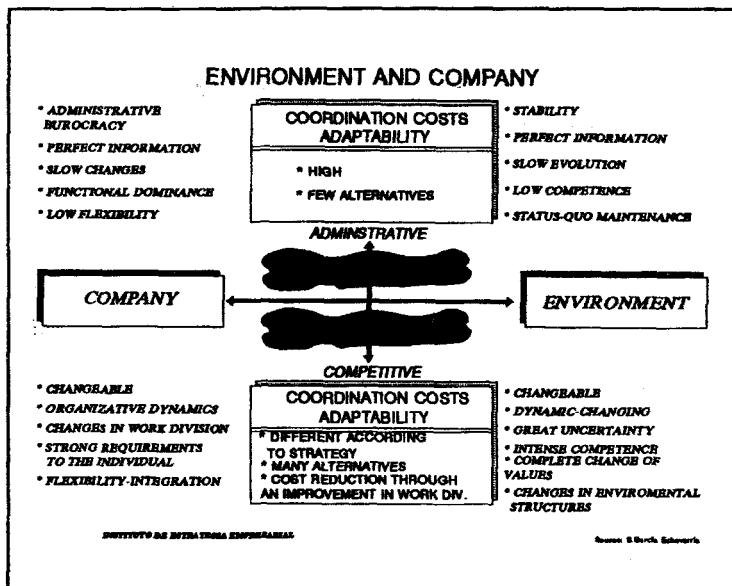
ENVIRONMENT AND COMPANY

* *ADMINISTRATIVE BUROCRACY* * *PERFECT INFORMATION* * *SLOW CHANGES* * *FUNCTIONAL DOMINANCE* * *LOW FLEXIBILITY*	**COORDINATION COSTS ADAPTABILITY** * HIGH * FEW ALTERNATIVES	* *STABILITY* * *PERFECT INFORMATION* * *SLOW EVOLUTION* * *LOW COMPETENCE* * *STATUS-QUO MAINTENANCE*

ADMINISTRATIVE

COMPANY ← → **ENVIRONMENT**

COMPETITIVE

* *CHANGEABLE* * *ORGANIZATIVE DYNAMICS* * *CHANGES IN WORK DIVISION* * *STRONG REQUIREMENTS TO THE INDIVIDUAL* * *FLEXIBILITY-INTEGRATION*	**COORDINATION COSTS ADAPTABILITY** * DIFFERENT ACCORDING TO STRATEGY * MANY ALTERNATIVES * COST REDUCTION THROUGH AN IMPROVEMENT IN WORK DIV.	* *CHANGEABLE* * *DYNAMIC-CHANGING* * *GREAT UNCERTAINTY* * *INTENSE COMPETENCE* * *COMPLETE CHANGE OF VALUES* * *CHANGES IN ENVIRONMENTAL STRUCTURES*

INSTITUTO DE ESTRATEGIA EMPRESARIAL   Source: S Garcia Echevarria

Figure 7

same time information is highly imperfect. As corporations should tend to secure value systems, in order to offer shelter to their employees; enduring and at the same time changing organizative structures are increasingly needed. Therefore, once the employees identify themselves with the institution, stability is achieved reducing co-ordination costs between the company and the environment.

That is why, lean designs deal with:

> *How to respond to environments › changing dynamics with stable institutions, but at the same time with flexible organizations*

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As we may see in Figure 8 a lean company is characterised by a set of features that could be summarised as following:

* Overheads, or organizations costs, are reduced, that is, organizative and executive functions within corporations are reduced.

