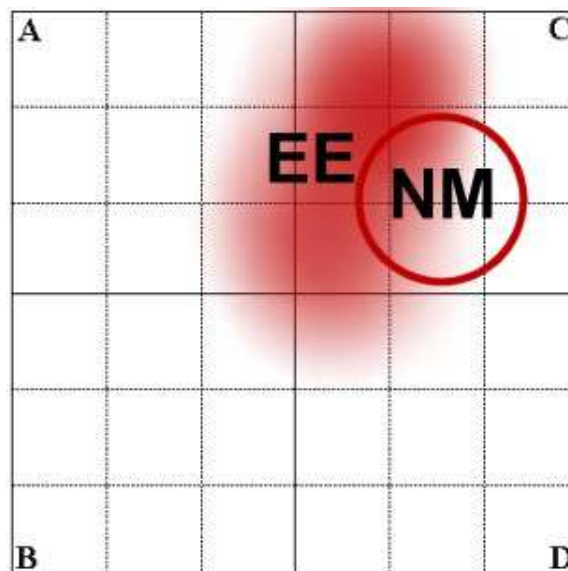




COMPANIES CHANGING HANDS THE LEAN APPROACH



Companies Changing Hands - The Lean Approach

By Carlo Scodanibbio

Private Enterprises do change hands.

While a “traditional” approach by the Organisation taking-over the enterprise consider mainly financial/economical, commercial and operational aspects, the Lean approach takes into great consideration also the impact on Human Resources affairs brought up by the change.

What happens when a New Management inherits employees used, most likely, to a different style and set to a “previous” *old way* of doing things?

Generally, when an enterprise is sold to new owners or merges with another, controlling Organisation, the crucial factors that come under scrutiny are the financial/economic ones – and possibly some others. The “people” issue is most often neglected, overlooked and underestimated. The people issue requires a deeper analysis.

ORGANISATIONAL STRATEGIES/STRUCTURES: THE 4 INDUSTRIAL MODELS

In our short industrial history we can identify 4 main models of industrial enterprises in respect of their overall Organisational Strategy and associated Structure. To make a simple scheme let's consider two main parameters:

1 - The INTERNAL ORGANISATION

2 - The RELATIONSHIP WITH THE MARKET

1 - INTERNAL ORGANISATION: historically, we can identify two main (extreme) approaches:

- product/organisation oriented

[The main attention is to the product (or service) - The Organisation is seen as a tool to produce products or services - The Organisation is well structured (functions, duties, responsibilities, authorities) - Activities are rational, logic, systematic, standardised - Bureaucracy is alive and kicking - People Motivation: medium/low]

- process/people oriented

[The main attention is to the business process and to people (groups) managing/involved in processes - The Organisation is more flexible, with an "entrepreneurial" type of management and activities - This is a Group-oriented, "Learning Organisation" - There is little bureaucracy or none at all - People Motivation: high]

2 - RELATIONSHIP WITH MARKET: historically, we can identify two main (extreme) approaches:

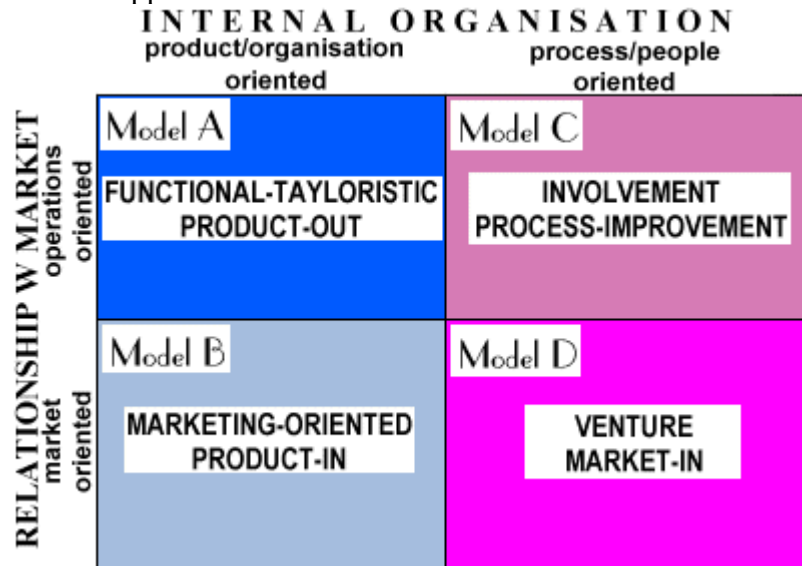
- operations oriented

[The Market is seen in the background, or anyhow "far" - Reactions to Market's changes consist, mainly, of change/improvement of "technology" and/or change/improvement of product/s - The strength is "Know-how" (Product - Technology)]

- market oriented

[The Market is "in" the Enterprise - The Market and Market changes are detected and analysed - The tendency is to define Market's needs and localise opportunities - The strength is in the ability to reap & manage opportunities]

By combining the 4 main "approaches" we find the 4 main industrial models:



- **Model A: FUNCTIONAL-TAYLORISTIC - PRODUCT-OUT**

This is the industrial Model typical of the years 50s - 60s in the West.

It is product/organisation oriented and operations oriented. It's the paleo-enterprise (old-world enterprise). Its doors are closed. They are opened only to deliver product to the market. As demand exceeds supply, the Market is unsaturated, static, well predictable.

