Lean in Consulting Company

HOW TO REALIZE THE LEAN OPERATION STRATEGY IN A CONSULTING COMPANY
TANJA ANGELIC
ABSTRACT

This paper is intended to outline the research primarily about the question how to realize the lean operations strategy in a consulting company when managing outsourcing projects. That is carried out in order to fulfil the academic requirements for the Project Management & Operational Development (PM&OD) degree program at the KTH Royal Institute of Technology, located in Stockholm, as well as, to fulfil the formal requirements of KTH. The thesis represents 15 ECTS and is conducted by Tanja Angelic, and the supervision is carried out by Anna Hornström. Moreover, this research presents the background, research questions, goals, and scopes. The research also provides an explanation of the used research method, and finally, the data presentation with conclusions is demonstrated. The final thesis report deadline is no later than 22th May 2015.
Firstly, I would like to thank my supervisor, Anna Hornström, from the School of Industrial Engineering and Management at the Royal Institute of Technology, for accepting me in her department and for giving me good and useful guide.

Secondly, thanks to all my family for supporting me, and all the love they give me. Especially, thanks to my husband Mario for providing me very good advices in writing about the management, and above all, for being such a good husband and loving father to our kids.

I would like to dedicate this thesis to the memory of my father Stipe.

Tanja Ticinovic Angelic

Stockholm, May 2015
Here are the Abbreviations that are used in this thesis.

**Abbreviations**

<table>
<thead>
<tr>
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<th>Description</th>
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<tbody>
<tr>
<td>BOQ</td>
<td>Bid of Quantity</td>
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<tr>
<td>BPR</td>
<td>Business Process Reengineering</td>
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<tr>
<td>DQA</td>
<td>Deductive Qualitative Analysis</td>
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<td>QA</td>
<td>Quality Assurance</td>
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<tr>
<td>PM</td>
<td>Project Manager</td>
</tr>
<tr>
<td>ROI</td>
<td>Return on Investment</td>
</tr>
<tr>
<td>STC</td>
<td>Society for Technical Communication</td>
</tr>
<tr>
<td>TPS</td>
<td>Transaction Processing System</td>
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<td>TPS</td>
<td>Toyota Production System</td>
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<tr>
<td>TQM</td>
<td>Total Quality Management</td>
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<tr>
<td>XFT</td>
<td>Cross-Functional Team</td>
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1 INTRODUCTION

This chapter describes the background, the problem statement, the research questions, the goals of the study, and finally, the scope for this research is presented.

1.1 Background

Operational efficiency is an important element of companies’ operational excellence strategy. Increasing operational efficiency includes most commonly usage of good process, tools, and reduction of production cost through outsourcing or consulting.

To achieve the same objective, many companies are implementing the lean method as one element of an operational strategy. Thesis question is how to realize the lean operation strategy in a consulting company when managing outsourcing partnerships projects.

The concept of lean was first introduced by James P. Womack, Daniel T. Jones, and Daniel Roos (2007) in order to describe the operational strategy and practices of the Japanese vehicle manufacturers and in particular the Toyota Production System (TPS). More specifically, it was observed that the overall philosophy provides a focused approach for continuous process improvement and the targeting of a variety of tools and methods to bring about such improvements. Effectively, this operational strategy involves eliminating waste and unnecessary actions and linking all the steps that create value. So, the objective of lean is to prioritize the high flow efficiency over the resource efficiency (Niklas Modig & Pär Åhlström, 2012).

Traditionally, the consulting companies have focus on resource utilization. Therefore, the whole business from the sales, the proposals, and the contract writing, to the final production is traditionally operated, which is opposite from the lean strategy. By implementing the lean operations strategy, a consulting company would increase the flow efficiency without compromising and would preferably increase the resource efficiency (Niklas Modig & Pär Åhlström, 2012).

1.2 Problem Statement

The consulting companies’ basic business idea is to sell a value (knowledge or a service) to other companies who are in need of that value. However, there is a high competitiveness in the consultancy business, and in order to increase the revenue, the consulting companies focus too much on utilizing resources efficiently, which is the traditional and most common form of efficiency. This tends to increase amount of work, for example, more controlling functions. “Consequently, the more organizations try to be efficient (“being busy”), the more inefficient they actually become.” (Niklas Modig & Pär Åhlström, 2012). They start to take care of non-value adding that is actually necessary work, so called waste. Since the lean is method developed to address this paradox, this study will primarily try to determine how to realize the lean operation strategy in a consulting company when managing outsourcing partnerships projects. Also, is it possible to shift that focus from high resource efficiency to high flow efficiency? What will the consulting companies gain if they prioritize the customer value-adding and the flow efficiency?

1.3 Research Questions

The study seeks to give the recommendations on the following questions:
How to realize the lean operation strategy in a consulting company when managing outsourcing partnerships projects?
We can refine the question further to the following questions:
What means can be used to realize the lean operations strategy in a consulting company when managing outsourcing partnerships projects?

1.4 Goals
The contribution of this paper would be a group of recommendations for realizing a lean operation strategy in a consulting company when managing outsourcing partnerships projects. The recommendations that are to be presented in the thesis are to improve the consultancy business so they constantly tend to provide a value-adding to its customers, which will also lead to delivering successful projects and remaining competitive. The theoretical contribution of this paper can be seen as creating an increase insight of the complexity of this topic and also to increase the attention of its importance.

1.5 Scope
The in and out of scope parameters with the limitations of this study are described in the following subchapters.

1.5.1 In Scope
The following activities are in scope:
- Focus is on consulting companies and companies that hire consultants in software development
- The business cases of this research project are the projects outsourced to a consulting company. Only in the outsourcing partnerships, the consulting companies can possibly create own lean process operations.

1.5.2 Out of Scope and Limitations
The limitations and the out of scope activities are the following:
- Study is qualitative and it is only based on a limited empirical basis, which consists of interviews within three companies. This restricts the ability to generalize the results to a broader level.
- The organizations (in this thesis referred as customer or client organizations) that only hire knowledge consultants (or resource consultants) to own organizations, since in that case, the customer organization defines own processes, and the hired knowledge consultants (or resource consultants) have to follow the customer processes.
- The consulting companies that are selling “Lean Consultancy”, which are management consulting companies that specializes in maximizing the business potential of any operational environment, and as such, selling full service lean training and lean implementation.
- The interviews studies can be limited by the participation willingness and the information confidentiality. The limitation can also be the amount of available information.
- There are also limitations of in depth of analysis since the study is aiming for general outsourced partnerships, which gives too many variables to address.
- The outcome of the lean implementation in outsourced partnerships projects is not to be measured.
1.6 Thesis Structure

The study uses the scientific literature and the qualitative interviews.

The structure of the thesis is as follows:

- In Chapter 2, the descriptive theoretical framework is developed.
- Chapter 3 describes the methodological choices and the line of actions taken to accomplish the thesis.
- Chapter 4 presents the characteristics of the investigated companies and the profiles of the professionals who have been interviewed.
- In Chapter 5, the professionals opinions are analyzed and compared with the existing knowledge and theory presented in the theoretical framework chapter (Chapter 2).
- In Chapter 6, the discussion and the conclusions are developed. Finally, the recommendations for future studies are presented.


This chapter presents the theoretical reference frame that is a summary of the existing knowledge and former performed research on the subject. According to Biggam (2008) a good literature review (in this case theoretical framework) is characterized by relevancy to the conducted research, in depth critical evaluation, highlights relevant/emerging issues, and cites a variety of relevant sources properly.

The literature review for this research is done by categorizing each field of the research. Finally, the relations between the fields are presented.

### 2.1 Lean Operation Strategy


Lean manufacturing or lean production, often simply "lean", is a systemic method for the waste elimination ("Muda") within a manufacturing process. Lean also takes into account "Muri"-waste created through overburden, and "Mura"-waste created through unevenness in workloads. Working from the perspective of the customer who consumes service or a product, "value" is any action or process that a customer would be willing to pay for (as defined from Wikipedia), see also Figure 1.

More precisely, lean is identified in Toyota Production System (TPS) by Ohno (1978) with the 5S and the 3 Mu's, as described in Table 1.