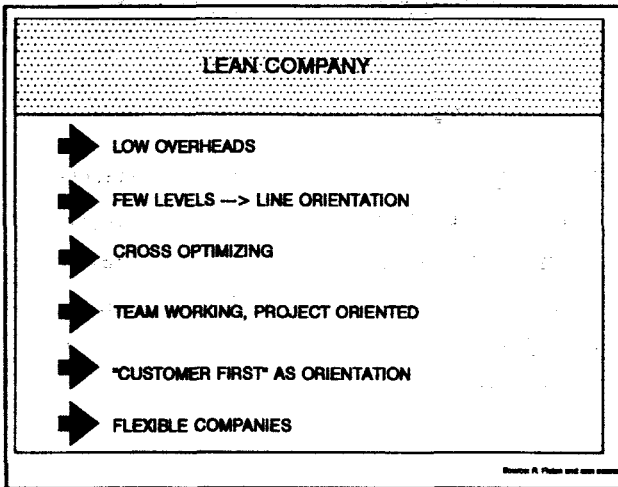* Structure contains few layers, thus, everyone is business oriented

LEAN COMPANY

→ LOW OVERHEADS

→ FEW LEVELS --> LINE ORIENTATION

→ CROSS OPTIMIZING

→ TEAM WORKING, PROJECT ORIENTED

→ "CUSTOMER FIRST" AS ORIENTATION

→ FLEXIBLE COMPANIES

Figure 8

* It is not about an up–down optimisation but a cross constant improvement, a process enhancement as the reference point in the whole organizative design

* Employees' behaviour and activity is oriented towards team working and concrete projects.

* Absolute preference is given to client, as a way to reduce them their co–ordination costs. Thus, clients should achieve competitive advantages once they are related with a lean company

* Flexibility does not rest on structure, but in people's behaviour and in company's culture.

When we speak about "lean management": which changing processes are we dealing with?

Doubtlessly, it is not about changing a given functional division with a new one, as "reengienering" concept is sometimes interpreted. It is certainly about a change in the way of thinking. The final target is to change a corporate culture based in functions to a new one based in the human being.

A lean organization implying a dynamic, but consistent, corporate culture may be defined as the most sustainable competitive advantage against the competence. As we may see in Figure 9, according to Kleinmann, all the company's competitive elements hold

a shorter live period than the culture. We may observe how a competitive advantage based in product features remain 2 or 3 years, a one based in production processes remains 4 or 6 years, a competitive advantage based in the organizative design endures 4 or 5 years, and just when we speak about a cultural difference, we may attain competitive gaps of 10 or more years.
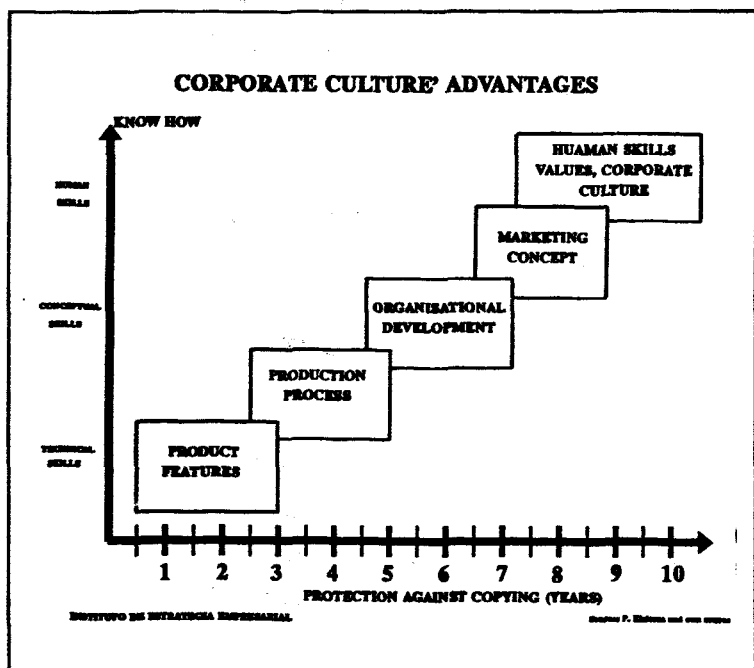

Figure 9

Lean management is an organizative approach based in value systems both coming from the institution (corporate philosophy), as from the same employees, values implied in that institution (corporate culture).

Thus, lean management could be defined as following:

*   Employees and their behaviours should be organized around teams, identified with a project, and integrating group dynamics.

