

Innovation: How to unleash its potential

By David Parmenter

Prepared for _____,

I hope this implementation guide helps your embrace innovation and move to the calmer blue oceans. An innovation project has the potential to be a transformative legacy.

A handwritten signature in black ink, appearing to read 'D Parmenter', with a horizontal line underneath the name.

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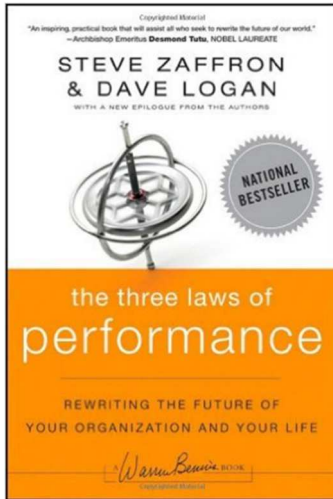
1. Barriers to innovation

Whilst we can never compare a small four-person start-up in San Francisco to a large government department or a multinational, all of these organisations desire to be innovative.

For the small, hungry start-up company working 80 hours a week, making innovation work is relatively painless as it is the only way they will survive. To the large multinational or the large government department, the barriers to innovation are immense. The barriers include:

Institutional bureaucracy/lethargy being the default future	A large part of the problem is that the default vision of the future is the status quo.
Bogged down by firefighting	Far too often, talented resources are stuck in the revolving door. The processes that need to be challenged are the very ones that absorb all the time, meaning no change can happen.
Untapped ideas	In so many organisations talented staff live innovative lives outside their work environment. The key is to make a large organisation as nimble as a small one.
Lack of understanding of the magnitude of waste	Whilst there is a basic understanding of waste few people would be able to categorise the eight wastes that Kaizen attempts to address.
Lack of abandonment	Until an organisation embraces abandonment, there is no hope for innovation. We need to free time for innovation by embracing abandonment.
Aversion to risk / a fear of failure (80-85% of all new fast consumer products fail) Neilson 2018	The paradigm shifters make it clear that it is up to the C-suite to make it clear that failing fast is often a step to success.

1.1. How the default future drives us



Steve Zaffron and Dave Logan have written a compelling book, “The Three Laws of Performance,” that explains why so many of these initiatives have failed. The first law is “How people perform correlates to how situations occur to them.” The writers examine the concept that the organisation’s “default future” which, we as individuals just know in our bones will happen – will be made to happen. Thus, in an organisation with a systemic problem, the organisation’s staff will be driven to make initiatives fail so that the default future prevails.

Daniel Goleman, of emotional intelligence fame, points out that the subconscious is a very primitive part of the brain, one that has not evolved for more than 100,000 years. If you place visions in your subconscious, it will work away at them and guide you in your waking hours toward those outcomes. Tony Robbins’ YouTube video The Magic of Visualization (Law of Attraction), Rhonda Byrne’s book “The Secret,” and John Kehoe’s “Mind Power” explain further the power of positive thought.

Zaffron and Logan went on to say, “If you do not change the default future belief, the more you change, the more you stay the same.” The key to change is to recreate, in the organisation’s staff minds, a new vision of the future, let’s call it an “invented future.” More of this later in the selling change section.



Our default view can also radically limit our personal lives.

If we set off driving with the belief that parking will be a nightmare it surely will.



Likewise, if we say to ourselves don’t go in the water, our subconscious will deliver the image you have planted.

1.2. Hidden Costs of Downsizing

In difficult times there is always the opportunity to look at a blue ocean shift rather than a downsizing.

The C-suite you should never underestimate the long-term impact of downsizing staff. Wherever possible, I believe the C-suite should fund the shortfall out of retained earnings. The cost of firing and rehiring, when added to the public relations disaster it creates, is often much higher than holding on to the staff.

By my calculations, see Exhibit 1.1, an organization with 500 full - time employees that is contemplating dismissing between 50 and 70 staff members would be no worse off if the staff members were kept on and redeployed, where possible, for up to two years.

Based on 500 FTE organization	General Managers' Time	Managers' Time	Staff to Stay On	Staff Laid Off
Staff involved	4 to 6	90 to 100	340 to 350	50 to 70
	Number of weeks worked			
Unproductive time due to uncertainty	6 to 8	2 to 3	4 to 5	4 to 5
Time spent re-applying for own job	n/a	1 to 2	1 to 2	1 to 2
Interview time	2 to 3	2 to 3	0.5	0.5
Weeks paid as redundancy settlement	n/a	n/a	n/a	10 to 16
Number of weeks worked per person	8 to 11	5 to 8	5.5 to 7.5	15.5 to 23.5
Total weeks for category	32 to 66	450 to 800	1870 to 2625	775 to 1645
Total salary cost (time, redundancy payments)	\$4.8m to 7.8m			
Redundancy support	} \$1.7 to 2.8m			
Cost of rehiring				
Cost of training				
Unproductive time (new staff)	} <u>\$6.5m to 10.6m</u>			
Total cost				
The downsizing costs would fund between 2.2 and 2.5 years of the laid-off workers' salary and even longer if they could develop some other income.				

Exhibit 1.1 Hidden Costs of Dismissing Staff

Some options to explore to defray payroll costs:

- Commence a blue ocean shift exercise immediately
- Discuss the issues with the affected operational units and ask them to find new initiatives that can help part-fund their salaries. Often there are a number of income-generating possibilities that have not been explored.
- Can you redeploy the staff and buy some time so staff members have time to seek further employment while employed? This is a managed staff reduction process and will save a huge amount of money on redundancies while at the same time giving your staff an opportunity to find employment.
- Contact local suppliers to see if they would consider a staff loan at a discounted salary rate.

2. A Perfect Storm

Never has there been a better time to unleash innovation in your organisation. There is a perfect storm that offers an unprecedented amount of talented and entrepreneurial young people, accessible technology- many of it for free; and a colliding of ground-breaking knowledge that gives us a clear route forward, with the added advantage of customers who are accessible, around the world, because they are only a few clicks away from ordering.

There are two types of innovation:

1. Gemba Kaizen innovation which focuses on continuous improvement (Kaizen) in the workplace (Gemba).
2. Blue ocean shift innovation where an organisation moves away from the cut-throat, bloody red oceans of competition to the clearer, calmer, and rewarding waters.