<table>
<thead>
<tr>
<th>Seiri</th>
<th>Remove unnecessary things</th>
<th>waste</th>
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</thead>
<tbody>
<tr>
<td>Seiton</td>
<td>Arrange remaining things orderly</td>
<td>flow</td>
</tr>
<tr>
<td>Seiso</td>
<td>Keep things clean</td>
<td>uncover hidden problems</td>
</tr>
<tr>
<td>Seiketsu</td>
<td>Keep doing it, standardize</td>
<td>know what to improve</td>
</tr>
<tr>
<td>Shitsuke</td>
<td>Keep training it</td>
<td>resisting inevitable entropy</td>
</tr>
<tr>
<td>Muda</td>
<td>Waste</td>
<td>minimize waste</td>
</tr>
<tr>
<td>Mura</td>
<td>Irregularities</td>
<td>optimize flow</td>
</tr>
<tr>
<td>Muri</td>
<td>Stress</td>
<td>sustainable pace</td>
</tr>
</tbody>
</table>

In IEEE/CPMT (2010), lean is defined as “the relentless pursuit of adding value for the customer, waste elimination, and continues improvement from a standard at the point of activity by everyone, everywhere, everyday!” Also, adding value and simultaneously removing waste are two major components in lean, as presented by Liker (2004). “Value is the activity or whatever it may be that the customer is willing to pay for” (England, 2010). “Waste, on the other hand can be shortly described as the opposite, what the customer is not willing to pay for” (Thomas Group, 2012).
James P. Womack, Daniel T. Jones, and Daniel Roos (2007) note that a lot of the production cost is based on bad design, poor management, and an attitude that overlooks the problems. “The goal is reduction of waste. To achieve this, a company must look what creates value and eliminate all other activities”, and do the following:

1. To specify the value from the end-customer point of view
2. To identify all the steps in the value stream, and to eliminate those steps that do not add value
3. To make the flow that has the value-adding steps in tight sequences so the production toward the end-customer will flow smoothly
4. When the flow is introduced, the end-customers must pull value from the next upstream activity
5. When value is specified, the value streams are identified, and the wasted steps are removed, and flow and pull are introduced, begin the process again and continue it until a perfect state is reached in which a perfect value is created with no waste.
It sounds logical and quite simple. But, how does it really work? The background of TPS actually was that around 1950 Toyota closely went bankrupt and had to cut off one third of its employees. This stimulated Taiichi Ohno's (1978) to focus on four specific aims, as follows:

- To deliver the highest possible service and quality to the customer
  Ohno's (1978) realized that if the quality of a product is bad, the customers will not buy such product, and if the customers do not buy their products, all other issues are irrelevant.

- To develop employee's potential based on cooperation and mutual respect
  Since the company employees create the value, the management can only do is to facilitate and help them to create the value more efficiently. Otherwise, the management would be waste.

- To reduce the cost through waste elimination in the given process
  There are so many things that do not contribute to value creation for the end-customer. In one organization, everyone has a task to recognize and actively eliminate the waste in everything they do.

- To build a flexible production that responds to market changes
  Initially, Toyota did not build many cars. They adjusted from what they learnt from Ford's mass-production towards small-scale and varying production with the same efficiency or even better.

Ohno’s (1978) admits that he actually got his ideas by reading Henry Ford's books and analyzing the US supermarket supply principles. Similarly to Henry Ford, he took the old ideas and adapted them to his purposes and needs.

So, lean is nothing new, actually the lean principle is quite old. Here come some quotes that are roots to the idea of lean, as follows:

- Henry Ford (1922) says “We have eliminated a great number of wastes.” (at the farm in Dearborn)
- Also, Henry Ford (1926), he concludes “Learning from waste, keeping things clean and safe, better treated people produce more.”
• Benjamin Franklin (1706-1790) “Waste nothing, cut off all unnecessary activities, plan before doing, be proactive, assess results and learn continuously to improve.”

• W. Edwards Deming (1986) points out that “Quality reduces waste.”

An organization uses own capacity for:
• Work that creates value
• Waste, which does not contribute to value creation

Examples of waste that is necessary work are: management if they not organize, facilitate, and optimize the work for the workers.

Masaaki Imai (2012) says: "Because it costs nothing, eliminating waste is one of the easiest ways for an organization to improve its operations."

Liker (2004) reveals the 14 management principles behind Toyota's worldwide reputation for quality and reliability. Liker (2004) outlines the key philosophical principles that Toyota implemented from the management levels on down in order to create a better organization for serving customers while remaining flexible to changes. The following are 14 principles from the book:

1. Base your management decisions on a long-term philosophy, even at the expense of short-term financial goals.
2. Create continuous process flow to bring problems to the surface.
3. Use “pull” systems to avoid overproduction.
4. Level out the workload.
5. Build a company culture of stopping to fix problems, to get quality right the first time.
6. Standardized tasks are the foundation for continuous improvement and employee engagement.
7. Use visual control so that problems are not hidden.
8. Use only reliable, comprehensively tested technology that serves employees and processes of the organization.
9. Grow leaders who thoroughly understand the work, live the philosophy, and teach it to others.
10. Develop exceptional people and teams who follow the company’s philosophy.
11. Respect the extended network of partners and suppliers by challenging them and helping them improve.
12. Go and see if you completely understand the situation.
13. Make decisions slowly by consensus, and thoroughly considering all options, but implement the decision rapidly.

Alexander Kristofersson and Christian Lindeberg (2006) in their major study highlight that lean product development can indirectly improve concurrency and cross-functionality in the product development work. However, Swedish lean product development does not address long-term product development strategy, which managers should accordingly assess independently.

Vice president of quality 250 million dollar plastics manufacturer (Aberdeen Group, 2008) says that “Lean is not only focused on the continuous improvement of existing process but we are using lean tools to develop and optimize complex processes for new business contracts. Lean practices are also being
deployed up and down the value chain to ensure that processes are optimized with critical supplier and customer input."

2.1.1 Identifying Waste

Taiichi Ohno (1988) identifies seven types of waste in manufacturing; see Table 1 and Figure 3. Also, the table also identifies the waste values in development, as defined by Mary Poppendieck (2003).

Table 2. Seven types of waste

<table>
<thead>
<tr>
<th>Manufacturing</th>
<th>Development</th>
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<tbody>
<tr>
<td>Overproduction</td>
<td>Extra features</td>
</tr>
<tr>
<td>Defects</td>
<td>Unused documents</td>
</tr>
<tr>
<td>Unused inventory</td>
<td>Partially done work</td>
</tr>
<tr>
<td>Inappropriate processing</td>
<td>Design inefficiency</td>
</tr>
<tr>
<td>Excessive transportation</td>
<td>Wishful thinking</td>
</tr>
<tr>
<td>Waiting</td>
<td>Handoffs</td>
</tr>
<tr>
<td>Unnecessary Motion</td>
<td>Delays</td>
</tr>
</tbody>
</table>

Figure 3. Waste

Descriptions of seven types of waste (Peter Hines, Pauline Found, Gary Griffiths, and Richard Harrison, 2008) are as follows:

- **Overproduction**
  Producing too much or too soon, which results in poor flow of information or goods and excess inventory.

- **Defects**
  Frequent errors in paperwork, product quality problems, or poor delivery performance.

- **Unnecessary inventory**
  Excessive storage and delay of information or products, which results in excessive cost and poor customer service.

- **Inappropriate work processing**
Using the wrong set of tools, procedures or systems, often when a simpler approach may be more effective.

- **Excessive transportation**
  Excessive movement of people, information or goods which results in wasted time, effort, and cost.

- **Waiting**
  Long periods of inactivity for people, information or goods, which results in poor flow and long lead times.

- **Unnecessary motion**
  Poor workplace organization, which results in poor ergonomics, for example, excessive bending or stretching, and frequently lost items.

### 2.1.2 Lean Labor

If we make perfect processes and eliminate all waste, does it mean we will reach the maximum operational efficiency? According to Gregg Gordon (2011) “in contrast, companies that practice lean rely on their employees who know the process best to identify unproductive activities and replace them with productive ones. This additional productive time results in higher output with the same pace of production using the same capital equipment. Lean can be the answer.”

According to Kevin L. Meyer, 2007, 67% and 99% of a lean effort is about people, and top two causes of failure in lean implementation are lack of management support and lack of communication. The leadership management support and a continuous learning environment are important facilitators of lean implementation (Kjeld Harald Aij, Frederique Elisabeth Simons, Guy A M Widdershoven, Merel Visse, 2013).

Lean employees see the whole company’s “big picture”, try to avoid island thinking, and focus on real customer needs (Niklas Modig & Pär Åhlström, 2012).

Gregg Gordon (2011) states that “since 2000 more than 5 million manufacturing jobs have disappeared from the United States due to low wage competition and automation.” Also, the developed countries have been missing the manufacturing jobs at an alarming rate over the past two decades to low-salary countries such as China and India. But, even China and India are not immune to the impact of low-salary competition. A second generation of workers is entering the job market in China and India with the increased expectation for standard-of-living. These young modern workers see how others live in high-salary countries and the result is the desire for an improved standard of living that drives up salaries. With a globalization already in place, it becomes easy to move low skill production jobs out of China and India just as quickly as they moved in.

Further, Gordon (2011) points out that without a transformation in the way manufacturers produce products and deliver services, manufacturers are put in a position to chase the lowest salaries, moving production from country to country. They apparently have no choice, and are forced out as salary increases due to government regulation and inflation make them uncompetitive in their existing plants.

Finally, Gordon (2011) concludes that with lean labor a manufacturer doesn’t have to have the advantage of the lowest labor rate in the industry to remain competitive in a global market. The concept is very simple: labor is the only one resource that is required to manufacture a product. The other two resources are materials and machines. Those companies that understand how to make the combination of those
resources more productive (leaned) through a proprietary process will reduce unit costs and lead times beyond competitors who bring the solitary advantage of low cost labor (Gordon, 2011).

Figure 4. Sustainable lean iceberg model

In order to become a lean organization, not only the tools and techniques and process-based management is important, but it is what we do not see that is even more important, and those are three key areas which are all people-related: strategy and alignment, leadership, behavior and personnel engagement, see Figure 4 (Peter Hines, Pauline Found, Gary Griffiths, Richard Harrison, 2008).

Also, “Training the employees both in skill and in lean manufacture tools greatly reduces the labor cost” (Gopalakrishnan, N., 2010).