The Model is called FUNCTIONAL-TAYLORISTIC because is based on functions and on Taylor's Scientific Organisational System (Planning – Control – Rules).

It's called PRODUCT-OUT because the main concern of this model of enterprise is to produce enough product to satisfy demand.

- **Model B: MARKETING-ORIENTED - PRODUCT-IN**

This is the industrial Model typical of the years 60s - 70s in the West.

It is product/organisation oriented but market oriented. It's the "Marketing" Enterprise, that starts seeing a "saturated" Market and changes in the Market. Consequently, it opens its door and goes out for a walk in the Market, to see what is happening, and decide accordingly.

For this very reason this Model is called MARKETING-ORIENTED. It's called also PRODUCT-IN because it's now the feed-back from the Market analysis (Market Surveys – Advertising/Promotion) that contributes to decide about what to offer to the Market.

- **Model C: INVOLVEMENT - PROCESS-IMPROVEMENT**

This is the Industrial Model typical of the late 70s - 80s in the East (Japan).

It is operations oriented and process/people oriented. This is the Improving Enterprise, the enterprise that understands the primary importance of processes and people in processes.

However, its relationship with the market is still old-style. The main attention is to the operations that produce a competitive product, competitive in terms of quality, cost and time-to-market.

The market is there, a bit "blurred" in the background. The market exists, created by the (western) competition. The target is to beat the competition through "superior" operations.

This is the *Just-in-Time* era, with a strong support by *TPM - Total Productive Maintenance*, *TQM - Total Quality Management*, *QFD - Quality Function Deployment* and *TEI - Total Employee Involvement*.

The Model is called INVOLVEMENT - PROCESS-IMPROVEMENT because it is through high involvement of people that processes (mainly operational processes) are improved, kaizen style.

- **Model D: VENTURE - MARKET-IN**

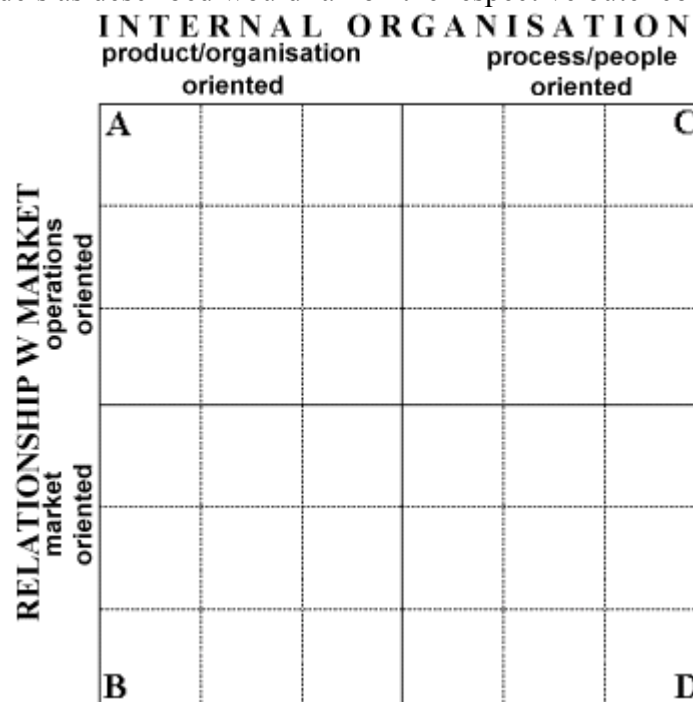
This is the world-class, Lean Industrial Model, structured mainly in the West and diffused world-wide, starting from the early 90s.

It is market oriented and process/people oriented. This is the world-class Enterprise, the Lean enterprise that lets "pull" all its processes by the Market, and perfects them to high levels of value generation. Its approach to the Market is "new-world" as it is its approach to process management. This is the *Lean Management* and *VAM - Value Adding Management* era, where VAM is deployed and applied via lean approaches. *Lean Manufacturing*, *Lean Project Management* and *Process Engineering* are typical of this era.

The Model is called VENTURE because of the "entrepreneurial" style of process management. It is called MARKET-IN because the enterprise's doors are fully open and in direct communication with the Market, that literally "invades" the enterprise.

As already said, the above classification is based on "extremes".

Thus, the 4 "ideal" models as described would fall on the respective outer corners of the grid.

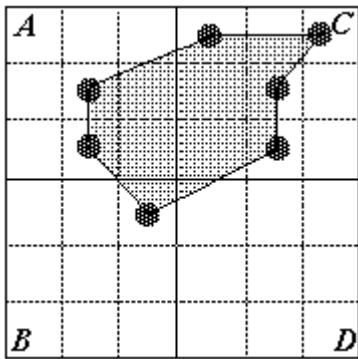


In reality, enterprises are living "organism", in a delicate equilibrium of people, methods, technology, culture, policies.....

An enterprise willing to understand to which "Organisational" Model it belongs should consider many functional/operational areas and "scan" and assess all of them. Suitable questionnaires are available for the purpose.