This implementation guide will penetrate the great work of Jeffery Liker¹, *The Toyota Way*, Masaaki Imai, author of *Kaizen* and his follow-up book *Gemba Kaizen*, and show you how you can move towards Toyota's amazing achievement of 10 innovations per employee per year, worldwide.

The mini-toolkit will also go into the brilliant work of W. Chan Kim and Renee Mauborgne, authors of *Blue Ocean Strategy*, and their follow-up book, *Blue Ocean Shift*.

The great paradigm shifters Peter Drucker, Tom Peters, Jack Welch, and Gary Hamel have also talked for some time about the significance of innovation and how to increase your odds of success. The key lessons are extracted and listed for easy absorption.

A major change in culture requires an understanding of the psychology of selling and leading change. John Kotter's eight-step "selling and leading change" process has been further enhanced with Zaffron and Logan's *Three Laws of Performance*, which offers a more in-depth look at the psychology of change.

3. Implementing Gemba Kaizen Innovation

The important use of Gemba, “the real place,” in front of Kaizen reminds us that we need to start the operations. Kaizen stands for continuous improvement. Masaaki Imai listed the ten basic rules for practising Kaizen in the workplace in his book Gemba Kaizenⁱⁱ see Exhibit 3.1.

Exhibit 3.1: The ten basic rules for practising Kaizen

Challenge the old	Abandon conventional rigid thinking about how things should be done
	Think of how to do it, not why it cannot be done
	Question and abolish old, traditional concepts
Just do it	Do not seek perfection - do the improvements now
	Correct mistakes immediately
	There is no need to spend money on Kaizen
Use the wisdom of the crowd and research problems deeply	Wisdom is brought out when faced with hardship
	Find the root cause of a problem by asking 5 Whys
	Seek the wisdom of ten people rather than the knowledge of one
Never stop once started	Opportunities for Kaizen are infinite

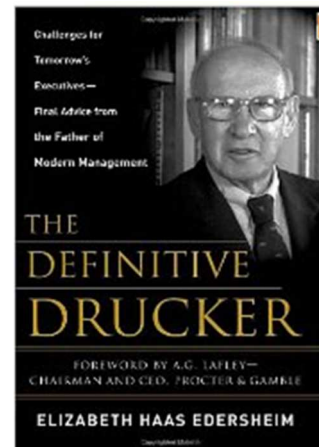
3.1. Challenge the old

Past processes need to be constantly challenged to ensure they are relevant for current and future operations.

Importance of Peter Drucker’s Abandonment

From the time we were at kindergarten we have had a fear of ever admitting we were wrong. If I was to go into a reader’s garage, what would I find? Maybe an exercise machine that started life in great excitement as we envisaged a leaner me. After a couple of weeks in the lounge, it started its inexorable journey to the garage. There to rest under the dust cover for a day in the future when we would use it again, so we could say, “I told you so.”

In the world of commerce, this trait is equally damaging. We will hold on to systems, keep going with projects, and



keep writing that report that nobody reads because to remove it would mean a loss of face. Let's get over it.

Management guru Peter Drucker, whom I consider to be the Leonardo de Vinci of management, frequently used the word 'abandonment'. I think it is one of the top 10 gifts Drucker gave us all. He said,

"Don't tell me what you're doing. Tell me what you've stopped doing."

"If leaders are unable to abandon yesterday, they simply will not be able to create tomorrow."

"Without systematic and purposeful abandonment, an organization will be overtaken by events. It will squander its best resources on things it should never have been doing or should no longer do. As a result, it will lack the resources needed to exploit the opportunities that arise."

An organisation that embraced Peter Drucker's abandonment earmarked the first Monday of every month for "abandonment meetings at every management level." Each session targets a different area so that over the course of a year, everything is given the once-over. This process would work well in the finance team except we should meet once a week to discuss at least two abandonments.

The act of abandonment gives a tremendous sense of relief to the finance team, for it stops the past from haunting the future. It takes courage and conviction from the CFO. Knowing when to abandon and having the courage to do so are important leadership attributes.

I have included in the electronic media a book review of Elizabeth Haas Edersheim's *The Definitive Drucker*ⁱⁱⁱ. Read the book for more on abandonment and other great advice. I consider this book one of the top 10 management books I have read. I hope, like me, you will become a follower of the great Peter Drucker.

The Importance of Challenging The Status Quo



In an interview called "The Lost Interview", Steve Jobs was asked, "As a 22-year-old worth \$10m, and a 25-year-old worth \$100m, how did you get your business acumen?" He said that over time, he realized that most business was pretty straight forward. He talked about when Apple had its first computerized manufacturing plant for the Apple II, and the accountant sent Steve Jobs his first standard costing report. Jobs asked, "Why do we have a standard cost and not an actual cost?" The response was, "That is the way it's done". He soon realized that the reason was that the accounting system could not record an actual cost quickly enough. When that was fixed, standard costing reports vanished.

In business, Jobs believed that few in management thought deeply about why things were done. He came up with this quote, which I want to share with you. I believe it should be on every wall and in front of every work station in the finance team work area.

"Your time is limited, so don't waste it living someone else's life. Don't be trapped into living with the results of other people's thinking. Don't let the noise of other's opinions drown your inner voice." Steve Jobs

I believe this quote should be on every wall and in front of every work station in the finance team work area.

3.2. Just do it

Nike utilised the phrase "Just do it" in a very successful marketing campaign. With a commitment to training staff about kaizen, much progress can be made with little further investment.

The great paradigm shifters featured in the later section all emphasize the importance of piloting rather than writing proposals. Thus, quickly testing assumptions with targeted customers and failing fast and moving on where necessary.

3.3. Use the wisdom of the crowd and research problems deeply

James Surowiecki wrote that "a large group of people are often smarter than the smartest people in them." Hence, the term "wisdom of the crowd was born." In other words, a group's aggregated answers to questions that involve quantity estimation have generally been found to be as good as, and often better than, the answer given by any of the individuals in the group. Involving a "crowd" in innovation will have a major positive impact on the process.

Use the five whys rule to get to the heart of the problem

HOT Tip

Six sigma and Toyota have adopted "The five whys" to get to the root cause of a problem. It is like peeling the layers off an onion. To each answer to a why question, you then ask, "Why is that?" The rule states that by the fifth why, you will have located the real problem, and if rectified, a permanent benefit will flow back to the organisation.

3.4. Never stop once started

The ultimate goal for Kaizen is to match what Toyota has achieved. Ten innovations per year from every employee, in every country.