However, “the engagement of people on a lean journey is essential” (Peter Hines, Pauline Found, Gary Griffiths, Richard Harrison, 2008). The engagement will predict their behavior and the company’s success. There are many steps of the engagement, but effective strategy, alignment, and leadership are a good start. Other elements of engagements are partly due to training, communication, and characteristics of the individuals themselves. The general cultural and social norms of the organization also have an impact.
2.2 Project Management

Project management is the process and activity of planning, organizing, motivating, and controlling resources, procedures and protocols to achieve specific goals in scientific or daily problems (from Wikipedia).

Project, as defined in Business Dictionary, is planned set of interrelated tasks to be executed over a fixed period and within certain cost and other limitations.

“The delivery of business outcomes is realized through the success of projects, and in essence that is the way that project management strategies drive organizational success,” says Adrian McKnight (2010), PMP, program director at Suncorp-Metway Ltd., a financial services firm in Brisbane, Queensland, Australia.

A survey by consulting giant McKinsey & Co. (2010) revealed that nearly 60 percent of senior executives said that building a strong project management discipline is a top-three priority for their companies as they look to the future. Executives also indicated that adhering to project management methods and strategies reduced risks, cut costs, and improved success rates.

“Good project management discipline stopped us from spending money on projects that fail,” says Ron Kasabian, general manager at global IT giant Intel, Folsom, California, USA.

Ninety percent of global senior executives ranked project management methods as either critical or somewhat important to their ability to deliver successful projects and remain competitive, according to the Economist Intelligence Unit’s survey (2009).

2.2.1 Spotting Bad Projects

Meri Williams (2008) lists some hallmarks of good projects:

- They deliver big benefits, with defined metrics that specify the size of those benefits.
- They’re important for the future of the organization (or, in management speak, they’re “strategically important”).
- Sufficient resources are invested in them.
• They have supporters within the organization. Also, she identifies the hallmarks of bad projects, which are in contrast with those outlined above:

• Projects for which no one has really identified the business benefit, or for which the closest it can get to a cost estimate is someone waving their hands in a type gesture: “the-size-of-the-monster-catfish-I-caught-last-summer”, are dangerous.

• Projects that focus too much on the present and neglect the future are dangerous. Think of the buggy manufacturer investing in making his production lines cheaper and faster, rather than realizing that a change in direction is needed.

• Projects with insufficient or nonexistent resource investments are another warning sign of dangerous projects. Projects without budgets, people, or equipment are risky from the day one.

• The most dangerous of all are projects that are being conducted even though only a few people in the organization believe that they should be completed. These kinds of projects quickly start to feel like everyone’s just standing around watching and waiting for the project manager to slip up and prove them right.

Once the decision to run the project has been made, the project proposals and the value creation are in focus.

Project proposals are simple, short documents that outline the potential project. They also provide brief background information, identify the value of undertaking the project, and give a very rough estimate of the resources (budget, time, and people) that would be required to deliver the project, as defined by Meri Williams (2008).

These proposals are the first indication to management of what the project is about, and what the project will deliver. Also, they represent the foundations of a contract between the management, customer, and the project team.

The project proposal should provide the following information:

1. The project’s background, for example, an understanding of why or what problem does the project solve?

2. The business value clear explanation that the project will supplement. Why is the project needed to an organization?

3. To find out the expectations of the project’s budget, timing, and resources. For example, if it is, from the beginning, clear that the project is hopelessly underfunded, or that the delivery date is really optimistic, then, it is better to deal with these questions in advance rather than coming to them later. Then, the changing these factors afterwards can be perceived as an attempt to refuse doing what it is specified in the initial project agreement.

So, the project proposals can also identify the projects restrictions and assumptions.

Meri Williams (2008) defines that “delivering value is the only real reason to undertake a project”. Whether the project is about increasing the monetary value of a home by renovating it, or increasing the team productivity by making data systems easier to use, there should always be a clear benefit to complete the project.

One of the most frequent misunderstandings between the business people and the technical people is that they talk about value in different ways.

What the value is?

In Business Dictionary the value is defined as follows:

1. In accounting: The monetary worth of an asset, business entity, good sold, service rendered, or liability or obligation acquired.
2. In economics: The worth of all the benefits and rights arising from ownership. Two types of economic value are: the utility of a good or service, and power of a good or service to command other goods, services, or money, in voluntary exchange.

3. In marketing: The extent to which a good or service is perceived by its customer to meet his or her needs or wants, measured by customer's willingness to pay for it. It commonly depends more on the customer's perception of the worth of the product than on its intrinsic value.

4. In mathematics: A magnitude or quantity represented by numbers.

Talking about definition of value in business terms is both smart and useful for any project.

Defining the value aligns the business goals with the project goals to ensure everyone impacted by the project and its outcomes takes into the process and commits the necessary human and financial resources. Mr. Kasabian also says (McKinsey & Co., 2010) that cross-team alignment is a critical component of successful project management strategy. “It ensures they get a voice throughout the process, instead of spewing forth requirements at the beginning then complaining when they don’t get a solution that meets their needs.”

2.3 Consultancy Business

The consulting companies’ basic business idea is to sell a value (knowledge or a service) to other companies who are in need of that value.

The literature that seeks to understand the creation, dissemination, and implementation of management knowledge has developed considerably over the last 15 years (Benders et al., 1998; Heusinkveld and Benders, 2005). Within this field, consultants have been categorized, along with business schools and management gurus, as “knowledge entrepreneurs” who develop ambiguous, yet attractive products, and services for consumption by a variety of users (Fosstenløkken et al., 2003; Heusinkveld et al., 2009). Consultancies specifically have been singled out for significant attention in their role in spreading operations management innovations such as Business Process Reengineering (BPR), lean and Total Quality Management (TQM) (Fincham, 1999).

According to Kim Klyver (2008), the involvement of consultants increases as entrepreneurs move forward in the business life cycle. As entrepreneurs gain access to more resources, and as their problems become more fragmented, specialized, discrete, and business oriented, the feasibility and benefit of consultant involvement becomes more viable. It was further found that older entrepreneurs have a higher tendency to involve consultants and that entrepreneurs mostly discuss economic and financial issues with consultants to whom they are mostly weakly connected (Kim Klyver, 2008).

Roslyn Petelin (2002) says that corporate downsizing in the service-oriented information economy has accelerated the growth of "contingent" employment within organizations in recent years. During the same period, many employees have set themselves up as independent consultants external to organizations.

Heusinkveld, Benders, and Berg, (2009), for example, emphasize the “market scanning” activities that consultants undertake when developing new products. However, we can find no research that examines the impact of different customer sectors on the products and services that operations management consultants develop (Zoe Radnor Joe O'Mahoney, 2013).

There is also a high competitiveness in the consultancy business, and in order to increase its the revenue, the consulting companies focus too much on utilizing resources efficiently (Niklas Modig & Pär Åhlström, 2012), which is the traditional and most common form of efficiency. This tends to lead to an increase in the amount of work there is to do. Consequently, the more organizations try to be efficient (being busy), the more inefficient they will actually become (taking care of non-value adding but necessary work).
Also, the revenue of the consultancy business is increased by decreasing the rented premises, and charging the customer on flexible hourly rates. Reporting on a Society for Technical Communication (STC) survey, Poe (2002) states that 59% of technical communication consultants work out of home, 36% work out of their customer’s site, and 5% work out of rented premises. Poe (2002) also reports that a STC survey discovers that 83% of those surveyed charge an hourly rate, presumably to avoid the “scope creep” of a fixed fee.

The “knowledge” consultants are traditionally hired to the hiring company with predefined conditions defined in the contract, and in that case, the customer organization defines own processes. So, the process is the problem of the customer organizations. That also includes the controlling responsibility for the customer organizations to check whether the consultants create more value than the actual cost of consultants’ involvement.

Besides the classical, so called “knowledge” consultants, there is a business case when the company outsources the whole operation to some consulting company. In that case, the consulting company can create own operational strategy and own processes in order to achieve the contracted goals.

According to Dr. Erik Beulen and Prof. dr. Pieter Ribbers (2002) the contracts are key in managing complex outsourcing partnerships. But, the contracts do not replace a trust between the outsourcing company and the IT-suppliers. “Based on trust the outsourcing contracts are signed.” The contracts need to be flexible because the decreasing time to the market and the fast technological developments. Contract flexibility in the type, the level, and the quantity of services is essential. But, it is not an easy job to build flexibility into the contract.

The theoretical framework shows that consultancy business is increasing, and due to high competitions, the cost is driven down. Also, the focus is too much on utilizing the resources efficiently and not on increasing the flow efficiency by taking care of value adding to the customer. The importance of flexibility in the contracts is also highlighted.

2.4 Relations between Consultancy Business, Project Management, and Lean

Relations between the consultancy business, project management, and lean are presented in this chapter.

The project management is about focusing on metrics, data, and standardization of processes to deliver better results. So, in the project management terms, it is important to define the business value of each project in measurable terms and measure it in order to be able to re-examine the company’s business needs and improve them (McKinsey & Co., 2010).

Mr. Kasabian (McKinsey & Co., 2010) requires his team to define the business value of each project in measurable terms before it can move from the exploration stage into the planning stage. This helps to focus the project team on the end-goals of the project, offers a metric to measure (Return on Investment) ROI, and helps the company to avoid investing in projects that are not tied to the business results.

