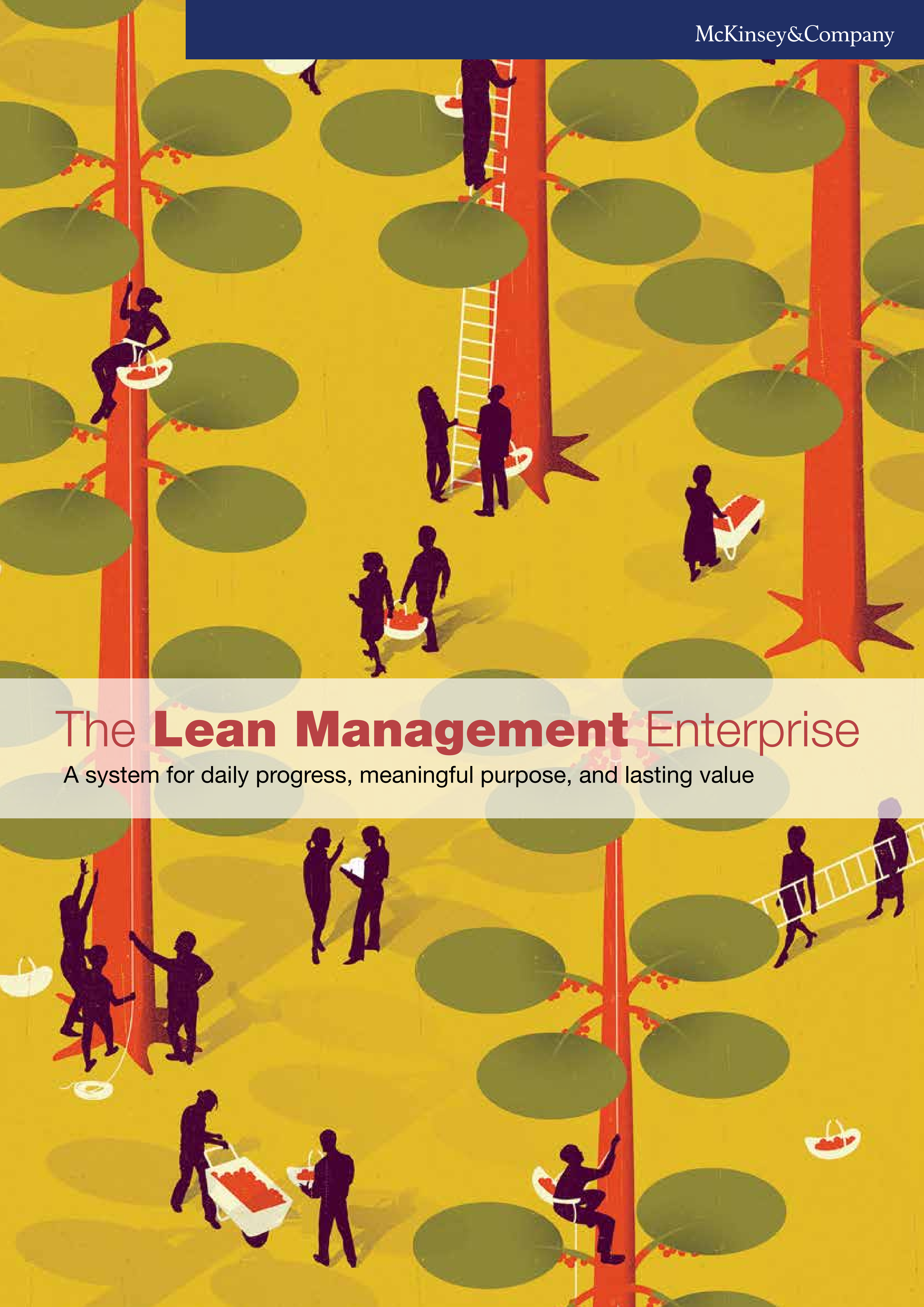
McKinsey&Company



The **Lean Management** Enterprise

A system for daily progress, meaningful purpose, and lasting value

Editorial Board
David Jacquemont (chair), Andy Eichfeld, Erin Ghelber, Alison Jenkins, Christian Johnson, Elixabete Larrea Tamayo, Thierry Nautin, Marc Niederkorn, Jasper van Ouwerkerk

Editor
Christian Johnson

Contributing Editors
George Whitmore and Jill Willder

Managing Editors
Michael T. Borruso and Venetia Simcock

Art Direction and Design
Cary Shoda

Illustrations by Neil Webb

Editorial Production
Hil Albuquerque, Runa Arora, Elizabeth Brown, Heather Byer, Torea Frey, Shahnaz Islam, Ashwati Michael, John C. Sanchez, Sneha Vats

Distribution
Debra Petritsch

McKinsey Practice Publications

Editor-in-Chief
Lucia Rahilly

Executive Editors
Allan Gold, Bill Javetski, Mark Staples

An electronic version of this compendium is available at mckinsey.com/leanmanagement

© Copyright 2014 McKinsey & Company. All rights reserved.
No part of this publication may be copied or redistributed in any form without the prior written consent of McKinsey & Company.

The **Lean Management** Enterprise

A system for daily progress, meaningful purpose, and lasting value

Preface

Building on more than a decade of experience in serving organizations that have dramatically transformed themselves, *The Lean Management Enterprise: A system for daily progress, meaningful purpose, and lasting value* considers how organizations will fare now that more of their competitors may be starting to hear about—and use—the management principles once known as "lean manufacturing." This collection of articles and interviews constitutes the third in a series that began in 2008 with *Banking on Lean*. That compendium articulated how lean ideas could be adapted to challenging financial-services environments where, for example, the work is difficult to monitor, employees are uniquely skilled, and products are highly tailored. The hope was that by showing lean's potential for service-sector organizations, we could inspire executives to embark on a lean journey.

A second compendium, *Lean Management: New frontiers for financial institutions*, followed in 2011 and reflected the many advances organizations had made over the intervening three years. Most important, leaders were recognizing how much more a transformation could achieve when it unleashed the potential of each individual, reinforcing management skills and unlocking employees' problem-solving capabilities. To underscore this point, we began using the term "lean management." And we explained that success rests on building from a small, isolated success story until it reaches the entire enterprise, including functions that once seemed too difficult to transform, such as IT, product development, finance, marketing and sales, and communications.

Since then, it has become increasingly clear that the most successful services organizations—whether in finance, telecommunications, or the public sector—are those that deeply commit to the disciplines of lean management. They are the ones with the flexibility to respond to changing market demands and deliver what customers value as efficiently as possible. They are the ones whose employees are contributing to their fullest potential. They are the ones where everyone from the front line to the CEO knows how to see problems, solve them, and push the organization to improve. And they are the ones with the greatest sense of purpose, so that their people understand where the top team wants to take the company and how they can help get there. Together, these elements must manifest in organizational systems, with people and processes all working together for the same purpose, from the CEO to the front line.

In this compendium, we have included ten interviews with executives representing banking, business services, insurance, telecommunications,

What do we mean by 'lean'?

A common misperception about lean is that it focuses mainly on process redesign. In fact, although the ideas underpinning lean ultimately originated in manufacturing, they encompass far more. Fundamentally, lean seeks to refine a company's basic systems to meet changing customer needs more effectively.

The four disciplines of lean management, described in more detail in "The organization that renews itself: Lasting value from lean management" (page 8), are supported by a set of tools and techniques that shape day-to-day work for managers and frontline employees throughout the organization. The organization learns how to adapt and implement the tools through a transformation that aligns performance targets for transparent results, redesigns processes to be more efficient from end to end, builds organizational structures that encourage cooperation and capability building, and wins the support of employees and managers.

and public-sector institutions, in addition to seven articles on topics that will help organizations arrive at a new level of performance that comes from embedding lean principles and practices throughout their enterprises. If you are relatively new to the concepts of lean management, we suggest you start with the introduction on page 8 followed by the chapter introductions on pages 16, 66, 104, and 130. These will give a full overview of how to think about lean management, so that you can get the most out of the articles and interviews.

If you are a CEO or member of the C-suite, we hope you will pay special attention to the final section, "Connecting strategy, goals, and meaningful purpose," and to the interviews with your peers, which appear in every section. For example, Marv Adams, COO of TD Ameritrade, shares insights from his three decades of applying lean-management principles to help rid large organizations of "valueless complexity." Yves Poullet, CEO of Euroclear Bank, describes how lean management has helped him achieve his strategic objectives. And Martin Lippert, former COO of TDC, a Danish telecommunications company, notes that he started with lean management with little inkling of the tremendous impact it would have on customers and employees.

To bring lean management to life, we have started each section with the story of Mary, a typical midlevel manager in a fictional company. We will use her story to illustrate how different it feels to work in a company that has embedded the lean-management system.

We hope you will enjoy reading this latest compendium. If you have comments or questions for the authors, or if you would like an opportunity to visit a company that has implemented the lean-management system, please note the list of contacts at the back. ○

David Jacquemont
Principal
On behalf of McKinsey's
global leadership team for
lean management

Mary's story: The context

In late October 2012, an unprecedented storm struck the East Coast of the United States, paralyzing transport networks and bringing normal city life to an abrupt halt. The New York Stock Exchange had its first unplanned closure since 1888. Many employees were unable to get to work, and companies struggled to keep their businesses running with a skeleton staff.

A crisis like this represents a test for an organization. How do you cope with customer demand when half your employees can't leave their homes and the other half are battling against widespread disruption and damage? People at one company talked about their experiences:

> *"Everyone was trying to help everyone else. We were all working toward the same goal."*
>
> *"I felt a sense of belonging."*
>
> *"Our vice president came and sat down with us to take customer calls."*
>
> *"The walls in the organization disappeared."*
>
> *"We trusted each other to do our best."*

Similar stories arise in almost every organization during natural disasters or other events (epidemics, data-center failures, public-transit strikes) that substantially disrupt customers or the workplace. Adversity, it seems, encourages people to do their best work and band together in pursuit of a common cause. What could companies accomplish if only they could find a way to replicate this effect (without the stress) under normal circumstances?

Organizations that follow lean-management principles and practices are able to create similar conditions in their ordinary day-to-day business. They operate seamlessly across functions and departments while building a culture of mutual respect, collaboration, and shared purpose. They are adept at renewing themselves, continuously improving their operations, and getting people to bring their best to work. In fact, lean management could be described as a mechanism for codifying the good practices that arise under pressure.

Codifying lean management results in the creation of a rich and integrated set of tools and practices that help guide how people work on a day-to-day basis. Accordingly, each of the four sections of this compendium will open with an example of how Mary, the head of claims processing for an insurer, follows the disciplines of lean management in the course of meeting daily challenges.

8
The organization that renews itself
Lasting value from lean management

16
Delivering value efficiently to the customer

22
One company in the eyes of the client
An interview with Marv Adams, COO of TD Ameritrade

32
The untapped potential from delivering for customers

41
Making customers more valued—and valuable
An interview with Peg Marty, EVP and head of contact centers of RBS Citizens Financial Group

48
Forging an identity at India's Axis Bank
An interview with Jairam Sridharan, president of consumer lending

55
The truth about customer experience

66
Enabling people to lead and contribute to their fullest potential

72
Cultural change at Direct Line Group
An interview with Bryan Robertson, former director of lean transformation

79
Guiding the people transformation
The role of HR in lean management

89
Lean management from the ground up in the Middle East
An interview with Suhail Bin Tarraf, CEO of Tanfeeth

96
Lessons from emerging markets

104
Discovering better ways of working

110
Building a problem-solving culture that lasts

117
Many small ideas add up to big impact
An interview with Carlos Zuleta Londoño, COO of Porvenir

123
Performance from problem solving
An interview with three leaders at MassMutual

130
Connecting strategy, goals, and meaningful purpose

136
The aligned organization

143
A shorter path to an asylum decision
An interview with Marcus Toremar, lean manager for the Swedish Migration Board

149
The strategic enabler at Euroclear Bank
An interview with Yves Poullet, CEO

154
‘Discovering America by looking for India’
An interview with Martin Lippert, former COO of TDC

The organization that renews itself

Lasting value from lean management

David Jacquemont

Executives at a financial institution wondered how to fight complacency as they watched competitors start to catch up to their most important product—one whose success the institution never quite matched.

A logistics company faced diminishing returns from years of cost cutting. Managing vendors now consumed many of the gains from outsourcing. Fixing talent and quality issues meant that “low cost” locations were no longer so low cost. And just keeping pace with the latest IT developments meant constant budgetary struggles. How could it get more out of the cost-cutting investments it had already made?

For an asset manager, the focus was on customer disappointment with how long it took to open and fund an account. Every day of delay meant lost revenue both for the company and, more important, for the customer. But regulatory constraints meant that speeding the process up seemed fraught with risk.

A government agency seemed to be in an enviable position, with demand higher than ever. But its budget was flat and it recently had to impose a hiring freeze. It needed to manage the influx while maintaining quality standards, without causing highly trained employees to burn out.

How often do you hear of these types of issues in your organization? How often do you confront them yourself?

Of course, questions that challenge how well large, modern organizations work are almost as old as management itself. But if it seems that questions are coming up more often, or more forcefully, there are good reasons.

The first is a rising sense of urgency, with large organizations recognizing that the pressures they face are unlikely to abate much in the short term, regardless of location or sector. In mature markets, slower growth, lingering debt burdens, and aging workforces are the chief concerns; in fast-growing countries, rapid expansion and urbanization are outpacing the ability of local infrastructure and talent pools to keep up. Everywhere, mismatches between worker skills and available jobs are growing, even as unemployment reaches new highs, especially among the young[1]—while those managers and workers who do find employment report high stress and low engagement. To respond to these forces, organizations need new capacity and energy, but instead they find both are in short supply, having been absorbed by internal complexity.

---

[1] For more information, see Richard Dobbs et al., *The World at Work: Jobs, Pay, and Skills for 3.5 Billion People*, McKinsey Global Institute, June 2012 (mckinsey.com), and the sidebar “Filling the great labor gap.”

Filling the great labor gap

In 2011, the McKinsey Global Institute estimated that for the United States to match the GDP growth and rising living standards to which it has long been accustomed, the country’s labor productivity would have to rise by 34 percent, to a rate not seen since the 1960s.[1] A year later, a separate report suggested that rapidly aging advanced economies such as Germany and Japan face an even more daunting challenge: they will need to increase the pace of their productivity gains by about 60 percent in order to attain historical GDP growth.[2]

Those gains will be especially difficult to attain given pervasive mismatches between available work and employee skills, gaps that are already large and threaten to expand further. Across advanced economies, newly created jobs are much more likely to involve complex interactions that require employee flexibility and responsiveness; the routine, execution-oriented work that historically has provided employment for tens of millions of less educated workers will fade. By 2020, advanced economies may face a surplus of 32 million to 35 million workers with only a secondary education and a shortfall of 16 million to 18 million of their college-educated peers.

Organizations must therefore learn how to increase their productivity despite a scarcity of highly skilled workers—the sort of constraint that lean management helps resolve. One organization, Export Development Canada (EDC), illustrates the possibilities. In 2008 and 2009, demand for EDC’s financing services surged by about 25 percent over three quarters. By better coordinating the work of its many highly trained specialists, EDC was able to find the needed flexibility to absorb the additional demand without increasing its financial risk.

---

[1] James Manyika et al., *Growth and Renewal in the United States: Retooling America’s Economic Engine*, McKinsey Global Institute, February 2011 (mckinsey.com).

[2] Richard Dobbs et al., *The World at Work: Jobs, Pay, and Skills for 3.5 Billion People*, McKinsey Global Institute, June 2012 (mckinsey.com).

What is it that makes these exceptional organizations so exceptional—and keeps them that way?

Thus, while the specific issues may differ, the broader themes are the same. Large organizations realize they must reimagine how they work so that their scale once again becomes an asset rather than a liability. And they must do so from within, because external conditions—the rising economic tides that formerly lifted so many boats, regardless of how well or badly they rowed—are not likely to make a lasting return any time soon.

The second reason for questions is, if anything, even more important. Leaders know that some organizations are transforming themselves, finding new value while becoming more resilient, effective, and efficient in ways that keep reinforcing themselves over time. These organizations, both in heavy industry and in service sectors as diverse as banking, telecommunications, and government, attain a state that is as valuable as it is rare: continuous improvement. Their performance increases both in the immediate term and over the long run, as the techniques people learn form a new culture centered on finding ways to do things better.

However, leaders also know that imitating an admired organization's best practices is hardly a reliable way to imitate its success. It takes more than a borrowed checklist. What is it that makes these exceptional organizations so exceptional—and keeps them that way?

Lean management's four disciplines

In working with large organizations, we have found that those that renew themselves all seek to execute four essential management disciplines exceptionally well. Every organization already follows these disciplines in one form or another. Accordingly, they are not a formula; they do not represent the whole universe of "good management." But when leaders design systems that enforce these disciplines effectively—and when they ensure they're followed every day, at every level of the organization—the disciplines reinforce one another to create what lean has long envisioned: an adaptive organization that consistently generates the most value possible for all stakeholders from all of the resources it can bring to bear.

Even more important, the disciplines correlate to tangible skills and ways of working that people and organizations can learn—which, over time, constitute culture—how people behave and think. The more the organization learns regarding each of the four disciplines, the more it can achieve and the faster it gets at learning and improving itself.

- Delivering value efficiently to the customer. The organization must start by understanding what customers truly value—and where, when, how, and why as well. It must then configure how it works so that it can deliver exactly that value, no more and no less, with the fewest resources possible, improving coordination, eliminating redundancy, and building quality into every process. The cycle of listening and responding never ends, as the customer's evolving needs reveal new opportunities to attack waste, create new worth, and build competitive advantage.

- Enabling people to lead and contribute to their fullest potential. The organizations that get the most from their people provide them with

The limits of 'scientific management'

Criticism of objective, top-down, metric-focused "scientific management" has a long pedigree, dating almost to the idea's origin at the turn of the 20th century in the "Taylorism" movement. As early as the 1920s, pioneering management theorist Mary Parker Follett endorsed a participatory vision of management, in which the manager's role was one of "power with," not "power over." In 1933, Harvard Business School professor Elton Mayo argued in *The Human Problems of an Industrial Civilization* that higher output depended more on group norms than on the physical conditions that Frederick Taylor emphasized. By midcentury, Peter Drucker and Douglas McGregor added their voices in favor of a more humanistic vocabulary for management, rather than strong control over the workforce, while future Nobel economics laureate Herbert A. Simon began publishing his work describing the limits of rational factors in management decision making.

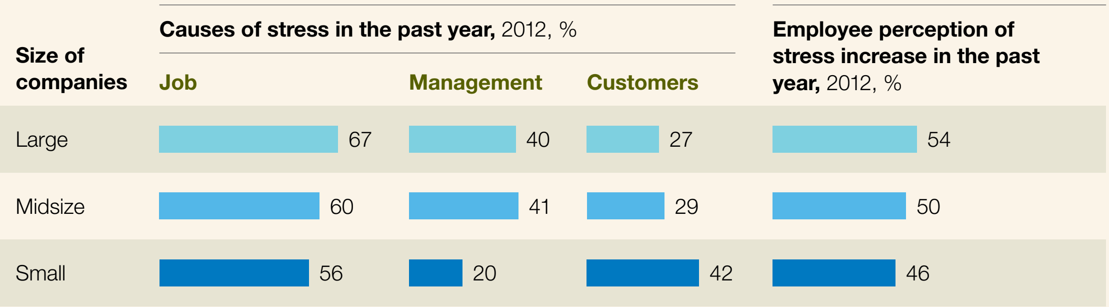
Yet even as more organizations adopted policies for motivating or empowering employees, the gap between the policies and day-to-day reality grew. In 1990, employee stress had become a large enough problem to attract attention from labor scholar Robert Karasek. His research identified three main contributors to work-related stress: high professional demands, low decision latitude (that is, little ability to control how the work is done), and low social support. The combination of high professional demand and low control was found to be especially stressful.

Exhibit

Employees in large companies feel more stressed than those in small ones, and management is a significant problem.