4. The four foundation stones for Kaizen

The four foundation stones in kaizen that should be adopted are:

1. Muda (waste) elimination
2. Housekeeping
3. Visual management
4. Adopting Time-Saving Techniques (Adopting SCRUM meetings from the agile movement and value stream mapping)

4.1. Waste (Muda) elimination

There are three steps in waste elimination.

1. Understand the eight wastes and identify examples of each of these eight wastes in your operation.
2. 'Post-it' sticker re-engineer your main processes where there will be some easy wins
3. Learn how to perform value stream mapping and apply it to all main processes.

The Eight Wastes that Need Tackling

In lean methodology, there are eight types of waste. These wastes are seen within the whole organisation. I have outlined the eight wastes below in Exhibit 4.1

Exhibit 4.1: The eight wastes that need tackling

Eight types of waste	Reasons why the waste occurs
Over-production: Building batches of products larger than your customers' immediate needs.	This waste typically occurs because we want to increase the utilisation of large and important machines and are worried about rejects and absenteeism, so we produce more to be on the safe side. In just-in-time systems, being ahead of the production schedule is regarded as worse than being behind it.
Waiting: Production operators having to wait because a machine has gone down or a component is not available. Or when the operators are simply monitoring the machine as it does its value-adding task.	Whilst operators being idle is easy to measure, it is more difficult when they are looking busy. In one example, in a German automotive manufacturer, the set-up time in the press shop was reduced from 10 hours a week to 3.5 hours.
Transportation: Moving materials around the factory. Any process that is physically distant from the main line should be incorporated into the line if possible.	Masaaki Imai points out that a common sign of a problem with layout is the need for conveyor belts. He goes on to say, "The best thing a company can do with its conveyor belts is to sell it to their

	<p>competition or send it to them free of charge.”</p>
<p>Extra processing: Processes that appear productive but are unimportant to the customer. Value stream accounting provides good guidance here. Do not include any costs and activities that do not add value to the customer.</p>	<p>There are many ways an organisation can have extra processing.</p> <ul style="list-style-type: none"> • Monthly reports that are prepared for accountability purposes but are not read or used by the recipient. • The majority of Excel spreadsheets are a reprocessing of already recorded transactions. • The chart of accounts where it holds more than 50 codes for the P/L. • The annual planning process commonly take months to complete and is useless as soon as the ink has dried. • Designing additional features into a product that the customers do not use, e.g., many features in Excel are not used.
<p>Excess inventory: Having materials, components, work-in-process, and finished goods levels above the immediate need.</p>	<p>When an inventory level is high, nobody gets serious enough to deal with problems like quality, machine downtime, and absenteeism, and thus, an opportunity for Kaizen is lost.</p> <p>Also, with generally accepted accounting principles all finished goods carry prior months’ overheads into the future periods these goods were sold. Carrying forward costs to future periods leads to additional costs hitting the P/L when inventory levels fall.</p>
<p>Waste of motion: Any motion of a person’s body not directly related to adding value is unproductive. While very evident in manufacturing environments, it is of equal importance in all other environments.</p>	<p>I recently witnessed a classic waste of motion activity in a hospital. I was in the emergency department of Wellington’s largest hospital, and my wife was having her blood pressure read. Because my wife’s records could not be brought into the room, the nurse, who was wearing protective gloves, had to write the temperature down on a scrap of paper and then transfer it to the file when she returned to her work station.</p> <p>There are many ways an organisation can have a waste of motion.</p> <ul style="list-style-type: none"> • Disorganized employees who do not have all their tools with them on a site visit • Health workers double handling patient information

	<ul style="list-style-type: none"> Office workers who cannot access previous work files efficiently
<p>Waste due to rework and rejects that have to be scrapped: Rejects interrupt production and require expensive rework (processing again to correct faults) or have to be discarded.</p>	<p>The rewriting of reports is more of a style rewrite than a content one.</p>
<p>Unused employee creativity: Employee ideas that have to hurdle many obstacles before adoption and, therefore are not being raised.</p>	<p>Based on Toyota, we would need to have 10 innovations implemented per team member per year before we could say there is no waste in this area.</p>

While some of these types of waste appear at first sight, to only be relevant to manufacturing you can apply many of them into other sectors. As Dr Jeffrey Liker points out,

"Most business processes are 90% waste and 10% value-added work."

'Post-it' sticker re-engineer your frequent routines

Re-engineering can be a complex or relatively easy task—the choice is yours. Many organisations start by bringing in consultants to 'process map' the existing procedures. This is a futile exercise; why spend money documenting a process you are about to alter radically, and when it is done, only the consultants will understand the resulting data-flow diagrams?

The first place to start is to 'Post-it' sticker reengineer your common routines in a workshop. This takes a full day and involves seven stages.

Stage 1 Invitation

Having set the date, ask the CEO to send out the invites for the workshop; see electronic media for a draft. The finance team needs to send out instructions a week or so prior to the workshop, outlining how each team is to prepare their sticky notes.

Suggested attendees include all those involved in month-end, including accounts payable, financial and management accountants, and representatives from teams who interface with month-end routines (e.g., someone from IT, payroll).

Set up a schedule to ensure all the main teams have a unique colour of notes (see Exhibit 4.2).

Exhibit 4.2: Allocation of post-it stickers so every team has a unique colour

Team 1	Yellow
Team 2	Green
Team 3	Blue
Team 4	Purple
Team 5	Pink
	Etc

Stage 2 Stand-up Workshop around the Whiteboard

Assemble everyone to go through the agenda items, starting with an introduction to best practices.

When you get to the stage in the agenda for the Post-it reengineering, you ask a representative of each team to place the Post-it stickers in time order under column headings day -2, day -1, day +1, day +2, and so forth using a whiteboard. When all the stickers are on the board, it will look like Exhibit 4.3. You can access a video of me re-engineering a month-end close on www.davidparmenter.com.



Exhibit 4.3: Post-it re-engineering on a white board

Then remove all desks near the whiteboard and ask all the staff present to come and stand in a semicircle in front of the whiteboard. All staff members need to have a clear view of the board. Having the attendees stand up is important, as it brings everybody in sight of the stickers, and, more importantly, as the meeting progresses, ensures swifter agreement, as nobody will enjoy standing for over two hours.

Stage 3 Missing Processes

Then you ask, “What is still missing from the list?” There will always be a forgotten process. I probe until at least two additional processes are put on the board, and I ask each person, in turn, to acknowledge that they agree that the whiteboard represents all the processes.