At least the following "areas" should be considered:

- The INDUSTRIAL CULTURE area
- The RELATIONSHIP WITH THE MARKET area
- The RELATIONSHIP WITH CLIENTS area
- The MANAGEMENT AND GENERAL ORGANISATION area
- The RELATIONSHIP WITH EMPLOYEES area
- The OPERATIONAL STRATEGIES/PRACTICES area
- The RELATIONSHIP WITH SUPPLIERS area



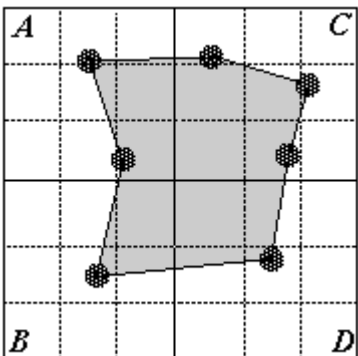
By considering, for each area, several "features" typical of the 4 "extreme" Models - and by comparison and simple interpolation - an overall "score" representative of each area is obtained and marked on the grid.

The resulting "shape" is just an indication of where an enterprise is positioned with regard to its Organisational Strategies, in respect of the 4 ideal, "extreme" Industrial Models.

So, it has a limited value. But the thinking process associated with the exercise is extremely valuable.

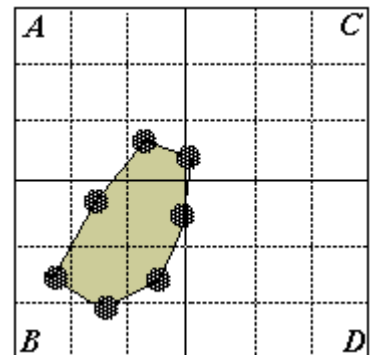
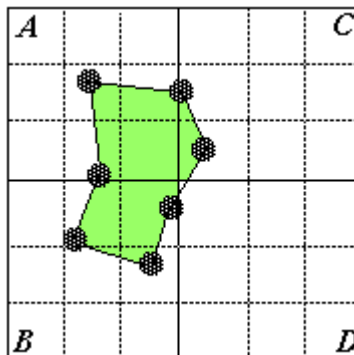
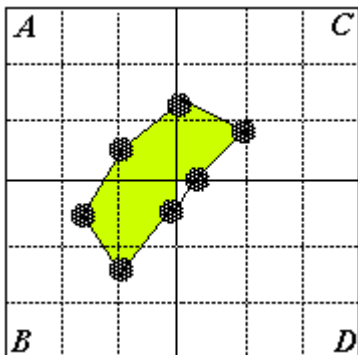
By carrying out the "scanning" assignment, enterprise's key people start visualising where they are, where they sit, and what are the implications of the resulting "positioning".

Many output "shapes" are possible. Generally, the resulting shape is a mixture of 2 and even 3 Models, a hybrid Organisational situation.

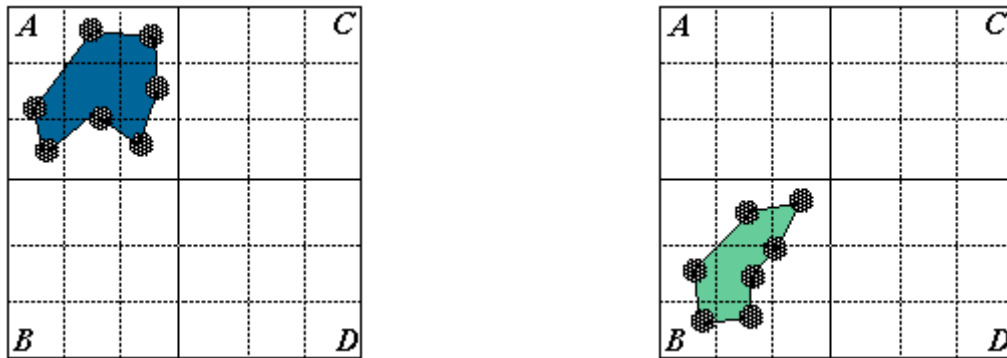


Only in rare instances one finds in an enterprise very atypical organisational features (like, for instance, features of all 4 extreme Models, scattered over the 4 quadrants of the grid, and close to the outer corners). In such cases, either the scanning exercise has been mis-interpreted, or the enterprise belongs to a very rare species.....

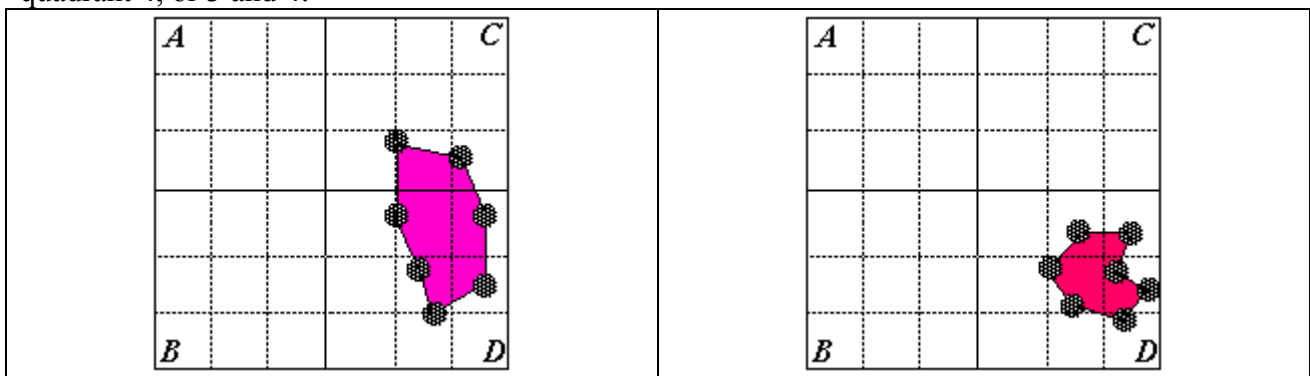
In the majority of cases, "traditional" enterprises show features of Model B, with a feature or two of Model C and possibly a feature or two of Model A. But the overall shape is rather "central" in the grid.