Work-related stress is more prevalent in large and midsize companies than in small ones, notably because of management

People in large companies are more likely than those in small companies to see stress levels as increasing



Source: Regus, *From Distressed to De-stressed*, September 2012 (regus.com); McKinsey analysis

Since then, at least some data suggest that employees' positions have gradually worsened. According to a 2009 EU report, workers reported steady erosion in control over their work between 1995 and 2005. And a 2012 study of 16,000 workers worldwide found that employees in large organizations were more stressed than those in small ones, particularly because of management issues (exhibit).

Lean management seeks to reconcile control and autonomy in large organizations by rethinking how organizational improvement should work. The lean-management system enables individuals to rely much more on themselves and much less on the top-down, external sources of control that so often become rigid, inefficient, and even counterproductive on a large scale.

Further reading

Pauline Graham, ed., *Mary Parker Follett: Prophet of Management—A Celebration of Writings from the 1920s*, revised edition, Frederick, MD: Beard Books, 2003.

Robert Karasek and Töres Theorell, *Healthy Work: Stress, Productivity, and the Reconstruction of Working Life*, New York, NY: Basic Books, 1990.

Herbert A. Simon, *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization*, fourth edition, New York, NY: The Free Press, 1997, and "A behavioral model of rational choice," *Quarterly Journal of Economics*, 1955, Volume 69, pp. 99–188.

support mechanisms so that they can truly master their work, whether at the front line or in the boardroom. Revamped physical space fosters collaboration, visual-management techniques let everyone see what needs to be done, targeted coaching builds capabilities, and simple "job aids" reinforce standards. These and other changes enable employees to own their own development, without leaving them to figure it out by themselves.

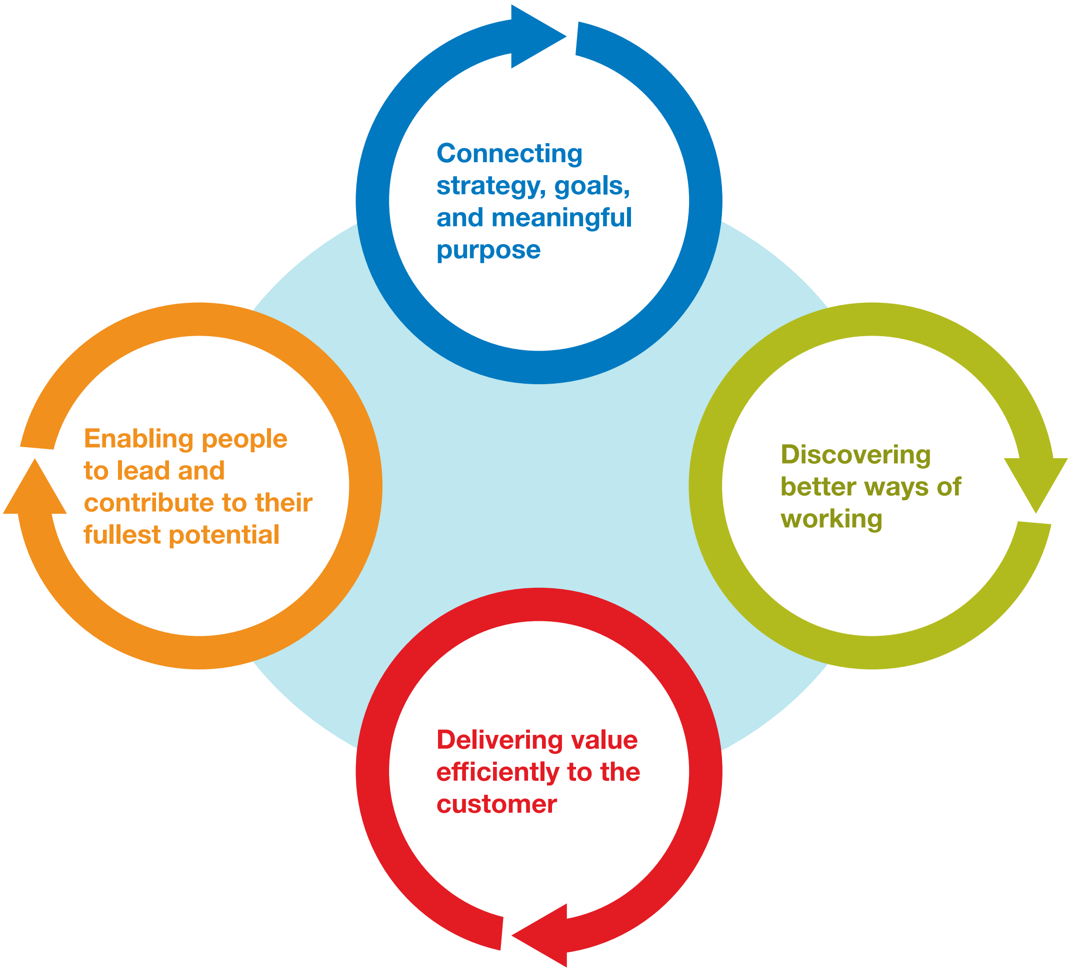
- Discovering better ways of working. As customers, competitors, and the broader economic and social context change, the whole enterprise must continually think about how today's ways of working and managing could improve. To guide the inquiry, people will need a clear sense of what "better" means—the ideal that the organization is reaching toward—as well as an unvarnished view of current conditions and the ability to work with others to close gaps without fear of reprisal. Problem identification and resolution must become a part of everyone's job description, supported by structures to ensure that problems flow to the people best able to solve them.

- Connecting strategy, goals, and meaningful purpose. Organizations that endure operate from a clear direction—a vision of what the organization is for, which in turn shapes their strategy and objectives in ways that give meaning to daily work. At every level, starting with the CEO, leaders articulate the strategy and objectives in ways that their people can understand and support. The final step aligns individual goals to the strategy and vision, with the result that people fully understand their role in the organization and why it matters.

The four build on one another. For example, to create new products that deliver better value to customers, the financial-data company cited at the beginning will need to convince its employees that their ideas matter, encourage them to find new ways to respond to customers, and clarify the company's purpose. To help its people manage the surge in inflow, the government agency will need to evaluate what matters to constituents, reassess how work gets done, and

Exhibit

The lean-management system is articulated through four integrated disciplines.


Connecting strategy, goals, and meaningful purpose
Enabling people to lead and contribute to their fullest potential
Discovering better ways of working
Delivering value efficiently to the customer

make sure that its strategy is consistent with its mission. Thus, while an organization's focus may naturally emphasize different disciplines at different times, it will need all four to keep renewing itself. Together, they form the lean-management system (exhibit).

As the organization's experience with the system deepens, its capabilities will naturally strengthen. At the same time, lean management fosters a culture that encourages continual reassessment. Gradually, that drive will come to apply to the system as well—the organization will seek to improve its application of lean management, to see how it could push the ideas (and its performance) further. Accordingly, the most committed organizations regularly conduct well-structured assessments of their maturity in lean management, giving them feedback on their progress in all four disciplines while identifying opportunities to reflect and improve.

The following collection of articles and executive interviews illustrates the four disciplines in greater detail, describing how each is evolving based on lean principles, in real organizations doing real work and facing real challenges. But understanding the full impact that lean management can offer is possible only by viewing these stories as part of a consistent system—one that delivers rapid improvement in performance and health while unlocking much greater value through continuous improvement over time. ○

David Jacquemont is a principal in McKinsey's Paris office.

Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

Delivering value efficiently to the customer

Lean management's focus on delivering for the customer starts from two ideas. The first recognizes that the details of daily life in a large organization can often obscure the fundamental need to acquire and serve customers well. "Customer" in this context can have many different meanings beyond the purchaser of a product or service. For a government, the customer is a resident or citizen. For an IT team, the focus is to help end users to better serve the organization's external customers. Everything that the organization does must in some way contribute to acquiring and serving customers; anything that does not is presumed to be a poor use of the organization's resources.

Moreover, even actions that serve customers can misallocate resources if the result ends up providing more or less than the customer wants. Thus, the second idea is to meet customer needs exactly—delivering neither too much nor too little—unless there is a strong reason to do so, such as to comply with regulations or protect employee safety.

Precision in understanding and fulfilling customer needs requires organizations to develop new infrastructure: for gathering customer feedback, for assessing and channeling customer demand, and for managing internal capacity to match this demand. A day in Mary's life provides a sample of how these tools and concepts work together, so that an organization really can put the customer—however defined—at the center of its business.

Serving customers despite a data disruption

Lean tools and behaviors

At the **morning meeting** of a **priority-client service team**, team leader Axel asks if Mary has heard why so few claims arrived overnight—the whiteboard shows today’s inflow is only 15 percent of yesterday’s. When Mary says no, Axel **offers his team’s spare capacity** and says that they will also start **problem solving** to try to find the issue.

Morning huddle

Clear organizational design aligned with customer expectations

Capacity management

Root-cause problem solving

Mary finishes her **rounds** and returns to Axel, who says that IT is looking for a break in communication somewhere between the priority-client data hub and the service center. Mary suggests checking the **customer agreement** to see what the center has promised.

Floor walks

Understanding customer requirements

Axel calls Mary, who is reviewing the morning’s **claims-flow data to see where she needs to move work.** “We’re responsible for same-day service for all claims that reach the data hub by noon,” Axel says. “Thanks,” Mary responds. “While we’re waiting, there’s a big international settlement coming through Cindy’s team, so I’m looking at your team’s **skill profiles** to see who could help.” Graciela’s experience in these settlements is deep and Vipul’s is moderate, so Mary **reassigns both.**

Capacity management

Skills matrix

Capacity readjustment

Mary checks the inbox for the center’s automated **client survey e-mails.** Several ask why the previous night’s claims aren’t finished. Before she can reply, Axel stops by, saying the IT problem is fixed. He asks for Graciela and Vipul back, plus two extra team members. After Mary reminds Axel to focus **on the claims that arrived before noon,** he agrees he can manage with just one extra. Mary reassigns Jorge, an international specialist with the right skills.

Customer survey

Adhering to customer standards

Mary calls the priority client: “Victor, Mary here. We just fixed a problem. Refresh your screen—you should see some resolutions now. I’ve already assigned extra staff to process the same-day claims.” “We were wondering, thanks for calling. Our month is closing early so we need everything to go through today.” “I understand. **We’ll get all same-day claims done by 6.**”

Reaffirming customer promise

Mary stops by Axel’s team: “Folks, the large agencies you serve **count on us** to protect their profitability and customer reputations. That’s why our **performance targets** judge us on being timely and accurate. Let’s do everything we can today to **meet that high standard.**”

Taking the client’s perspective

Customer-aligned performance targets

Instilling purpose

Axel calls: “Morning claims are done. If I can keep Jorge, we can start on the arrivals that we would normally do tomorrow. What do you think?” Mary sees that afternoon inflow is high. “Yes, let’s get ahead for tomorrow.”

Mary’s interactions with her team show how the principles behind lean management’s customer focus come alive.

As a manager, Mary is constantly evaluating customer demand. Data gathering and reporting—often via simple means such as standard whiteboards and daily floor walks—let more-senior managers see the quantity and types of work coming in, together with the tasks that their teams are currently working on. Mary therefore knows almost immediately that her priority-client service team has a major shortfall in its work and that her international-settlements team needs help.

But to fill the gap effectively between a team’s workload and its staffing level, Mary can’t just assign two random people who seem to be available—they could easily end up being more of a hindrance than a help if they slow down the rest of the overloaded team. She needs to know which employees have the right capabilities. The answer is an up-to-date skills matrix that summarizes what each employee can do, based on a standard profile of the employee’s experience. Consistent cross-training has given Mary’s organization more flexibility in meeting variations in demand and capacity. Mary finds that Graciela and Vipul have the right profiles; moreover, pairing two employees at different levels encourages skill transfer, further enlarging the pool of employees available for short-term transfer as needed.

In parallel, Mary keeps close tabs on what customers want and are willing to pay for. The company continually gathers customer feedback via an automated e-mail system whose responses Mary can view at any time. She sees the early warning: client personnel are not happy that their overnight claims haven’t been processed yet.

Mary knows that her group’s performance metrics depend on customer satisfaction—a combination of being timely and accurate. Yet she also recognizes even a priority-client team faces resource constraints and must prioritize; at a very basic level, overdelivering for one priority client may mean underdelivering for another. Accordingly, when Axel realizes that his team will need additional help to process the flood of claims, she reminds him that they are bound by what the customer agreement provides—only the morning claims are entitled to same-day service.

But Mary also seeks to inspire her team to work by reminding them of why they do this work—the agents whose business depends on accurate, timely claims resolution. And once they clear the morning’s claims, she decides to use the added capacity to get a head start on the next day’s work.

Mary's story is a composite of experiences at organizations that have transformed themselves through lean management. The interviews and articles that follow in this section provide additional depth on several of the important factors that make it possible for Mary and her organization to deliver for customers consistently, even in a constantly changing environment.

With almost three decades of experience in working with lean concepts, Marv Adams, chief operating officer of TD Ameritrade, starts the section by reflecting on lean management's ability to eliminate "valueless complexity." An organization that learns to concentrate on the work that contributes genuine value for customers will simplify itself in ways that create even more value for customers while engaging workers and streamlining coordination across the organization as a whole.

In "The untapped potential from delivering for customers," the authors describe in detail how organizations use a better understanding of their customer to inform every aspect of how their business operates. Initially, an organization simply becomes better at the basics of meeting customer needs, but over time, the capabilities it develops allow it to move one step ahead of the customer—anticipating needs and building an emotional connection.

Next, Peg Marty, executive vice president and head of contact centers for RBS Citizens in the United States, homes in on how lean-management principles can help an organization create new capabilities for meeting customers' changing service expectations. Her organization discovered that with the right management systems, many employees long used to providing customer service can learn to start presenting "product-based solutions" as well, generating new sales while increasing customer satisfaction.

From the opposite side of the world, Jairam Sridharan, president and head of consumer lending and payments for India's Axis Bank, describes the dramatic new promises that his institution is now able to make to customers after its transformation—increasing a valuable competitive edge in India's fast-growing market for home and consumer loans.

Finally, in "The truth about customer experience," reprinted with permission from the *Harvard Business Review*, the authors explain how organizations must evolve from seeing customer interactions as single touchpoints to understanding them as parts of much longer journeys. The organizations that excel throughout the entire journey, not just at a touchpoint or two, reap enormous rewards.

Table of contents

22

One company in the eyes of the client

An interview with Marv Adams, COO of TD Ameritrade

A financial-services leader explains how ridding organizations of valueless complexity can spur growth.

32

The untapped potential from delivering for customers

Organizations that truly deliver for customers know that understanding what they want is only a first step: the whole enterprise must evolve to meet customers' priorities.

41

Making customers more valued—and valuable

An interview with Peg Marty, EVP and head of contact centers of RBS Citizens Financial Group

An expanded view of customer service has improved customer satisfaction, employee engagement, and sales at one of the largest US banks.

48

Forging an identity at India's Axis Bank

An interview with Jairam Sridharan, president of consumer lending

Axis Bank's "Shikhar" transformation has reduced customer wait time for loans by 30 to 70 percent, while its total book has risen by almost 50 percent—even as hiring and IT investment remain almost flat. Employee quality of life has improved, too.

55

The truth about customer experience

To maximize customer satisfaction, companies have long emphasized touchpoints. But doing so can make customers seem happier than they actually are and divert attention from the bigger, more important issue: the customer's end-to-end journey.

One company in the eyes of the client

An interview with Marv Adams, COO of TD Ameritrade

A financial-services leader explains how ridding organizations of valueless complexity can spur growth.

Marv Adams is the chief operating officer (COO) of TD Ameritrade, a leading US provider of electronic discount brokerage and related financial services. The company currently holds more than $524 billion in client accounts and executes an average of nearly 400,000 trades per day.

In his role as COO, Mr. Adams oversees all IT and operations functions, including systems development, data centers and infrastructure, networks, project management and process improvement, and retail brokerage clearing and operations. He has devoted much of his 30-year career to the pursuit of lean management, initially in traditional manufacturing environments and later in financial services. He has been a member of the senior leadership teams at Ford Motor Company, Bank One, Citigroup, Fidelity Brokerage Services, and TIAA-CREF.

McKinsey spoke with Mr. Adams at his office in Jersey City, New Jersey.

McKinsey: *Across the many operational contexts in which you have worked, what do you find makes lean management so powerful when it is done well?*

Marv Adams: Lean management effectively taps into associates' convictions and passions. They have a deeper sense of when their company is acting in the right way—for the long term, out of a genuine belief in serving clients—versus when it is just reacting to short-term pressures in a never-ending cycle of "flavor of the year."

Flavor of the year is exhausting. It consumes time and energy without achieving real change. That's dispiriting for associates and makes it even harder for middle managers to motivate their teams. Everyone is so worn out that when they see a system that says, "We are stewards; it is our responsibility to find a better way to help our clients," they find it inspiring. When associates can tie their work back to a purpose that's deeper than just making more money next quarter, the result is a culture in which people are much more satisfied, inspired, productive, and innovative at every level of the organization. So it's incredibly powerful when it's done well.

McKinsey: *Now that you have designed and led a number of lean management–based transformations, how has your perspective evolved?*

Marv Adams: The first few times that I got involved with some of the ideas underlying lean management, it was all about individual methodologies, so it was inherently fragmented. There wasn't any emphasis on the belief system or leadership and management practices. A "lean project" would start when somebody saw a problem—a problem big enough to warrant significant resources.

At most, the project would fix a process. But it didn't leave behind a continuous-improvement system; it didn't leave behind motivated staff.

Now I see lean management as an integrated system of beliefs, leadership practices, and management practices. The methodologies and tools are important in that they allow the organization to implement those deeper ideas in a practical way, but the tools alone are not lean management.

McKinsey: *How can lean management bridge the gap between a complex organization and the client?*

Marv Adams: One of lean management's great strengths is its focus on understanding a whole

Marv Adams

With more than 30 years of operations and technology experience, much of it in the financial-services sector, Marv Adams has served as chief operating officer of TD Ameritrade since 2011. Previously, he was executive vice president of shared services and technology and operations for TIAA-CREF, where he oversaw operations and applications-services technology, as well as IT strategy and policy. Earlier in his career, Mr. Adams served in a similar capacity at Fidelity Investments, where he was responsible for enterprise transformation. He also served as chief information officer at Citigroup, Ford Motor Company, and Bank One and was the head of worldwide engineering systems for Xerox. He started his career at IBM after earning a bachelor of science in electrical engineering at Michigan State University.

value stream, every step in a process from beginning to end, from the client's point of view. It forces everyone to ignore internal boundaries and instead examine only the flow of work and activities that contribute value for the client—whether in the form of a funded investment account, completed loan, or something else. The organization may discover that it needs new work systems to make sure that work flows from function to function. Middle managers will need to take on a different kind of role, one that emphasizes cross-functional collaboration and problem resolution. And the organization as a whole becomes more cohesive.

As a result, the organization begins to simplify itself. Left on its own, almost any organization evolves in a way that leads to what I call "valueless complexity." People assume that things are done in a certain way because that is the way they need to be done. Very often, however, what has actually happened is that a practice developed for a very specific time and purpose has crept into processes that it was never intended for. And in larger organizations, these intrusions proliferate to become bureaucracy.

Much of the time, associates can see the problem, but they feel powerless to make changes. Lean management gives them the voice, structure, and tools to challenge long-standing assumptions—and the freedom to question how the organization does certain things and why. The effect is to help simplify and root out valueless complexity every day at the working level of the organization.

McKinsey: *What are the most important things that leaders must believe for lean management to work for their organization?*

Marv Adams: I see four beliefs as essential.

First, clients matter more than anything and their perspective trumps almost all other considerations. That also means taking care of the associates, since they are the ones taking care of the clients. Companies are often tempted to monetize their productivity gains too quickly via layoffs. Unless handled exceptionally well, layoffs will undermine the trust that lean management seeks to build. People already have preconceived notions about the relationship between lean management and layoffs, and such action only serves to reinforce that misconception. Conversely, companies that protect this newfound trust and instead rely on attrition and redeployment through practices that associates perceive as fair will earn a continued commitment to making the organization better.