Lean simply means creating more value for customers with higher operational efficiency. A lean organization understands the customer value and focuses its key processes to continuously increase it. The ultimate goal is to provide a perfect value to the customer through a perfect value creation process that has zero waste James P. Womack, Daniel T. Jones, and Daniel Roos (2007).

Since the consulting companies’ basic business idea is to sell a value (knowledge or a service) to other companies who are in need of that value, lean process is well suited to consulting companies’ business model.

According to Aberdeen Group (2008) to achieve the “Best in Class” performance, companies should:
• Extend the scope of lean. The “Best in Class” companies are likely to stay the course and remaining lean, and extend lean to all facilities, and also extend lean to all levels of the organization, including extending lean to multiple functional groups within the enterprise.

• Leverage external domain professionals for lean, and also ensure that consultants have specific domain experience. Of the “Best-in-Class” currently leveraging consultants, 93% leverage consultants with industry specific experience of implementing lean.

• The “Best-in-Class” are also integrating multiple technology solutions to extend the functionality of traditional enterprise applications supporting lean.

Also, Aberdeen's research (2008), examines how companies leverage external domain professionals, and found that those companies that have used lean consultants, 93% of the “Best in Class” companies have used consultants with experience implementing lean, and only 57% of “Industry Average and Laggard” manufacturers have taken this approach.

Since, the company’s focus remains on cost reduction, the lean implementation would help to reduce the waste, which would make the processes more effective, and consequently would give the reduction of operating cost. “Waste reduction has been a (Transaction Processing System) TPS core tenant since its inception and, not surprisingly, the overwhelming majority of companies are still focusing resources on lean to reduce operating costs” points out Aberdeen's research (2008). This is in alignment with much of the previous research on the topic. The same finding are found by Aberdeen Group (2007), where again reducing the operating costs was the number one pressure with 79% of manufactures citing it is one of the top two pressures driving focus on lean. It is considerably likely that the companies will continue to focus energy on extending the lean enterprise, and further reduce the costs.

According to the Lean Institute, “A lean organization understands the customer value and focuses its key processes to continuously increase it”, (LEI, 2009). Lean operation strategy increases the flow efficiency without compromising and will preferably increase the resource efficiency in a company (Niklas Modig & Pär Åhlström, 2012). Fabok on the Lean Kanban University conference (2013) says that flow efficiency shows the time in working time/lead time in progress percentage for a given work item (see the equation below).

\[
\text{Flow efficiency} = \frac{\text{work}}{\text{wait} + \text{work}} \times 100\%
\]

Also, lean gives a company possibility to achieve the “Best in Class” performance (Aberdeen Group, 2008).

Also, dr. Erik Beulen and Prof. dr. Pieter Ribbers (2002) highlight the importance of flexibility in the contracts in managing complex outsourcing partnerships.

However, I have not found any research that measure, for example, how much one “leaned” consulting company can improve the customers’ business (adds value to the customer), in the case that the project is outsourced to the consulting company. For example, some software production is outsourced to one consulting company for 10 000 hours + X 000 hours for internal cost (for controlling the consulting company work). In the lean terminology, that control (X000 hours) would be a waste, and the lean operations should eliminate waste. Also, I have not found any measurements of how much a consulting company see a “big picture” of the customer business, which is requirement to be “leaned”. Finally, I have not found any evaluation about the soft criteria (customer satisfaction, employees’ engagement, trust, active communication, and finally, the cultural fit between suppliers and customers) between customer companies (clients) and consulting companies (suppliers) when managing outsourcing projects, which are very important factors in signing the contracts.
In this chapter the methodological choices are described and the line of actions taken to accomplish this thesis. The last subchapter presents a discussion of the methodological problems of the thesis.

3.1 Research Strategy

This study uses Deductive Qualitative Analysis (DQA) as a research strategy. In contrary from theory-guided qualitative research, DQA is theory-tested qualitative research. It means that the theory is developed and tested. DQA starts with preliminary codes (developed from the initial theory) that both guide the research and that the researcher is except to test and to change in the course of doing the research (Gilgun, Jane F, 2013). In this paper, the initial developed theory (Chapter 2) is tested in reality with interviews in three companies (Chapter 4), and finally analyzed in Chapter 5.

The qualitative research interview methodology is conducted to address the main objective of this thesis, which is to give more clear recommendations of how to realize the lean operation strategy in a consulting company when managing outsourcing partnerships projects.

This research uses qualitative over quantitative research methodology since qualitative research is more likely to explore processes than outcomes (Vanderstoeep, S.W. and Johnston, D.D., 2009). Qualitative research methods are also favored over the quantitative research methods because quantitative is concerned with measurements and quantities and answer the “how” question, while qualitative is more answering the “why” question (Biggam, 2008). Qualitative researchers state that their primary interest is to achieve understanding of a particular situation, or subcultures, and so on, rather than to explain and predict future behaviors as in the so called hard sciences, with their theories, and hypotheses employed or rejected on the basis of their predictive value. Qualitative researcher states that the purpose of their work is not to produce generalizations but rather to understand the phenomenon (Bendassolli, P., 2013). The coding and data categorizing process in qualitative research are as follows:

1. The process of analyzing qualitative data begins with researchers establishing initial contact with the material in their set by means of a general reading, followed by careful reading (and thick description; Geertz, 1973) of each piece of information, for example, an interview, an image, extracts from documents (Bendassolli, P., 2013).

The research prolongs previous studies by integrating the advisory literature and the social network literature. The initial phase started by reviewing the existing literature and data to determine the relevancy of this research. The theoretical framework data was primary collected from:

- International journals
- White papers
- Internet
- Books, eBooks
- Conferences, Webinars

The collected data forms include various texts (documents from international journals, books, eBooks, open sources, as internet, and so on), pictures, and other materials (audio-visual, for example, YouTube, and other audio-visual sources available online).

2. As a result of the previous procedure, it is expected that certain themes and patterns will start to emerge from the data. The coding procedure develops as researchers identify themes and patterns
in their data (Bendassolli, P., 2013). In general, themes are related to central meanings that organize experiences. Qualitative researchers observe that themes can be identified in repeated ideas, sentences, concepts, words, and so on, in similarities among units that make up the analysis material (for example, among different interviewees, Bernard and Ryan, 2010). In this deductive quality research, the preliminary codes (developed from the initial theory) are tested with interviews, and are changed (or new codes are added) in the course of doing the research.

3. The coding procedure is complemented by categorization and conceptualization. At this point, the purpose of analysis is to reduce the material even further, at the same time raising its level of abstraction. Classifying themes or codes into categories allows researchers to organize them and develop conceptualizations about them, that is, to explain them. To achieve this, researcher can contextualize their findings, enclosing a wider picture in which findings make sense. Also, researcher can compare them to theories and other findings discussed in the relevant literature, and compare subgroups, observing whether explanations differ depending on the individuals involved; link and relate categories among themselves (Bendassolli, P., 2013).

To summarize, the DQA research methodology is used in this research to:

- help to identify relations between the different subjects of the research (lean, outsourced projects, and consulting companies)
- indicate how the researcher is looking at the phenomena of “lean consultants” in outsourced projects
- help to structure the problem, which is a ground for interviews questions
- better understand and interpret the answers of the respondents

3.2 Data Sampling

The sampling approach used in this thesis is a mixture of theory based sampling (known also as theoretical sampling) and random purposeful sampling (when conducting the interviews).

The samples are taken based on the judgment of the researcher, and depending on the reliability and relevancy of the samples.

Theoretical sampling gives a summary of the existing knowledge and former performed research on the subject. It also gives relations between the subject fields. By analyzing the theoretical framework (in Chapter 2), the relations between the consultancy business, project management, and lean operations are listed (Chapter 2.4). It also brings the conclusion that there is a gap in research papers that explain more clear relations.

The theoretical sampling is done by categorizing the following identified subjects for the research:

- Lean operation strategy
- Project management
- Consultancy business

The interviews, which are summarized in Chapter 4, will test the developed theory in Chapter 2, and further contribute to the research question.

The sampling technique to determine the interviewees is the random purposeful sampling, which means that the interviewees are selected based on predefined criteria. This sampling is preferred when the sampling is too large. The interview participants are selected by relevancy towards the area of this
Each interviewee was selected to complement different field of the research and had different background that generates a more generic picture.

The criteria used to determine participants in the interviews were as follows:

- **Long experience in management:**
  - more than 15 years of experience in management

- **Type of company the participant is working:**
  - the companies that deal with outsourced projects, either the big client company that hire consulting companies to run their outsourced projects, or the consulting companies that are suppliers to the client company
  - companies in the private manufacturing sectors dealing with software development
  - international companies

- **Experience in lean**
  - more than one year of experience in lean

The semi-structured interviews are conducted, which means that there is a predetermined structure for interviews with the room for creativity. The semi-structured approach is a mixture of open (unlimited set of response) and closed (limited set of response, which are mostly yes/no answers) questions. The reason for using the semi-structured interviews is to keep focus on the topic, and to still be able to make room for possible undiscovered information, which can contribute to the research. A mixture of open and closed interviews implies that some questions make room for creative answers that can contribute to the research whilst other questions aim for verification. All interview questions are prepared in advanced and are listed in Appendix D.