Only few "traditional" enterprises show Model-specific features. Their Organisational Strategies "shape" is well positioned within a quadrant:



"World-class", Lean enterprises (few, unfortunately) show well "condensed" shapes, positioned in quadrant 4, or 3 and 4:



With the proviso that a "scanning" exercise of this nature can only supply an "indication", the tool is still very useful.

Enterprises still "traditional" in their Organisational Structure can have a good "thumb-suck" indication of the "gap" to be filled to jump to quadrant 4 (possibly "via" quadrant 3.....).

Besides, enterprises can understand in a simple/easy way how "hybrid" is their present status. A very hybrid situation is not potentially fit to make a jump to upper levels. A rather hybrid situation can instead be changed into a more homogeneous shape, before making jumping exercises.

Finally, the "scanning" tool can be perfected. By increasing the number of areas under scrutiny and the zoom-in level, this tool can produce very valid and rational results.

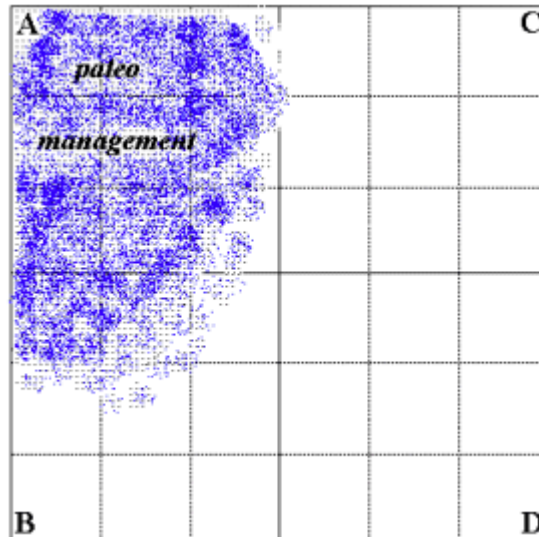
ORGANISATIONAL STRATEGIES AND HR MANAGEMENT STRATEGIES

Knowing where an enterprise is situated with its Organisational Structure can be extremely helpful in defining/perfecting also the enterprise's Human Resources Management strategy, core point in any Performance Management and Improvement initiative.

We shall see (a bit further down) that knowing the Organisational Strategies and Structure of an existing enterprise is vital when it changes hands.

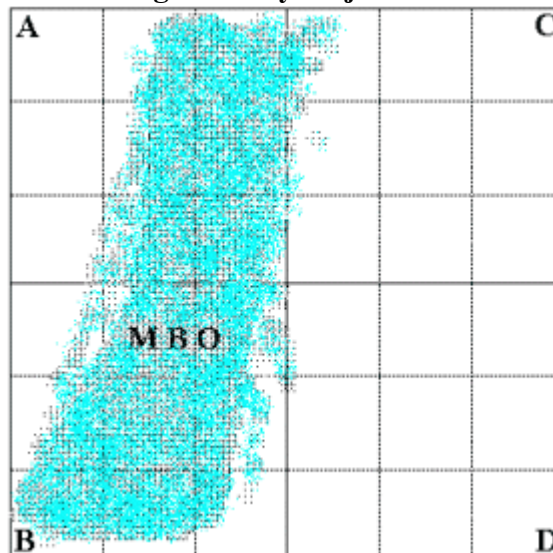
In fact, having defined the main Industrial Models in respect of their Organisational Strategies, it's easy to allocate to the various quadrants of the grid the "*most fit Human Resource Strategy under the circumstances*".

For instance, for an enterprise falling in the **Model A** quadrant (FUNCTIONAL-TAYLORISTIC - PRODUCT-OUT), it's easy to conclude the most fit HR strategy is based on a "**Paleo**" (old) style of HR Management (autocratic, paternalistic, bureaucratic – based on strictest control.....):

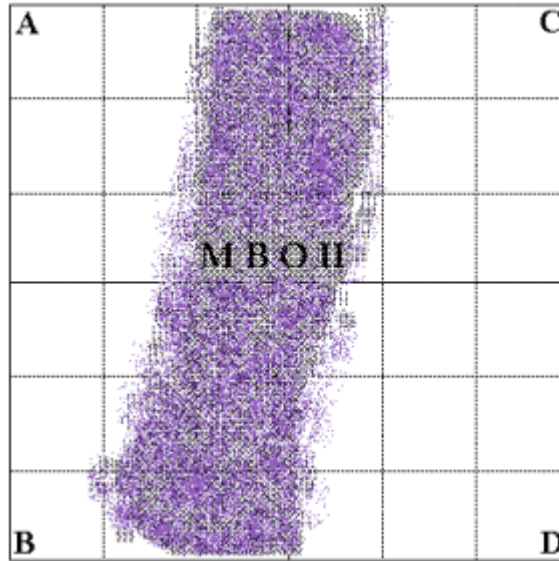


Actually, the area of deployment for this style of HR Management spreads a bit also over quadrant B.