Second, most people come to work every day wanting to do a good job and serve the client—not to create problems. So when there are problems or somebody makes a mistake, the first response cannot be blame. So many dysfunctional things occur when people are afraid of being associated with problems—they not only hide individual problems, but they also distance themselves from complex situations. But once the fear eases and people begin to feel comfortable uncovering problems themselves, excitement builds and performance takes off.

Lean management gives associates freedom to question how the organization does certain things and why; the effect is to help simplify and root out valueless complexity every day at the working level of the organization.

Third, whatever the organization is doing, there is probably a better way of doing it—and people are individually and collectively responsible for pursuing that new way of doing things. It's not enough just to want to find a better way; people must commit to lean management's approaches and tools, which take effort to learn and adapt to the organization. But they are essential because they systematically guide the creation of new structures for orchestrating resources more effectively.

Finally, lean management is a holistic system for achieving permanent change, not an isolated project or collection of tools for meeting short-term goals.

Most of these beliefs are rooted in trust. I think leaders absolutely have to convey that trusting your colleagues is critical to having a team, to having one company from the eyes of the client.

McKinsey: *A lot of organizations say they believe in those things, but the reality doesn't meet the rhetoric.*

Marv Adams: Lean management provides a tangible way to translate rhetoric into action. The common language, methods, and tools create a structure for daily reinforcement, much like practice sessions in music or sports.

McKinsey: *How do you help leaders, managers, and associates get lean management?*

Lean management at TD Ameritrade

McKinsey: *What were TD Ameritrade's initial goals in pursuing lean management?*

Marv Adams: It started with the CEO, who simply wanted the organization to be better. Over the years, he has consistently avoided phrases such as "best in class," which can imply a limit to how good an organization can become. Instead, his focus has long been on "better," regardless of how good the organization may become. It was lean management's focus on continuous improvement that drew him to the concept.

The CEO also recognized that under current conditions, the financial sector's persistent profitability challenges were unlikely to change without a major intervention. He wanted cost reduction, but in a way that would build TD Ameritrade's muscle rather than strip it away.

McKinsey: *Where did you start and why?*

Marv Adams: We started off in several key value streams, including retail new-account opening and call centers, institutional client onboarding and service, and shared brokerage operations.

The scale meant that our improvements would have a substantial effect on the organization, both financially and psychologically. For example, across the industry, new-account opening can be frustrating for clients because it cuts across many functions and every step involves important compliance requirements. Brokerages struggle to reduce the number of clients who never fund their accounts, either because they lose interest or because they end up with errors in their applications. Even modest reductions in this type of "leakage" add up to significant new business for us. Improvements were therefore highly visible and helped position lean as a growth story—the main goal was to increase revenues, with efficiency gains as a welcome consequence.

I'd estimate that about half of the benefit we have seen comes from productivity and efficiency improvements. But what's more important over the long run is that the other half comes from growth sources, such as clients opening more new accounts and call centers pursuing more high-quality leads. Most important of all, by fundamentally changing how 3,000 people work across all of our sites, our transformation has propelled our employee-engagement scores into a new category. Our survey partner tells us that we are now among the best-performing companies in all of financial services. That's what makes further improvement possible.

We have not been afraid to make tough decisions. In areas such as new-account opening and brokerage operations, we have redrawn the organizational boundaries to deliver better value for our clients, with minimal internal coordination and redundancy. It is a strong sign that leaders now advocate to do what is right for our clients and the company without regard to their personal fiefdoms.

McKinsey: *How have the communications evolved over the last year?*

Marv Adams: I think the most important change is that the communications are becoming much more bottom-up. People are reporting their achievements in town halls, posting them online in our newsletters. Our surveys show that even the registered investment advisers we serve are becoming excited; their most important metrics have all improved—client satisfaction, error rates, controls, even revenues. Some of our institutional clients are asking us how lean management might help them in their businesses.

McKinsey: *What kinds of support are people asking for across the organization?*

Marv Adams: For parts of the organization that have already implemented lean management, we see a big pull for more help with developing lean leadership skills and building new structures to support faster problem solving and talent development. They want to do more. For those that have not experienced lean yet, there's a different sort of pull. When they first hear of the results, they get very interested. But then there's a middle stage when they push back, because change is difficult and they come to realize that lean management is a whole new way of working. Once they start engaging, they come to realize that the long-term outcome is worth the commitment.

McKinsey: *Where does lean go next?*

Marv Adams: Because we believe that lean management applies everywhere, the next step is to expand across all support functions. IT is already under way.

McKinsey: *What are the similarities and the differences you have seen in extending lean management into IT?*

Marv Adams: I've been in IT since 1981, and since then I've managed a lot of IT organizations. The patterns of IT work are largely consistent, regardless of industry or scale: the challenges of infrastructure management or application development are pretty similar whether at Ford Motor Company or Citigroup or TD Ameritrade. So I can say with great, great conviction that the processes of IT that have built up over the last three or four decades are rich with opportunities that lean management can address—they're just as rich as in any classic value stream.

But the culture is different in IT, which is filled with people who are more independent, generally more introverted, and very narrow and deep in a technical field. As a result, getting them to see how their work fits into a larger stream of activities or asking them to work more collaboratively can be more difficult at first. Historically, IT professionals have been supposed to solve their own problems themselves, so the idea of sharing problems for others to help solve is a radical change.

Then there is the question of metrics. Measuring the output of other value streams or functions is usually pretty clear: we can add up the number of transactions or phone calls or open accounts, then see how many we have completed and how long each one took. Trying to evaluate individual productivity in an application-development project involving 25 people over three months is a lot less clear. It's doable, but there is more of a learning curve.

Now, having said that, IT is not only a rich target for lean management but an absolutely critical one—especially in a business such as TD Ameritrade's, which is mostly online. In this context, IT figures highly in every area of the business that is important to the client. If we say that we are client-centric, we must engage IT deeply in the whole system of activities.

McKinsey: *How is lean management changing IT at TD Ameritrade?*

Marv Adams: The early indicators are promising. In application development, for example, we're adapting rigorous methodologies such as visual modeling, collaborative requirements analysis, and more frequent iteration in the software-development life cycle. Infrastructure operations has created a single "front door" for requests, together with clearer segmentation, better resource pooling, and more accurate metrics for throughput and productivity.

We expect to free up about 30 percent of our capacity in both application development and infrastructure. We have not yet decided on whether to reinvest that capacity into faster speed to market or to improve our efficiency, but we are excited that we will be running significantly more effectively than we ever have before.

McKinsey: *And after IT?*

Marv Adams: We will expand to other functions such as HR and marketing. But what's even more interesting to us is to "surf the improvement wave," expanding our ambitions as lean management takes hold. For example, in IT the transformation is already turning into an important source of innovation. We recently held a daylong "hackapalooza" to generate new IT ideas, in which the best ideas won awards and are on track for implementation.

Marv Adams: Even in my current position, I can't simply push lean management into an organization. Instead, I demonstrate my belief that lean management is important by taking the time to help senior managers understand it. I also encourage people to go and see another organization that is applying the same ideas. Seeing it live and talking to the people involved makes a huge difference in creating shared understanding and conviction to try it out.

Once an informal dialogue gets going, people start to trust their colleagues a lot more. Hierarchies start to level out. Respect for associates increases with the recognition that they have valuable insights. Managers come to realize that their job is to create the conditions for drawing those insights out, as opposed to giving top-down direction.

Horizontal trust increases as people collaborate more closely across organizational boundaries. Not long ago, middle managers from two organizations came forward and jointly recommended moving hundreds of associates from the first organization to the second. The managers weren't thinking of turf anymore; they believed deeply that the new configuration would lead to a better client experience and, almost as an aside, higher productivity. They came to value the system as a whole more than their individual function. That's what I mean by stewardship.

And never underestimate the importance of communication. Talk about it often and consistently. And make sure you do it in a way that's personal for your organization.

McKinsey: *It sounds like trust also strengthens, from bottom to top.*

Marv Adams: I've seen it at almost every huddle I attend. When I ask our associates what they like most about the changes, they talk about how they see their managers more often; they see their leaders more often; their ideas are being heard. They feel like they're taken seriously, and that's really motivating—they see that they play a certain role, and they can better understand the manager's role as well.

McKinsey: *What indicators do you follow to evaluate progress?*

Marv Adams: I look at how authentic people's beliefs are—how strongly they own the underlying concepts. Very pragmatically, I want to see that the design of the value stream and management system reflects a solid understanding of lean management. Once the transformation is under way, I look at how well the tools match the design—what information is used daily, how managers and associates engage in huddles, and whether problem-solving cycles fully address the outcomes that matter most to clients.

I want to see people connecting to a deeper purpose. Recently I was in Omaha, where a single huddle had identified and fully implemented some 51 ideas in the first six months, out of a total across the whole organization of about 500. That level of energy tells me that continuous-improvement engine is revving up.

McKinsey: *What value should leaders expect to see?*

Marv Adams: The easy answer is productivity, but another of lean management's virtues is that productivity gains are actually a by-product

> There's always a better way. As a transformation matures, it becomes more important to challenge your own methods.

of other changes that are more significant and lasting. For example, client-satisfaction rates will improve because the client experience will be simpler and better integrated.

Innovation improves as well, especially over time. Initially the daily huddles will focus on problems, but as those get resolved and associates gain confidence, the discussions will turn more to new ideas. At the same time, a simpler organization with greater capacity will make it easier to bring these innovations to market.

Risk controls also become more effective. Valueless complexity obscures important sources of risk. The exercise of identifying value streams reveals the real sources of risk, allowing the organization to realign its controls so they are more targeted and effective.

As for the productivity "side benefit," if an organization hasn't previously implemented a lot of efficiency programs, it's not uncommon to free up 20, 40, or even 50 percent of labor capacity in the first year. The important difference between lean management and the typical efficiency program is what happens after the initial burst. In an efficiency program, not much happens, whereas lean management's legacy is the continuous-improvement engine, which typically yields at least 5 percent further improvement year after year.

But I would argue against launching a transformation by setting an artificial target for any of these dimensions. The danger is that people will then think that lean management is only for achieving that single target. As a result, they will implement lean management poorly, forgetting that the reason it works is that it is a holistic system.

McKinsey: *What two or three messages would you want to give someone considering lean management for the first time in their organization?*

Marv Adams: I would tell them not to think about lean management as yet another priority; instead, think of it as a more effective way of doing what you already do, so you can better achieve your current priorities and take on even more. The reason I say this is that in most organizations, there are too many priorities already. Lean management cannot succeed if it is merely added to the stack.

I would also recommend putting your best people on the team that spearheads the design and deployment of value streams and lean-management methodologies. Don't leave it to managers who just happen to be available or who may have done a process-improvement program or two in the past. The people heading the transformation must be respected leaders from within the organization.

It's an exciting journey. People sometimes come in with a preconception that processes are boring, but I would say that lean management will help you feel more connected—to your company's purpose, to the people you lead, and to your clients.

McKinsey: *What would you say to someone who's already pushing forward with lean management and is wondering, "What do I do next?"*

Marv Adams: The short answer is that there is no "next," because lean management should never go away. But people do wonder what more they can do with it.

I see this as a matter of returning to first principles: the belief that there's always a better way. As a transformation matures, it becomes more important to challenge your own methods. For example, we see a need to increase the speed and scope of our problem solving across the enterprise. We're therefore developing more robust management systems for middle and senior management.

We want to avoid setting too many top-down goals, which could damage the bottom-up focus that is the hallmark of lean management. There is no value in lean for the sake of lean; the goal must always be focused on the client.

McKinsey: *Over your years of working with lean management, what have been the most powerful moments for you personally?*

Marv Adams: A favorite is to participate in a huddle that's really clicking. In senior-management roles, it's easy to think that your job is all about sitting in your office, reviewing financial performance and making policy decisions. But when you actually go out and see associates taking care of clients and see how much it means to them for you to be present and to hear what they're experiencing, it flips your whole view of what effective leadership is all about.

Another very satisfying aha moment is when one of the leaders I'm working with hits the tipping point between complying with what they think I want them to do and suddenly becoming inspired. The level of energy is so terrific; then they come back and say, "Everything you told me would happen is happening, and more." I've seen that transition play out with almost every senior leader I've worked with. As crazy as this may sound, I feel like I've changed their life in a positive and meaningful way. The results that they're going to be able to produce for clients and the company are substantially greater than what would have been possible before.

The final moment for me was seeing the dovetail between simplification and innovation. Getting rid of valueless complexity is a really powerful opportunity to spur growth in unexpected directions and further change the company culture to support more new ideas. ○

This corrected version reflects minor edits made in January, 2014. Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

The untapped potential from delivering for customers

Organizations that truly deliver
for customers know that understanding
what they want is only a first step:
the whole enterprise must evolve to meet
customers' priorities.

Rodrigo Chaparro Gazzo, Ignacio Gorupicz, Francisco Ortega, and Alejandro Sandoval

How often do organizations make the right promises to customers, follow through on them, and keep doing so year after year? Not nearly as often as most would hope, despite the commitment that so many organizations have made to gathering and using "customer insights."

Too often the data companies look to for these insights do not help in making the operational decisions that are crucial for customers to get what they value. Moreover, the parts of the organization that are most responsible for turning promises into reality may be too rigid and isolated from customers to respond quickly to their changing circumstances. Not surprisingly, everyone has heard stories about operations teams that are in the dark about new marketing strategies, resulting in confusion in the field.

Lean management recognizes that to bridge the gap, an organization not only must understand its customers better but also, and equally important, must better translate those insights across the enterprise, so that all its operations more closely match customers' priorities. And as those priorities evolve, so must the organization's, as it continually searches for new ideas that customers will see as further reason to do business with it.

To reach that point, however, we find that the typical organization must rethink how it looks at customers and at itself, usually through three stages: reorienting around the customer's journey, making that journey effortless, and engaging emotionally with the customer throughout the journey.

As a first move, an organization focuses on the basics: providing what customers want (and not what they don't), how they want it, at the right combination of quality and price, all while minimizing resource use. It learns to view fulfillment of customer promises not as a succession of transactions or touchpoints, such as funding a loan or answering a call-center request, but as *streams of value*, or "*journeys*," that have a start, middle, and end, which carry the customer from request through to fulfillment. Rearranging how the organization operates so that these journeys flow quickly and smoothly results in greater stability, allowing the organization to better balance its resources in response to incoming workflow.

In competitive industries, just giving customers what they say they want is no longer enough. "How" begins to matter even more than "what": an organization that makes it easier for customers to interact with it, or that provides more value for the same cost, will tend to make inroads over its peers. And by this stage, the lean organization's new capabilities allow it do more. Its *journey perspective* matures, letting the organization start to anticipate customer needs even before customers are necessarily aware of them. Rather than just provide the service the way customers say they want it, the organization can make the whole process effortless in ways the customer might not have imagined.

A few organizations have reached an even more powerful "virtuous cycle" that yields the greatest competitive advantage. The systems that the organization has built allow its people to develop a *deeper understanding of customer psychology*, to the point that they can move beyond serving customers to engage emotionally with them—to making their experience of the company memorable because it strengthens an emotional connection.

Attaining even the first stage will require time and patience. A European energy company, described in more detail in "The truth about customer experience," added €4 million in revenues just by smoothing the process for customers who moved their households—part of a broader transformation that has netted more than €50 million. Yet pushing further promises even better results. One multinational financial institution, for example, has spent the past several years systematically building on earlier successes to raise its customer-satisfaction scores in every segment from retail customers to large corporations.

Understanding needs in operational terms

Organizations now know more about their customers than they ever have before. But despite the technological and analytic breakthroughs that have made amassing customer insights so easy, the payoff has often been disappointing, especially considering that less expensive efforts can yield better results (see sidebar "What price loyalty?").

In our experience, problems with delivering for customers result from a failure to align the insights the organization is gathering with its operational ecosystem. A South American bank provides a typical example in its handling of customer complaints: it spent enormous amounts of time, money, and managerial energy on defining different types of complaints with almost-scientific precision. But the outcome was a list of some 1,300 different issues, each with its own resolution process. For the frontline employees trying to resolve complaints in branches or over the phone, the list was of no use—it left them making vague, hollow-sounding promises of when the bank might be able to address the customer's issue. And just keeping track of the relevant information requirements became almost impossible, multiplying the opportunities for further error and delay.

Gathering and assessing data—even with unprecedented detail—clearly was not sufficient to address customer needs. The bank needed a broader understanding both of the customer's experience and of its own operations so that it could bring them into a closer balance.

Following a journey

Today, most organizations think of customer interactions as individual interactions or *touchpoints*, such as a customer lodging a complaint or a credit review for a loan application (this is also discussed in "The truth about customer experience"). Touchpoints thus shape organizational design, with employees arranged into separate groups such as "tellers" or "customer service" or "underwriting."

But customers do not experience processes in this way. They see a goal that they want to achieve, and the steps matter only if they seem to get in the way. The fact that the underwriting and call-center units may be entirely distinct is irrelevant to the customer; from the customer's (and even the organization's) perspective, the reason those units exist is that they are all involved in approving her business loan.

Even tasks that seem purely transactional are journeys, albeit simpler ones. And, like the customer applying for a loan, the South American bank's customer with a complaint to resolve was completely indifferent as to which internal unit the resolution came from, so long as it resolved the problem completely and quickly—in other words, so long as it involved as few obstacles as possible.

Unblocking value streams

The bank experiences the customer's journey as a value stream, or the sequence of activities involved in providing a service—in this case, resolving the customer's problem. The obstacles that customers can see on their journeys, such as long wait times for complaint resolution, block value streams and, in many cases, the creation of value as well.

Furthermore, visible obstacles are usually only symptoms of much deeper issues that the organization must address (see "Building a problem-solving culture that lasts"). Lean management thus provides a comprehensive series of diagnostics that assess value streams from start to finish, uncovering blockages. It then builds new capabilities that reduce the blockages and create capacity so that the organization can handle more volume, define

What price loyalty?

One of the central questions that organizations confront in thinking about customer experience is return on investment—how likely is it that the investment will create loyalty, and how does that loyalty translate into revenue?

For many organizations, skepticism on both points keeps them from committing more deeply to improving customer experience, instead keeping it as more of a marketing exercise than a source of real operational or strategic insight. Perhaps it is no surprise, then, that despite years of promising "customer centricity," meeting customers' expectations still represents a huge challenge for many organizations—and, in far too many cases, a huge change. In the United States, for example, the American Customer Satisfaction Index[1] tracks sector and company customer-service survey scores from 1994 to the present. Over that period, scores in sectors such as finance, retail, and air transport barely budged, even though their baselines were all well below 80 on the 100-point scale. Indeed, the highest scores were in mature manufacturing industries such as automotive, personal care, and televisions and video players.[2]

This period also saw an explosion in customer data, with the rise of the Internet providing unprecedented opportunities to assess how customers really behave—what information they use, which product combinations they want, how they respond to different prices. Yet the fact that customer satisfaction has barely moved suggests a deep disconnect between customers and the organizations trying to serve them, one that even today's customer insights cannot alone address.

While teasing out the long-term effects of greater loyalty is inherently difficult, organizations that manage to strengthen customer experience are seeing encouraging results, and often with only modest financial outlays. At a European bank, for example, delays in processing commercial loans had led customers to abandon 8 percent of loan applications before completion. Targeted changes that sped up response times largely eliminated that type of "leakage." Similarly, customer-experience investments at an emerging-market credit-card operation reduced its churn rate by more than 30 percent, while also increasing sales of other products.

[1] A collaboration among the American Society for Quality, CFI Group, and the University of Michigan Ross School of Business.

[2] National, Sector, and Industry Benchmarks, American Customer Satisfaction Index, October 2013 (theacsi.org).

Building capacity

In turning customer insights into a new operational design, one of the most important tasks is better management of capacity. That comprises four elements: tighter management of demand, a more flexible operating system, agile matching of supply to demand, and transparent performance metrics. Together the four make it possible for the organization to meet customer demand at the optimal junction of quantity, quality, speed, and cost.

