

There doesn't need to be a problem to use improvement techniques



Your Business. Better.

Much is written and published about when, where and how to implement Continuous Improvement (CI), less is said about why.

Measuring the Return on Investment of Continuous Improvement (CI)

To some extent, it could be that the reason why seems obvious – if you have a problem, the reason you use CI techniques is that you want to solve it.

If you're designing a new product or process, you use CI to help make it as efficient as possible; to minimise waste and variation before the launch. There's a key underlying driver behind all of this though, and people at certain levels sometimes feel uncomfortable drawing attention to it – money.

Putting measures in place to understand the impact of CI

The application of CI can help with all sorts of measures, such as health and safety performance, customer satisfaction and employee morale. It can even improve sales performance, which also has direct cash implications of course, but for the vast majority of improvement activity, the main driver is to either avoid or reduce costs. Despite this, encouraging and developing a CI culture within an organisation, and running improvement projects, actually comes with a cost, so we clearly need good measures in place to understand what impact improvement activity is having on the bottom line. There are two things you need to measure here.

1. What is your investment - how much you're spending on implementing CI.
2. What is your return - how much you're gaining from it.



If your initial approach is to use external consultants then a lot of the upfront spend is clear, it will be on their invoice.

At Bourton Group we say our clients typically achieve a 10:1 return on investment, a bold claim but one that is backed up by multiple case studies and endorsements from clients, some of whom achieved far more. Of course, this depends on exactly what the client wants us to do – we get involved in a wide variety of activities, from leading whole CI programmes and installing a Lean culture in organisations with no prior experience of structured improvement, to simply advising companies or delivering training and coaching. Our costs are clear though, and the fact that companies with a good understanding of the return on investment come back to us with more work time and again is certainly an indicator we're getting it right!

If your primary resource for CI activity is internal though, your costs are a little more complicated to establish. A good rule of thumb is that anyone who is 100% dedicated to the improvement activity should have their time included in cost calculations. A lot of people involved will be dedicating less time to the change, attending meetings, working to implement solutions, but doing this as part of their normal job.

Generally, you can assume that if the changes were not taking place, you'd still be employing them, so there is no additional cost to account for.

Different organisations, depending partly on their size, take different views on this though, but whatever their approach it is important to have an agreed cost for the resources used to achieve change.

The reason that's so important is that when the change is complete you will need to compare the cost to whatever has been gained.

For this, you will also need a good measure of the benefits of the project, and these will stem from whatever you documented you were setting out to achieve in the Define phase. Lean Six Sigma trainers are always warning against rushing Define, it is so important that you choose measures that will truly demonstrate what has been achieved at the end.

If you end up with a very good understanding of the project's costs but little knowledge of what has been gained financially, you will struggle to persuade anyone senior in the organisation of the benefit of CI.

The Define phase doesn't just help to ensure you have measures in place, either. It also helps ensure that the project under focus really is something important for the business. Sometimes a project can be launched on the basis that someone thinks a certain issue is a big problem for the organisation, but upon investigation, it turns out it was really just a big problem for that one person, and the business has far bigger priorities in terms of the cash value that can be gained by solving other problems.

There is no shame at all in getting to the end of the Define phase of a project and deciding not to take it any further, that is a far better outcome than getting to the end of Control and realising that the costs are very similar or even more than the benefits.



Qualitative benefits

It is important also to include all potential benefits in the Project Charter, too. There will be some which are not financial – morale, customer satisfaction, health and safety – but they may still be measurable.

These don't have an impact on Return on Investment calculations, and a Finance Director with a very narrow definition of benefits may not be over-concerned with them, but others in the organisation will. For a financial justification of the change, RoI is very important, but for the purposes of selling the difference and promoting CI Methodology to the business as a whole, essential if you are aiming to instil a change in culture, it is only part of the story.

What about training?

All of that, of course, is about the Return on Investment for Continuous Improvement projects. But, what about training?

That clearly comes with a cost, potentially a substantial one if you include the time or lost productivity associated with everyone attending.

When I first began working in continuous improvement in 2007, I was sent on individual 2-3 day training courses for each of the Lean techniques the business deemed I should know about.

After several years using them Six Sigma was introduced, and I went on three weeks of training to learn that. Within two years the organisation had (sensibly) decided to merge the two as Lean Six Sigma, but then created a whole “zero to hero” style five-week Black Belt training course, which I had to attend in full if I was to become a certified Black Belt, even though it consisted almost entirely of the training I had already done. Add to that the fact that I lived in the North West of England and every course was in either Surrey or Barcelona, and you begin to gain a picture of an organisation which, to my enormous benefit, had not really got its training costs fully under control.

Planned training is key

The key to avoiding that situation is simply to plan a training program well beforehand. At Bourton Group we are often approached by companies who already have an idea of what training they require. Our first question is always to ask what they actually want the people we will be training to be able to achieve.

What problems do they need to solve with the new knowledge? What gap in the organisation are they trying to close? When we understand this, we can propose a training package that actually matches their needs, rather than a generic one which includes the content they don't require. We are very aware, often more so than our clients, of the need for a good Return on Investment with training as well as projects. This up-front planning, before we have even won the work, is the essential first step in making it all worth their while.

That still doesn't explain how to calculate RoI from the training itself though. The real justification is the benefits that are gained from the projects run by the people who attend the training. If the skills to achieve those changes are not already available in-house, then it is safe to assume that without the training they would not have been achieved.



Put another way, organisations simply must accept that the benefit of training is always going to be indirect, but that doesn't make it any less important.

There is of course also a widely recognised benefit in that training is seen as investing in people, and people who feel invested in are more likely to be motivated to do well. For this reason, many large organisations already have an annual training budget, and if that can be used to fund Continuous Improvement training then the project benefits might even be gained without any increase in costs.

Conclusion

Ultimately, whether running projects or training programmes, however closely the costs and benefits are monitored there must be a certain level of faith that CI is the right thing to do.

The best advice is to get people on board by starting small and proving that it works. It really does though, and once you take that leap, if you embed CI properly you'll eventually wonder how your organisation managed without it.

If you have a question about this subject, or if you're looking for support with a specific situation—feel free to get in touch on 01926 633333 alternatively you can email us at info@bourton.co.uk.