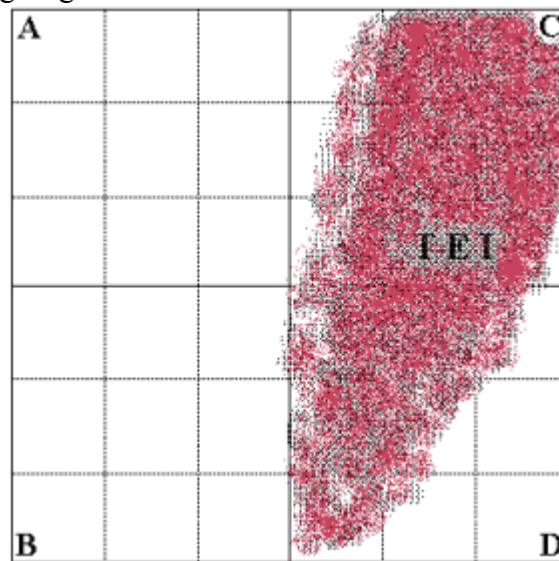
Considering the main HR Management disciplines in industrial history, it's rather easy to identify the areas of suitability of **MBO - Management by Objectives**:



and of the so-called **MBOII - Management by Objectives II**:



TEI - Total Employee Involvement (the leading HR Management Strategy for high-calibre enterprises moving gradually to Lean status) is well fit and adequate for enterprises of the right zone of the Organisational Strategies grid:



Having made the above considerations, it's easy to conclude that, for every (theoretical and real) Industrial Model there is a HR Management Strategy optimal and most fit under the circumstances.

All "traditional" enterprises should assess, to begin with, the validity of their current HR Management Strategy in relation to their overall Organisational Strategies, and ensure there are no major hybrid situations, or conflicts, or clashes.....

This will assure, at least, a better overall functional effectiveness.

And "traditional" enterprises willing to move into the world-class, lean area (right quadrants of the grid), can do so after putting, if necessary, their "house" in order.

Putting things in order means : removing “braking forces” - "re-thinking" the enterprise culture, values, principles, objectives.... - means reviewing the enterprise's approach to market and clients - means rationalising the overall product/service development area - and means streamlining the enterprise's processes - and means reviewing people position in those processes - means educating, training, and forming people - means making step-by-step experimental tests and launching pilot, lean projects - means instilling gradually new culture, new spirit and showing to people new horizons.....

In this way, the shift to the right zone on the Organisational Strategies grid is gradual, continuous, regular, integrated, painless... but it takes time!

Cultural changes are the main limiting factor. Time is necessary. The shift is a "medium" term project (2 to 5 years, depending on circumstances).

But **Total Employee Involvement** can, in this way, be introduced and made take-off.

How painless is the process?

It might be rather painful for "strong-Model-A" enterprises. It is somewhat painful for Model-B enterprises. And it is less and less painful for "central-zone" enterprises.

In all cases, the road to world-class, lean status will leave behind a few casualties. Not everybody will be able to adapt to this kind of change.....

HR MANAGEMENT - CONSIDERATIONS

Having illustrated the importance of understanding own Organisational Strategy/Structure (which is generally very vague in “traditional” enterprises), let’s make some considerations.

Every enterprise has a HR strategy, even if not well defined, structured and formalised...

QUESTIONS:

- Is it in-line with the overall Organisational & Operational Strategy (**Effectiveness**)?
- Or only partially coherent (**Partial Effectiveness**)?
- Or, is it clashing (**Ineffectiveness**)?
- Does such strategy show **continuity**?
- Or, is it irregular - scattered - “jumping to extremes”?
- Is such strategy “**global**” (company-wide)?
- Or is it **fragmented** “per department” (**hybrid situation**)?

“...the worst thing that could possibly happen to an enterprise and its employees is the adoption of an ineffective H R Management strategy.....”

Unfortunately, this worst scenario happens most often in many “traditional” enterprises.

Episodes of Paleo-Management may happen in practically all enterprises, especially when things get tough and times are turbulent: that’s when Top Management becomes very autocratic (indiscriminate cost-cutting exercises – retrenchments – 4-days week – and the like.....)

MBO and MBOII are still alive and kicking also in enterprises that proclaim themselves world-class, lean. They are not!

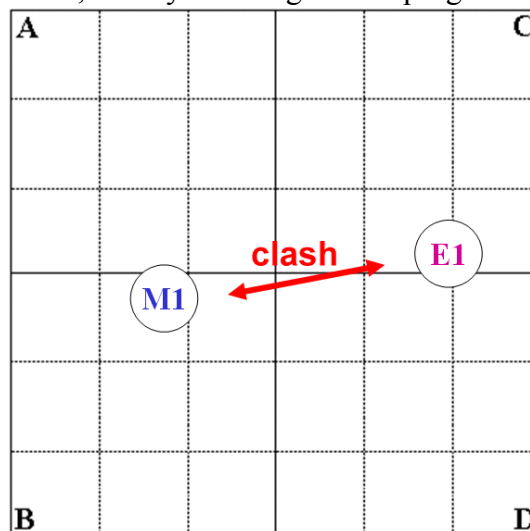
When an enterprise is structured “per departments”, each Head of Department most probably and most often adopts a HR Management Strategy best fit to his/her past experience, style and behaviour. With the net conclusion that people are managed “per department” – with consequences such as: people making comparisons and wishing to be transferred to another department where management is softer, or more democratic, or tolerant, or.....