The first element, rigorous and frequent analysis of demand, eliminates items with low value to customers and, where possible, smooths the arrival of demand to reduce variability and operational strain, while building flexibility to accommodate the variability that cannot be eliminated. The organization will need accurate, responsive tools for tracking demand in detail; for insurance claim processing, for example, this would start with arrival patterns for claims by customer segment, type of claim, and region. The data might show that, for most of the year, auto-property-damage claims in the Southeast average 10,000 per month but spike to 15,000 per month in the winter. Meanwhile, in the North Central region, the same claims average 8,000 per month but spike to 12,000 during summer storms. The organization can then build “baseload” teams that handle the constant numbers, while cross-training a “peak” team to provide supplemental coverage for each region’s peak season.

Counterintuitively, flexibility depends to a great degree on standardization. By developing “standard work” documents that codify employees’ best practices, the organization enables all employees to improve the quality, quantity, and speed of their work, while making it easier for managers to move tasks from one employee to another as demand and capacity shift—new ways of working, or have time for other activities altogether, such as long-term strategic initiatives or innovation opportunities.

Value-stream mapping[1] shows, for example, where two different functions involved in a process use the same information but fail to share it, resulting in two identical queries to the customer. Touch-time data highlight the gaps between the amount of time a customer request is actually worked on (or “touched”) and the amount of time it spends not being worked on. From the results of these and other analyses, the organization can create an end-to-end map of value streams that correlates much more closely with the customer’s view. Rather than centering its attention on a relationship-manager team, a credit department, a compliance group, and a funding desk, a bank can begin to see how each unit helps—or hinders—a business-loan application.

In parallel, the organization must also improve how it handles its day-to-day tasks. The most urgent is more sophisticated demand and capacity management at every step in a journey,

[1] This is also known as material and information flow analysis, or MIFA.

whether because of normal variation or because of unexpected events. Likewise, employee skills will require standard definitions, along with monitoring as employees learn more. From that, the organization can develop a “skills matrix” that summarizes the total skills available at any point in time, highlighting any priority areas for additional training. The combination allowed a European financial institution to meet a sudden spike in demand for one of its products by reallocating personnel that it already knew had the right advanced training.

On a daily basis, line managers will need a defined method for estimating resource requirements and making adjustments as circumstances evolve. Ideally, a step-by-step guide will help these managers set up their team each day, based on demand forecasts, the skills matrix, and resource availability. A more detailed planning tool will translate actual volume data into staffing requirements, with indicators showing how well demand is being met so that the managers can easily see which areas are over or under capacity. More-senior managers, with the crucial task of balancing resources among teams, will then follow up with quick huddles over the course of the day, reallocating work or staffing as needed depending on current conditions.

The final component, performance metrics, provides crucial reinforcement by helping define targets and supporting capability and capacity. The data underpin daily meetings that review previous performance, uncover problems, and identify potential best practices that others can learn from. And they inform the regular dialogues between managers and employees, in which managers check processes and help employees build their skills.

so that the organization can match its resources more effectively to the dynamics of the actual work. Ideally, the organization wants sufficient flexibility so that it can fulfill its promise to each customer by having the right person available at the right time to work on that customer’s demand (see sidebar “Building capacity”).

That takes effort. But it usually creates additional time as well, which the organization can devote to additional problem solving and cross-training—measures that, in turn, help improve quality management, production flow, and fulfillment practices. The result is tighter resource utilization and better responsiveness to customers.

Once the South American bank realized that its elaborate complaint classifications did not work in a way that made commercial or operational sense, it completely reassessed its approach in a way that let it improve on its customer promises. Rather than defining each specific complaint type, the new focus would be on channeling complaints to the employees best able to resolve them quickly and completely—an especially powerful technique in service environments where, as this bank discovered, other forms of segmentation prove too complex.

For simpler complaints, frontline employees in branches and call centers would provide the solution on the spot. If a complaint required somewhat more work, the front line would refer it to a resolution team and promise a response in two days. Those two categories accounted for almost all complaints. Only the most complex issues—such as ones that raised legal or compliance issues—would go to specialists in the relevant fields, where resolution might take five days. The result reduced delays by 70 percent and allowed the bank to cancel a costly upgrade it had planned for its customer e-mail system.

Further horizons

Once all of these elements are stable throughout an organization, everyone from the call-center operator to the leader of the business begins to think and feel as the customer thinks and feels. The organization can now find new opportunities to improve on the value it provides; as performance increases, its people will start to ask what is keeping it from performing still better (see "Performance from problem solving: An interview with three leaders at MassMutual"). In the nearer term, the ensuing changes can make customers' experience effortless; eventually it can engage their emotions in a way that promotes a deep relationship.

By increasing its analytic capabilities to cover more data sources and better integrate their findings, the organization can begin to anticipate customer needs before they surface.

Making it effortless

By increasing its analytic capabilities to cover more data sources and better integrate their findings, the organization can begin to anticipate customer needs before they surface. Some of these moves may rely on technology and big-data investments, such as the location-based coupons that credit-card issuers in some markets are already offering to smartphone users—walk past a restaurant at dinnertime and receive a text message with the night's drink specials. But others require not much more than better use of the data that many organizations already have.

Small changes can add up. At the multinational bank mentioned earlier, customers dialing in from mobile phones had a difficult time entering their full account numbers for verification. The bank found that it could achieve the same level of security by requiring only the last four digits, reducing customer burden and call length simultaneously. It later extended the four-digit approach across all customers and platforms for even greater simplification.

Other organizations are now filling in application forms using data they have already collected from their customers. The next step is to refine the underlying processes even further to reflect deeper understandings of the customer.

For example, first-time mortgage customers are likely to need much more help than customers who have already had at least one mortgage. For "experienced" customers, lenders could offer faster turnaround with consolidated data requests, while first-time customers would follow the detailed step-by-step process and receive extra hand-holding. Once the mortgage closes, the bank could offer to monitor the customer's direct-deposit history and credit rating, together with interest rates, to see when the customer might qualify to refinance at a lower rate.

Engaging customers emotionally

A few highly advanced organizations, where customer insights, demand and capacity management, and related capabilities have attained real maturity and reliability, push customer delivery to its ultimate end: a connection that thrives at an emotional level. In a sense, these organizations are able to achieve at large scale the kind of connection that typically can occur only among networks of people who know each other exceptionally well, such as the US credit unions that perpetually outscore national banks in customer-satisfaction surveys.[2]

The achievements rest on the realization that emotional engagement is replicable—it's a matter of refining procedures to include emotional elements, much in the way that salespeople learn to listen for small changes in a customer's voice to know when to make an offer. What is crucial is that the additional elements feel genuine both to the employee and the customer. So long as they do, emotional procedures can go through the same cycle of training, practice, evaluation, and improvement as would any others.

The multinational bank from the earlier examples is successfully following this idea after it revamped its branch organization several years ago. With competition in its home market intensifying, the bank's leaders recognized that the institution still had substantial room to improve its customer service. The mantra became not just satisfying customers but also making them feel heard and appreciated.

Everyone who might interact with a customer, from security guards through to senior managers, now gets training in emotional awareness—in recognizing and responding to customers who are upset at a financial problem or excited about a new job. Greater emotional insight carries through to process design as well. Rather than just looking for new ways to reduce wait times in branches, the bank sought ways to make the remaining wait time more enjoyable. Frontline employees bring emotional awareness into recognizing and solving customer problems: they helped establish a new procedure allowing customers to enter a branch shortly after closing time if employees can tell that the need is truly urgent, such as cashing a paycheck. Employees can likewise give a one-time waiver of credit limit to help a customer in crisis, cementing loyalty at a particularly intense "moment of truth."

---

[2] *ACSI Finance and Insurance Report 2012*, American Customer Satisfaction Index, December 11, 2012 (theacsi.org).

The larger result is a highly predictable experience in which customers know in advance that the bank will follow through on its promises. Customer satisfaction has risen by between 5 and 13 percent in a single year. For every segment, it is now the most-referred bank in its home market.

• • •

Delivering consistently for customers requires much more than simply understanding them. It means making the much deeper transformation that brings all of the other lean-management disciplines together—developing people, finding new ways of working, and connecting strategy, goals, and meaningful purpose. That combination is what makes it possible for the organization to fulfill all of the promises that together constitute a customer relationship. ○

Rodrigo Chaparro Gazzo is a principal in McKinsey's Paris office; **Ignacio Gorupicz** is an associate principal in the Buenos Aires office, where **Francisco Ortega** and **Alejandro Sandoval** are principals. Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

Making customers more valued—and valuable

An interview with Peg Marty, EVP and head of contact centers of RBS Citizens Financial Group

An expanded view of customer service has improved customer satisfaction, employee engagement, and sales at one of the largest US banks.

With $118 billion in assets and five million consumer and business customers, RBS Citizens Financial Group ("Citizens") is among the largest commercial bank holding companies in the United States. Based in Providence, Rhode Island, Citizens and its subsidiaries comprise a network of approximately 1,400 branches, 3,600 ATMs, and 19,500 employees.

Since 2010, Citizens has undertaken a wide-ranging transformation of its banking channels and operations, with an emphasis on customer service. As a result, one of the first areas to be transformed was the Citizens customer-contact organization, led by Margaret ("Peg") Marty, executive vice president and head of contact centers.

In her current role, Ms. Marty is responsible for all customer-service operations, including strategic planning, and leads a team of 950 customer-service professionals who field 12 million consumer inquiries annually. We spoke with her at the Citizens offices in Cranston, Rhode Island.

McKinsey: *What was your reaction when you first heard about lean management?*

Peg Marty: It looked like a great system, but I wondered how we would find the capacity for it. At the time, we had so many separate projects under way—technology projects, customer-transformation projects, capability-building projects—and lean management looked like one more item to add to the list.

But as I learned more, it became clear that lean management's focus on the customer would help us get more out of those other efforts as well. And it would give us a very practical, tangible way to integrate all of the changes for managers and frontline colleagues. We would be able to capture more value from the whole portfolio of improvement investments that we were making.

McKinsey: *Now that Citizens has been through the first couple of years of its transformation, how would you describe the process of adapting lean management to Citizens? How did it change over time?*

Peg Marty: Our aspiration throughout has been to enable every single colleague to play a role in the success of the business. As we've learned more about what we can do with lean management, we've been able to do more to meet that aspiration. We've expanded our definition of great service, and now we're also expanding beyond the traditional boundaries of our organization. It is all about making each customer interaction simple, clear, and personal.

McKinsey: *What challenges has Citizens faced as its aspirations grew?*

Peg Marty: This has been a major change in our customer-service approach. Before we started our transformation, our service operation was designed to answer the customer's question and provide basic service. That's not an incorrect model—providing quality answers is important—but we knew that we were missing a lot of opportunities to help customers with solutions that were broader based. We started to wonder about how we could incorporate products into discussions with customers.

People call the approach "service to sales," but sales can feel uncomfortable to colleagues who don't view themselves as salespeople. We understood that some people would naturally resist, thinking that sales was not something they could learn or that it was more important just to answer the immediate service question. We therefore restated the goal as one of "providing product-based solutions," explaining that while some answers require only information, others involve educating the customer on different ways that the bank can help them with new products and services. For example, if the customer mentions something about his or her children, there's a natural transition to discussing a savings account for college.

We also expanded our training with detailed role playing and new procedures to help colleagues build their skills. New metrics and communications reinforced the value of the revised model in improving our customer service. And we incorporated the ongoing change initiatives into the transformation so that they became a part of the new model.

Gradually, people who at first said that they could never sell realized that they were already selling. We just gave them the knowledge, skills, and confidence to sell more frequently.

McKinsey: *Do you see a difference in the sales figures?*

Peg Marty: Yes, we have seen a significant increase in both new-product sales and cross-sales for important services that improve customer engagement and retention.

McKinsey: *Do you tell frontline colleagues what to sell?*

Peg Marty: No. Because our customers' needs are constantly changing, it's impossible for us to assume that we can know exactly what every one of them wants. Rather than try to prescribe

Margaret ("Peg") Marty

Margaret ("Peg") Marty, executive vice president and head of contact centers for RBS Citizens Financial Group ("Citizens"), has more than 30 years of banking experience. She assumed her current position in 2008 after serving as a retail director for Citizens for seven years. Before joining Citizens in 2001, she worked for FleetBoston Financial, where she was director of project planning and administration for the retail delivery group. Ms. Marty holds a bachelor's degree in finance and financial-management services from Northeastern University.

every answer, we want our colleagues to have enough understanding so that they can customize the experience for that individual customer.

That means we want people to know not only *what* to do but *why*. Colleagues who comply with requirements without understanding why will do their work mechanically. A colleague who understands why will be engaged in a way that feels special to the customer.

McKinsey: *What happens for the exceptions, when the customer issue involves more than the frontline colleague can address?*

Peg Marty: Complex products, such as mortgages, require specialized service, and of course certain investment products can be offered only by licensed specialists. We revamped our incentive programs to reward frontline colleagues not only for their direct sales but for their referrals as well. And we built back-end tracking to create a continuous feedback loop about the quality of those referrals, to see how many of them closed and how the experience was for the customers.

> We want people to know not only what to do but why. A colleague who understands why will be engaged in a way that feels special to the customer.

McKinsey: *And if there doesn't seem to be a solution for the customer?*

Peg Marty: All colleagues keep a tracking sheet to record any time that they can't solve the customer issue by themselves—if they had to transfer the customer or if they had to say no. Even if that transfer or "no" is within policy guidelines, we want to understand how often that happens and why so that we can improve the process for the customer. The colleague makes a notation and then brings the tracking sheet to the huddle the next morning.

The huddle is where colleagues and managers discuss the previous day's performance. The metrics all take the customer's point of view: rather than "average handle time," we talk about "valuing the customer's time." As issues come up, managers will triage them and address those related to skill or knowledge immediately. Issues related to policy or procedure, or something that just isn't working the way it should, all get raised through our problem-solving process.

Those items go on the huddle board at the team level. The team leader will then assign people to do further investigation. If the problem is bigger than the team can handle, the team leader brings it to the group-leader huddle board that day, and then the team leaders and group leader can work together to try to solve the problem. In addition, we collect all of the problems on a separate problem board, which is the basis for weekly root-cause problem-solving sessions at each tier of our organization.

If a problem is not within the groups' control to fix, then the "lean sustain" team—a small group of lean-management specialists—will take over and make cross-functional team meetings to ensure the problem is resolved appropriately. The most difficult problems ultimately come to my desk or the head of our operations group, and either of us can escalate them to senior leadership if necessary.

McKinsey: *How do you make sure that all of your colleagues—including leaders and managers—keep to these routines?*

Peg Marty: Fundamentally, there is no single aspect of lean management that makes it all possible. Instead, all of the elements—the voice of the customer, the colleague engagement, the tools, the problem solving, and our vision—work together to excite people about wanting to work differently.

But I would also say that a major part of the answer is our measuring and tracking of our lean-management discipline. For example, we worked hard to free up our managers' time so that they could spend 60 percent of their days on coaching rather than on filing low-value reports or completing non-customer-related work that others are better positioned to address. The team huddle board therefore shows how much time the manager spends on coaching. We reinforce this accountability at every level: each manager, starting from me, is responsible for coaching and for making sure that the managers who report to us are, in turn, coaching the managers and colleagues who report to them, all the way to the front line.

We also track our process confirmations—the meetings that managers hold with their immediate reports to confirm that everyone is following the same standards. Each manager now has a separate board that shows how many process confirmations he or she has conducted this week. And we assess quality by completing "skip level" confirmations between a senior manager and someone several levels away. I do some myself. If a process confirmation that I hold with a frontline manager reveals gaps in meeting a standard, I may need to work with the managers in between to see if there's a bigger issue.

McKinsey: *Where do you find the time?*

Peg Marty: Customer experience is the one thing that I am most accountable for. And the only way I can know whether our customer experience is what it needs to be is to invest the time in understanding how our customers are being treated and how we are handling customer interactions.

McKinsey: *Once a problem is solved, how do you communicate it back to the colleagues who first raised the issue?*

Peg Marty: Most important, if the resolution involves changing a standard operating procedure, we involve the original team in designing and testing the solution. The people who first reported the problem have the chance to see how the solution works with customers and can help improve it.

In some ways, that is the ultimate recognition we can give. People can tell themselves, "Not only did I bring this up, but I was part of the change."

McKinsey: *Are there still times when there is no solution?*

Peg Marty: Rarely, but even then we make sure to communicate with the colleagues who raised the issue. We explain why we are unable to change right now—whether because of a regulatory issue or some other reason—and we try to find ways to make the process better for the customer. We help colleagues frame the conversation with alternatives, so that neither the colleague nor the customer feels like we are simply saying no and closing the door.

McKinsey: *How do you find the right words for that?*

Peg Marty: We rely a lot on the colleagues themselves to come up with the phrases and test them to see how they work. It is important that we remain simple, clear, and personal in our messages to customers—and the colleagues who speak with customers every day are our best resource.

McKinsey: *Does it feel comfortable to you to rely on the front line in that way?*

Peg Marty: Empowering our service teams to find solutions without immediately judging quality is sometimes the hardest thing to do, but we know it is the right thing. We test our ideas, recognizing that not every idea is right in its initial thinking. But if it's allowed to breathe and take life, if everyone gets a chance to improve it through trial and error, it can become the best outcome for our customers.

In some ways, it might be easier for me to step in and define the solution for the team, but that would be a mistake. The people who are closest to the customer know best and are now encouraged and enabled to identify solutions.

McKinsey: *What does this capability mean for the bank?*

Peg Marty: As the contact center, one of our roles is to serve as a sort of listening post for our customers, which can help guide improvement almost everywhere in the bank. If, for instance, our frontline colleagues have an idea for how to make a new product easier to understand, we can provide recordings to the product-development team to show where customers are struggling and how a different approach might increase sales.

In one situation, we let our technology partners know about new functionality that customers wanted to have included as part of the interactive-voice-response (IVR) system. Once the IVR had the additional information, we saw a significant drop in the number of calls that we handle manually.

Before lean management, our IVR completion rate was already competitive with leading US retail banks. As a result, with every percentage point that our IVR completion rate increases, we see a bigger and bigger impact on our remaining total call volume. The improvements that we have deployed over the last few years have raised our IVR completion by 200 basis points, reducing our agent-assisted call volume by about 8 percent.

McKinsey: *Are people able to keep up with the pace of change?*

Peg Marty: We know change can be overwhelming, and so we always make a point of telling everyone why we're making a change—why the change is important and will help our customers and colleagues. People now expect to hear these explanations, and when they do, they are willing to make changes (see sidebar "The transformation story" in "The aligned organization").

McKinsey: *What differences do you see in how colleagues work with customers?*

Peg Marty: Before, we relied much more heavily on specialists, so customers who needed multiple services ended up getting passed from one specialist to another. Now, the tools and skills we built in the lean-management program have given our generalists a wider range of options for helping customers. That lets them take ownership for a solution from start to finish.

The handle time per call is a little bit longer, but the experience is much better for the customer and we have more flexibility in our staffing. The employees are also more engaged: they view themselves as advisers rather than just service providers.

McKinsey: *What other types of impact have you seen?*

Peg Marty: On the surface, we saw a number of easily measured improvements in areas such as productivity and sales. But to me, two deeper changes are much more important. The first is that every single manager in the contact center now understands how to do the right thing for the customer. And the second is the level of engagement and empowerment I see among the frontline colleagues who speak with customers every day.

Those two improvements have so many additional effects. Colleague retention has increased. People are more willing to take on additional responsibilities, allowing us to rely less on external recruiting and more on internal promotion. And as an organization, we are becoming more flexible and adaptable. Officially, we redefine our plan every six months, but quite honestly, we redefine it every day. And we can change every day if we need to.

McKinsey: *Does that include the bank's external partners, such as third-party call centers?*

Peg Marty: Increasingly it does. Although our partners have not been through the full lean transformation, everyone now follows the same basic processes, and their call-center managers have completed much of the same training that we give managers in our own call centers. In fact, we find that the most significant customer-experience improvements have been in the calls that our third-party provider handles.