The interviews are carried out in face to face. The interviews are then summarized into the separate interview transcriptions, which are later approved by the interviewees and form the basis of the presented findings. It was also agreed that companies details collected in these interviews are to be anonymous. The summarized interview transcriptions are presented in Appendix B, C, and D. The duration of the interviews varied from one to two hours. For all interviews the same protocol has been followed. The focus of the interviews was primary to analyze the implemented operation strategies of the companies and to determine which means are to be used to realize the lean operations strategy in a consulting company when managing complex outsourcing partnerships. All interviews started with the introducing questions and the questions about the company structure and its business model. In the second part of the interviews, the lean processes were verified and clarified by the interviews. In the third part, the personnel engagement and the consultancy business are analyzed.

The interviews studies can be limited by the participation willingness and the information confidentiality. The limitation can also be the amount of available information. Also, there are limitations of in depth of analysis since the study is aiming for general outsourced partnerships in software development, which gives too many variables to address.

After the interviews were held, the relevant reports are analyzed, and the archival data are obtained.

### 3.3 Data Presentation Framework

The framework for data analysis in a qualitative analysis process as defined by Biggam (2008) is to collect data (mixture of theoretical sampling and random purposeful sampling), to describe the data, to group themes and issues, and to perform analysis, see Figure 7.
After the interviews are conducted, the data is presented in Chapter 4, analyzed, and compared with each other and with the existing knowledge and theory in Chapter 5. Finally, the conclusions and recommendations for a future work are presented in Chapter 6.

### 3.4 Research Critics

Reliability and validity are crucial factors in determining the value of a thesis. Reliability relates to the stability of the measure, that is, whether the same methodology could be applied in other researches and produces the same result (Ghauri & Grønhaug, 2010). Validity on the other hand, refers to whether the research captures what it is really intended to capture. Because of the nature of a qualitative study it is not possible to entirely repeat and get the same results.

Further, the research is exploratory, hence not yet fully understood. The way to obtain an understanding of the subject could have implications on the reliability and validity of the study, since it is not possible to cover all literature written about lean in relation to consultancy business and project management. However, the researcher claims that the chosen literature is credible and investigated to an extent enough to give the thesis validity in this aspect.

This research has also been limited to experience from three companies, mainly in software development. It would be of further interest to include experiences from other companies and industries and to generalize the results. The interviews studies can also be limited by the participation willingness and the information confidentiality.

In writing the thesis, the researcher has tried to remain objective for the reliability of the thesis. The researcher’ educational background and experience could be aspects leading the thesis in a direction that someone with a different education and experience would not have taken.
This chapter presents the compiled data during the conducted interviews.

4.1 Interviews

The dominating question that needs to be answered for this research is:

- How to realize the lean operation strategy in a consulting company when managing outsourcing partnerships projects?

The criteria used to determine participants in the interviews were as follows:

- For managers more than 10 years of management experience
- For consultants more than 5 years of consulting experience
- Type of companies the participant is working:
  - Companies that deal with outsourced projects
    - Companies (in this research referred as customers or clients) that outsource projects to consulting companies (suppliers)
    - Consulting companies (suppliers) that run outsourced projects to customer companies (clients)
  - Companies in the private manufacturing sectors dealing with software development
  - International companies
- More than one year of experience in lean

Four participants, from three companies, that gave their answers in the semi-structured interviews were as follows:

- Interviewee A: manager in a big client company (company 1) that hires consultants. This manager has also access to many complex outsourcing projects with other consulting companies (suppliers). This prevents drawing the conclusions that are only based on the best practices of one supplier. Also, his organization actively implements lean.
- Interviewee B: CEO in a small consulting company (company 2) that also hires consultants and manages the joint delivery projects.
- Interviewee C: project manager in a consulting company (company 3) that provides services to the client company in an outsourced project. This project manager has also worked on another outsourcing project with another customer company (client)
- Interviewee D: consultant in the consulting company (company 3) who works in the outsourced project

Questions are structured as follows:

For interviewees A and B (managers, who hire consultants and manage outsourcing projects or joint delivery projects):

- Introducing questions
- Structure and business model
- Lean processes
Personnel engagement
Consultancy business

For interviewees C and D (PM and consultant, who work in outsourced projects):

Introducing questions
Structure and business model
Lean processes
Personnel engagement

The interview questions are listed in Appendix D.

4.1.1 Interview with Company 1 (Summary)

Company 1 is a big international company dealing with the software development. Company 1 hires a lot of consultants and manages the complex outsourcing software partnerships.

The company actively invests in implementing the lean operation strategy at all company levels, but there is still room for improvements.

The company structure, the business model, and the operation strategy in Company 1 are presented below:

- A’s organization sets the processes based on the company strategy and the strategy is implemented in top-down fashion, so that each unit can develop own actions to contribute to the company strategy.
- The whole company constantly evaluates own processes and tries to improve them. The focus is on reducing the waste to minimum.
- The flow efficiency is prioritized!
- In order to avoid “building own islands”, there is an active re-allocation of resources.
- Most of people at company 1 are organized in Cross-Functional Teams (XFTs). These teams are empowered to make decisions at a lower level than is conventional, allowing them to handle the entire scope of a feature development from start to finish.
- The quality is measured at all level in the organization and lean is evaluated by using Value Stream Mapping. Also, the performances of consulting companies are regularly measured. Finally, the soft criteria are evaluated in Company 1.
- When managing the complex outsourcing software partnerships, the real value between the company 1 and consulting companies are determined in form of more flexible contracts.
- The personnel engagement in company 1 is really high.

According to A, in company 1, the improvements can be made in the following:

- Understanding the whole product architecture and development flow are the most important tasks in order to make the lean operations successful, thinks A.
- In company 1, project managers have little impact on decisions that managers takes, which are outside XFTs.
- Everything has to be documented in detailed, so the administration is the biggest source of waste.
- The end-users are not the primary stakeholders and there are many levels to the end-user.
The picture of the end-users’ needs is not easy to have in the daily work in company 1.

The value-adding for the end-user is not primary considered in the projects.

Although, A trusts consultants and consulting companies, A has no experience that a consulting company has added the additional value.

There is no good measurement that quantifies a value-add in company 1.

The consultants in the outsourced projects are more restricted due to security, and cannot see the company’s 1 “big picture”.

A’s organization does not hire consultants for lean implementation.

4.1.2 Interview with Consulting Company 2 (Summary)

Company 2 is a small international consulting company, dealing with software development. Company 2 hires consultants. Although, company 2 does not manage complex outsourcing partnerships, there are several joint delivery projects that company 2 manages.

The company structure, the business model, and the operation strategy in company 2 are presented as follows:

- B’s organization sets the processes based on the company strategy that are clearly defined. The company actively tries to eliminate all non-value added processes from the customer perspective. The value-adding is identified for the customers (client companies) by using the benefit realization assessment and the business components maps. Also, the measurable benefits to the clients, aligned with their own strategy, are delivered.
- Company 2 has active re-allocation of resources.
- Project managers can have impact on company’s decisions.
- The personnel engagement in company 2 is high.
- Quality within company 2 and performance of the under-consulting companies are regularly measured.
- B has experience that a consulting company adds additional value than specified in the contract.
- There is a trust to consultants and consulting companies.
- The consultants in the joint delivery projects are integrated to the company’s processes.

According to B, the following can be improved:

- B thinks that the main difficulties in the lean implementation are people alignment and knowledge.
- Company 2 does not evaluate the soft criteria.
- Company 2 does not hire consultants for lean implementation.

4.1.3 Interview with Consulting Company 3 (Summary)

Company 3 is a big consulting company, dealing with different industries. Company 3 hires under-consultants, and is involved in complex outsourcing partnerships.

The company has no lean operation strategy and it is not considered to have such model. The company structure and the business model in Company 3 are described below:

- The processes are not changing. There is no interest to make own processes more effective for outsourced projects.
• The end-users are not the primary stakeholders in the outsourced projects and it is not easy to have the picture of the end-users’ needs in daily work.
• The value-adding for the end-customer is not considered in the outsourced projects.
• The biggest source of waste at company 3 is a lot of controlling functions (lot of managers).
• There is no active re-allocation of resources, everyone is involved only in own job (“building own islands”) and no knowledge sharing
• The contracts between the company 3 and the client companies are not flexible.
• 100% resource utilization is prioritized!
• PM has no impact on company’s operations
• Low management knowledge and interest of implementing lean in company 3.
• Although, C and D have been working in the client organizations that have lean for some years, the outsourced projects that company 3 runs have no lean operations.
• The personnel engagement in company 3 is really low. There is a huge turnover in personnel. New employments are made ad-hock, and usually after signing the contracts.
5 DATA ANALYSIS

In the data analysis chapter, the results (presented in Chapter 4), which are obtained with the methods (described in Chapter 3) are analyzed and compared with the existing knowledge and theory (presented in Chapter 2).

5.1 Data Analysis of Interview with Company 1

By analyzing the structure, the business model, and the operational strategy of company 1, and comparing it with the existing knowledge and theory presented in Chapter 2, the following can be identified as recommendations for realizing the lean operation strategy when managing outsourcing partnerships projects:

- Company 1 constantly evaluates own processes and tries to improve them, including measurement of company’s quality, the performances of consulting companies, and there are soft criteria evaluations. According Aberdeen Group (2008), lean is focused on the continuous improvement of existing process. Also, in IEEE/CPMT (2010), lean is defined as “the relentless pursuit of adding value for the customer, waste elimination, and continues improvement.”