*   Integration of planning and implementation. Thus, breaking with the traditional taylorist scheme where planning departments where apart from the implementation or line activities. Both topics are joined in business line.
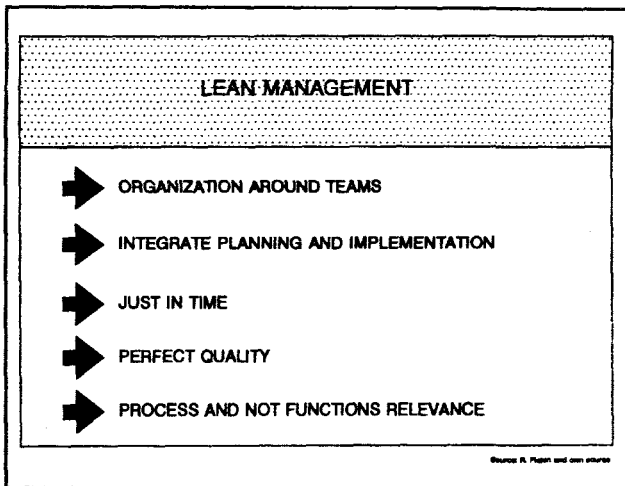

Figure 10

*   *Just in time* practices are searched, thus reducing coordination costs through lowering stocks level in-house, and lowering, as well, wasting times in production processes.

* It is about attaining a perfect quality standard, that is, reducing external co-ordination costs both with the client as with the supplier, minimising to the lowest the wastage.

* Processes, and not functions, are the central point in the whole organizative process.

At the same time lean management requires a new instrumental development, oriented towards employees' behaviours, as we may see in Figure 11.

* As planning and implementation are joined together, communication is the basis of all the organizative process; and consequently the employee is the responsible in co-ordination matters.

* It is about searching flexible organizations schemes through the human being. Therefore, a value identification is needed.

* It is about transferring new and larger responsibilities, as employees start assuming planning, co-ordination and controlling tasks.

* New training forms are required. Traditional specialisation schemes should be avoided, and search people's knowledge around multiqualification.
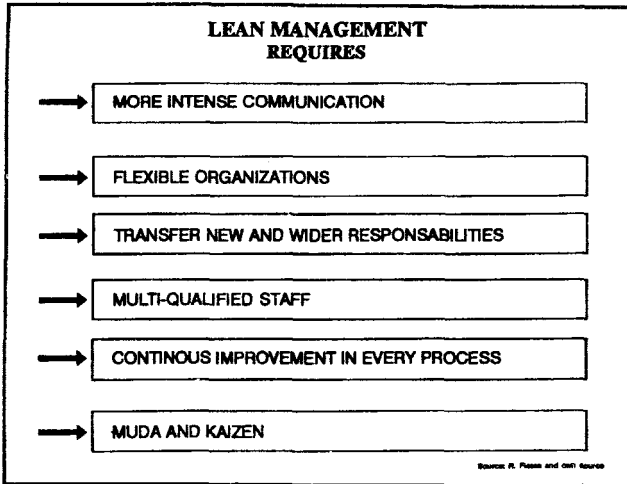
Figure 11

* A permanent improvement in all processes is searched. That is, when we speak about change management we are referring to a change management in processes and their organizations.

* Using the Japanese terms, we should tend to *muda* and *kaizen*. That is, to a continuous improvement.

What implies the lean management?

Lean management implies mainly three aims:

* First, information availability in decision taking. Information and communication constitute the key pieces in every

lean management process. Here, the development of IT systems in management, as SAP's R/3, may become an important element in this process.

* It is about controlling organizations and their designs with a clear impact over all the spheres, as markets and competence. Organizative designs of institutions and processes, as well as human behaviours should be oriented to attain continuous competitive advantages against the competence. Organization as strategic instrument is a key factor to gain competitive differences with the competence.

* And, consequently, the organizative design has not to be oriented towards the traditional work division based in internal functions; but organization should be directed outwards, or in other words, how to reduce co-ordination costs with clients, and consequently with the same internal organizative structures.

* Actually, when we speak about a lean organization, we are conceding a great relevance to human resources as the basis of all the organizative design.