Stage 4 Removal of Duplication

I then ask, “What processes have two stickers when there should only be one?” We want to remove any duplication.

Stage 5 Abandonment

The next question I pose is, “What processes do you not need to do anymore, and therefore should you abandon?” There is often a pause here as staff look

bewildered. “Why would we do something that is not required?” they are thinking. At this stage, I talk about Peter Drucker, the great management thinker’s abandonment philosophy.

I recommend that you buy a dozen movie vouchers before the workshop so you can give one to every attendee who points out a process that can be removed because it is not necessary (the process was done because it was done last month)—each procedure that is removed is like finding gold because it means less work, fewer steps. After the first movie ticket handout, you will notice a greater focus from the attendees!

I normally will, when running the workshop, spend up to two hours to ensure all the superfluous processes are removed; see Exhibit 4.4.



Exhibit 4.4: Abandoning processes by removing the “post-it” stickers

Stage 6 Rescheduling

The next stage is to reorganize the key processes and bottlenecks based on better practice. I start by pulling off the AP close-off sticker and ask, “When could we finish this exercise if we were to adopt best practice?” The answer I am looking for is “Noon on the last working day,” which has been discussed in an earlier section.

With each rescheduling of a process, it is important to seek consensus. Invariably, some members of the team will believe the world will end if the cut-off is moved earlier. I simply question the logic and allow a dissenting group to note objections. “If you are proved correct, next month, we owe you a coffee and a doughnut. If, however, you are proved wrong, you owe all of us a coffee and doughnut.” With that statement, I move the sticker to where the majority have agreed. See Exhibit 4.5.

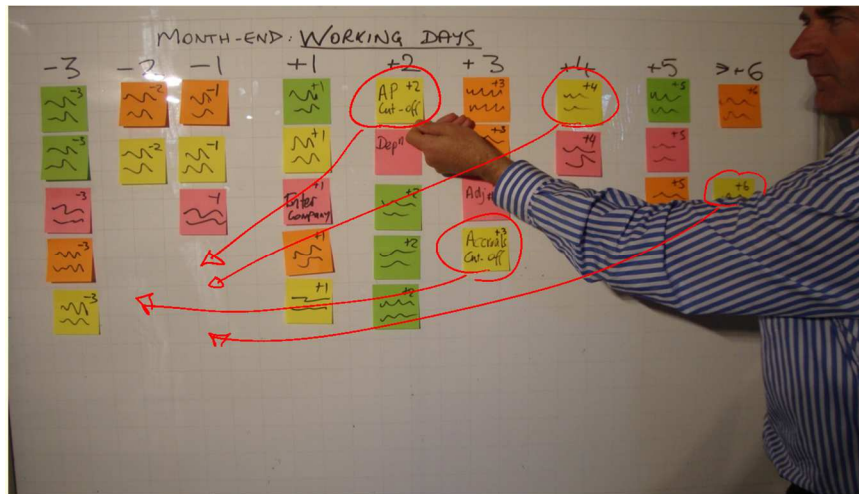


Exhibit 4.5: Moving the bottlenecks to the earliest time they can be completed

After 45 minutes of standing, these disagreements will recede due to peer pressure.

Stage 7 Spreading the Workload

Look at the Day-1 steps, as you may have too many. Move the non-time-critical ones between Day -2 and Day +1 to better spread the workload.

Document the stickers on a spreadsheet. This is the only record you need. Any person who, for health reasons, cannot stand for a couple of hours can be assigned this documentation process.

You will find it hard to justify any task needing to be done after day 3! You can view a YouTube video of me demonstrating a reengineering exercise on www.quickmonthendreporting.com. Please note that this was held in a training workshop, so the attendees were allowed to sit at their desks.

4.2. Housekeeping

Housekeeping is a surprising start to creating a new waste free process but one that is emphasized in all the case studies in the book^{iv}. The benefits of housekeeping are that it highlights problems, helps ensure everything is where it should be, thus saving time, and brings teams together. Japanese organisations are known to start the day with a 15-minute tidy-up where all teams work together both in and outside the premises. In the Western culture, this needs to be explained as most staff will believe “Cleaning is the task for the cleaners”. Its significance is that it can be where 50% of the errors occur. There are five Ss in Gemba Kaizen:

- **Sort:** determine what is necessary and unnecessary and dispose of the latter.
- **Straighten:** Put essential things in order so that they can be easily accessed.
- **Scrub:** Clean everything, tools, workplace
- **Systemise:** set the standard, train and develop staff to follow procedures
- **Self-discipline:** maintain a culture where self-discipline comes to the front.

Practical steps to embrace 'sorting' (The Red ticket day)

HOT Tip



1. Select an area in operations and hold a training session on Gemba Kaizen delivered by a local kaizen trainer.
2. All staff, after the training session, are given red tags to place on all items that will not be used in the next 30 days. The rule is if in doubt, red tag it.
3. For those items that operations staff want stored in their area they have to demonstrate the necessity back to the group. Those hoarders will thus be challenged, and a compromise reached.

"At one company, a red-tag campaign unearthed enough supplies for 20 Years." Masaaki Imai, Author of "Gemba Kaizen"

Practical steps to embrace 'straightening'

I will never forget visiting the garage of one of my friends. His dad had all his key tools hanging above his workbench with a stencil outline on the wall to show what tool was not back in its rightful place.

Hospitals are particularly good at this as lives depend on it. During my visits to see my wife, who was in the hospital for 105 days, I was impressed with the layout of the blood extraction trolleys. Nurses knew that everything was in its place by a quick scan.

In hospitals, sterilization is very important. Having a hand cleaner dispenser empty is of no use. So, they have a sticker on each unit which says, "Turn me over if empty". The label, when turned over, is red and says "EMPTY". That is 'straightening' at work. The practical steps you can take include:

1. Set out specific places where tools and supplies should be.
2. Label all areas where work in progress is placed, indicating the maximum permitted level.

Practical steps to embrace 'scrubbing'

When one cleans one's car, the old-fashioned way with car wash and a soft bristle brush you get up and close to your car. It's then you notice that your offspring have damaged your alloy wheels by poor parking manoeuvres, you have a nail in your front right tyre, and a chip on your window screen. The practical steps you can take include:

1. Make it a team exercise and have all staff including the C-suite.
2. Make it mandatory that everybody has a clean desk before they leave. In one company papers left on the desk need to be collected from the CEO's assistant the next day!

