



Stern Stewart & Co.

# LEAN 4.0

ENSURING SUSTAINABLE  
FUNCTIONAL EXCELLENCE





# LEAN 4.0

## ENSURING SUSTAINABLE FUNCTIONAL EXCELLENCE

Stern Stewart Research // Volume 60

Konstantin Wrona, Thomas Berner

### Management Summary

A glance at today's management agenda shows a clear picture: In many companies, the role, character and orientation of administrative and interdisciplinary functions are being redefined under the catchword "lean". Basically, "lean" is about setting up cross-divisional functions such as HR, Legal, Communication and IT to be more flexible and independent of the divisional or regional business structure, thus sustainably improving their quality and efficiency by means of clearly defined management responsibilities.

The starting point for the optimization is clearly defining the functional tasks based on their fundamental character along four distinct groups (refer to Stern Stewart Research, Vol. 55): supervisory, expertise-driven, transactional-driven and business-specific tasks. Only truly business-specific – not necessarily all business-related – tasks remain embedded in the organizational business structure. This is based on the hypothesis that it is easier to achieve functional excellence with unified management while at the same time being close to the business via business-partner models than vice versa. It has frequently proven inadequate to accumulate own functional resources in each business accompanied by futile standardization attempts via policies and guidelines.

The clear separation of functional tasks forms the basis for a systematic advancement of the operating model in the administrative and cross-divisional functions. Lean 4.0 is characterized by six main features:

- 
1. **Strong functional and disciplinary leadership: Only allocate true supervisory tasks (governance) to the actual steering level (global or local) on a "one-time right" basis**
  2. **A more pronounced end-to-end view within the function: Further develop fragmented activity split through bundling within the function – aiming for a true process model**
  3. **Customer-oriented business partner organization: Ensure business proximity in an increasingly bundled functional structure, by the means of clear roles and competencies**
  4. **Strong delivery organization: Realize cross-functional optimization potential without diluting the functional governance (again)**
  5. **Differentiated role of the regional organization: Increased localization in the go-to-market; enhanced bundling within the support functions**
  6. **Knowledge transfers from the production world: Transfer of proven lean techniques to administrative processes, and systematic utilization of lean levers (e.g. continuous product/process elimination or Six Sigma)**
-



## 1. Functional and disciplinary leadership and the question of the truly required functional governance

The degree and scope of governance and supervisory tasks varies depending on the type of function. In this context it is important to differentiate between minimum standards (“must do” governance) and the individual company’s governance appetite (“can do” governance). It then has to be determined, across the functions, which degree of governance is actually needed, and how much the company is willing to afford. In this way, it can be avoided that an undesirably high degree of governance requirements is placed on the organization.

Experience tells us that some supervisory tasks are not necessarily best located at the group head office. Governance can be divided into different levels within the function (e.g. head office, intermediate holding, division or local unit). It is of decisive importance, where the supervisory task can be taken care of most effectively and efficiently. The following organizational principles have proven to be effective in practice:

### “One-time right”

Instead of splitting up decisions between various different levels, causing redundancies and a lack of clarity with regard to responsibilities, the decisions are made once and only once, and that one-time right.