McKinsey: *What are some of the next opportunities for lean management at Citizens?*

Peg Marty: We are doing more to improve our management systems. For example, we revised the format and focus of the huddle boards to put even more emphasis on the customer metrics that agents and teams can be accountable for, rather than slow-changing metrics that relate more to managing the bank as a whole. We are simplifying our incentive formulas so that they are easier to understand and to train toward. And we are supporting a much broader integration of the customer experience across the entire relationship—all contact centers, channels, and products. It's a living process, constantly changing, testing, listening, and learning. ○

Copyright © 2014 McKinsey & Company. All rights reserved.

Forging an identity at India’s Axis Bank

An interview with Jairam Sridharan, president of consumer lending

Axis Bank’s “Shikhar” transformation has reduced customer wait time for loans by 30 to 70 percent, while its total book has risen by almost 50 percent—even as hiring and IT investment remain almost flat. Employee quality of life has improved, too.

As one of India's leading financial institutions, Axis Bank has shown extraordinary growth over the last five years, expanding from about 800 branches, 3,500 ATMs, and $1.35 billion in revenue in 2008 to more than 2,000 branches, 11,000 ATMs, and $2.5 billion in revenue in 2013.

The bank's consumer-lending operation has grown even more rapidly, from launch in 2006 to a consumer-loan portfolio of almost $9 billion in 2013. Leading the business is Jairam Sridharan, president and head of consumer lending and payments for Axis Bank.

Mr. Sridharan spoke with McKinsey from his offices in Mumbai.

McKinsey: *Rapid growth in consumer lending is a challenge that many institutions around the world would love to have. What were some of the specific issues that Axis Bank started to see?*

Jairam Sridharan: With the business growing at a much faster pace, we realized it was becoming increasingly difficult to offer customers the turnaround times they wanted. Too many errors were creeping into our processes, and when we looked more closely, we saw huge geographic variations in how we were serving customers. Two customers with the same basic profile, buying the same kind of product, would have completely different experiences if one were in Gurgaon and the other in Bangalore.

In general, we seemed to lack a standard Axis way of doing things. Because we were growing fast and hiring all across the country at once, our people were bringing with them a potpourri of different processes that they had been exposed to in their previous jobs. As a result, teams were not working effectively together, with too much finger-pointing among the sales, credit, operations, and customer-service teams whenever problems came up.

McKinsey: *Were people at least trying to fix the problems?*

Jairam Sridharan: They were, but it was all very seat-of-the-pants. Restructuring the organization had little effect. We then thought that additional hiring might help us reduce turnaround times, but we later realized that the extra people might actually have made the problem worse. The next idea was a rotation program in which we transferred managers who were doing well in one region to a lower-performing region to see if they could work their magic. That wasn't sustainable either: with so much variation between regions, new managers ended up spending too much time just figuring out how the new region operated.

Trying all of these different ideas ultimately made us realize we needed a more systematic approach.

McKinsey: *What brought lean management to your attention?*

Jairam Sridharan: I had seen lean in action at my previous organizations. So when we started discussing the challenges we had, lean management seemed like a fit. In addition, my team and I visited a financial-services company in the Middle East—one that had been through its own transformation and had achieved some real breakthroughs. That gave me further conviction that lean would be the right approach for Axis as well.

McKinsey: *What led you to start with the loan-disbursement process?*

Jairam Sridharan

Jairam Sridharan became president and head of consumer lending and payments at Axis Bank in June 2013, after spending three years as senior vice president. Earlier in his career, he served in a range of domestic and international retail-finance roles at ICICI Bank and Capital One Financial. Mr. Sridharan holds a B.Tech degree from the Indian Institute of Technology, Delhi, and an MBA from the Indian Institute of Management, Calcutta.

Jairam Sridharan: We knew that buying a mortgage is one of the most crucial experiences a customer has in forming an opinion of a bank. And we knew that customer acquisition and onboarding—the very first step in that process—needed work. We thought that tackling this issue head-on would buy us a lot of goodwill, with the potential for quick returns if customers who were happy with us felt confident enough to deepen their relationship through additional products.

McKinsey: *What did the mortgage process look like at that time?*

Jairam Sridharan: The first big surprise was that the complete process wasn't laid out on paper anywhere. Everybody had in their heads how the process was supposed to work, but no one had taken the time to document it, especially as it evolved over time.

That led to still more surprises. We recorded everything that happened to a customer's file from the time when the customer made first contact to when the loan was fully approved and disbursed. We found that the average file went through more than 30 separate hand-offs; if someone had asked me before we finished this analysis, I would have guessed 5 or 6 hand-offs at the most. And much of what was going on was rework—checking data, rechecking data, going back to the customer for more documentation.

McKinsey: *What was the process like for employees?*

Jairam Sridharan: We took a camera to our processing centers to take photos and videos of the work environment. That was another eye-opener. When we presented these to our CEO and leadership team, they were shocked. "Is it always that noisy?" "Why are there so many stacks of files?" "It's so crowded—what are all these people doing, exactly?"

For some of us in senior management, this was effectively the first time that we were seeing what the centers were really like. In the past, every time we would visit a particular center, it would magically clean up.

McKinsey: *Like a visit from the queen.*

Jairam Sridharan: Exactly! On that type of formal visit, you get the impression that everything is working perfectly. But when the senior managers aren't there, when it's just the local managers and workforce, it's a completely different story. We could finally see how haphazard everything was.

McKinsey: *What effect did that realization have on the Axis leadership?*

Jairam Sridharan: The penny dropped for us: we knew we needed to clean things up. And we had the CEO's support, which was critical.

McKinsey: *What did "clean things up" mean to you?*

Jairam Sridharan: We could see some of the reasons that turnaround times were too long. The question was what to do. So often, people look to IT for a solution, thinking that some big automation or customer-relationship-management system will make everything better. But we came to recognize that the problem was our process—too many hand-offs, too much rework. If we fixed the process, we could get much better outcomes using the same technologies.

McKinsey: *There were no major IT investments?*

Jairam Sridharan: No. We made a conscious choice not to make any big-ticket investments in technology—or in infrastructure, for that matter. We wanted to go back to basics; our idea was to reduce the complexity in our processes, not to try to automate them or build new offices to house them in. It doesn't require any additional technology to do our work in the simplest possible way. And it doesn't require the whole office layout to be changed; just moving a few people can be enough to make hand-offs a lot cleaner.

McKinsey: *That sort of decision certainly helps manage constraints.*

Jairam Sridharan: Yes. At other organizations, any major initiative would have a big IT component. But once we saw how much we could achieve by removing bottlenecks and helping teams work better with one another, IT and infrastructure changes no longer seemed necessary.

McKinsey: *Were there any ways that you adapted lean management to the India context?*

Jairam Sridharan: There were a few, mostly minor. One was in the name we chose for our transformation. We wanted to reflect our aspirations and our culture in a way that would connect emotionally with our people. So rather than use an English word or an acronym, we chose to call the effort Shikhar, which is Hindi for "mountaintop" or "peak."

McKinsey: *What other changes did you make as Shikhar evolved?*

Jairam Sridharan: Very early on, in the region where we were first testing Shikhar, one of the most difficult issues we faced was with our best sales performers. These were the people who figured out how to deal with our old processes; they knew whom to talk to and how to hustle their way around obstacles. And they were turning in great numbers month after month—this was the top sales region in the country.

Now we were saying, “All of that subjectivity and wiggle room that helped you in the past is going to disappear and be replaced by standardized processes.” Naturally, some people didn’t like it; to them, there was nothing wrong with the old way.

McKinsey: *How did you convince them?*

Jairam Sridharan: We told them Shikhar would help them do even better. If they were doing 100 crore rupees[1] in business before, their new target would be to double that figure in six months, with no additional staff.

Once we gave them a challenge, they quickly began to realize how much time they had been wasting on rework. That got them on board pretty quickly.

McKinsey: *How did you extend Shikhar to other regions?*

Jairam Sridharan: We started by exposing all of the regional heads to what was happening in the test region. After a couple of days visiting the transformed sites, seeing the results, the lightbulbs started to go off. Soon everyone was clamoring to go next.

We also decided we could not ask line managers to implement Shikhar on their own. So we put together a transformation team, which we call our Shikhar Implementation Office. We ran a very public process of inviting and interviewing applicants, who would have more access to leaders and the potential to accelerate their careers. With that, we were able to handpick some exceptional people to help roll Shikhar out across the bank. If anything, we might have taken that step even earlier in the transformation.

As we added regions, I relied more and more on my direct reports and senior management to step up as champions for Shikhar. The effort was fairly intense at first, but it has eased now that Shikhar is sustaining itself through much more of the organization.

McKinsey: *How do you handle the transition from the transformation team back to the line manager?*

Jairam Sridharan: At first, line managers needed help to see that Shikhar was not just some program from the corporate office—it is fundamentally their program, their opportunity to show how successful they can be. Once

---

[1] One billion Indian rupees, or approximately $16 million as of October 2013.

To me, the biggest change is the dignity that Shikhar has given to every job here.

they understand that they aren't just facilitating somebody else's transformation but need to lead it themselves, their behavior totally changes. You see much more energy, passion—a much greater willingness to push back when they think an idea doesn't work for their group and to innovate until the idea does work.

McKinsey: *What has Shikhar meant for customers?*

Jairam Sridharan: The customer experience is very different now, much more predictable. When a loan applicant comes in for the first time, the sales agent presents a simple checklist of all of the required documents, adapted for the type of customer and loan. The list clearly says when the documents are needed—which ones immediately and which ones after the loan is approved. That step alone eliminates a huge amount of rework because there's usually no need to go back to the customer for missing documents. The agent will then give the customer a specific date for when to expect a status report via text message.

McKinsey: *How long does the process take now as opposed to before?*

Jairam Sridharan: For loan disbursement, we reduced the time required by 30 to 50 percent, depending on the product. For unsecured loans, the reduction is even greater: approximately 70 percent. Customers are spending many fewer days waiting than they did before.

McKinsey: *What effect has that change had on customer-satisfaction figures?*

Jairam Sridharan: We have seen a significant improvement in acquisition and onboarding and even better results as Shikhar expanded to other areas of the bank—especially in handling customer-service requests.

McKinsey: *How is the organization responding?*

Jairam Sridharan: There are some obvious improvements. Productivity is one: the capacity of our transformed teams has risen by about 40 percent. As a direct result, we have grown our book by 50 percent with almost no additional hiring in the processing centers.

Other parts of the bank—for example, branch managers on the deposit side of the business—are much more willing to share lending leads with us because they are confident in our ability to execute. We're seeing a similar shift among our external partners, including real-estate brokers and auto dealers, now that we have brought them in to see our offices and shown how our process works.

The standardization that Shikhar has brought us also means that we can start a much more robust mobility program. Instead of spending weeks coming up to speed, transferred managers can be effective in their new roles almost from the start.

For me, the strongest indicators of success are what I hear from our people. People who join us from other banks immediately notice how much more they can get done at Axis than they could at their prior jobs and invariably refer to Shikhar as what differentiates Axis from other institutions. And it sounds minor, but it's quite important: people go home on time, even at month-end. They are no longer killing themselves to meet their monthly targets.

McKinsey: *As a leader, what changes would you say make the biggest difference to your people?*

Jairam Sridharan: To me, the biggest change is the dignity that Shikhar has given to every job here. Before Shikhar, the criterion people were really interested in was our sales numbers, so all of the glory went to the sales team. In the new world, in which metrics such as turnaround time and "first time right" get as much attention as sales, everyone gets their share of applause and pats on the back. People in back-office roles, such as credit and operations, are much more positive than they were in the past, and the sales team is continuing to excel.

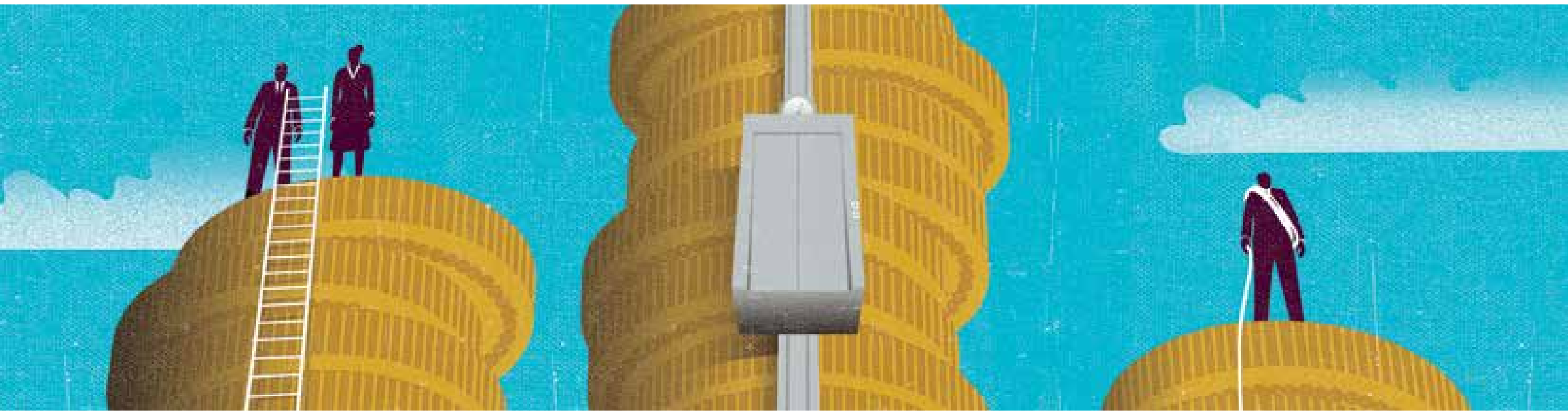
McKinsey: *And what made the biggest difference for Axis as an institution?*

Jairam Sridharan: Shikhar has given us a stronger identity. We now have a group of people who are all working in the same way, across the country, regardless of where we came from. That has a huge impact on how each of us sees Axis.

And it's spreading further across the bank. We have started a big effort on the deposit side of the business, and there are other areas that we have yet to touch. Even on the assets side, we are far from where we aspire to be, and we continue to focus on maturing the transformation in a sort of "Shikhar 2.0." ○

Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents



The truth about customer experience

To maximize customer satisfaction, companies have long emphasized touchpoints. But doing so can make customers seem happier than they actually are and divert attention from the bigger, more important issue: the customer’s end-to-end journey.

Ewan Duncan,
Conor Jones, and
Alex Rawson

Think about a routine service event— say, a product query—from the point of view of both the company and the customer. The company may receive millions of phone calls about the product and must handle each one well. But if asked about the experience months after the fact, a customer would never describe such a call as simply a "product question." Understanding the context of a call is key. A customer might have been trying to ensure uninterrupted service after moving, make sense of the renewal options at the end of a contract, or fix a nagging technical problem. A company that manages complete journeys would not only do its best with the individual transaction but also seek to understand the broader reasons for the call, address the root causes, and create feedback loops to continuously improve interactions upstream and downstream from the call.

In our research and consulting on customer journeys, we've found that organizations able to skillfully manage the entire experience reap enormous rewards: enhanced customer satisfaction, reduced churn, increased revenue, and greater employee satisfaction. They also discover more-effective ways to collaborate across functions and levels, a process that delivers gains throughout the company.

Consider a leading pay-TV provider we worked with. Although it was among the best in the industry at managing churn, it faced a maturing market, heightened competition, and escalating costs to keep its best customers. Churn was a familiar problem, of course, and the typical reasons for it were well understood: pricing spurred some customers to leave, while competitors' technology or product bundles lured others away. The common ways to keep customers were also well known, but they were expensive, including such things as upgrade offers, discounted rate plans, and "save desks" to intercept defectors. So the executives looked to another lever—customer experience—to see if improvements there could reduce churn and build competitive advantage.

As they dug in, they discovered that the firm's emphasis on perfecting touchpoints wasn't enough. The company had long been disciplined about measuring customers' satisfaction with each transaction involving the call centers, field services, and the website, and scores were consistently high. But focus groups revealed that many customers were unhappy with their overall interaction. Looking solely at individual transactions made it hard for the firm to identify where to direct improvement efforts, and the high levels of satisfaction on specific metrics made it hard to motivate employees to change.

As company leaders dug further, they uncovered the root of the problem. Most customers weren't fed up with any one phone call, field visit, or other interaction—in fact, they didn't much care about those singular touchpoints. What reduced satisfaction was something few companies manage—cumulative experiences across multiple touchpoints and in multiple channels over time.

Take new-customer onboarding, a journey that typically spans about three months and involves six or so phone calls, a home visit from a technician, and numerous web and mail exchanges. Each interaction with this provider had a high likelihood of going well. But in key customer segments, average satisfaction fell almost 40 percent over the course of the journey. It wasn't the touchpoints that needed to be improved—it was the onboarding process as a whole. Most service encounters were positive in a narrow sense—employees resolved the

The solution to broken service-delivery chains isn't to replace touchpoint management. Instead, companies need to embed customer journeys into their operating models.

issues at hand—but the underlying problems were avoidable, the fundamental causes went unaddressed, and the cumulative effect on the customer was decidedly negative.

Remedying matters would add significant value, but it wouldn't be easy: the company needed a whole new way of managing its service operations in order to reinvent the customer journeys that mattered most.

More touchpoints, more complexity

The problem the pay-TV provider encountered is far more common than most organizations care to admit, and it can be difficult to spot. At the heart of the challenge is the siloed nature of service delivery and the insular cultures that flourish inside the functional groups that design and deliver service. These groups shape how the company interacts with customers. But even as they work hard to optimize their contributions to the customer experience, they often lose sight of what customers want.

The pay-TV company's salespeople, for example, were focused on closing new sales and helping the customer choose from a dense menu of technology and programming options—but they had very little visibility into what happened after they hung up the phone, other than whether or not the customer went through with the installation. Confusion about promotions and questions about the installation process, hardware options, and channel lineups often caused dissatisfaction later in the process and drove queries to the call centers, but sales agents seldom got the feedback that could have helped them adjust their initial approach.

The solution to broken service-delivery chains isn't to replace touchpoint management. Functional groups have important expertise, and touchpoints will continue to be invaluable sources of insight, particularly in the fast-changing digital arena.[1] Instead, companies need to embed customer journeys into their operating models in four ways: they must identify the journeys in which they need to excel, understand how they are currently performing in each, build cross-functional processes to redesign and support those journeys, and institute cultural change and continuous improvement to sustain the initiatives at scale.

Identifying key journeys

Defining the journeys that matter and deciding where to begin the transformation requires both top-down, judgment-driven evaluations and bottom-up, data-driven analysis, to varying degrees. We recommend pursuing these efforts in parallel whenever possible.

An executive working session, drawing on existing research, may be sufficient to identify the most significant journeys and the pain points within them—the specific service shortcomings that damage customers' experience. That research is typically fragmented and often includes data on the customer volume in

[1] See David Edelman, "Branding in the digital age: You're spending your money in all the wrong places," *Harvard Business Review*, December 2010.

a given journey, reasons for call-center complaints, and obvious gaps in performance—for example, discrepancies between promises made in marketing materials and services actually delivered.

At three companies we've worked with, sessions of this type directed attention to key customer-journey problems. The executive team at a fixed-line telecom focused on the 50 percent dissatisfaction rate with the installation process; the team at a leading energy player targeted the 40 percent churn among customers moving houses; and executive sessions at an integrated telecom zeroed in on the more than one-third of new fiber-optic customers who canceled before installation or within 90 days. In each case the executive attention led to a concerted effort to fix the targeted journey, while leadership's "walking the talk" generated support for improvement programs and broader organizational changes. These results show how initial top-down work can identify early wins (often policy or process changes that can be implemented quickly and centrally) that set the tone for further transformation.

For companies seeking just to fix a few glaring problems in specific journeys, such top-down problem solving can be enough. But those that want to transform the overall customer experience need to simultaneously create a detailed road map for each journey, one that describes the process from start to finish, takes into account the business impact of optimizing the journey, and lays out a common-sense, feasible sequence of initiatives.

This is a bottom-up effort that starts with additional research into customers' experiences of their journeys and which ones matter most, both to customers and to business performance. A company should draw on customer and employee surveys along with operational data across functions at each touchpoint, to assess performance and gauge how it is doing relative to the competition. Best-in-class companies use regression models to understand which journeys have the greatest impact on overall customer satisfaction and business outcomes, and then run simulations to get a picture of the potential impact of various initiatives.