"At one company, while cleaning thick layers of dust, the finance director discovered naked electrical wires running along the walls. The vinyl cover had long since deteriorated. He marvelled at the fact that a fire had never broken out in the plant."

Masaaki Imai, Author of "Gemba Kaizen" Gemba Kaizen

Before clean-ups can be a successful activity it is important that you organise training in Kaizen so that staff can understand why “Scrub” is so important.

Practical steps to embrace ‘systemize’ and ‘self-discipline’

I have never seen an exceptional work place that credited its success to written policies and procedures. The key has been a common understanding and commitment to them from the top down. The practical steps you can take include:

1. Have a weekly exception report that highlights the best and worst performers with Sort, Straighten, and Scrub.
2. Systemize also has a benefit in safety.

4.3. Visual Management

Toyota is famous for its “andon cord” if problems occur. Andon refers to the pull cord where any worker on the production line can stop production and ask for help if they see a fault that they or the next workstation cannot fix. E.g., if left the fault will be covered up by an inserted panel. Once pulled, lights flash, and that part of the production line is halted. The workers below are unaffected as there is a feed in line with about eight minutes of product in which to work. Trained engineers rush in and fix the problem within the eight-minute time frame. The ability of anyone to stop production and activate the flashing lights to get the roaming engineers to the spot quickly is a major advantage Toyota and other manufacturers have when using this visual control.

Visual control is an important principle for all managers. If a finance team adopted this Toyota principle, they would make:

- All reports so clear that nobody needs to ask questions about them – I call it passing the 14-year-old test
- Use some sort of “andon cord” like a “red cone” so staff within the finance team can signal that they are having a problem that might delay an accounting process, at month-end or during the annual planning or annual accounts processes.
- Use of screens in canteens to report progress to staff.

Kanban boards

Here, we need to adopt visual control techniques that are part of the lean or agile movement. Creating a Kanban board to manage your work visually is a great way to increase your overall effectiveness and efficiency. Kanban is also a great way to instill a sense of accomplishment in a team. Let’s take a look at why this is the case.

A Kanban board is a visual process and project management tool that helps teams organize and manage their work. Kanban boards allow teams to visualize their work and understand what is going on at a glance. Using sticky notes (white board) to represent work items, you can show any size of project involving numerous tasks. Different colours are for different staff or work groups. The whiteboard is divided into three columns to represent backlog (to do), doing, or done. A small box is also set up for any processes that are stuck, as shown in Exhibit 4.6.

5. Implementing a Blue Ocean Shift Innovation

In the book “The Blue Ocean Shift” , W.Chan Kim and Renee Mauborgne have outlined a very practical five-step process for moving from the bloody red oceans of competition to the clear, calm, and rewarding blue oceans.

You know, when you are there, as there is little or no competition, customers have a higher perceived value and are thus fans; costs are considerably lower, as shown in Exhibit 5.1.

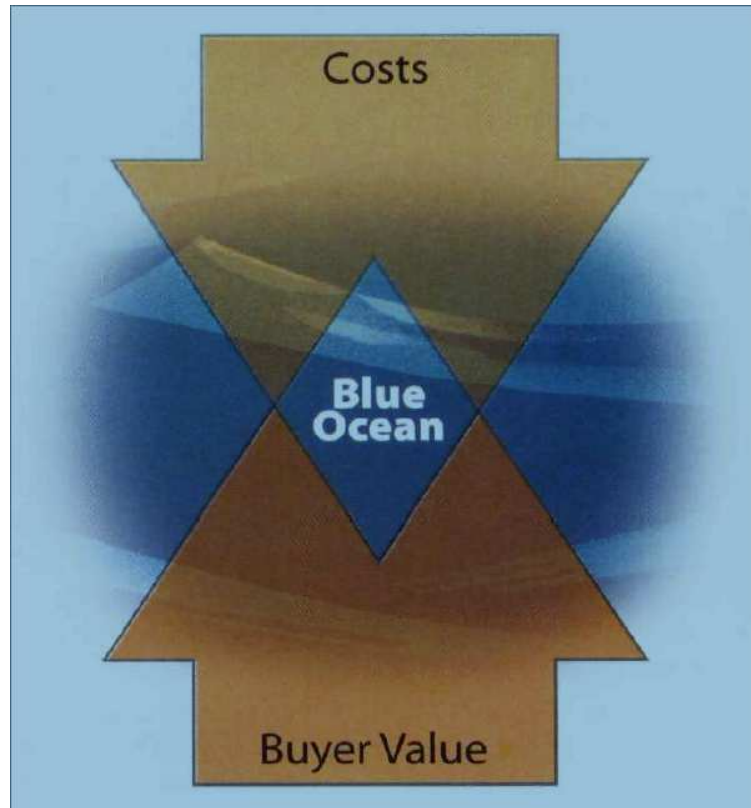


Exhibit 5.1 The desired outcome from a blue ocean shift

Kim and Mauborgne are very clear about their advice. They offer us these foundation stones for a blue ocean shift process. See Exhibit 5.2.

Exhibit 5.2 The foundation stones of a blue ocean shift process

<p>Focus on new demand rather than fighting over existing customers</p>	<p>This is a zero-sum game. In New Zealand the power companies knock on your door offering great deals to switch. It is an endless circle in which the main beneficiary is the clever consumer who players them off against each other.</p>
<p>Do not take existing industry conditions as a given</p>	<p>All great products or services start by challenging existing industry conditions. Invariably, nobody has asked the customer. The status quo is assumed by the management who have received large bonuses</p>

	from the existing environment and are not in a frame of mind to look for new possibilities.
Have a mantra that 'non-customers' come first	Peter Drucker coined the phrase "non-customers." By focusing on all those customers whom you would like to have but have not yet engaged, an organisation can challenge the past and look for new opportunities and new channels to reach this untapped potential.
Do not seek to beat the competition- aim to make them irrelevant	Fighting over the same customers is a meaningless task. You want an offering where your customers are fans. No amount of enticement will change their purchasing habits. Apple has succeeded with this time and time again.



Cirque du Soleil is an example of blue ocean thinking. Dance, opera and circus were merged into an amazing new spectacle where there were few competitors. The added advantage was that all their performers were treated equally as they had moved away from billing star performers with their high costs and associated

demands.