- The focus of company 1 is on reducing the waste to minimum. James P. Womack, Daniel T. Jones, and Daniel Roos (2007) say “The goal is reduction of waste.” Company 1 has identified administration as the biggest source of waste.

- According to Gregg Gordon (2011) companies that practice lean rely on their employees who know the process best to identify unproductive activities and replace them with productive ones. The personnel engagement in company 1 is really high. “The engagement of people on a lean journey is essential” (Peter Hines, Pauline Found, Gary Griffiths, Richard Harrison, 2008). Also, most of people at company 1 are organized in teams that are empowered to make decisions at a lower level, allowing them to handle the entire scope of a project from start to finish. Each unit can develop own actions to contribute to the company strategy.

- There is an active re-allocation of resources, and company 1 tries to avoid “building own islands”. Lean employees, according to Niklas Modig & Pär Åhlström (2012), see the whole company’s “big picture”, try to avoid island thinking, and focus on real customer needs and value-adding. Understanding the whole product architecture and development flow (seeing “big picture”) are the most important tasks in order to make the lean operations successful, thinks A at company 1. However, the consultants in the outsourced projects are more restricted due to security, and cannot see the company’s 1 “big picture”.

- The high flow efficiency over the resource utilization is prioritized at company 1. The objective of lean is to prioritize the high flow efficiency over the resource efficiency (Niklas Modig & Pär Åhlström, 2012).

- When managing the complex outsourcing software partnerships, the real value between the company 1 and consulting companies are determined in contracts. According to James P. Womack, Daniel T. Jones, and Daniel Roos (2007), a lean company must look what creates value and eliminate all other activities, and therefore the value has to be specified from the customer point of view in all the steps in the value stream.

- The measurement that quantifies a value-add for the end-customer has to be introduced, and more flexible contracts have to specify a value-add for the customer (client). According to Dr. Erik
Beulen and Prof. dr. Pieter Ribbers (2002), the contracts are key in managing complex outsourcing partnerships. “Contract flexibility in the type, the level, and the quantity of services is essential”.

- A at company 1 trusts consultants and consulting companies. “Based on trust the outsourcing contracts are signed” (Dr. Erik Beulen and Prof. dr. Pieter Ribbers, 2002).

### 5.2 Data Analysis of Interview with Consulting Company 2

By analyzing the structure, the business model, and the operational strategy of company 2, which has a lot of similarities with the lean operation strategy, and comparing it with the existing knowledge and theory presented in Chapter 2, the following can be identified as means for realizing the lean operation strategy:

- The company actively identifies the value-adding for its customers, and tries to eliminate all non-value-added processes from the customer perspective. In IEEE/CPMT (2010), lean is defined as “the relentless pursuit of adding value for the customer, waste elimination, and continues improvement”.
- The personnel engagement in company 2 is high. “The engagement of people on a lean journey is essential” (Peter Hines, Pauline Found, Gary Griffiths, Richard Harrison, 2008).
- Quality within company 2 and performance of the under-consulting companies are regularly measured.
- There is a trust to the consultants and the consulting companies. “Based on trust the outsourcing contracts are signed” (Dr. Erik Beulen and Prof. dr. Pieter Ribbers, 2002).
- The consultants in the joint delivery projects are integrated to the company’s processes. Lean employees, according to Niklas Modig & Pär Åhlström (2012), see the whole company’s “big picture” and focus on real customer needs.
- B thinks that the main difficulties in the lean implementation are people alignment and knowledge. The leadership management support and a continuous learning environment are important facilitators of lean implementation (Kjeld Harald Aij, Frederique Elisabeth Simons, Guy A M Widdershoven, Merel Visse, 2013).

### 5.3 Data Analysis of Interview with Consulting Company 3

By analyzing the structure, the business model, and the operational strategy of company 3, which has no similarities with the lean operation strategy, and comparing them with the existing knowledge and theory presented in Chapter 2, the following can be identified as recommendations for realizing the lean operation strategy:

- The processes in company 3 are not changing and there is no interest to improve them or to make processes more effective for outsourced projects. According Aberdeen Group (2008), “lean is not only focused on the continuous improvement of existing process but the lean tools are used to develop and optimize complex processes for new business contracts. Lean practices are also being deployed up and down the value chain to ensure that processes are optimized with critical supplier and customer input.”
- The end-users of company 3 are not the primary stakeholders in the outsourced projects and it is not easy to have the picture of the end-users’ needs in the daily work. Also, the value-adding for the end-customer is not considered in the outsourced projects of company 3. James P. Womack, Daniel T. Jones, and Daniel Roos (2007) state that it is essential to specify the value from the customer point of view.
The biggest source of waste at company 3 is a lot of controlling functions (lot of managers). According to Gregg Gordon (2011), the companies that practice lean rely on their employees.

There is no active re-allocation of resources, everyone is involved only in their own job (“building own islands”), and there is no knowledge sharing in company 3. Lean employees, according to Niklas Modig & Pär Åhlström (2012), see the whole company’s “big picture” and avoid island thinking.

The contracts between company 3 and the client companies are not flexible. According to Dr. Erik Beulen and Prof. Dr. Pieter Ribbers (2002), the flexible contracts are key in managing complex outsourcing partnerships.

The resource utilization over the high flow efficiency is prioritized at company 3. “The high flow efficiency over the resource efficiency has to be prioritized” (Niklas Modig & Pär Åhlström, 2012).

There is a low management knowledge and interest of implementing lean in company 3. According to Kevin L. Meyer (2007), one of top two causes of failure in lean implementation is lack of management support.

The personnel engagement in company 3 is really low. The engagement of people on a lean journey is essential” (Peter Hines, Pauline Found, Gary Griffiths, Richard Harrison, 2008).

Employees at company 3 have not so much experience or knowledge of lean. Aberdeen's research (2008) found that 93% of the “Best in Class” companies have used consultants with experience implementing lean. The continuous learning environment is important facilitator of lean implementation (Kjeld Harald Aij, Frederique Elisabeth Simons, Guy A M Widdershoven, Merel Visse, 2013).

5.4 Data Analysis Summary

What can we learn from the conducted interviews with professionals? In this chapter, the summary of recommendations for realizing the lean operation strategy when managing outsourcing partnerships projects is presented.

The dominating question that needs to be answered for this research was:

- How to realize the lean operation strategy in a consulting company when managing outsourcing partnerships projects?

The investigated interviews with professionals show that companies have different approach to lean. Also, the operation strategies of consulting companies are not lean when managing outsourcing projects. Although, there is trust to consulting companies, client company 1 and consulting company 3 shows that the consultants do not add value, and value-adding is not defined in contracts.

Consulting company 3 runs the operations traditionally and focuses on resources utilization, and therefore, the company have no chance to identify value-adding for the end-customers and to make effective processes in outsourced projects by identifying and eliminating waste. The personnel engagement of company 3 is low.

Consulting company 2 has measurements that identify value-adding, and company 2 adds value to its customers. Also, the consulting company 2 is perceived as partner, and its personnel engagement is high.

All interviews indicates that it is really important to shift the operations to operations that constantly evaluate own processes, and try to improve them. Switching the focus from resource utilization (as today in consulting company 3) to flow efficiency with the customer value-adding perspective, will also increase the personnel engagement (as in company 1 and consulting company 2). Also, the companies will consequently become more effective and more competitive.
Consulting company 3 shows that the main reasons of not implementing lean are lack of support from management and ignorance of the organization’s culture. Also, a lack of experience and insufficient training of lean methods can also be the reasons of such behavior.

Company 1 (a large organization) has more difficulties when the lean methodology needs to coexist with (and to some extent, within) the traditional methodology. Then, it is more difficult to get rid of huge documentation (administration), to see the whole development flow, and also, there are many levels to the end-customers.

In all three companies, the value-adding between the customer company and the consulting company needs to be defined, established, and constantly improved.

Finally, we can summarize the recommendations for realizing the lean operation strategy in a consulting company when managing outsourcing partnerships projects as follows:

- **Increase management commitment, support, and trust:**
  Management needs to give up a bit of the “command and control” mind-set and allow for “self-management”, “failure tolerance”, and for measuring progress in different ways.

- **Improve the existing processes continuously:**
  Measure and evaluate own processes and try to improve them regularly. The focus is on reducing the waste of all non-value added processes from the customer perspective to minimum. The value has to be specified from the customer point of view in all the steps in the value stream and eliminate all other activities. Lean practices are to be deployed up and down the value chain to ensure that processes are optimized with critical supplier and customer input.

- **Prioritize the high flow efficiency over the resource efficiency**

- **Have flexible contracts that quantify value-add for end-customer (client company):**
  When creating the estimates, preparing the bid responses, and signing the contracts, the companies need to shift to a different metrics for features and functionality measurement to be completed in a demonstration rather than, for example in complex outsourcing software partnerships, a code-complete QA benchmark.

- **Build long-term partnership and trust with the client company. Based on trust the outsourcing contracts are signed.**

- **The consulting company has to be integrated in the client company’s processes, so that the consultants can see “big picture” of the client company, and can identify and focus on real customer needs and value-adding. It also includes having an effective communications between the client and the supplier in daily work.**

- **Avoid island thinking and have an active re-allocation of resources**

- **Have a high personnel engagement and continuous learning environment in the company**

- **Increase the knowledge and experience in lean of employees**

- **Perform the quality measurement at all levels, including the soft criteria measurement (customer satisfaction, employees’ engagement, trust, and active communication), and finally, secure the proper cultural fit with customers.**
6 DISCUSSION AND CONCLUSIONS

A discussion of the results and the conclusions that the researcher has drawn during the thesis are presented in this chapter. The conclusions are based from the analysis with the intention to answer the formulation of question that is presented in Chapter 1. Finally, the researcher’s recommendations for future studies are presented.