* Therefore, just through "confidence equity", we may develop a lean organization implying

    – Total quality
    – Delayering

- Entrepreneurship and not bureaucracy
- Simplify complex process and structure systems
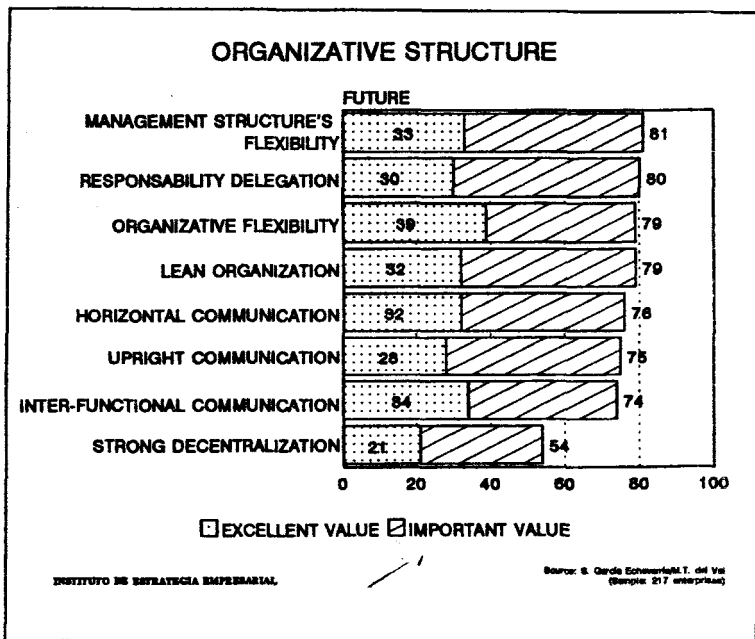- High-tech information technology systems as SAP›s R/3

Figure 12

All this process, arises the necessity of new thinking ways in companies› managers. As we may deduce from empirical research, we have completed; the Spanish manager sees clearly which should be his new organizative design, as we may see in Figure 13.

RE-STRUCTURING ACCORDING TO LEAN MANAGEMENT PRINCIPLES

QUALITY IMPROVEMENT

INTRODUCTION OF NEW LOGISTICS TECNIQUES AND FLEXIBLE PRODUCTION SCHEME

MODIFY COORDINATING WAYS IN WORK ORGANIZATION

CHANGE FROM AN UP-DOWN ORGANIZATING ORIENTATION TO A CROSS, PROCESS ORIENTED ONE

IN A SECOND PHASE, INTRODUCTION OF A NEW REWARDING SYSTEMS

SLOW INTRODUCTION OF REAL RELATIONS BETWEEN SUPPLIERS AND COMPANY
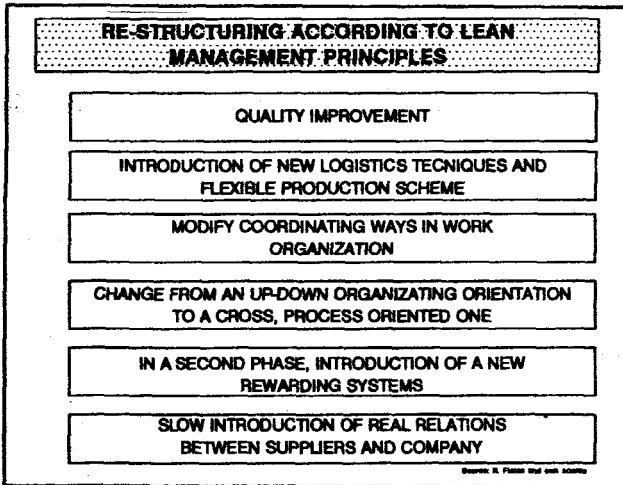
Figure 13

Consequently a lean management means:

* Adapting the organization to the values defining the institution, that is, to its corporate philosophy

* Designing the organization according to employees with their value systems. Thus, studying, previously, the corporate culture.

* Aiming to meet competitivity requirements and not the requirements of productive structures

* Reducing those internal structures

Organizative designs do not have to rest on sociologic power structures and neither on technological structures. On the contrary, they should rest on process dynamics and on the possibilities to adapt permanently to environmental requirements.