The five-step model

1. **Get started:** This step involves selecting a blue ocean shift (BOS) facilitator, who will be an outside consultant, selecting the core in-house BOS team, and training them. Selecting some mentors for the in-house team. Mapping out your current offerings in the pioneer-migrator-settler process.
2. **Understand where you are now:** This involves the BOS facilitator running a two-day workshop with the extended BOS team. The Strategy canvas is drawn.
3. **Imagine where you could be:** This involves the extended BOS team doing field work and meeting up in a one-day workshop where they share their findings on the buyer utility matrix and ascertain the magnitude of the three types non-customers' demand ("soon to be non-customers", "refusing non-customers" and "unexplored non-customers".)
4. **Find how you get there:** This involves the extended BOS team doing fieldwork and meeting up in a one-day workshop where they share their findings on the six possible paths, complete the "eliminate, reduce, raise and create key features" exercise, and outline a number of possible new offering solutions.
5. **Make your move:** This involves the extended BOS team presenting the "new offerings" in a contestable environment (a blue ocean fair), where the chosen audience gets to hear the various options and, in a workshop environment, explore their options, get to add their contribution and then vote for the best

offerings from their perspective all on the same day. The executive team then makes their decision. Piloting of the new product or service commences rapidly using carefully chosen responsive customers/regions.

5.1. **Step 1: Get started**

This step involves selecting a BOS facilitator, who will be an outside consultant, selecting the core in-house BOS team, and training them. Selecting some mentors for the in-house team. Mapping out your current offerings in the pioneer-migrator-settler process. Expect this to take 4-6 weeks of elapsed time.

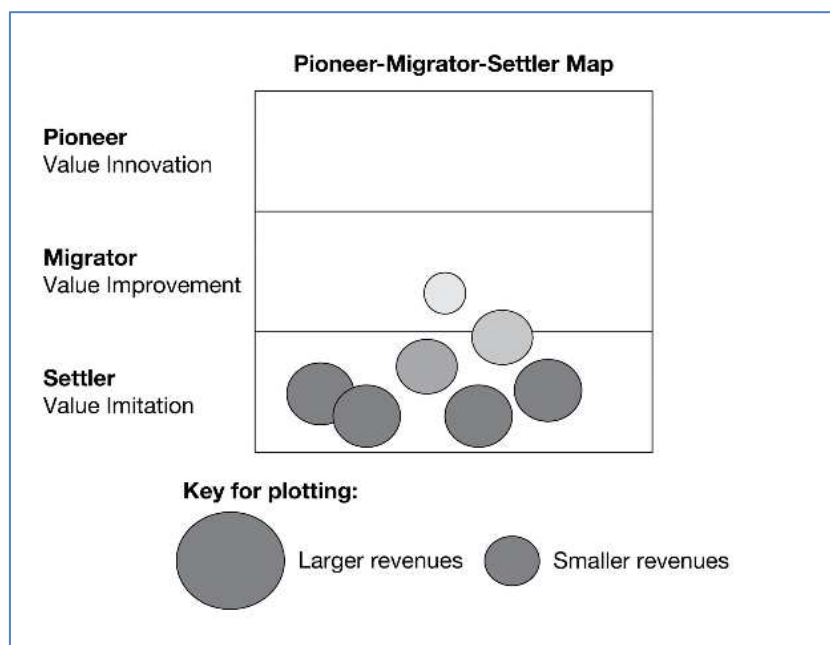
Kim and Mauborgne advocate that you need to map today to see tomorrow by looking at the existing offerings. It is a great wake-up call and indicates the impending doom if action is not taken. They believe products /services fit into three categories:

Settlers - These products compete by offering incremental changes or special pricing. In my supermarket, you see competing electric toothbrush manufacturers offering special deals at least six times a year. You, therefore would never wish to pay the full price. Unless the industry is growing and profitable, settlers have little or no prospect for growth.

Migrators – Offer a value improvement over competition. Customers are less price sensitive as you are best in class.

Pioneers – These products don't have customers. They have fans. They offer unprecedented value in the customer's mind. There is little price sensitivity. Offer considerable potential for growth, providing the fan base is big enough.

They call step 1 the pioneer-migrator-settler map, see Exhibit 5.3.



HOT TIP

Exhibit 5.3 The pioneer-migrator-settler process

In this PMS map, the organisation is strategically vulnerable because it is living on past success. With organisations with blue ocean offerings, you would see small circles appear in the top row.

How to plot your PMS map

1. Purchase enough books so that each member of the Blue Ocean Shift team has one. Purchase the BOS suite to access the exercise templates from www.blueoceanshift.com/Exercise/Templates.
2. Using the BOS templates prepare the existing products and services and rank the circles according to the current revenues over the last twelve months. Give a code to each product/ service. Use product groups to limit circles to no more than 20.
3. Select a team comprising a mix of in-house and external attendees. The mix is important as there will be a tendency for departmental heads to move their products higher up the list. They will rightly fear that if their key product sits in the Settler row it may be left out to die. The mix would include:
 - a. Experienced staff who liaise with your customers
 - b. Experienced staff from stores who sell your products alongside your competition
 - c. Sales staff who have been working in the sector for over five years
 - d. The likely full-time members of the Blue Ocean team
 - e. The CEO and two to three other members of the executive team
4. Run a short training session covering the definitions and the rules around drafting the PMS map. The rules are:
 - a. The rankings should be based on the customer's view and not the ranking within the organisation.
 - b. The size of the circles is relative to the existing organisations' revenues. The product with the largest circle will have the largest revenue.
 - c. A pioneer product can be in two types; a "value pioneer" or a "technology pioneer". The latter is unlikely to grow unless a new unexpected market is found for the technological breakthrough.
5. Run the workshop, breaking the attendees into at least three groups with each group having no more than five staff. Using a case study on Google or Microsoft, ask the teams to draft a BOS map for their main product lines. Discuss their different versions and come up with a proposed collective view. Discuss reasons for differences. For teams where the mapping was very different, move some staff from the stronger group.
6. Discuss how the the pioneer-migrator-settler process would have mapped the Microsoft product range between 1997 and 2014 by discussing Exhibit 5.4.
7. Now using the company's products/ services get the groups to place the product groups where they see they fit best. Where there is a marked difference between teams get them to present their case to a panel comprising of The CEO and two to three other members of the top team. This challenge can occur in another room while you are debating the final position of other products.
8. The panel present the final picture to the group and the BOS team will present it to senior management and department heads in subsequent meetings.