6.1 Discussion

It is not an easy job to manage complex outsourcing partnerships successfully. To bring in the best people to the outsourcing projects is not sufficient. Both, the client company (customer) and the consulting company (supplier) need to do their outermost to turn their partnership into a continuous success.

The theoretical framework points out that the lean operation strategy can help a consulting company to be more efficient, developing value-add to its customers continuously, which will lead being more competitive on the market. Lean companies aim for operational excellence. Fabok (2013) identifies that the increased flow efficiency means decreasing the waiting time. That would lead to decreasing the operating costs, better ROI for companies, and finally, would lead delivering the successful projects and to remain competitive.

So, if the business goal of consulting companies is to sell a value to customer, and the lean’s goal is to identify and deliver a perfect value to the customers of a company, the lean operation strategy would help a consulting company to refine own processes that constantly identify and deliver the value-add to its customers.

The study seeks to give the recommendations on the following question:

• How to realize the lean operation strategy in a consulting company when managing outsourcing partnerships projects?

In the analysis of the interviews with professionals, it is identified the following recommendations for how to realize the lean operation strategy in a consulting company when managing outsourcing partnerships projects:

• Increase management commitment, support, and trust
• Improve the existing processes continuously
• Prioritize the high flow efficiency over the resource efficiency
• Have flexible contracts that quantify value-add for end-customer (client company)
• Build long-term partnership and trust with the client company
• The consulting company has to be integrated in the client company’s processes, so that the consultants can see “big picture” of the client company, and can identify and focus on the real customer needs and value-adding. It also includes having an effective communications between the client and the supplier in daily work.
• Avoid island thinking and have an active re-allocation of resources
• Have a high personnel engagement and continuous learning environment in the company
• Increase the knowledge and experience in lean of employees
• Perform the quality measurement at all levels, including the soft criteria measurement (customer satisfaction, employees’ engagement, trust, and active communication), and finally, secure the proper cultural fit with customers.

The next step would be to refine these recommendations into variables and hypotheses. Then these recommendations would need to be empirically tested outside the investigated industries and with other companies than those three. This would further generalize the results presented in this thesis.

6.2 Conclusions

When managing the outsourcing partnerships, the lean operation strategy helps the consulting companies to define and increase the value-adding for its customers continuously. It also helps the consulting company to be more effective by constantly eliminating the waste, decreasing the operating costs, and thereby increasing ROI. All that leads to increase the competitiveness of a consulting company. Also, lean gives a company possibility to achieve the “Best in Class” performance.

In contrary, the traditionally managed projects and partnerships have no chance to identify the value-add for the customers and to eliminate waste, which makes a consulting company ineffective. Consequently, the long-term relations and trust between the customer (client) and the consulting company (supplier) can be jeopardized.

To successfully implement the lean operation strategy in consulting companies, it is required a huge management commitment, support, a lot of trust, and the transformation of an organization’s culture.

Also, the processes and quality within company has to be evaluated and improved constantly, prioritizing the high flow efficiency over the resource efficiency, and eliminates all non-value added processes from the customer perspective to minimum.

It is important to have flexible contracts that quantify value-add for the customers (clients).

Further, the personnel engagement is essential. The elements of engagements are due to effective strategy, alignment, and leadership, and partly due to sufficient training of lean methods, experience, and effective communication that reduces island thinking and integrate consultants in the client companies’ processes, so they can focus on the real customer needs and value-adding.

6.3 Future Study

In this chapter, the recommendations on future work in this field are presented.

The following would further generalize the results presented in this thesis:

• This research has been limited to experience from three companies mainly in software development. It would be of further interest to include experiences from other companies and industries.

• The qualitative research interview methodology is used in this research. Further investigation would be the practical application of this research. For example, to implement the lean operation strategy in consulting companies that run the outsourcing projects, and to measure if ROI or the customer satisfaction has improved.

• To refine the obtained recommendations (in Chapter 5.4) into variables and hypotheses. Then, to empirically test those recommendations outside the investigated industries and with other companies than those three.


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Agile Project Value: http://www.agileprojectvalue.com/

Business Dictionary: http://www.businessdictionary.com/definition/collaboration.html#ixzz2SF6l7qVn

Lean Enterprise Institute: 
http://www.lean.org/WhatsLean/

Wikipedia, the free encyclopedia: 
http://en.wikipedia.org/wiki/Main_Page
APPENDIX A: INTERVIEW TRANSCRIPTION WITH PERSON A AT COMPANY 1 (SUMMARY)

A has 18 years of work experience and currently is heading the development unit at company 1.

STRUCTURE AND BUSINESS MODEL

Company 1 has more than 100 000 employees, and is software manufacturer. A’s unit is ca 550 employees. The development is performed by Cross-Functional Teams (XFTs). Most of people in the organization are developers, and organized in those teams. Also, there are clear roles in the organization, but still room for improvement.

The operation strategy in the company is developed at different levels of company organization which creates appropriate operational descriptions. The strategy is implemented in top-down fashion, so that each unit can develop own actions to contribute to company strategy. Of course, there is always room for improvements and changing activities or processes.

Project managers have a very little influence on decisions, for example, choosing the suppliers, choosing the people in a project team, choosing the process methods and tools, and so on.

The contracts between the company and consulting companies in outsourcing partnerships are more flexible. If the consulting company is part of the complex outsourcing software partnership, then the contracts are mostly flexible. It allows creating constantly the new estimates, for example to add new features, or preferably, to identify waste by decreasing the features that are not needed. For smaller jobs, the contracts are more traditional, for example, with the fixed prices.

The quality is measured at all level of the organization.

LEAN PROCESSES

A has experience in lean and defines the lean operation strategy as strategy for reducing waste to minimum. The company 1 actively uses lean. It is also perceived that the company 1 has implemented lean as own operation strategy. Although, the interest in lean is increasing, the lean will not be next big thing, thinks A.

The end-users are not the primary stakeholders of A’s organization. Other internal organizations are considered as primary stakeholders. The picture of the end-users’ needs is not so easy to have in the daily work.

The main difficulties in the lean implementation are that there are many levels to the end-customer. It is not easy to see the complete end-2-end picture.

In order to make the lean operations successful, the most important is to understand the product architecture and development flow.

The biggest source of waste that company 1 is trying to eliminate when implementing lean is administration. Everything has to be documented in detailed.

Also, according to A, lean can contribute to the success of company 1 by making the operations more efficient (do things right) and effective (do right things).

A’s organization sets the processes based on the company strategy, and the flow efficiency is prioritize but resource efficiency is important as well. In order to avoid “building own islands”, there is an active re-allocation of resources, but flexibility of the resources can be improved.

The value-adding for the customer is not primary considered in the projects. It is mostly traditional, to be on time, within budget, and according to the pre-defined contracts (quality on time). There is no good
measurement that quantify a value-add. The same is valid when writing contracts with outsourced projects.

From A’s experience, it is the primary goal to deliver a value at a technical level.

The lean is evaluated by using Value Stream Mapping.

**PERSONNEL ENGAGEMENT**

The employees in the company I enjoy their job and are clear about what is expected from them to high degree. The job gives them the strong sense of achievement. Also, they are keen to do improvements, and mostly, it is clear for them what they need to improve. Also, the working environment is mostly pleasant, and they enjoy working with their colleagues.

**CONSULTANCY BUSINESS**

Company hires consultants in different forms, mostly as knowledge consultants or as resource consultants. Also, the complex outsourcing software partnerships are managed.

Performances of consulting companies are regularly measured. However, A has no experience that a consulting company has added an additional value than specified in the contracts.

A trusts consultants and consulting companies. Also, the consulting companies are perceived as the company’s partners.

Knowledge consultants see the company’s “big picture” and are integrated in the company’s operations and processes as the ordinary employees. But, the consultants in the outsourced projects are more restricted. The consulting companies that run such projects are integrated in company 1’s processes, but of course, they run own processes.

A’s organization does not hire consultants for the lean implementation, so called “lean consultants”.

Finally, the soft criteria is evaluated in company 1, which are satisfaction, involvement, trust, active communication, and finally, the cultural fit between suppliers and customers.
APPENDIX B: INTERVIEW TRANSCRIPTION WITH PERSON B AT CONSULTING COMPANY 2 (SUMMARY)

B has 18 years of work experience and currently is CEO at company 2. He had also been working for two big international companies from sales to leading the core consulting team.

STRUCTURE AND BUSINESS MODEL
Company 2 has 12 employees, and deals with software development. The tasks are divided in two teams: the development team and the sales team. Roles in the teams are clear, however sometimes are duplicated.

B is developing the operation strategy of company 2. The strategy is implemented over the strategic document, so called the company charter. It includes a clear set of responsibilities, processes, and roles. Of course, there is always room for improvements.

PM can have impact in B’s organization since PM is responsible for developing proposals with sales, quality of the delivery process, sourcing options, and so on.

