

# Initiation: Getting Commitment from Top Management

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## Introduction

The Lean Six Sigma effort will succeed or fail based on the engagement and buy-in of the CEO and executives with P&L responsibility. If these people are engaged in the process, Lean Six Sigma will allow the whole organization to bring its enormous latent energy to bear on value creation. If they are not engaged, Lean Six Sigma will be just another failed effort in the company's history.

## Introduction

A highly decentralized manufacturing company decided to launch a program in which improvements were mandated by corporate, but the program was to be designed, and the cost borne, by the P&L centers. Most of the managers had neither the time nor the knowledge to design a Lean Six Sigma program and were rightly focused on how to make that quarter's or that year's numbers. A manager at this company explained his lack of significant effort this way:

“Corporate has set goals for me to improve quality, reduce working capital and lead time. If I fail to do this, but make my profit numbers, I might get my wrist slapped. If I don't make my profit numbers, I get fired!”

## Introduction

This comment is typical of P&L executives, a tough crowd of hardheaded practitioners. They will support an initiative with their complete engagement *only if it helps them meet the profit and growth plans they have agreed to with the CEO or group president*. Out of necessity, therefore, P&L centers are primarily *tactically focused*. Budgetary constraints and bonus compensation make it very difficult for P&L managers to make *strategic investments* in process or people development. To the extent that managers make such investments, they rarely allocate the critical mass needed to achieve breakthrough performance.

## Introduction

Therefore, the purpose of the first phase of the Lean Six Sigma process is to secure engagement by the CEO and other top executives. If you are considering Lean Six Sigma, and there is no “C” level executive engagement yet, remember Churchill’s admonition: get your chief on board first if you want to avoid a bloody Gallipoli.

## Laying the Groundwork

The most important outcomes of the first phase of Lean Six Sigma are to have:

- ✓ Executive commitment and involvement in the process.
- ✓ A clear definition of the “burning platform” issue.
- ✓ An estimate of the cost versus the benefit.
- ✓ A plan for rollout during the first 100 days.
- ✓ P&L manager awareness and buy-in.

These elements lay the groundwork for a successful Lean Six Sigma effort by making sure that leaders agree on what Lean Six Sigma means to your organization. You should approach these tasks as you would consensus: striving for something that people will support both publicly and privately. It does no good to have your leaders nod their heads in an executive committee meeting, but then badmouth Lean Six Sigma to their own troops.

## Laying the Groundwork



## Leadership Engagement

The leadership component of Lean Six Sigma initiation encompasses three specific activities:

1. CEO/executive engagement, as demonstrated initially by his or her active involvement in the upfront decisions about “where,” “how,” and “who” of Lean Six Sigma.
2. Setting long-term (two- to five-year) fiscal and performance goals for the organization that reflect Lean Six Sigma gains in operating profit, ROTC, revenue growth, and intrinsic shareholder value consistent with the overall business strategy.
3. Commissioning a design/deployment team to champion the design of the Lean Six Sigma policies and architecture for the company.

## Leadership Engagement

### CEO Commitment and Engagement

In truth, *actual engagement* is something that executives and managers will demonstrate during the months and years that Lean Six Sigma is being implemented at your organization. However, engagement begins with commitment, which will happen when a CEO and other executives are convinced that Lean Six Sigma should become a major strategic effort for their organizations. This commitment typically comes when they realize that:

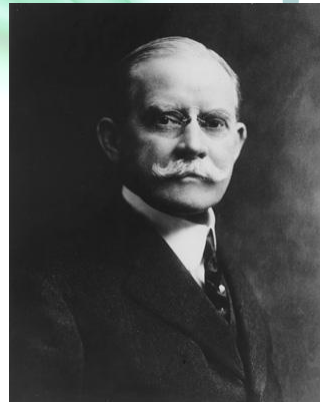
- ✓ There is a truly compelling need to run the business in a new way.
- ✓ Lean Six Sigma is the best choice.

## Leadership Engagement

Finding a “compelling need” is very company-specific and depends very much on where the company is currently positioned relative to customer requirements, shareholder expectations, competitive position, and/or financial performance. Here are a few examples:

- ✓ A company with a long, proud history whose financial performance had suffered saw Lean Six Sigma as the method to “return to greatness.”
- ✓ A company that was rated “mediocre” by Wall Street, relative to its peers, saw Lean Six Sigma as the way to achieve “premier” valuation status.
- ✓ A company reached a \$20-billion sales plateau and saw Lean Six Sigma as a means to effect a breakthrough.
- ✓ One CEO provided his team with illuminating market data that established the fact that customers saw the company as very poor in performance.

## Leadership Engagement



The executive must decide. He may decide right. He may decide wrong. But he must decide.

John Patterson (1844-1922), founder of NCR

## Leadership Engagement

If, for whatever reason, your CEO does not have an intense interest in improving competitiveness and financial performance through operational improvement, then Lean Six Sigma is not appropriate for your firm at this time.

If the CEO and other executives decide to support Lean Six Sigma, the next step is to establish goals for the organization, which will in turn drive the choices of how to allocate Lean Six Sigma resources.

## Leadership Engagement

### **Setting Two-to Five-Year Goals: The CEO's Vision for What Lean Six Sigma Will Contribute**

Here are some examples of typical multi-year stretch goals and financial performance:

- ✓ Improve gross margin 5%-10%.
- ✓ Increase ROIC 5%-15%.
- ✓ Increase revenue growth to 10% per year.
- ✓ Eliminate 20% of manufacturing overhead and quality costs.
- ✓ Gain in market share each year.
- ✓ Increase capacity 12%-18%.
- ✓ Reduce the number of overhead employees 12%.
- ✓ Cut time-to-market and redesign in half.
- ✓ Generate an average return of \$250,000 to \$500,000 per black belt per year (judged in operating profit).

## Leadership Engagement

### Commissioning the Design/Deployment Team

The overall charter of the design/deployment team is to create the *vision, establish the goals and budgets, and make policy and infrastructure decisions* that ensure linkage to the CEO's strategy. Depending on the size of the company, the need for tailoring the initiative, and the complexity of the overall organization, this initial design team may be able to develop a preliminary design and business case in anywhere from two weeks to three months.

## Leadership Engagement

### Documenting the Business Case and Developing the Preliminary Proposal

The design team is initially charged by the CEO and his/her operating committee to:

- ✓ Determine the gaps between current and desired performance.
- ✓ Determine how Lean Six Sigma can close the gap.
- ✓ Develop a preliminary design for the implementation of Lean Six Sigma.



## Leadership Engagement

The proposal should include:

- ✓ The general organizational structure and staffing needed to support a Lean Six Sigma effort.
- ✓ Implementation targets and plans (general timelines for launch, numbers of people who will be dedicated, types of training, etc.).
- ✓ Financial metrics and their targets (both costs and benefits). The benefits were most likely defined in your long-term goals; by far the largest investment is the salary cost of the black belts and champions, followed by the cost of green belts and external consultants.

## Leadership Engagement

This initial plan for the program will ensure that the management team understands Lean Six Sigma and its operational and financial benefits to the business. Sufficient depth of analysis is required such that the management team and, if necessary; the Board of Directors will understand the investment necessary and any risks involved.

At the end of these efforts, the design team will report its findings about the applicability of Lean Six Sigma to your business, present a preliminary proposal for discussion, and recommend any needed outside assistance.

## The Next Moves

Once you are *assured of commitment* and know that *executive leaders are on board* and that they have a *common understanding* of what it will take to implement Lean Six Sigma, then you can confidently devote serious effort to planning the launch and deployment of your initiative and kick off the effort among all P&L managers.

## References

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