HOT TIP

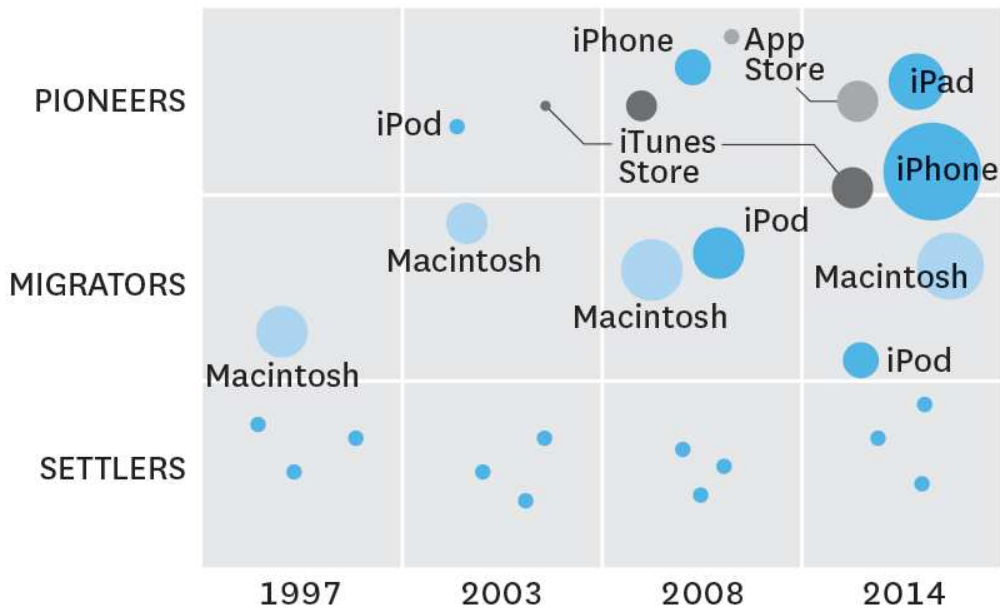


Exhibit 5.4 How the the pioneer-migrator-settler process would have mapped the Microsoft product range over time

Establishing a BOS Project Team

Here are some guidelines for a BOS team selection:

<p>Full-Time Responsibility</p>	<p>In most of the implementations I have observed, the project leader’s full-time commitment has been compromised. In every case, this has delayed and put the project on the back foot. For organisations with over 250 full-time staff the BOS team leader should and must be full-time. In small organisations this duty must be at least half the workload, with much daily operational activity reassigned so that the incumbent has a chance to focus and create some momentum in the project.</p>
<p>In-House Appointment</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin-top: 10px;"> <p>HOT TIP</p> </div>	<p>Peter Drucker said, “Never give a new job to a new person.” We need to appoint an in-house person as the BOS team leader. Someone who is well respected in the organisation, has had success implementing projects, and has a pile of “I owe you” favours which they can call upon when help is required. Staff who are concerned about the change are more likely to support the BOS initiative when a trusted in-house appointee leads it.</p>
<p>Direct reporting line to the CEO</p>	<p>The person holding this position would report directly to the CEO, as befits the importance of the project to the future of the organisation.</p>
<p>Representatives of all departments</p>	<p>They must be selected for their ability to contribute, their knowledge of the sector, and their accumulated respect in the department. There will need to be some abandonment of</p>

	duties as they will be spending a minimum of 10% of a working week on the project and, in peak times, up to 25%.
Include one or two known naysayers	Putting a devil’s advocate on the team boosts the credibility of the process and the team’s findings.
The BOS team to have a “cluster of mentors”	<ul style="list-style-type: none"> ▪ Find a consultant who has credibility within the organisation, as they have most probably helped previously in a successful project. Pay for their wisdom and have a series of two- to four-hour sessions with them. ▪ Find an external BOS facilitator. They can be based overseas as many of your sessions will be held over web-based tools. ▪ Find a mentor in-house, an oracle who knows all the key players and how they operate, who is a master of politics, who knows who the big players and blockers are, and who’s likely to be one of the BOS teams’ best supporters. This mentor may have retired recently and will welcome the odd long lunch as you examine the issues. They may help you solve them yourself or suggest alternative approaches. ▪ Build a peer group among like-minded BOS team leaders who are pushing the envelope. It will be comforting to know that someone else is going over the trenches and is still around to share the tales of adventure.

Select the In-House BOS team

A small, well-trained team will have the best chance of success. A project team of two to four people is recommended, depending on the size of the organisation. The chosen project team members need to be committed full-time, and they need to report directly to the CEO, as illustrated in Exhibit 5.5. Any layer between the CEO and the BOS team indicates a lack of CEO commitment. This point is so important that the project should not proceed if the CEO does not wish to be involved in this way.

The external BOS facilitator /mentor should help the C-suite pick a team. Research into personnel records is recommended, as many talented in-house staff are found in obscure places, and some may already have some BOS experience. The BOS facilitator is looking for staff members who have a proven track record of excellent presentation and communication skills, a flair for innovation, the ability to complete what they start, knowledge of both the organisation and sector, the aptitude to bring others on board, and the ability to be cheerful under pressure.