### “Top level”

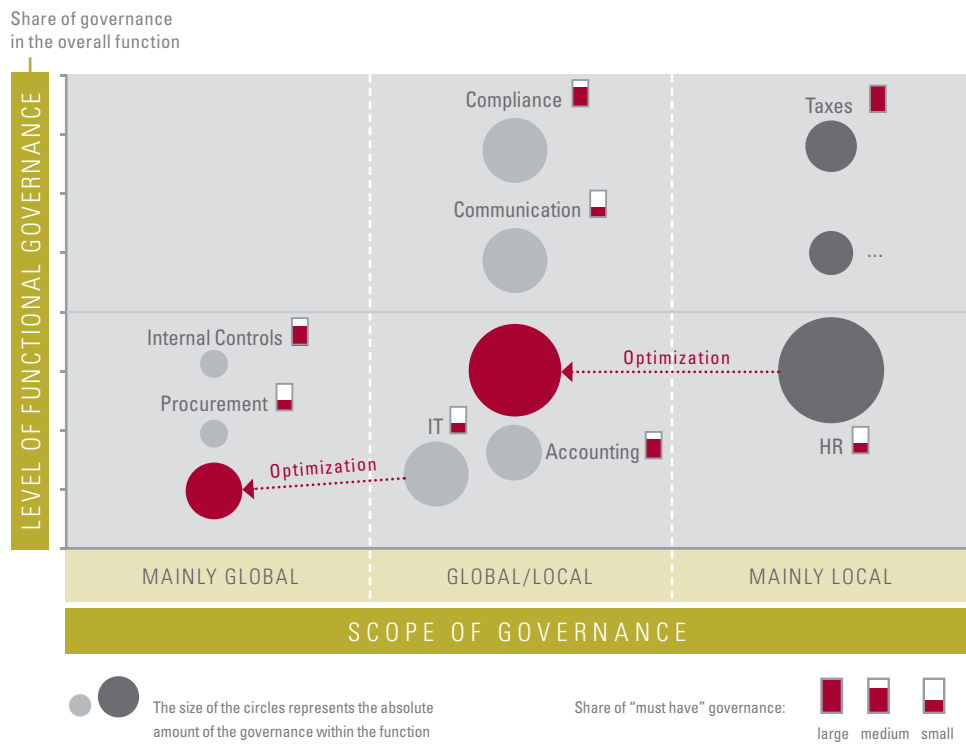
Supervisory responsibilities are taken care of at the highest possible level. This also applies to business-specific governance.

### “Balance”

The group head office has to strike a balance between control and risk when decentralizing governance tasks to the local units, or eliminating governance requirements.

In some cases, these principles can even lead to intermediate levels, such as regional holdings, becoming obsolete in their governance role.

EXAMPLE OF  
FUNCTIONAL  
GOVERNANCE  
REQUIREMENTS



## 2. A more pronounced end-to-end view within the function

We are entirely convinced that the (governance) dimension of the function has to be noticeably strengthened – compared to the common practice – in order to improve control. For some functions, (e.g. IT, HR and Procurement, and to some degree also in Controlling, Quality and Sales) this means that relevant activities and processes have to be based within the direct responsibility of the functions' management, since this enables a holistic functional optimization. As a result, cross-divisional functions can then be positioned more independently and flexibly in relation to the business or regional units. At the same time, the operational business receives the freedom to concentrate entirely on the ongoing business activities.

Additional bundling within support functions automatically leads to more end-to-end responsibility for the work content and processes within the function, and hence also to increased functional and disciplinary leadership. Traditionally, predominantly transactional activities are bundled and thus placed

under more function-based management. In practice, however, know-how-based tasks are increasingly also being grouped within centers of expertise (CoE), which provides further potential for company-wide optimization and a reduction of functional costs. Where the degree of bundling has already reached a high level (e.g. more than 80%), the question is then inevitable of whether the remainder of the tasks and/or resources shouldn't also be grouped within the function. The objective is to put an end to the "game of ping pong" that so often takes place between parts of the process and activities, and to transfer them into clearly defined end-to-end fields of responsibility.

In some fields it can also make sense to establish a field of responsibility that is both cross-functional and end-to-end. In particular processes like "Purchase to Pay" – where Procurement, Accounting, Supply Chain and sometimes IT are affected – are obvious choices for cross-functional optimization. There are three evolution phases for establishing and anchoring a cross-functional and end-to-end scope of responsibility.

### **Phase 1: Nominate an end-to-end sponsor for each process**

The sponsor assumes the task of proposing process and organizational improvements and preparing these for implementation. The sponsor's role here is not institutionalized: No committee or board is installed, instead additional responsibility for this role is assumed within the existing organization.

### **Phase 2: Cross-functional responsibility within the organization**

A separate organization is created that takes care of the cross-functional optimization. In addition to having the right to make proposals and analyze, this organization is also authorized to implement measures in the company's interest. Hence, this unit has "teeth".