Thus, we may affirm that lean management finishes basically with functions, roles and responsibility layers, as well as with regional units, because they do not add any value. It means a strong break-down, not just with classic work division systems and their organizations, but even with the most modern designs, as matrix ones, in the way they understand decentralisation.

On the contrary, lean management offer a global vision about everyone involved in companies' processes. Thus, it affects both to line managers as to the same employees.

It is, basically, a revolutionary design in management and organization context

IV. LEAN MANAGEMENT IMPLEMENTATION IN ORGANIZATIONAL TERMS

How do you pass from a hierarchical organization to a lean one?

This is the key question.. As we have seen in Figure 12, the Spanish manager has already assumed how organizative structures should be completed.

In order to break with traditional structures, lean management implementation could be concreted in the following terms:

*   The whole organization is customer and competence oriented.

*   The key economic target is how to reduce direct costs. It is not just a simple delayering to reduce payroll costs, but it is about reducing direct costs through an improvement in organizational efficiency

*   It is about developing line activities while reducing radically staff structures.

*   Organization or people's co-ordination designs should be established around a project unifying people's contributions, and not around power based hierarchical structures. These last structures do not respond to today's organizational structures.

Particularly, it is about creating small units that could be guided by people when designing organizational processes as an answer to co-ordination requirements.

But, how do you introduce lean management in a hierarchical structure?

*   All the participants in the organizative process have to assume the changing trend

*   It has to be completed as fast as possible. That is, no delays should be admitted in its implementation because it could suppose a definitive failure.
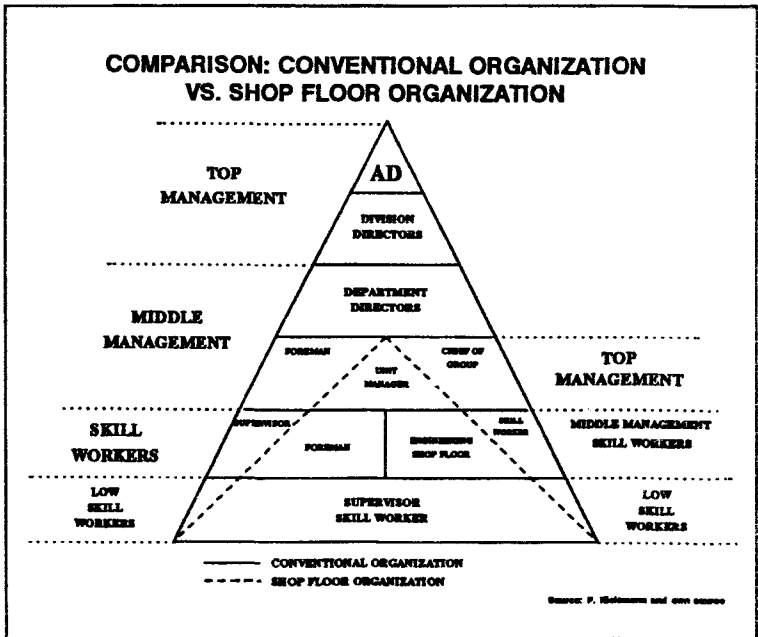

Figure 14

This process is characterised by:

*   Start its implementation with a quality improvement as a first basic step.

*   New logistics approaches and flexible production pro—grammes should be considered.

*   The ways to co—ordinate the existing work division should be modified rapidly.

*   An organizative transition should be implemented from an up – down orientation to a cross one.

*   New rewarding systems should be maintained as before, until the new organization is completed.

*   Relations between suppliers and company should be managed very carefully.