When creating the estimates, preparing the bid responses, and signing the contracts, company 2 is using concept of Centers of Excellence, where the center is responsible to secure the highest quality in all processes, especially sales and delivery.

Quality within company 2 is measured using ISO and GMP, where GMP (Gamp5) is strictly adhered, as for demand from pharmaceutical industry.

LEAN PROCESSES
Company 2 does not hire consultants with experience of implementing lean.

B has experience in lean and defines lean as operation strategy that understands customer value and focuses its key processes to continuously increase it. The ultimate goal is to provide a perfect value to the customer through a perfect value creation process that has zero waste. B sees an increase of interest in lean to some extent, but he does not think that lean is the next big thing.

The end-users are not the primary stakeholders in the projects. But, it is easy to have the picture of the end-users’ needs in the daily work.

The main difficulties in the lean implementation are people alignment and knowledge.

B’s organization sets the processes based on the company strategy, which is to eliminate all non-value added processes from the customer perspective.

Company 2 has active re-allocation of resources.

The value-adding is identified for the customers by using the benefit realization assessment and the business components maps. By using the benefit realization concept, measurable benefits to the clients aligned with their own strategy are delivered.

From B’s experience, the primary goal to deliver a value is at business level.

PERSONNEL ENGAGEMENT
Company 2’s employees are clear about what is expected from them, but do they enjoyed is not measured, so far. According to B, their job gives them a strong sense of achievement.

Although they are keen to do improvements, they are not clear what they need to improve.
Company’s employees somewhat enjoy working with their colleagues. But, the working environment is pleasant.

**CONSULTANCY BUSINESS**

The company hires consultants, but it does not manage complex outsourcing partnerships. Performance of the consulting company is regularly measured.

B has experience that a consulting company adds additional value than specified in the contract. He trusts consultants and consulting companies, which results that he sees the consulting company as own company’s partners.

The consultants cannot see the “big picture” of company 2 and they are not integrated in the company’s operations and processes as the ordinary employees. But, in the case of joint delivery projects, the consulting companies have to be integrated in the company’s processes, as defined in GAMP5 requirement that they have to adhere to company 2 processes.

In company 2, the soft criteria is not evaluated (satisfaction, involvement, trust, active communication, and finally, the cultural fit between suppliers and customers).
C has 20 years of work experience in different fields and currently is project manager of one outsourced project at consulting company 3. Previously, C worked as engineer and had some management roles in different organizations. Educational background is M.Sc.E.E.

D works for about 8 years as consultant at company 3. D has been hired to different companies in different forms, as a knowledge consultant, a resource consultant, and finally, has been working in two outsourced projects.

STRUCTURE AND BUSINESS MODEL

Company 3 has more than 1000 employees, and the main tasks performed at consulting company 3 are in System solutions, Security, Mechanics, and Technical Information. Those tasks in company 3 are divided among the separate teams, and there is no re-allocation from one team to another. Also, there are clear roles.

Each area manger together with team managers are in charge of developing the operation strategy in company 3.

The processes are not changing, and there is a huge turnover in personnel. The employments of new resources are made ad-hock, when there is a need, and usually after the contracts are signed.

Unfortunately, PM has no impact on company’s operations, for example, when choosing the customers, choosing the people in a project team, choosing the process methods and tools, and so on.

The contracts between the company 3 and the client companies are more traditional and not flexible, for example, with the fixed prices.

There is some quality measurement in company 3.

LEAN PROCESSES

C defines the lean operation strategy as strategy that makes processes that constantly eliminate waste.

D says that lean organization is an organization that constantly adds value to customers.

C and D think that there is no interest of implementing lean in company 3. Also, it looks that managers in company 3 have no so much knowledge about lean. Managers at company 3 say: “If the customer has no lean, why shell we have lean?” Those are the main difficulties for the lean implementation: low management interest and knowledge.

Company 3 has no the lean operation strategy and it is not considered. To sell the lean consultants as knowledge consultants, yes, but, there is no interests in making own lean operations.

Although, C and D have been working in the client organizations that have lean for some years, the outsourced projects their company runs have no lean operations.

The end-users are not the primary stakeholders in the outsourced projects and it is not easy to have the picture of the end-users’ needs in the daily work.

The biggest sources of waste at company 3 is that there is a lot of controlling functions, no standardized processes, no active resource re-allocation, everyone is involved only in own job (“building own islands”); there is no knowledge sharing; no clear picture of what others do.

Lean can contribute to reduce the waste, to define and add value to the customer, to standardize processes, and consequently, to be more effective, and therefore more competitive.
C thinks that education and experience with lean methods are the most important in order to make the lean operations successful. Also, an active management support and involvement are very important. The processes at company 3 are adapted to the customer processes. There is no interest to improve them, or to make own processes that are more effective for outsourced projects.

100% resource utilization is prioritized.

Company 2 does not consider delivering the value-adding for the customer in the outsourced projects. The projects are run traditionally, to be on time, within budget, and according to the pre-defined contract. C thinks that it should be company’s primary goal to deliver the value to the customer at a business level. Today, the value-adding is not considered when writing contracts in outsourced projects.

**PERSONNEL ENGAGEMENT**

According to C and D ca 50% of employees enjoy their job and are clear about what is expected from them in company 3. Also, their job does not give them a strong sense of achievement.

C and D think that it is very difficult to do improvements in company 3. Therefore, they are not keen to do improvements.

Since they are working in the outsourced projects, they are sitting a far from the customer, and they do not have so much contact with the customers. Consequently, the difficulties in communication arise.

They mostly enjoy working with their colleagues.

Unfortunately, the working environment is not so pleasant for C and D.
APPENDIX D: INTERVIEW QUESTIONS

In this appendix, the interview questions are listed.

INTRODUCING QUESTIONS
1. Tell me about your professional and educational background.
2. What is your role within the company?

STRUCTURE AND BUSINESS MODEL
3. How big is the company you work for?
4. Which are the main tasks performed at your company?
5. How are those tasks divided among the employees?
6. In your organization, are there the clear roles, or is everyone involved “everywhere”?
7. Who is in charge of developing the operation strategy in your company?
8. How is the strategy implemented?
9. From your experience, is there room for changing activities/processes?
10. (PM) In what areas the PM can have impact in your organization? (Can PM have impact on, for example, choosing the suppliers, choosing the people in a project team, choosing the process methods and tools, and so on)?
11. (SALES) When creating the estimates, preparing the bid responses, and signing the contracts, do you have traditional, for example, as in complex outsourcing software partnerships a code-complete QA benchmark, or, your company has shifted to a different metric for features and functionality measurement (more flexible contracts)?
12. Do you measure quality within your company?

LEAN PROCESSES
13. How would you define the lean operation strategy?
14. What is your organization (or project) relation towards lean operation strategy?
15. Does your company have the lean operation strategy?
16. Is the lean operation strategy considered at your company?
17. Do you have experience in lean?
18. Do you see an increase of interest in lean?
19. Do you think that lean is the next big thing?
20. Are the end-users the primary stakeholders in the projects/tasks or are the other stakeholders considered?
21. Is it easy to have the picture of the end-users’ needs in the daily work?
22. What are the main difficulties in the lean implementation?
23. Which are the biggest sources of waste that your company is trying to eliminate when implementing lean?
24. In what ways does/can lean contribute to the success of your company?
25. Which tasks do you think are the most important in order to make the lean operations successful?
26. Does your organization set the processes based on the company strategy or your organization adapt the processes to the customer processes?
27. Does your organization prioritize the high flow efficiency or the resource efficiency (e.g. 100% resource utilization)?
28. Does your organization have an active re-allocating resources, or is it more like “building own islands” in the organization?
29. Do you consider delivering the value-adding to the customer in projects? Is it, as traditionally, to be on time, within budget, and according to the pre-defined contract, or, are there other value-adding to the customer?
30. How do you identify the value-adding to the customers?
31. From your experience, is the primary goal to deliver a value at an economical, at a technical, or at a business level?
32. Is it the value-adding considered when writing contracts or Bid of Quantity (BOQ) with outsourced projects?
33. How is the lean evaluated?

PERSONNEL ENGAGEMENT

(If you are manager, interview questions relate to employees’ engagement in your organization)

34. Do you (or your employees) enjoy the job and are clear about what is expected from you (them)?
35. Does your (their) job give you (them) a strong sense of achievement?
36. Are you (your employees) clear what you (they) need to improve?
37. Are you (your employees) keen to do improvements?
38. Do you (your employees) enjoy working with your (their) colleagues?
39. Is your (yours employees) working environment pleasant?

CONSULTANCY BUSINESS

(Interview questions for companies that hire consultants)

40. Does your company hire consultants/ under-consultants?
41. Does your company manage complex outsourcing partnerships?
42. Do you measure performance of consulting company?
43. Do you have experience that a consulting company adds additional value than specified in the contract?
44. Do you trust consultants?
45. Do you trust a consulting company?

46. Do you see the consulting company as your partner?

47. Can consultants see a “big picture” of your company? Are the consultants integrated in your company operations/processes as the ordinary employees?

48. If some part of your organization is outsourced to a consulting company, is that company integrated in your company operations/processes (seeing “big picture”), and/or they run own processes?

49. Does your organization hire consultants to implement lean?

50. Are the soft criteria evaluated in your company (satisfaction, involvement, trust, active communication, and finally, the cultural fit between suppliers and customers)?