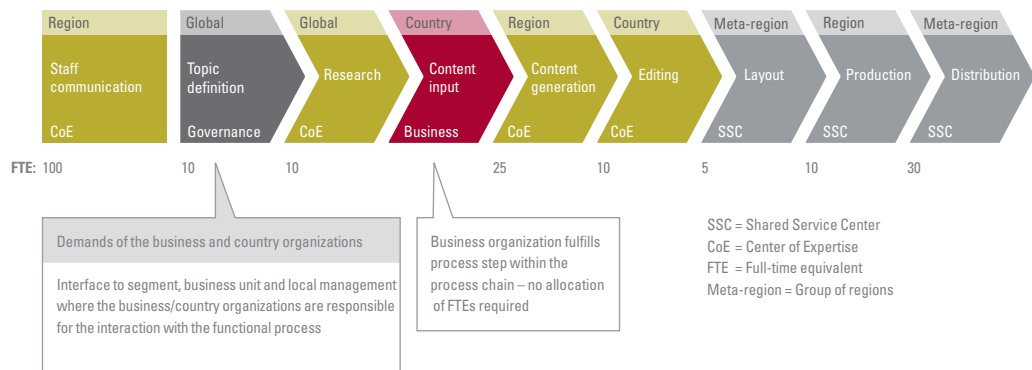
### **Phase 3: True adjustment of the organization**

The most effective way of strengthening end-to-end processes is by structuring them in an organization that reflects the end-to-end processes. This structure offers the greatest potential for improving in the sense of a "lean factory", but it often initially requires a high level of functional maturity.

Methods like the "activity split" can help when developing an optimized target process model. The goal of the activity split is to gain transparency across all activities within the function, to identify further efficiency potentials and to realize those sustainably.

Subsequently, the target fields of responsibility for each individual activity are distributed, for example using a RACI logic (Responsible, Accountable, Consulted, Informed), and the resources required for each of them are allocated and optimized over time.

TARGET ACTIVITY  
SPLIT FOR CORPORATE  
COMMUNICATION BASED  
ON THE “MAGAZINES”  
CORE PROCESS



### 3. Customer-oriented business partner organization

Both the bundling of tasks and resources as well as their enhanced functional governance enable the realization of synergies and additional functional optimizations. Only at a first glance, the operational business, such as business units, divisions, country organizations and regions, lose influence on, access to and responsibility for overarching functions. However, even after the functional bundling outside of the operational business, the functions want to and should remain in close proximity to the actual business, so they can render business-specific services.

In order to retain this proximity of the functions to the business, “business partners” or “customer points of contact” are established for them. The business partner is to be considered as a role here, and not as a position within the organizational structure. The prerequisites for a successful business partner system are:

- Business partners belong to the function, both in terms of disciplinary authority and the specialist field – entirely in the spirit of a clear functional and disciplinary leadership – and they report to the people responsible for the function.
- However, the business partner is located – also often in the literal, spatial sense – right at the operational business or at the venue, in order to ensure that the functional requirements

are met and to support the operational management in its global responsibility. In selected functions (e.g. HR, Legal, Finance), the business partner should also remain part of the local management team.

- Business partners must have operational expertise and credibility in order to be able to understand the interests of the business. They also need profound functional know-how and a relationship of trust with the management.
- Candidates are nominated in collaboration with the respective business and functional management. The objectives and hence the remuneration of business partners are closely linked to those of the business, if not to some degree entirely identical.
- The business partner's organizational unit is to be dimensioned individually in terms of its function. This size can range from a single partial-role through to a distinct organization with multiple resources.

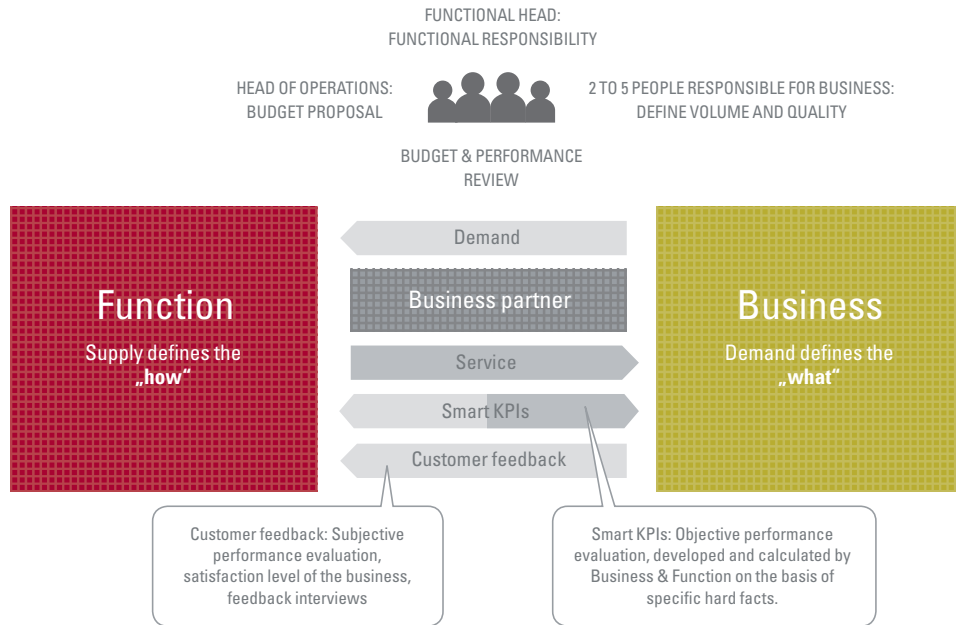
The business partner is the central point of contact for the business in all function-related matters. He also clarifies the business specific demands on content, quality and timing together with the business. He forwards functional issues to the corresponding resources within the function (e.g. to the COE – center of expertise – or SSC – shared service center), ensures that all the business-specific requirements are met and acts as the first escalation stage in the case of operational issues.