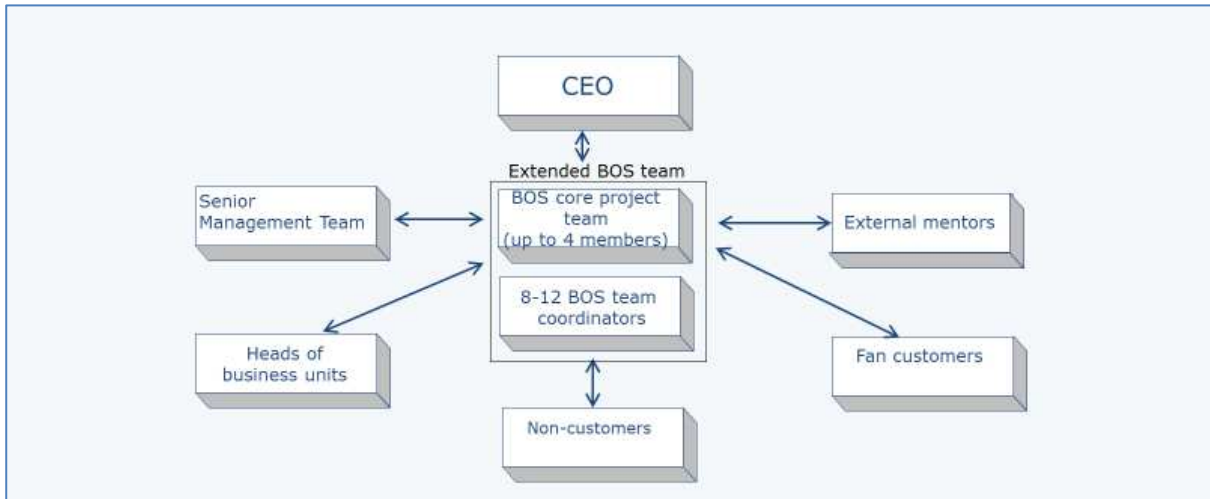


Exhibit 5.5 The Blue Ocean Team’s reporting lines

The BOS project team should be a balanced mix of oracles and young guns. Oracles are those grey-haired individuals whom you visit if you want to find out about what has happened in the organisation in the past. Young guns are your young, fearless, and precocious leaders of the future who are not afraid to venture into the unknown.

All departments and service teams should appoint a person as the team BOS coordinator who is sufficiently knowledgeable about their operation to provide information and feedback to liaise with the BOS team. Ford Motors had a successful launch of the Taurus because 17 different departments were involved, including legal and insurance companies advising on design features to minimise collision repair costs. If you are an organisation with over 250 FTEs you should have representatives from a wide list of departments, see Exhibit 5.6.

HOT TIP

Exhibit 5.6 Checklist for sourcing BOS team members

	Have reviewed their staff for possible BOS team members
HR	<input type="checkbox"/> Yes <input type="checkbox"/> No
Training	<input type="checkbox"/> Yes <input type="checkbox"/> No
Marketing	<input type="checkbox"/> Yes <input type="checkbox"/> No
Finance	<input type="checkbox"/> Yes <input type="checkbox"/> No
IT	<input type="checkbox"/> Yes <input type="checkbox"/> No
Public Relations	<input type="checkbox"/> Yes <input type="checkbox"/> No
R&D	<input type="checkbox"/> Yes <input type="checkbox"/> No
Sales	<input type="checkbox"/> Yes <input type="checkbox"/> No
Call centre	<input type="checkbox"/> Yes <input type="checkbox"/> No

Store floor	<input type="checkbox"/> Yes <input type="checkbox"/> No
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Do not include members of the C-suite on the BOS team, as they will be unable to meet the time commitment required.

The checklists and questionnaire in the Appendix will help with the selection process. It is advisable to run some tests to assess the potential compatibility of prospective team members, such as personality and thinking preference, as it is likely they have never worked together on a large project before. The findings from these tests will help the BOS team members understand how to work better with each other. The Human Resources team will be fully conversant with the effectiveness of the tests.

Full-Time Commitment of the BOS Project Team

The BOS facilitator needs to convince management that the BOS team staff members are required to be committed full-time. A project office needs to be set up, and the BOS team moved in to it. They move their desk photos as well because their second-in-command will now move into their vacated office and cover their duties. It is a myth that this project can be handled while continuing with other duties. If project staff members are still intending to start and finish the day at their workplace desk, this project should be terminated.

The BOS Facilitator Helps Train the BOS Project Team

The BOS facilitator will need to establish the knowledge gaps and set up training and some team-building exercises for the BOS team. If the team members do not know each other, the BOS facilitator might organise a weekend team-building excursion.

Running good workshops is an acquired skill, and the BOS team should receive specific training in this area.

The training exercises might include:

- Preparing and delivering a presentation to sell an idea through the audiences' emotional drivers.
- A comprehensive understanding of W.Chan Kim and Renee Mauborgne's, "The Blue Ocean Shift".
- How to pass on knowledge using better-practice teaching techniques.
- How to facilitate workshops that the BOS Project Team will be running.
- Better-practice communication techniques.
- Specific training to cover any experience and skill gaps that have emerged from the selection process.

This project is part of a larger topic called revitalizing performance. Fortunately, there have been some paradigm shifters (Drucker^v, Hamel^{vi}, Welch^{vii}, Peters & Waterman^{viii}, and Hope^{ix}) who have offered us guidance. The BOS project team needs to improve their knowledge in this step.

Research for the BOS team (Key Reference Books & Websites)

The following books and templates are required reading for all BOS team members.

- W. Chan Kim and Renee Mauborgne, *Blue Ocean Shift* (Hachette Books, 2017)
- Elizabeth Haas Edersheim, *The Definitive Drucker: Challenges for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006). This book should be on the reading list for any project leader. The reader will better understand the significance of abandonment after reading this book.
- John Kotter, *Leading Change*, (Boston: Harvard Business Review Press, 2012). A very highly rated book and a major influence in leading and selling change.
- Steve Zaffron and Dave Logan, *The Three Laws of Performance* (San Francisco: Jossey-Bass, 2011).
- Tom Peters, *Thriving on Chaos – Handbook for a Management Revolution*, (Harper Perennial 1988).
- Safi Bahcall, *Loonshots: How to Nurture the Crazy Ideas That Win Wars, Cure Diseases, and Transform Industries*, St. Martin's Press, 2019
- Purchase the *Blue Ocean Shift Suite* of tools from www.blueoceanshift.com/Exercise/Templates.

Establish a Just-Do-It Culture and Process

“Getting it right the first time” is a rare achievement. The senior management team and BOS project team need to ensure that the project has a “just-do-it” culture, not one in which every step and measure is debated as part of an intellectual exercise.

With this “just-do-it” culture comes a belief that we can do it; we do not have to rely on external experts to run the project.

Applications such as SharePoint Team Services enable the BOS team to set up intranet pages that everyone with an interest in winning BOS can access:

- Relevant memos and articles (programmed with expiration dates so only current and important pronouncements are available)
- Forums to discuss issues
- BOS documentation that requires collaborative input

5.2. Step 2: Understand Where You Are Now (by drawing a strategy canvas)

This step involves the BOS facilitator running a two-day workshop with the extended BOS team. The Strategy canvas is drawn. Expect this to take two-four weeks to schedule.

Kim and Mauborgne have developed a brilliant diagram called a Strategy Canvas to show where your products/services are against another high-end product.

Here are some rules for developing a Strategy Canvas:

HOT TIP

External BOS facilitator to run this important workshop	It is important to get this project off to the right start. The inhouse project manager will not be skilled enough to run this session. The chosen inhouse team leader can assist the BOS facilitator.
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