Doing this research and analysis well is no small task, because it typically means acquiring new types of information and assembling it in new ways. For many companies, combining operational, marketing, and customer and competitive research data to understand journeys is a first-time undertaking, and it can be a long process—sometimes lasting several months. But the reward is well worth it, because the fact base that's created allows management to clearly see the customer's experience of various journeys and decide which ones to prioritize.

Understanding current performance

Once a company has identified its key customer journeys, it must examine each one in detail in order to understand the causes of current performance. This deep dive involves additional research, including customer and employee focus groups and call monitoring. Combined with the initial bottom-up analysis, it allows the company to map the most significant permutations of each journey as the customer experiences and would describe it, revealing the sequence of steps she is likely to take from start to finish. The mapping exercise also exposes departures from the ideal customer experience and their causes, and often reveals policy choices or company processes that unintentionally generate adverse results. For example, many companies charge for phone-based technical support, thinking that imposing a fee will steer customers to self-service options. But the consequence may be numerous callbacks or inadequate do-it-yourself fixes, both of which degrade the customer experience.

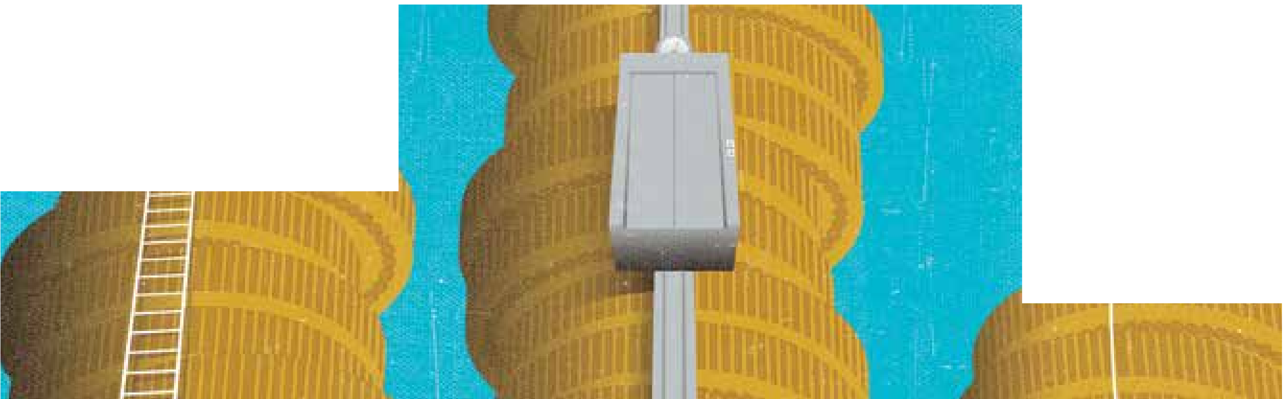
Consider the telecom faced with 50 percent initial customer dissatisfaction. Executives knew the “provisioning journey”—the process of installing fixed-line service at a customer’s home—was a priority, and as they probed new data, they began to see an ominous pattern. When they surveyed new customers about their experience from the time they ordered service through installation and activation (a journey that spanned four touchpoints), they learned that although about half were thrilled with the service, giving it an eight or a nine on a ten-point scale, the other half were incensed, giving it a one or a two.

On further investigation, the firm discovered that the installation process for unhappy customers was compromised by delays that ultimately stemmed from misaligned incentives: back-office employees weren’t measured on or rewarded for the accuracy of order tickets and so sometimes processed them with missing or incorrect information. The company’s traditional customer-experience dashboard had missed the problem because it included no measure of end-to-end success. “Our dashboard metrics were like a watermelon,” one senior manager told us. “On the outside everything was green, but when you looked inside, it was red, red, red.”

Redesigning the experience and engaging the front line

Once a company has identified its priority journeys and gained an understanding of the problems within them, leaders must avoid the temptation to helicopter in and dictate remedies; indeed, they should refrain from any solutions (including ones from outside experts) that don’t give employees a big hand in shaping the outcome. Even if a fix appears obvious from the outside, the root causes of poor customer experience always stem from the inside, often from cross-functional disconnects. Only by getting cross-functional teams together to see problems for themselves and design solutions as a group can companies hope to make fixes that stick.

The energy company identified “moving house” as a journey it needed to get right. Executives started by gathering representatives from the various operational and commercial groups involved in that journey. The setup for the meeting was low tech yet powerful: one wall of the conference room was devoted to posters, customer quotes, and visual depictions of what customers experienced from the time they decided to move until service was activated in their new homes.



How journeys pay off

Most executives we talk to readily grasp the journey concept, but they wonder whether perfecting journeys pays off in hard dollars. Our annual cross-industry customer-experience surveys (including pay-TV, retail-banking, and auto-insurance firms, to name a few) show that it does.

Companies that excel in delivering journeys tend to win in the market. In two industries we've studied, insurance and pay TV, better performance on journeys corresponds to faster revenue growth: in measurements of customer satisfaction with the firms' most important journeys, performing one point better than peer companies on a ten-point scale corresponds to at least a two-percentage-point out-performance on revenue growth rate (see sidebar "Good journeys fuel growth"). Moreover, the companies that excel in journeys have a more distinct competitive advantage than those that excel in touchpoints: in one of the industries we surveyed, the gap between the top- and bottom-quartile companies on journey performance was 50 percent wider than the gap between top- and bottom-quartile companies on touchpoint performance. Put simply, most companies perform fairly well on touchpoints, but performance on journeys can set a company apart.

Our research also shows that performance on journeys is more predictive of business outcomes than performance on touchpoints is. Indeed, across industries, performance on journeys is 30 to 40 percent more strongly correlated with customer satisfaction than performance on touchpoints is—and 20 to 30 percent more strongly correlated with business outcomes, such as high revenue, repeat purchase, low customer churn, and positive word of mouth.

It proved to be a breakthrough meeting. Seeing the journey represented from start to finish was powerful, because no single group had ever had visibility into—let alone accountability for—the entire experience, and therefore didn't recognize the journey's shortcomings. It immediately became clear that the process had evolved into something far more complex than anyone had realized; there were 19 customer interactions in all. Many of the steps involved complex hand-offs between internal groups, creating multiple places where things could—and did—go wrong. But the ahas were not just about operational glitches: some of the unhappy customers' frustration arose from a lack of communication at key moments when, operationally, things were working fine—for example, when scheduling end of service at an old address. At other points (for instance, after starting service at a new address), customers got too much information and were confused by apparently conflicting messages.

Once the team members had identified the reasons for the myriad hand-offs and begun to appreciate the challenges their counterparts in other operational groups faced, they could sit down to design a new approach. They brainstormed solutions in a "war room," launched frontline teams to pilot and improve upon ideas, and empowered the teams to take risks and experiment through trial and error. Finally, they engaged customers in the design process, to ensure that the approach developed would please them. The result: a new process that was four times as efficient, far more satisfying to customers, and much better aligned with the company's brand promise, "We deliver." The proportion of customers dissatisfied with the experience of moving house dropped significantly, resulting in a revenue gain of €4 million. (For an example of a typical working process, see Exhibit 2 in sidebar "Good journeys fuel growth").

A leading car-rental company we worked with ran a similar series of cross-functional efforts—pilots at key airport locations involving frontline teams including counter staff, car cleaners, exit-gate personnel, and bus drivers. Management chose several target geographies, assigned a senior executive to each, and tasked the frontline teams with three things: mapping the customer experience and looking for fresh service ideas to improve it, getting frontline employees from each of the functions to collaborate on identifying the causes of problems and finding solutions, and coordinating activities to maximize the speed of service from the customer's point of view. A team in one region discovered a major bottleneck: the company frequently fell short of clean cars during peak demand. Among the remedies it suggested was installing a buzzer between the rental counter and the car lot. When the line at the counter grew long, staff members could alert workers in the lot that they would soon need more cars. By the end of the pilot, the unit's on-site customer-service scores had doubled, revenues from upselling had climbed 5 percent, and the cost of serving customers had dropped 10 percent. In addition, the marketing team—involved from day one—helped identify changes to the exit process (when customers pick up a car on the lot) that boosted upsell by broadening the choice of available vehicles.

Customer-service scores doubled, upselling revenues climbed 5 percent, and the cost of serving customers dropped 10 percent.

Sustaining at scale by changing mind-sets

Of course, analyzing journeys and redesigning service processes get a company only so far. Implementing the changes across the firm is hugely important—and hugely challenging. A detailed discussion of how to scale and sustain transformation initiatives is beyond the purview of this article. However, delivering at scale on customer journeys requires two high-level changes that merit mention here: one, modifying the organization and its processes to deliver excellent journeys, and two, adjusting metrics and incentives to support journeys, not just touchpoints.

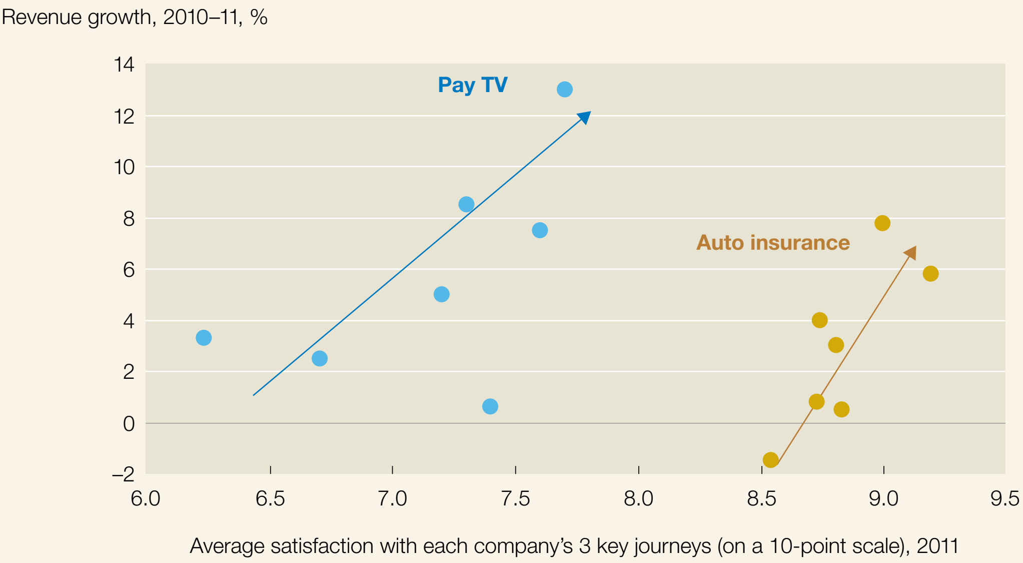
Organizationally, adopting a journey-centric approach allows companies to move from siloed functions and top-down innovation to cross-functional processes and empowered, bottom-up innovation. Most companies keep their functional alignments intact and add cross-functional working teams and processes to drive change. To that end, many companies we have studied set up a central change-leadership team with an

Good journeys fuel growth

Studies of companies in the pay-TV and auto-insurance industries reveal a strong relationship between customers' satisfaction with the end-to-end service experience and revenue growth. Exhibit 1 shows the results for seven companies in each industry.

Exhibit 1

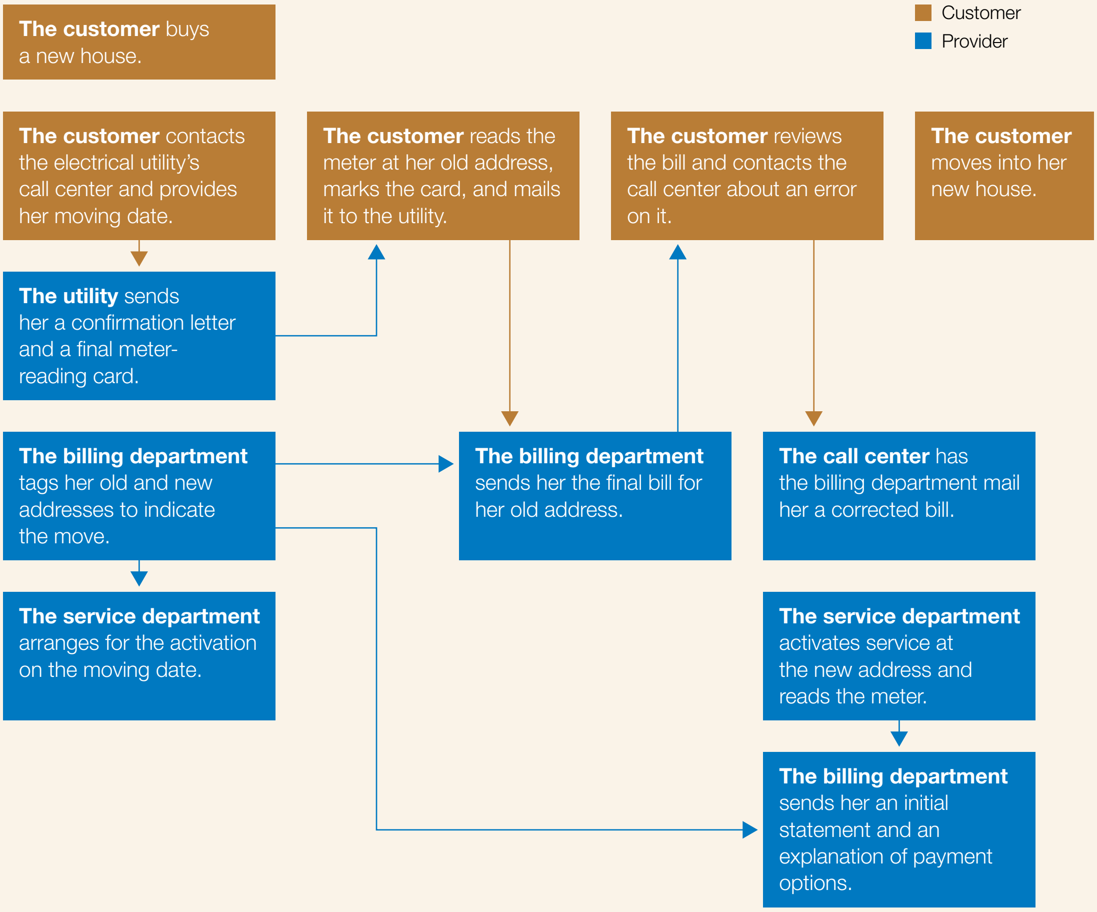
Higher satisfaction leads to higher revenue growth.



Moving to a new home launches a customer on an array of journeys with service providers, including phone, Internet, cable, and utility companies. The "moving journey" begins with a call informing the company of the move and ends with an accurate initial bill at the new address. Exhibit 2 shows a simplified electrical-service journey from the perspectives of both the customer and the provider.

Exhibit 2

An excellent customer experience must last the entire journey.


Customer
Provider
The customer buys a new house.
The customer contacts the electrical utility's call center and provides her moving date.
The customer reads the meter at her old address, marks the card, and mails it to the utility.
The customer reviews the bill and contacts the call center about an error on it.
The customer moves into her new house.
The utility sends her a confirmation letter and a final meter-reading card.
The billing department tags her old and new addresses to indicate the move.
The billing department sends her the final bill for her old address.
The call center has the billing department mail her a corrected bill.
The service department arranges for the activation on the moving date.
The service department activates service at the new address and reads the meter.
The billing department sends her an initial statement and an explanation of payment options.

executive-level head to steer the design and implementation and to ensure that the organization can break away from functional biases that have historically blocked change. These roles tend not to be permanent—indeed, success ultimately involves changing company culture so much that the roles are no longer needed—but they are critical in the early years. The energy company located its change team right next to the boardroom to signal the importance of its effort. The pay-TV provider promoted a functional leader and had him report directly to the CEO. Several telcos we worked with that elected to have more-permanent organizational change left their cross-functional change teams in place to ensure sustained checks and balances in order to address the natural tensions across functions. In the most effective cases, companies design cross-functional working and accountability into their core business processes, establishing clear ownership, authority, metrics, and performance expectations that supplement the existing functional structures.

Consider how this worked at the car-rental business. As efforts ramped up at the pilot locations, the CEO gave each member of his executive team responsibility for implementation across all sites in a particular geographic region, knowing that would require the executives to partner with peers in challenging new ways. The CFO, for example, might be responsible for keeping tabs on cross-functional improvements in the Philadelphia area and for taking any issues that arose, including purely operational ones, up the chain of command. And although the company had a solid playbook for its first pilot, it explicitly challenged the teams in each

Using journeys to differentiate

Identifying the journeys that matter most can be beneficial even when companies don’t have a nagging customer-service problem—the effort can help them find a competitive differentiator. One car-rental agency wanted to improve its already good service and distinguish itself from its competitors in light of the increasingly commoditized nature of the industry. Its investigation into what mattered to customers highlighted the airport pickup, a journey that might take less than an hour but that crossed a half dozen or more touchpoints. The most important aspect was the end-to-end speed of service, from bus to rental counter to car to exit gate—but no one person owned that issue.

By focusing cross-functionally on delivering speed at the airport pickup, the company was able to innovate in ways that helped set it apart: it introduced more flexibility in car selection, developed technology to help customers manage their reservations from mobile devices, and installed virtual customer-service kiosks at high-volume locations to give people the option of skipping the line but still working with a live agent. It also pushed hard to shift the emphasis from “cars available” to “the right car for the right customer at the right time.” These efforts provided a real opportunity to differentiate not just the service experience but the brand itself.

location to adapt the playbook and make it their own, and to try to beat the original location's results. The frontline teams were empowered to continually test new ideas that the executives heading the teams could then spread to the rest of the business.

Back at the energy company, the scope was broadened to include five critical journeys, with an executive-team member leading each effort and conducting weekly reviews with stakeholders from each function. And at the integrated telecom, the executive team created a new permanent role, redeploying senior people from siloed functions to become "chain managers" responsible for overseeing specific journeys, such as fiber-cable provisioning. It created war rooms where the chain managers could monitor the efforts and meet with the functional teams involved. Thus the program was driven by cross-functional, bottom-up idea generation but had enough top-down ownership and coordination to maintain momentum and focus.

Once their new management structures are in place, organizations must identify the appropriate metrics and create the appropriate measurement systems and incentives to support an emphasis on journeys. Even if a company already uses a broad customer-satisfaction metric, moving the focus from touchpoints to journeys typically requires tailored metrics for each journey that can be used to hold the relevant functions and employees accountable for the journey's outcome. Very few companies do that today. For the telco focused on new-product installations, this meant holding the sales agent, the technician, the call-center, and the back-office agents responsible for a trouble-free installation and high customer satisfaction at the end of the process, instead of simply requiring a successful hand-off to the next touchpoint. For the energy company, it meant new cross-functional measures for each frontline employee who handled address changes (for example, error-free capture by call-center agents of information needed downstream). Disney famously builds its entire theme-park culture around delivering the guest experience: from hiring through performance reviews, it assesses each frontline team member on his or her customer-friendly skills. And one large retail bank started requiring each executive-team and board member to call five dissatisfied customers a month—a simple but effective way of holding the leadership's feet to the fire on issues related to customer experience.

Optimizing a single customer journey is tactical; shifting organizational processes, culture, and mind-sets to a journey orientation is strategic and transformational. Journey-based transformations are not easy, and they may take years to perfect. But the reward is higher customer and employee satisfaction, increased revenue, and lower costs. Delivering successful journeys brings about an operational and cultural shift that engages the organization across functions and from top to bottom, generating excitement, innovation, and a focus on continuous improvement. ○

Ewan Duncan and **Alex Rawson** are principals in McKinsey's Seattle office, and **Conor Jones** is a principal in the Dublin office. Adapted with permission from "The truth about customer experience," by Ewan Duncan, Conor Jones, and Alex Rawson, *Harvard Business Review*, September 2013. Copyright © 2013 Harvard Business School Publishing Corporation. All rights reserved.

Table of contents

Enabling people to lead and contribute to their fullest potential

Helping people develop to their full potential is at the heart of a lean organization. When people are not empowered to contribute, enabled to develop, or given proper support, the effects are profound. Motivation flags, intellectual capacity is wasted, talent is lost, and value is forfeited.