From experience, the specific role of the business partner demands new competencies that are not always already in existence within the function. These include, for example, the ability to position oneself as a partner or service provider to the business. Because the role and its competencies vary depending on the function, they have to be clearly defined.

For instance, the operational business can continue to exercise influence on the function's direction, via service or steering boards that can be set up. The decisive KPIs can be determined and tracked through this channel between the business and the function.



EXAMPLE:  
BUDGETING AND  
PERFORMANCE REVIEW  
BETWEEN BUSINESS  
AND FUNCTION



## 4. Strong delivery organization

Each function first defines the optimum delivery organization for itself, i.e. the organization of the service delivery and its performance for each know-how or transactional activity. This structure depends both on customer needs and the size and type of the functional unit. There are two basic philosophies in the delivery organization:

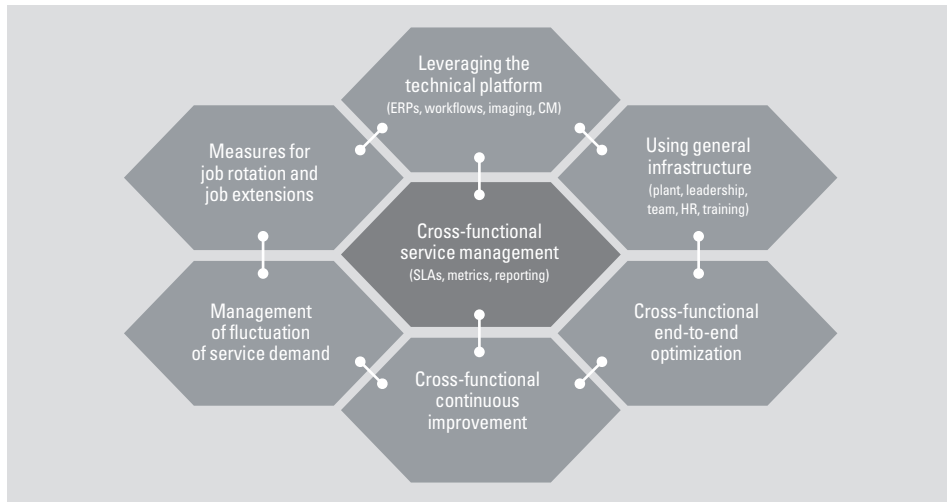
### “Function first”

Here, the focus lies on finding the best end-to-end structure within each function. Resources responsible for the process design or process execution are managed autonomously from other functions. Resources from other functional units can, however, be based at the same location in order to achieve economies of scale.

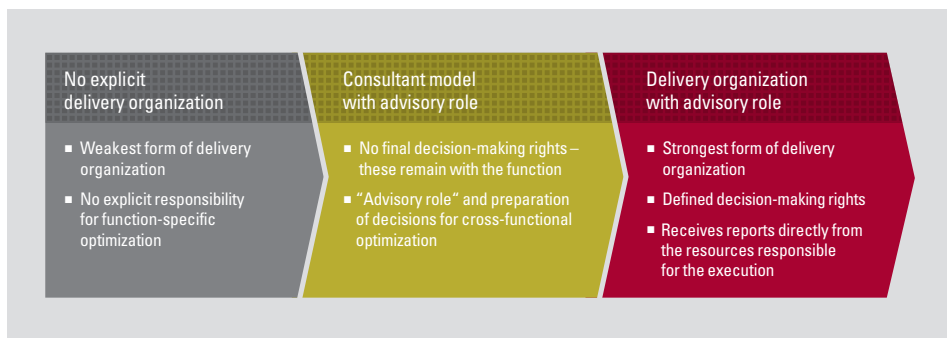
### “Optimize global execution”