And if we give the title “progressive” to a manager or employee with right-quadrants culture and behaviours, and the title “traditional” to a manager or employee with left-quadrants culture and behaviours, how many small and big “clashes” (mis-understandings – mis-alignment – arguments – and the like) take place every day in any enterprise? Every progressive/traditional or traditional/progressive manager/collaborator relationship may give origin to some form of “clash”.

We can illustrate schematically the above.

Example 1.

Relationship between “traditional”, old-style Manager and “progressive”, new-world employee.



This relationship can only give origin to frictions, mis-understandings, mis-alignment, arguments and even strong clashes. Why? Because there is a “mis-match” between behaviours, approaches and expectations – as well as perceptions – of Manager and Collaborator.

Can a situation like the one described above actually materialise in reality?

Definitely yes, and more often than one thinks.

Just imagine a rather progressive, high-tech enterprise, where the mottos are: team-work, empowerment, attention to process and process’ output (results), self-driven and self-motivated employees, etc.

Let’s say that this enterprise, in order to expand in a certain high-tech fields, recruits a new R&D Manager with long, specialised experience as required by the nature of the job. It is well likely that the new R&D Manager will be a “mature” person, with first-class technical qualifications and experience, and with his own managerial “style”, built-up over the years.

Once appointed, the new R&D Manager will definitely attempt to enforce his “traditional” management style (bureaucracy – control – job descriptions - reports – procedures – discipline – time sheets – etc.) onto rather “progressive” employees as described above.

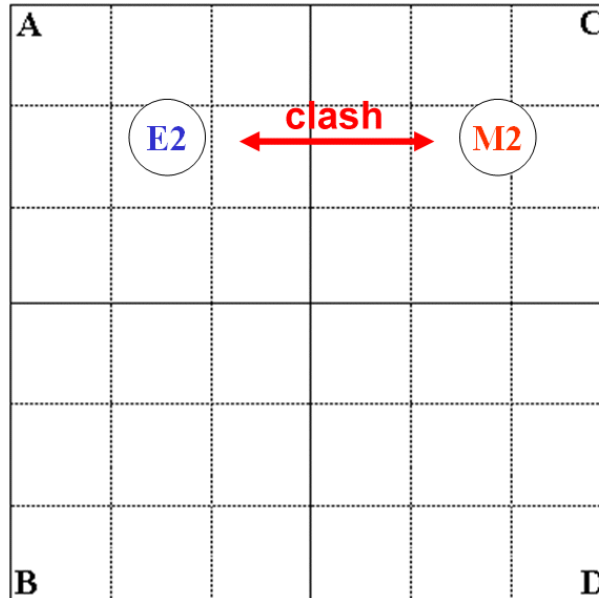
And what will the net conclusion be? **Clashes**.

Most probably, the majority of his employees will start looking around for another job.....

And let's see the opposite situation.

Example 2.

Relationship between “progressive”, new-world Manager and “traditional”, old-style employee.



Also this situation is very likely to generate “clashes” as above, but of different nature.

And also this situation can well materialise in reality.

In an enterprise of very old style – never mind to which industrial sector it belongs - a new “progressive” manager is recruited (according to the principle of bringing new “lymph” into the system). Generally the person is “young”, with some experience (of progressive nature), dynamic, etc. His/her duty is to re-organise or re-structure a department or an area of the enterprise previously not well run: in fact, employees are de-motivated, possibly also a bit lazy, and used to produce results only under strict control and “strong” old-management drive (read: yelling, screaming, imposing, controlling, strict supervision, etc.).

If the new manager tries (as it seems logical) to deploy his/her “progressive” style, another type of mis-match will materialise. Just imagine this young manager addressing his/her collaborators with an approach such as “...from now on we shall discuss our department strategies and organisation together, in team...” and “...I shall hear everybody’s opinion before making any decision...” and “...I want you people to grow, to develop yourself, to learn new methodologies and to improve this department’s processes and outputs, for which you will accountable because I will empower you to self-drive yourselves, so that you will feel also more job-satisfied.....”. Can you visualise what happens? Employees will look at the new manager like if he/she were a big gorilla just landed from Jupiter.... And some ideas will buzz around in many employees’ minds “...I always thought managers were a bit useless and a pain in the neck, but could never believe they can also be idiots.....will fool around with this guy.....”.

The 2 examples above are rather extreme, on purpose. But in between extremes situations there are 1000s of hybrid, mis-match situations taking place on a daily basis in enterprises world-wide....

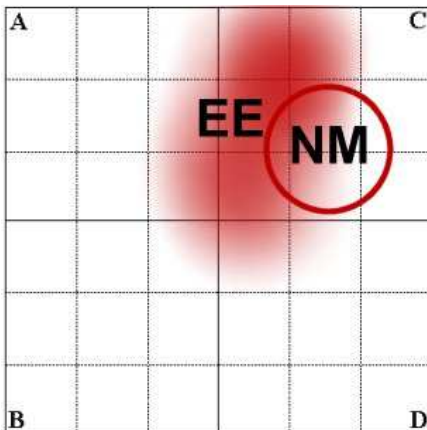
COMPANIES CHANGING HANDS – THE HUMAN FACTOR IMPLICATIONS

Now and only now we can easily analyse what happens in an enterprise when it changes hands.