We believe that lean organizations share three key principles in the way they treat their people:

- creating a culture that respects and empowers people
- cultivating leaders and managers who are committed to developing others
- managing people through a transparent and fair process

These principles are reflected in the articles and interviews throughout this section. To see what they look like in action, we share another day in the life of Mary—this time, a particularly difficult day when half of her claims-processing team is out sick. Thanks to her thoughtful approach, the systems she has put in place with her team and her colleagues, and the trust she has encouraged, she manages to avert a crisis through a series of well-judged actions.

By using lean-management tools and the behaviors associated with them, Mary is able to keep her team working together effectively and her department running smoothly. Her story also demonstrates how the three principles above can help lean companies operate seamlessly while building a strong culture based on mutual respect, collaboration, and common purpose. Lean companies are adept at creating an expectation of continuous improvement and fostering an environment where people bring the best of themselves to work.

Building skills to manage temporary shortages

Lean tools and behaviors

As soon as she arrives at the office, Mary knows it won't be a normal Friday. Half of her department is out sick. She must determine who **has the skills** to take on absent colleagues' work and must be there to support all of her teams. She begins her **morning meeting** with team leaders by outlining the day's tasks, agreeing on expectations, and asking if anyone has questions or concerns.

Matching skills to tasks

Daily huddle

Mary then **sits down with** Eric and Jan to watch them process claims and is pleased to see they follow the **current standard operating procedures** step by step. Eric evidently knows the process inside and out, so Mary decides to update his skills profile. He also notes **a couple of changes** that might be helpful, which Mary suggests he bring to the next problem-solving session. On the other hand, Jan seems to be struggling, so Mary arranges for a peer to **spend an hour observing and coaching her** later in the week.

Process confirmation

Standard work

Standards developed by the team

Peer-to-peer coaching

As she walks around her department, Mary realizes that a backlog is developing in a particular type of claim that always reaches high volumes on Fridays. In light of the day's distractions, she quickly **calls her team back together** to remind them of the importance of clearing these claims. She asks Phil, a team member with **wide-ranging experience**, to help out with any queries.

Constant communication

Cross-training

Later that morning, Mary **meets with fellow managers in a tier-three huddle** to make sure her staff shortage isn't creating problems elsewhere. Her colleague **Sophia** volunteers that her team is ahead of schedule and could spare some time to **help Mary's team with its workload.**

Daily huddle

Shared ownership

Load balancing

Toward the end of the day, Phil comes to see Mary. The constant Friday battle with high-volume claims started him **thinking about changes in customers' needs.** He has ideas for improving the claims-handling process and offers to raise them at the next team meeting. Impressed, Mary decides to consider **offering Phil a deputy manager's role** on her team.

Root-cause problem solving

Clear career path

As the office empties and Mary prepares to leave, she reflects on the day's events. **Phil was emerging as a leader, Eric was consolidating his technical expertise, and Jan needed support but was eager to improve.** Mary is proud of how her team had risen to the challenge of a difficult day.

Building team members' skills

In working with her colleagues, Mary shows how a respectful culture fosters transparency, enabling everyone to see how they and others are performing from day to day. It creates clear expectations about what it is fair to ask people to do—and provides them with the tools, systems, and training to fulfill these objectives. Mary, for example, conducts process confirmations with Eric and Jan—side-by-side meetings in which the leader and team member evaluate how a standard operating procedure (SOP) is going for the team member. She also understands that because the team members use the SOPs every day, they are best positioned to make changes. She therefore suggests that Eric bring his ideas to the next problem-solving discussion.

Leaders and managers in a respectful culture make sure they follow up on expectations and provide regular coaching and fact-based feedback. When Mary realizes Jan is struggling to follow the best-practice guidelines, she sets up a private meeting with her to find a way to help Jan learn—in this case, through side-by-side coaching from a peer who has demonstrated mastery.

To enable people to contribute their best, companies need to nurture leaders and managers who are committed to making others shine—leaders who can win hearts and minds and create an emotional bond that is hard to break. Such leaders set expectations that are motivating but realistic, as Mary does by briefing her team at the beginning of the day, communicating constantly with them and with her fellow managers, and acting as a role model. In nominating Phil to help with colleagues' queries, she exemplifies another lean leadership skill: knowing how to step back and act as an enabler, not an executor.

Phil's suggestions for process changes illustrate another hallmark of a lean organization: when leaders build a sense of ownership, people feel problems are theirs to solve. Being empowered to raise issues, challenge objectives, and come up with solutions dramatically increases not just their motivation but also the value they deliver.

Creating the right culture and nurturing the right leaders are major steps toward enabling people to contribute to their fullest potential. However, organizations also need to get the basics right. That means attracting and retaining the right people—and redeploying them to more suitable roles if necessary—so as to deliver the greatest value to customers in the most efficient way. People's skills must also be matched to the most appropriate tasks, as when Mary arranges coverage for absent team members. Having observed daily huddles, performed process confirmations, and engaged in constant coaching and feedback, Mary is well equipped to make these decisions. And the fact that the entire organization follows the same system gives her more confidence that when colleagues from other teams fill in, they will be able to do so productively.

Managing talent also involves promoting and rewarding the right capabilities. When Mary recognizes Phil's leadership potential and Eric's deep expertise, she updates their skills profiles and starts to think about building their capabilities and shaping their career paths. Leaders need to define an individual career path for each employee, one that provides customized opportunities for promotion and development.

The articles and interviews that follow give a flavor of how the principles of enabling people to lead and contribute to their fullest potential are put into practice in the day-to-day work of real-life lean organizations.

Naturally, achieving this level of engagement is far from easy. Bryan Robertson, the former director of lean transformation at British insurer Direct Line, describes the profound shift needed in people development, observing that "lean management is very much about changing the way leaders think, lead, and behave." He explains that his organization defines a leader not as someone who tells people what to do but as "someone who coaches others to be successful and achieve their true potential."

For this to happen, performance management needs to become a transparent and routine part of everyone's working day. As "Guiding the people transformation: The role of HR in lean management" notes, structures "must evolve to support ordinary, casual conversations about how work is progressing and where it could improve."

Respect is central to managing people. In "Lean management from the ground up in the Middle East," Tanfeeth CEO Suhail Bin Tarraf explains, "It means developing [our own] skills to their fullest potential and helping colleagues develop theirs as well. . . . No one person can do it alone, so we empower our people."

The last article in this section, "Lessons from emerging markets," looks at how companies can use the "human factor" to overcome organizational and cultural barriers to change, enabling them to make major strides in revamping how they work with customers and maximizing value from limited resources.

72

Cultural change at Direct Line Group

An interview with Bryan Robertson, former director of lean transformation

At a leading UK-based insurer, profound cultural change is not only increasing efficiency—it is enabling employees to achieve things they never thought they could.

79

Guiding the people transformation

The role of HR in lean management

By focusing on five critical areas, HR can ensure that the human side of lean management creates lasting value for the organization.

89

Lean management from the ground up in the Middle East

An interview with Suhail Bin Tarraf, CEO of Tanfeeth

By incorporating lean-management principles from an early stage, a Gulf-based shared-services provider has increased employee engagement and effectiveness, even while growing rapidly.

96

Lessons from emerging markets

Three success stories illustrate how emerging-market organizations are using lean management to navigate around constraints and inspire new levels of commitment from their people.

Cultural change at Direct Line Group

An interview with Bryan Robertson, former director of lean transformation

At a leading UK-based insurer, profound cultural change is not only increasing efficiency—it is enabling employees to achieve things they never thought they could.

Direct Line Group, based in Bromley, England, is a leading provider of personal-lines general insurance, with operations in Germany, Italy, and the United Kingdom.[1]

Under the leadership of Bryan Robertson, then the director of lean transformation, Direct Line Group officially launched its lean-management transformation journey in early 2010. The initial focus was on improving customer service and productivity in the company's sales and service operations. Since then, the scope has gradually expanded, with plans in place to cover almost the entire organization.

In October 2012, McKinsey spoke with Mr. Robertson at its offices in London. Mr. Robertson has since left Direct Line for another opportunity.

McKinsey: *What were the circumstances that drove Direct Line Group to look at lean management?*

Bryan Robertson: Direct Line Group had long been profitable, but as of late 2009 we were actually taking a loss. Our new CEO, Paul Geddes, came in with a new executive team, looking for ideas to turn the business around. He said that while we would commit to making some technology investments in claims and pricing, that effort alone wouldn't be enough. We needed to look at our overall operational effectiveness—meaning, most important, how we enable our people and engage with our customers. And to make Direct Line Group more effective, they wanted to launch lean management.

McKinsey: *What were the reasons for starting with the sales and service call centers?*

Bryan Robertson: We spent quite a bit of time visiting other organizations to find out what the right transformation approach would be. One of the key messages we kept hearing was to focus on one area of the business, making sure you get the transformation absolutely right. On the way, you find out what works and what doesn't, and it's a great way to spotlight success for the rest of the organization.

At this time, Darrell Evans, the managing director of sales, service, and partnerships, came to us and said, "I'm really keen to start a lean transformation."

Now, when you start a transformation, I think it's very important to understand why you're doing it in the first place. Far too often, when people talk about lean, the view in their head is all about cost savings and process improvement. The lean management that we want to be involved in is not about that, not as the primary reason. It's about cultural change to deliver long-term improvements for our people, our customers, and our shareholders.

McKinsey: *What did Darrell tell you?*

Bryan Robertson: He said, "I want to make sure that every site is working the same way, that we share best practices, and that we really engage our employees to put the customer first." That's exactly the type of cultural focus we were looking for.

There were other advantages, too. Sales and service is a big department, giving us a chance to make a difference at a noticeable scale. There were about 3,500 people working across ten operational sites, representing different brands with different products. So it gave us a real opportunity to find out how well lean management could work.

[1] In early October 2012, the group completed a successful initial public offering representing 34.7 percent of its total share capital, generating £911 million gross proceeds, which were received by the Royal Bank of Scotland Group.

McKinsey: *What were the goals for that initial phase?*

Bryan Robertson: The stated goal was a 15 percent efficiency improvement. But Darrell and I wanted the transformation to deliver a lot more than that.

And it did. It improved employee engagement by 10 percent. It improved the consistency of how we ran our business across all our sites. And it improved communication across the different sites, so we had a common language to run the business, to solve problems, to share best practices, and to improve results.

McKinsey: *What effect did it have on customer service?*

Bryan Robertson: The employees that the program targeted were the ones who deal with the customers every day. We knew they would have the best ideas because they knew what frustrated customers and what customers were really seeking.

They said, for instance, that some of the questions we asked had become too complex for the customer. We then asked the frontline staff to redesign the call guides according to what they knew the customers wanted to know.

By starting with sales and service—the front end—we could begin seeing how to improve the business from end to end. It was a way to ask questions such as: How should we market to our customers? How do we engage our customers

Bryan Robertson

From 2009 through the end of 2012, Bryan Robertson was the director of lean transformation for Direct Line Group, one of the largest UK-based general insurers, with over 20 million in-force policies as of September 30, 2012. Mr. Robertson started his career in the construction industry but in 1994 moved into telecommunications, leading large-scale continuous-improvement transformations at Motorola and Damovo before joining the Royal Bank of Scotland (RBS) Group in 2003. While at RBS, Mr. Robertson helped transform a wide range of functional and business groups, and in 2006 he joined RBS Insurance. Now known as Direct Line Group, the company completed its separation from RBS with its initial public offering in late 2012.

Mr. Robertson holds a BS in quantity surveying from the University of Abertay Dundee and an MBA from the University of Edinburgh.

When people start to show pride in telling others about their ideas—instead of keeping them to themselves—I know the change is meaningful.

and improve the whole experience, from sales to claims resolution?

McKinsey: *When an organization is going through a transformation, what do you look for to see whether the change is really occurring?*

Bryan Robertson: It was quite clear to me from the outset that lean management is very much about changing the way leaders think, lead, and behave, so that's one of the first things I want to see happening.

In too many organizations, the role of a leader is to tell people what to do. Our ultimate aim was to define the role of a leader as someone who coaches others to be successful and achieve their true potential. That's quite a difference from what we were used to seeing. So when I see leaders consistently holding problem-solving sessions and welcoming problems as opportunities for improvement, I know that's a great sign.

Another good sign is when people begin to share ideas. Before, some people seemed to think that their competition was at the other sites in our company, rather than the other companies that are trying to win business from us. So when people start to show pride in telling others about their ideas—instead of keeping them to themselves—I know the change is meaningful.

McKinsey: *How has the transformation process changed you as a leader?*

Bryan Robertson: I've been involved in continuous improvement for over 20 years—but what I've learned in the last 3 years has been really powerful and has had far more impact for me as a transformation leader.

I'm highly motivated by seeing people achieve a potential they had never imagined. And now, whenever I go back to one of our sites, people will come up to me and say, "There are things I can do now that I never thought I could do before."

McKinsey: *What does that mean for Direct Line Group?*

Bryan Robertson: It means we have a whole new base of skills. We have engineers who can go to our call centers and help in problem-solving sessions. We have people in the sales centers who can go to our accident-repair centers. People who never spoke up are now communicating in front of hundreds of people and problem solving on a regular basis.

They never thought they could do these things before. The potential was always there. And now they can actually use their new skills to help improve the business that they are very much a part of.

McKinsey: *What have been some of the harder parts of this transformation?*

Bryan Robertson: Overcoming resistance. You're asking people to think differently and do things differently, and that's never easy.

At one of the accident-repair centers, one guy directly told us, “I want you to fail.” Why? “I’ve been doing this job for 20 years. If you can improve it, it proves that I’ve been doing my job wrong.”

Of course, that’s not what a transformation is about—he may well have been doing a great job. The issue is to find out how he can do an even better job. And we say to people that the anger and frustration they feel is OK, because if they didn’t feel like that, it would mean they didn’t care. What’s important is paying attention to these emotions and helping them go through the “change curve” for themselves. When they do, it is brilliant to see people move from resistance to strong advocates of this way of running our business.

McKinsey: *Is it easier if people are already familiar with lean-management ideas?*

Bryan Robertson: To be honest, the most dangerous people in a transformation are those who claim that they understand what lean management is all about. The problem is that they probably know lean from a more traditional, cost-reduction point of view. They don’t know about the capability building, the cultural change, the leadership role modeling—all of which are absolutely critical. Their limited view is actually quite debilitating, with respect to what they can and can’t see as the potential for success.

McKinsey: *What change stories have been especially meaningful to you?*

Bryan Robertson: There have been so many. One of the leaders in our Manchester center recently said to me, “I’ve been here for a number of years. But I realize now that all I’ve been for the last few years is a postbox—for management reports, management information, analysis of data, and so on. I actually came here to be a leader. Now, as a result of the lean transformation, I’m becoming a leader again. I can coach my team. I can develop my team. I can lead my team.”

When you hear that, you know that the change is going to sustain itself—because the people have changed. It’s a fantastic outcome.

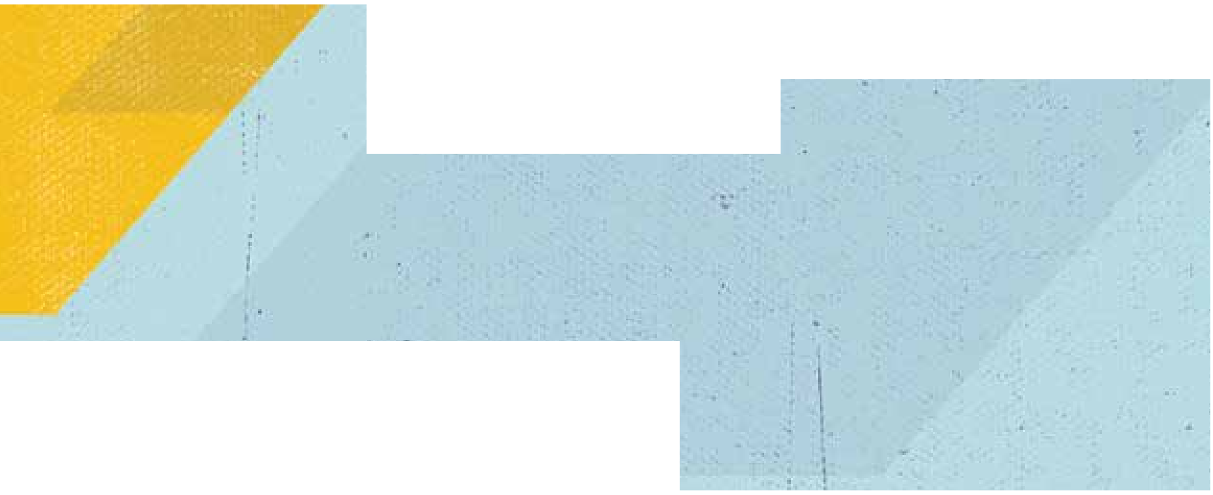
McKinsey: *How would you assess the overall impact of lean management?*

Bryan Robertson: The financial impact is great, because that’s what any organization will ask for. We have delivered tens of millions of pounds in benefit. But of equal importance are the greater employee engagement and the new range of capabilities the organization can tap, such as problem solving, coaching, and performance management—all centered on serving the customer in a more effective way.

That gives the whole organization a new language: What would the customer think in this situation? How do we really get to the root cause of that problem, rather than just firefight the symptoms?

If the organization is focused on the customer, if the organization is focused on problem solving, and if the organization is focused on listening to the employees, it will continually improve. That is what we are trying to achieve through our lean-management system.

McKinsey: *Are there any aspects of the earlier transformation stages that you would do differently if you were to start it all over today?*



Bryan Robertson: We were lucky in that the sales and service transformation was hugely successful, so now we have done our best to identify and replicate the success factors—such as having a fantastic sponsor in Darrell Evans and taking the time to ensure we have really strong employee engagement. When those factors aren’t present, we should be strong enough to say, “No, it’s not time to go in yet.” We also recognize that it’s crucial to get as many people involved as possible. For instance, sales and service relies on many more parts of the organization—operations, IT, and so forth. So our transformation approach has aligned to reinforce other key improvement strategies, such as establishing the Direct Line Group Values, and we therefore ensure people are involved from other areas such as HR and risk.

Another critical success factor is ensuring we “go and see” to learn from other organizations up front. On our visits to other organizations, it was incredibly powerful for people such as our CEO and COO and IT director to meet their opposite numbers. Rather than just listen to someone who was passionate about lean management, they were listening to the person who was passionate about the same things they cared about day to day. And when that person then said, “As a result of lean management, I now lead differently,” the message got through much more forcefully.

For that first stage, embedding people from the other functions—finance, HR, learning and development, risk, and so forth—in the team that is overseeing the change is a highly effective way to help them understand their role in future transformations. It made the later stages of our transformation a lot easier.

McKinsey: *What were some of the challenges in bringing lean management into these other parts of the business, such as the accident-repair centers or the finance function?*

Bryan Robertson: People sometimes think that they can just copy what worked in one area and repeat it, but that’s never the case. The starting point isn’t the methodology, it’s understanding the specific challenge that the accident-repair center or the finance function is facing. So the first question is, “What is the business problem?” Then you can find the right transformation approach.

A big part of that process is listening. Leaders from other areas may say that sales and service is quite different from the accident-repair center, for example. But invariably, every business has a problem with variability, with adherence to process, with hand-offs between teams and functions. You just need to help these leaders see that their problem is an opportunity that you can help them fix.

McKinsey: *How sustainable is lean management in the organization right now?*

Bryan Robertson: Any cultural change, including our journey to achieve a business that continuously improves, takes a long time. But you have to plant the seeds early on to be successful.

It really does depend on culture. Because we were striving to establish a new organization, we could ask ourselves, “What kind of culture do we want to have?”

We didn’t just ask that as a management committee—Mike Tildesley, director of brand transformation, started a conversation with all 15,000 employees. That conversation took over a year to run. As a result, we now have a set of values that we have all signed up for, and that we believe will be a competitive advantage for us in running our business.

But to me the really exciting thing is that because the values are so closely aligned with continuous improvement, they will help us sustain change. They will tell us the kind of people we need to recruit and promote, and how we should reward them. That will be fundamental to keeping this momentum going.