In particular with transactional activities, the focus is on cross-functional optimization. In this case, resources that are responsible for the process design report to the function because of the function-

## ADVANTAGES OF THE CROSS-FUNCTIONAL DELIVERY ORGANIZATION



## TYPICAL EVOLUTION STAGES



specific character. Resources involved in the execution of the process may also report directly to a “delivery center”. This results in synergy potential, e.g. regarding infrastructure or through cross-functional process execution. Experience has shown, however, that an exchange of resources that take care of the tasks for several functions only makes sense for a very small number of selected activities (e.g. rotation of account payable management within Accounting, master data maintenance within Procurement). The more know-how-based parts are integrated into one delivery center, however, the greater the risk of functional dilution.

## 5. Differentiated role of the regional organization

We have a clear concept in mind for the dimension of the country and regional organizations and their roles: There is no comprehensive third matrix layer in addition to the functions and the operational business (e.g. divisions, business units). Experience shows that support functions do not generate noticeable added value at the intermediate level of the region.

The function does have regional and local satellites and characteristics, but no own organizational unit is required for this either. The management is performed globally from within the function, while the required local know-how for e.g. the functions Legal, Tax or Accounting, can be provided locally. As a result, the country organizations focus more on supporting the business. They are responsible both for creating demand and for increasing the market penetration within the strategic framework prescribed by the business. The person responsible for the country is given tasks relating to the local market development. This makes him the “first vendor” and responsible for representing the interests within his own country. Alternatively, this task can be set up at the regional level if there are advantages of bundling across national boundaries.

For the functions, the country is essentially a legal shell. This applies in particular to the global internal service functions – i.e. the shared service centers and centers of expertise and their regional satellites. Here, the country also acts as a supplier of infrastructure (e.g. rooms, IT) and as the legal “host”. The person in charge in the country has neither disciplinary nor specialist authority; these lie exclusively with the heads of the shared service centers and centers of expertise (see also delivery organization).

*THE DECISION ON THE FOOTPRINT OF THE ADMINISTRATIVE FUNCTIONS IS INDEPENDENT OF THE REGIONAL BUSINESS ORGANISATION.*



The restructuring of the country and regional organization also has a positive effect on the leadership complexity and structure costs: the country organizations can also offer smaller companies a legal shell, in order to further reduce the number of legal units within the company group.

## 6. Knowledge transfers from the production world

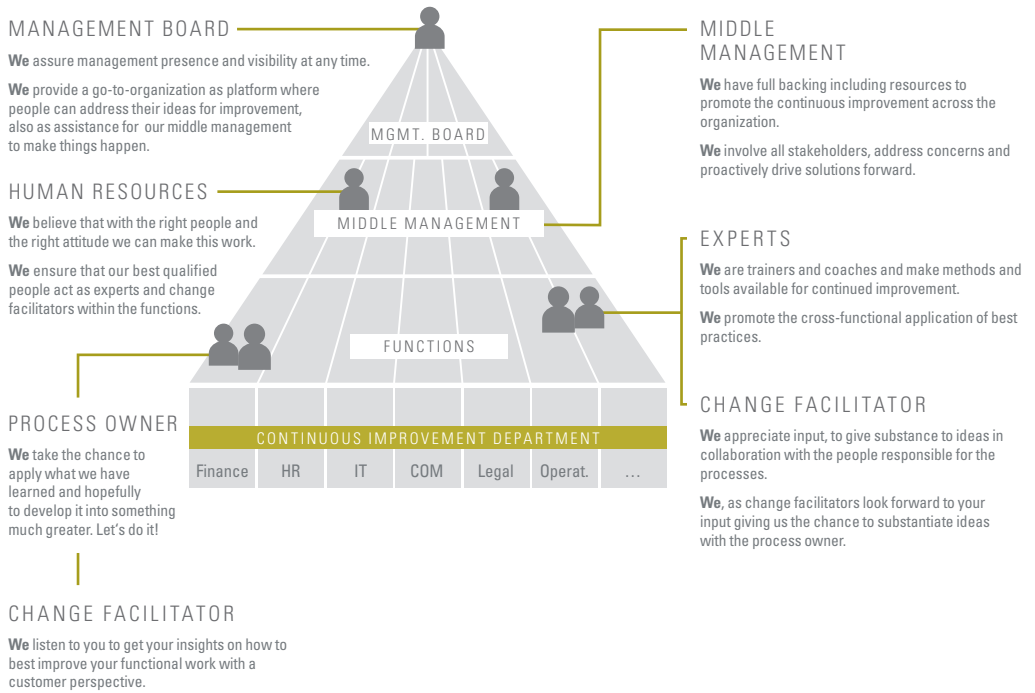
Optimization efforts within the administrative functions can and should not be a one-off. Project experience has shown that improvements and savings can only be sustainable if they are regularly reviewed and the processes documented. In particular in the area of production, but also in the transactional process areas, lean methods for continuous improvement have become firmly established over time. When optimizing administrative and support functions, we also recommend applying and anchoring lean techniques in order to systematically leverage lean potential. Some examples of such lean techniques are:

- Creating performance transparency that makes the contribution of administrative tasks to customer benefits measurable and that enables the set up of clearly defined improvement goals
- A leadership approach that applies the transparency gained in a responsible way, to stimulate continuous improvement
- An infrastructure that empowers staff members company wide to continuously recognize improvement potential and that provides the methods and tools required to do so
- A fast-track platform for quickly realizing the recognized improvements

Of decisive importance is that sustainable lean management begins with a clearly communicated vision – also in the field of administrative functions. These fundamental values must reflect the expectations of the management, and the management must openly back them. As we see it, an infrastructure has to be set up that enables the management to carry lean management methods into

the “functional factories” and to bring ideas for improvement to the surface quickly, so they can be realized. It also has to be ensured that sustainable improvements are transparent and measurable, that efforts are rewarded and that the investment in lean management does not remain a “one-hit wonder”.

*ANCHORING  
A LEAN ORGANIZATION*



## Conclusion: Long live the function!

Businesses are today often structured following the guiding principle of the “global entrepreneur”. The same applies increasingly to functions: better networking and new technologies today make a more global orientation possible and necessary, and will continue to do so in the future.

Applied strictly, Lean 4.0 represents an opportunity to significantly reduce structure costs, to improve the quality of the functional service delivery and to increase flexibility in making changes to the company structure. And of course, this leads to a redistribution of roles throughout the organization: The company concentrates on the business – using highly developed service functions – while the regional organizations ensure the local connection for business development. The advantages of the matrix are exploited, but the points of interaction and interfaces are optimized to what is truly necessary. In this context, the new approaches to optimization apply not only to the typical “support functions”, they can also be translated to “operational functions” such as Sales, Quality, R&D and Health and Safety in many fields.

Stern Stewart & Co.

Stern Stewart & Co. is an independent strategy consulting boutique. Our advisory focus is on the core issues of management. These include strategy, corporate finance, organization and performance management. We see company managers as strategic investors in the business, and support them to increase the value of their company.



### The authors

Konstantin Wrona, Partner, [kwrona@sternstewart.com](mailto:kwrona@sternstewart.com)

Thomas Berner, Partner, [tberner@sternstewart.com](mailto:tberner@sternstewart.com)

Stern Stewart & Co.

### Munich

Salvatorplatz 4  
D-80333 München  
T +49.89.242071.0  
F +49.89.242071.11

### Dubai

Emirates Towers, L 41  
Sheikh Zayed Road  
PO Box 31303, Dubai  
United Arab Emirates  
T +971.4.319.9963  
F +971.4.319.9964

### London

2nd Floor,  
Berkeley Square House  
Berkeley Square  
London W1J 6BD  
United Kingdom  
T +44.20.7887.6265  
F +44.20.7887.6001

### New York

1330 Avenue of the Americas  
23rd Floor  
New York City NY 10019  
United States  
T +1.212.653.0636  
F +1.212.653.0635

### Shanghai

Office 1206, 12/F Shui On Plaza  
333 Huai Hai Zhong Road  
Lu Wan District  
Shanghai 200021  
P. R. China  
T +86.21.5116.0564  
F +86.21.5116.0555

I [www.sternstewart.com](http://www.sternstewart.com)

E [info@sternstewart.com](mailto:info@sternstewart.com)