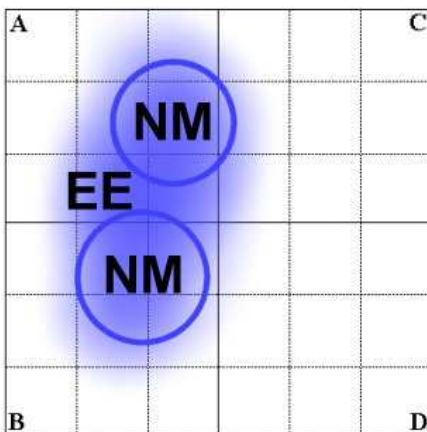
This phenomenon, well diffused in industry, can be considered like “*an industrial DNA transplant*”. Yes, a transplant, because the core lymph of an enterprise (people – and management/employees relationship) now gets deeply affected.

What can the transplant’s outcome be? Anything, from smooth acceptance to total reject.

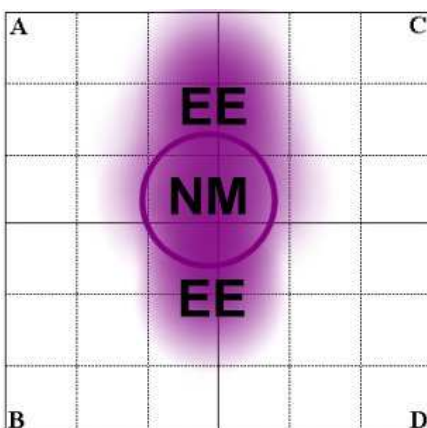
Let’s analyse a few examples.



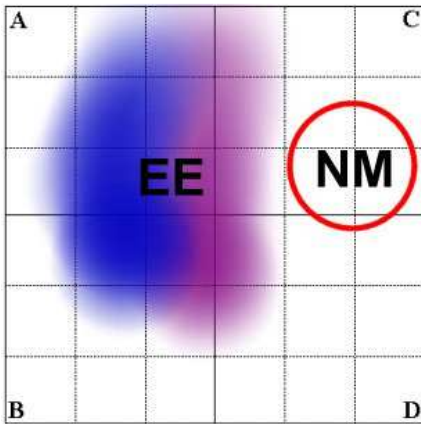
Example 1. Existing Employees (EE): “progressive” (new-world – right quadrants in the grid). New Management (NM): also “progressive”. This is a rather rare situation in reality. This situation gives origin to a smooth (or considerably smooth), generally painless “integration: New Management and Existing Employees are tuned to (almost) the same frequency, talk the same language. They can adjust to each other rather easily. The DNA transplant has high chances of being successful, with fast settlement.



Example 2. Existing Employees: “very traditional” (old-world – left quadrants in the grid). New Management: also “very traditional”. This is also an uncommon situation in reality. This situation not necessarily gives origin to a smooth integration. There are many “very traditional” behaviours, all falling under the Paleo-Management approach and style: from extremely autocratic (New Management) to strongly-control-oriented (New Management) – from lazy, highly unionised (Existing Employees) to disciplined, but *pay-me-for-what-I-do-and don’t-bother-me* (Existing Employees). Therefore, integration may be smooth or not, depending upon the degree of “traditionalism” (New Management and Existing Employees).



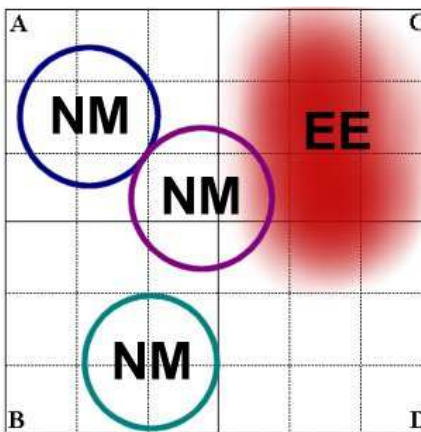
Example 3. Existing Employees: “mid-way” (old-world but somehow modernised – mid area in the grid). New Management: also “mid-way”. This is a rather common situation in reality. Many “integration” outcomes are possible, generally with a stabilising effect in time: existing employees will most probably adapt (over time) to new management style, with some or even considerable efforts required from New Management. The key factor is TIME: in time, settlement is possible, but with efforts, compromising, negotiations, and the like.



Example 4. Existing Employees: “traditional or mid-way” (old-world or somehow modernised – left or mid area in the grid). New Management: “progressive” (new-world – right quadrants in the grid). This is becoming a frequently encountered situation in today’s world. Progressive Companies willing to expand/diversify acquire control of a “traditional” or “mid-way” “promising” enterprise (with unexploited potential) with the purpose of transforming it into a rather modern, progressive and lucrative entity.

In this situation, outcomes vary considerably.

The challenge for New Management is to shift Employees culture and working methods to leaner status which, under the best of circumstances, is a medium-term project (2-5 years). The possibilities of failures are very high if Employees’ industrial DNA is very old and/or in case of heavy unionisation. Heavy clashes and even conflicts are possible.