As we may see in Figure 15, lean management means, basically, a systematic reduction in management structures. It is about getting rid of control functions, and concentrate co—ordination efforts in line activities. Thus workplaces are empowered, with greater responsibility requirements to all participants. Operative line is revitalised and control function is penalised

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THE FIVE PRINCIPLES OF
LEAN MANAGEMENT

* GLOBAL THINKING
        CONSIDER CONSEQUENCES GLOBALLY AND
        ASSUME COMPLEXITY

* KNOWLEDGE OF POTENTIALS
        IMPROVE THE KNOWLEDGE AND USE OF SCARCE
        RESOURCES --> CREATIVE PROCESSES

* ECONOMIC MENTALITY
        KNOW THE ECONOMIC ASPECTS OF RESOURCES,
        AVOID WASTAGES

* REFERENCE TO CUSTOMERS AND COMPETENCE
        KNOW THE POSITION

* STRATEGIC THINKING
        FUTURE REFERENCE POINT
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Figure 15

In this context, we may appreciate the extreme reduction in management structures, providing an enhancement of line employees to managing and organizative tasks. This is the great breakdown against the traditional specialisation.

V. CONCLUSIONS

The basic principle to implement lean management in a company could be described as following:

*   First, the individual should break with his analytical specialisation to change towards a global thinking. Every executive and manager should be able to perceive the global vision as its measurement. This global vision, the individual entrepreneurship promotes the breakdown of an administrative mentality. Besides, he has to be conscious, backed by high technology, about the consequences of his actions related with the company›s stakeholders (customers and suppliers).

*   The second basic characteristic is that all the employees involved in the organization should be able to discover new potentials in every part of the process and the institution. Just when new potentials are discovered, creative processes in the mixture of resources are created.

*   The existance of an economic mentality turns to become a coordinating value in cross designs; which means, that the economic side of scarce resources are perceived through information and communication. We are not referring just to those resources managed directly by each

employee, but about the consequences of their behaviour over the use ot other resources in other organizational units.

*   Employees within the organization have to achieve a very clear reference towards customers and competitivity, independently from their position.

The strategic mentality is just created when all the employees implied in business activities are concious about the importance of a future vision in the design of behaviours and organizations.

Consequently, when we speak about a lean management, an unknown institutional change is being carried out. As we have explained, in a lean design, structures dissappear while line processes take the lead.

The target would be to design in the same organizational unit both the resource disposal as their correct use, thus creating a business unit in each of them.

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ESTRUCTURA DE LA OBRA

FUNDAMENTOS DE LA ECONOMIA DE LA EMPRESA

LA ECONOMIA DE LA EMPRESA COMO CIENCIA Y COMO REALIDAD EMPRESARIAL

LA EMPRESA COMO INSTITUCION ECONOMICO-SOCIAL	LA EMPRESA COMO ESTRUCTURA INSTITUCIONAL	LA EMPRESA COMO PROCESOS Y FUNCIONES	LA EMPRESA COMO INSTITUCION DE INFORMACION Y COMUNICACION

LA EMPRESA EN LA SOCIEDAD Y EN LA ECONOMIA

DESARROLLO CIENTIFICO Y PROFESIONAL

	POSTGRADO	DOCTORADO

3° CICLO

DIMENSION INSTRUMENTAL

PLANIFICACION ESTRATEGICA DE LA EMPRESA	CONTROLLING ESTRATEGICO DE LA EMPRESA	SISTEMAS DE INFORMACION DE LA EMPRESA	ADMON. Y GESTION DE LOS RRHH	TECNICAS DE ASIGNACION DE RRHH

MANAGEMENT Y MANAGER DE RRHH

DIMENSION INSTITUCIONAL

ETICA Y CULTURA EMPRESARIAL	POLITICA ORGANIZATIVA DE LA EMPRESA	DIRECCION DE RRHH	DIRECCION Y ORGANIZACION DE LA EMPRESA MULTINACIONAL	ECONOMIA DE LA EMPRESA INDUSTRIAL

2° CICLO

DIRECCION ESTRATEGIA Y POLITICA DE LA EMPRESA

TEORIA ECONOMICA DE LA EMPRESA

TEORIA Y PLA-NIFICACION DE LA PRODUCCION	TEORIA DE COSTES	TEORIA DE LA ORGANIZACION DE LA EMPRESA	TEORIA DE LOS RRHH EN LA EMPRESA

FUNDAMENTACION TEORICA

INTRODUCION A LA ECONOMIA DE LA EMPRESA	FUNDAMENTOS DE LA ECONOMIA DE LA EMPRESA

1° CICLO