Example 5. Existing Employees (EE): “progressive” (new-world – right quadrants in the grid). New Management: “very traditional” (Paleo), or a bit more modern (MBO-based or MBOII based).

Also this situation is very likely to happen in real world: successful, modern, lean enterprises (with right-quadrants culture and methods) are purchased by a larger, “traditional” corporation. The reasons are of various nature: temporary financial difficulties for a lean but small/medium enterprise (so the controlling shares are sold to a financial corporation) – or, simply, a small/medium size successful enterprise is considered a good investment by a large corporation.... Etc.

Outcomes: rather gloomy. New Management simply won’t even consider embracing Lean approaches: Paleo Management will result in a disaster – MBO will just not work on Existing Employees – nor will MBOII practices be easily accepted. Most Existing Employees will simply start looking for new job.

Many more examples could be made. However, it should be clear that:

- What I called a ***DNA Transplant*** is actually a reality when companies change hands.
- Many outcomes are possible depending on match or mis-match between NM operational philosophy and EE culture and customs.
- Unless NM scrutinise in detail the Organisational Structure of the enterprise under consideration before the actual take-over and study a suitable strategy to make the transplant as smooth as possible, it is very likely that some or total failure will show-up sooner or later.

FINAL CONSIDERATIONS

In every mis-match situation (the heavier the mis-match the worse the outcome) *Waste* in all its forms may materialise and increase to high proportions. The main items of waste being: personnel rotation (employees resigning) with consequential costs to recruit new personnel (more suited to NM style) – industrial relations conflicts (always extremely costly and leaving behind a swarm of other items of waste) – operational processing waste (consequent to reduced or anyhow inadequate productivity, poor output quality, longer lead times to process, plus all classic 7 wastes or Muda well identified by Japanese) – management waste (associated with more complexity, more control, more bureaucracy, more procedures, more paperwork, unproductive meetings, revised job descriptions, extra policies.....) – commercial waste (loss of clients consequent to decreased enterprise performance; loss of image; loss of reputation; lost opportunities.....) – and last but not least, waste of talents (or using existing employees to the best of their qualifications and skills and not to the best of their abilities and possibly-hidden talents).

- The only “match” situation likely to produce good, smooth outcomes with least waste is when there is a match between progressive New Management and progressive Existing Employees (**Example 1** above). In all other cases, waste consequential to changing hands can be of considerable, high or catastrophic level.
- Is it always possible to “*bring existing employees on board*” (“traditional” way of facing the problems associated to the take over)? Unfortunately, the answer is NO. Or, at least is NO in the short-medium term, except in the case illustrated in Example 1 above. In some cases (see **Examples 2 and 3** above), it is possible: but only in the medium term, and with considerable efforts, negotiations and compromising – and still with remarkable levels of associated Waste. Definitely, in cases such as those illustrated in **Examples 4 & 5** above, it’s almost impossible to bring existing employees on board.
- What suggestions can be given to NM and EE to try to co-operate for a smooth transition? Not many, except in the most favourable case illustrated in **Example 1** above. It’s not a matter of tips, suggestions, or management theories and disciplines. Here we are talking of *cultural issues*. EE expectations and NM expectations may be aligned onto different planets! An industrial DNA mis-match or poor-match cannot be tackled with “traditional” management or leadership techniques and the like. They will be practically useless, and likely to introduce further waste!

CONCLUSIONS

An Enterprise changing hands is a very delicate issue.

While a “traditional” approach by the Organisation taking-over the enterprise considers mainly financial/economical, commercial and operational aspects, the Lean approach takes into great consideration also the impact on Human Resources affairs brought up by the change.

The target being: smooth, painless integration of Existing Employees and New Management – with continued and enhanced Operational Performance – while generating as minimal as possible Waste during and after the take-over.



Carlo Scodanibbio, born in Macerata (Italy) in 1944, holds an Italian doctor degree in Electrical Engineering (Politecnico di Milano - 1970).

He has over 49 years of experience in Plant Engineering, Project Engineering and Project Management, as well as Industrial Engineering and Operations Management.

Free-lance Consultant since 1979, he has worked in a wide spectrum of companies and industries in many countries (Southern Africa - Italy - Cape Verde - Romania - Malta - Cyprus - Lebanon - Mauritius - Malaysia - Kenya - India - Saudi Arabia), and operates as an Independent Professional Consultant and Human Resources Trainer to industry.

His area of intervention is: World Class Performance for Small and Medium Enterprises in the Project, Manufacturing, and Service sectors.

His favourite area of action is: the "lean" area.

He has co-operated, inter-alia, with the Cyprus Chamber of Commerce, the Cyprus Productivity Centre, the Malta Federation of Industry, the Mauritius Employers' Federation, the Romanian Paper Industry Association, the United Nations Industrial Development Organisation and the University of Cape Town.

His courses and seminars, conducted in English, Italian and French, have been attended by well over 20.000 Entrepreneurs, Managers, Supervisors and Workers. They feature a very high level of interaction, and are rich in simulations, exercising and real case studies. The approach is invariably "hands-on" and addressed to immediate, practical application.

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COMPANIES CHANGING HANDS - THE LEAN APPROACH

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