McKinsey: *How do you persuade people that the values are meaningful—that they can trust them?*

Bryan Robertson: I think you build trust by making sure the company’s values are openly discussed all the time—when they do work and when they’re not working. They can’t just be a sign posted in the lift.

You reward people when they role model the values. Of course, when discussing performance, it’s important for people to show that they deliver results. But it’s equally important for them to show that the way they delivered the results was consistent with the values.

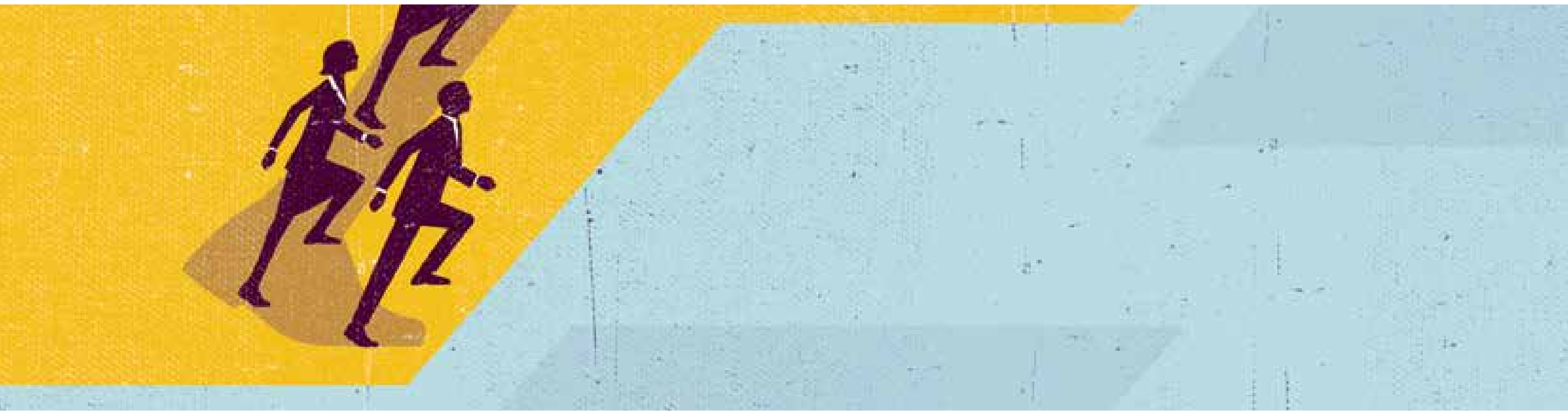
Trust also comes from demonstrating that you listen and will take action. We created a website where people can post anything they want about the organization. People began to talk about what they like in the organization and what annoys them. And we make sure to do something. That’s what it takes to earn trust and keep it.

McKinsey: *What are Direct Line Group’s transformation goals for the next two or three years?*

Bryan Robertson: So much is changing now, especially with social media and new technology, that keeping in touch with what the customer cares about is more difficult and important than ever. As channels and customer behavior change, we see lean management helping us become a more agile company so that we stay ahead of the market in a way that’s best for the customer, best for employees, and best for our shareholders. ○

Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents



Guiding the people transformation: The role of HR in lean management

By focusing on five critical areas, HR can ensure that the human side of lean management creates lasting value for the organization.

Erin Frackleton,
Robert Girbig,
David Jacquemont,
and AJ Singh

Getting people matters right is essential for any serious lean-management effort, for ultimately much of the point of a transformation is to help people achieve more—build their capabilities, increase their capacity, intensify their engagement, and develop deeper connections between purpose and meaning. Accordingly, in conversations with business and HR leaders at some of lean management's most experienced organizations, a consistent theme has been the importance of HR both to the transformation process and to the changes' long-term sustainability (some of the executives' insights are included throughout this article).

But the executives all agreed that because HR is so often called upon for support, it should intervene only where its efforts are most needed. Encouraging or expecting HR to get involved everywhere only dilutes its impact while also overwhelming its personnel, the leaders noted. Yet defining HR's role too narrowly will also mean forgoing real benefits for the transformation, especially as it matures.

The executives recommended focusing HR on the areas where its input will be critical either to getting the transformation off the ground or achieving lasting impact. Based on their experience, five topics came to the fore. The first three help early on: building and sustaining the *transformation team*, designing the new *organization structure*, and monitoring the "*people pulse*" as the transformation moves forward. The last two, integrating lean management into *talent systems* and strengthening *lean leadership*, assume greater prominence as lean management takes hold.

Organizations that successfully engage HR throughout their application of lean management see significant long-term advantages. The people-related changes that a US steelmaker made (across its entire organization, including internal functions) have allowed it to thrive, even after the global financial crisis cut demand for its products in half almost overnight. And a European insurer withstood a restructuring of its regulatory environment to become one of the top performers in challenging economic circumstances.

> In transforming our organization, we found that it was hard to overestimate the need for HR support at every level. It really was crucial to the transformation's success.
>
> — Suhail Bin Tarraf, CEO, Tanfeeth

(See "Lean management from the ground up in the Middle East: An interview with Suhail Bin Tarraf of Tanfeeth," page 89.)

A partnership with HR

We have seen that when HR is not clearly established as a mutually supportive partner with others in the transformation, organizations tend to struggle. The most significant risk with HR is to involve it in the transformation process only after decisions with people implications have already been made—even ones that may seem positive. At a retail bank, for example, a team helping to transform branches was so convinced that daily huddles would improve performance

> Committing to lean management means making a few sacrifices. One of the most important ones we made was to staff the lean team only with A players—in fact, the head of that team was one of my best managers.
>
> — Carlos Zuleta Londoño, COO, Porvenir

(See "Many small ideas add up to big impact: An interview with Carlos Zuleta Londoño, COO of Porvenir," page 117.)

that it started implementation without the type of communication strategy that HR can help develop. Instead, the team moved forward despite clearly stated concerns from branch personnel that the changes would be too disruptive. The poor results that ensued damaged the transformation's image to such a degree that further work on it was suspended and could be restarted only after managers overcame even greater employee resistance. And this was a consequence of moving too quickly only on huddles. HR's input may be even greater where a transformation will more substantially restructure employees' day-to-day jobs.

Failing to define HR's goals is another mistake. As one US asset manager began rolling out its transformation, the HR head began assigning specialists to attend the planning meetings for each unit to be transformed. But without a clear mission to follow, the specialists ended up as just extra hands for implementation rather than real partners for the issues on which they could contribute most effectively. Given that HR must typically strain to find the capacity to support a transformation in the first place, this sort of disconnect only further impairs its ability to meet all of its obligations. (For more on engagement models that HR can follow, see "How HR engages in the transformation.")

Five areas for HR to target

A more balanced perspective understands the constraints that HR faces. In identifying the five areas where HR can add the most value, the executives we interviewed cited a basic chronology, from the planning stages to sustaining the changes.

Building the transformation team

Before launching a lean-management transformation, the enterprise must establish a central team to plan and coordinate the transformation and provide oversight for working-level change teams, or "navigators" who will guide business and functional areas through the transformation. The teams will need top talent, both to meet the many managerial demands inherent in a transformation—which often translates into commitments of travel and time that are greater than most managers may have experienced—and to underscore the priority that leaders are giving to the transformation. At a US life insurer, for example, HR crafted a value proposition for candidates for its transformation team that emphasized the exclusivity of the designation—telling them that they had been handpicked based on their records of achievement, and that successful completion would qualify them for accelerated promotion—along with special benefits such as hardship pay and better travel accommodations.

HR will also need to work with senior leaders to craft a career path for people who join the team. That will matter greatly to the best candidates, who will want to know that their contributions will help their advancement rather than impede it. It will also matter to the units that are sacrificing their top performers and may hope for their return. And it will matter to the transformation team itself, whose needs will evolve once the primary transformation effort tapers off and the organization learns lean-management concepts. As the team's activities start to focus more on sustainability and continuous improvement, its resource needs will diminish, enabling more team members to put their lean-management capabilities to use elsewhere in the organization.

> We need to think carefully about who is on this team, what their goals are, and make sure that they are being trained, assessed, and motivated. People in these positions must continue to grow as they build their lean-management capabilities, yet still have both the incentive and ability to return to their original organizations.
>
> — Susanne Laperle, retired senior vice president of HR and communications, Export Development Canada (EDC)

Designing a new organizational structure

From the front line up to senior leaders, lean management creates new roles and changes old ones significantly as the organization breaks down internal walls and redesigns its operating patterns. The redeployment of both managers and employees will require extensive HR collaboration for the transformation to take hold. HR's support in identifying and staffing a stable management core at every level—with people committed to the new emphasis on coaching and feedback rather than just technical competence—will be crucial to reinforce the changes. At the same time, new tracks for managers, experts, and project leaders will help retain talent in positions to which they are most suited.

At one global asset manager, leaders found out that they needed to restructure almost the entire tier of vice president–level positions. The HR department worked with senior leaders to understand all of the factors in the new organization design that needed to be balanced, such as constraints in specialized skills, compensation questions, and aspirations for diversity and equal-opportunity policies. Navigating this potential minefield allowed the new structure to move forward with a minimum of disruption.

If one of the goals of the transformation is to free up substantial people capacity, HR's experience will be even more valuable, given its ability to find morale-boosting redeployment opportunities. Before the transformation starts, basic HR steps such as reducing recruiting efforts, winding down contracts for temps, and

> EDC has benefited from having some senior managers who were excellent leaders in the lean-management environment. Our next step is to inculcate that mind-set across the entire group.
>
> — Susanne Laperle, retired
> senior vice president of HR and
> communications, EDC

improving transparency about open positions can underscore the organization's commitment to its employees. Longer-term value capture can come from insourcing vendor work, reassigning people to growing new products or markets, providing cross-training in hard-to-find capabilities, or assembling a talent pool to staff open requirements in other parts of the organization.

Employees left idle become a source of anxiety not just to themselves but also to their colleagues, so HR must move quickly. Creativity helps: moving people temporarily to address backlogs, staff special projects, or drive community-service efforts, for example, can strengthen the employee's sense of purpose while calming the rest of the team.

The greatest value often comes from finding new opportunities for high-performing employees whose current work fails to engage all of their abilities. The asset manager again provides an example. Its IT department had long struggled to staff strategic projects consistently, with people constantly drawn off to work on more urgent tasks. But with the basic lean-management daily-management system (such as morning huddles, progress-tracking whiteboards, and improved capacity management) and clearly defined work standards, average employees were able to produce much more, with greater quality and consistency. The effect was to free up about 20 percent of the department's capacity. But rather than simply shrink the department by 20 percent, HR and IT leaders worked together to redeploy a group of high performers as a flex team devoted to overlooked long-term initiatives. Among their first successes: overseeing the IT integration of a large, newly acquired business without hiring additional personnel or outside contractors.

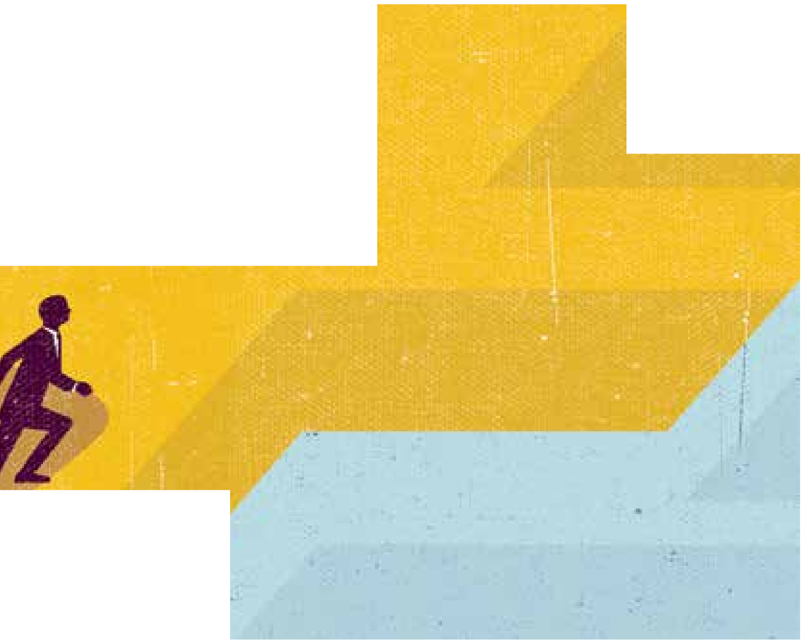
Communications and monitoring the people pulse

Changes in leadership, team structure, and performance transparency can be deeply stressful for frontline employees and middle managers. That leads to HR's next major contribution, which is to help with communicating the transformation, monitoring employee reactions to it, and addressing concerns that arise.

At the earliest stages of a transformation, one of the basic tasks for the leadership team is the development of a communications plan.[1] Attuned to employee sensitivities and to contractual and statutory requirements, HR professionals are well positioned to help craft messages and strategies that will encourage rather than undermine employee buy-in. And as the transformation launches, HR can help build the communications capabilities of leaders and managers charged with persuading the organization to give its backing.

---

[1] Steve Sakson and George Whitmore, "Communications strategy: A vital (but often overlooked) element in lean-management transformations," McKinsey Operations Extranet, 2013.



Leaders will then need to know whether the communications are working, and HR can add tremendous value in helping find the answer. Some take advantage of mechanisms that many organizations already have even before a transformation, such as periodic employee-engagement surveys. HR can adapt this infrastructure to add lean-management elements and to conduct more-frequent "pulse surveys," which ask how transformed teams feel about their progress on an easy-to-understand set of measurements.

Others build upon standard lean-management tools, such as the "floor walks" in which leaders go and visit working teams in person to see how work is being performed and help solve problems. HR can work with transformation teams to add special-purpose walks designed to observe employee engagement and gather informal feedback. A final option is to work with the communications function to establish "listening teams" expressly charged with assessing communications (see sidebar "The listening team").

Integrating lean management into the talent system

Among the most visible legacies of a lean-management transformation are the tools and practices—the skills matrixes and coaching instructions and performance-dialogue formats—that fundamentally redesign how people do their work and engage with customers and colleagues. When executed consistently, the result is a new set of cultural norms.

Maintaining the lean-management knowledge base and transmitting the mind-sets to current and future workers will depend to a great degree on HR's core talent systems for recruiting, training, people development, and compensation. Those will need their own adjustments and improvements as part of constructing the transformed organization.

Recruiting. The most forward-thinking organizations recognize that instilling lean-management values in employees begins even before the first interview, when defining the profiles of ideal job candidates. HR will therefore need to update job descriptions and related documents to incorporate lean characteristics and behaviors. Recognizing the importance of strong teamwork in its business, the global asset manager redrafted its recruiting materials to present itself as a place where people could join and build great teams. Likewise, recruiting teams and interviewers may require retraining so that they understand and recognize important lean-management skills; for the asset manager, that meant guiding interviewers to ask candidates more about their experience in high-performance teams.

Training. Once a candidate joins the organization, the onboarding and training programs must incorporate lean-management principles, systems, and tools as well, both for initial orientation and for later growth at every career stage. To build these resources, organizations should partner with the transformation team to spread their capability-building practices and materials throughout the company. “Hard” skills, such as value-stream mapping or capacity-management analytics, may attract more attention at first because they seem more tangible. But lean management’s most important skills are generally softer: coaching, facilitating meetings, recognizing and solving problems, discussing performance trends in the open, and eliminating single points of dependency. These are more difficult to convey and require more effort to reinforce. For the steelmaker, that meant not only creating a new internal certification program but also limiting the top certification levels to candidates who themselves became trainers. Making the trainer role so prestigious underscored the importance of capability building while also reducing the company’s reliance on external trainers—and ensuring that the training itself was more credible, since it came from people whom the employees already knew.

The listening team

Steve Sakson and George Whitmore

The best way to find out if a communications strategy is working is to ask the people being communicated with. The challenge, however, is getting enough people within a giant organization to open up and provide an accurate cross-section of views. Focus groups, surveys, and interviews are fine, but they are labor-intensive and can be costly. There is an additional resource that will cost less and can provide a more nuanced view: we call it a “listening team.”

The team generally includes up to 12 managers, from senior executives down to the front line. They may come from different parts of the organization, with different ranks and tenures, but all must have a reputation as someone people trust. Each listening-team member makes listening to his or her people a core job responsibility—through everyday conversations, huddles, and even occasional interviews of influential employees. Every two weeks or so, the team meets (with a communications manager initially acting as facilitator) to compare notes. Is the communication getting through? Does there seem to be buy-in? Are any groups struggling to let go of old ways? Are any policies, practices, or structures impeding the transformation? What additional information, skills, or assistance do people need? What new channels are available?

The existence of the team should be well-known, and everyone should be invited to speak with team members. This way, everyone will understand that leaders respect and want their views. The team codifies findings and then reports to transformation leaders, who must take visible action to address concerns and communicate this action broadly.

Steve Sakson is an independent New York–based communications consultant, and **George Whitmore** is a senior communications specialist in McKinsey’s London office.

People development. The third core talent system, people development, will undergo a sea change as individual and team performance become far more transparent throughout the organization. Structures designed around high-stress, high-stakes annual or semiannual reviews must evolve to support ordinary, everyday conversations about how work is progressing and where it could improve.

The substance of the evaluation will change dramatically as well. Throughout the organization, people from the CEO down to the front line will need to be assessed based in part on how well they role model and follow lean-management practices. Managers and executives should be scored based on their commitment to revamp their schedules to emphasize feedback and coaching, while frontline workers should demonstrate root-cause problem solving.

> Each of us is assessed based on how we are developing from a lean management–based perspective, including details such as how we ask questions to get feedback. We now have a whole slew of tools to reinforce these core ideas, both from a performance-management perspective and as a development matter.
>
> — Catherine Decarie, senior vice president of HR and communications, EDC

Compensation. Finally, in most organizations, compensation and incentive design may need a radical overhaul, particularly as leaders begin to redefine what they mean by a “star performer.” Whereas in the past, star performers were likely to be considered great mainly at specialized skills—whether writing software code, answering customer calls, or selling financial products—the star performer in a lean-management organization will need to be great at developing others and solving problems, in addition to the technical requirements of their jobs. The most valuable team member may not be the one who produces the most but the one who can stretch to use many skills, without necessarily being the best at any of them.

That may mean moving to compensation plans that emphasize the performance of the team and the company rather than the individual. One emerging-market bank now uses individual performance metrics solely for assessing people’s development needs. Compensation is entirely based on group- and company-wide metrics—creating a powerful incentive for high performers to coach their lower-performing peers.

Integrating lean management into the leadership model

Coaching, feedback, capability building—together, these shape the new leadership model.[2] As current and future leaders learn the new behaviors—and learn to exhibit them—they will need comprehensive support. HR’s

---

[2] Laura Costello and Remco Vlemmix, “Building lean leaders,” *Lean Management: New frontiers for financial institutions*, mckinsey.com, 2011.

How HR engages in the transformation

A conundrum that organizations face relatively early in a transformation is that for HR personnel to provide effective support, they need to understand lean management—and the best way to learn lean management is to experience a transformation themselves. But an organization's circumstances often lead it to favor other business or functional units to go first, so that the HR department's transformation starts one or two years later.

As a result, in working with dozens of companies undergoing and sustaining lean-management transformations, we have seen three broad engagement models emerge. The choice of which is best depends largely on how familiar critical HR leaders are with lean concepts when the transformation begins. In a few organizations, HR's lean capabilities are already deep enough (typically from earlier, small-scale transformations) that the function can credibly lead the transformation. One European telecommunications company followed this model, with HR leading a ten-person change-management team that is now learning lean and will lead a transformation across much of the enterprise.

More typically, however, HR does not have prior lean-management experience, and staff must learn as they go. This can be challenging and even intimidating. When it's possible for HR to begin early in the timeline, HR can role model the transformation for the rest of the organization and feel more confident in its ability to partner with the change team on the topics discussed in this article. One multinational telecom operator followed this approach when it decided to transform its business-support functions, including finance, legal, and the HR function itself. HR's success therefore had a double impact: it gave the transformation credibility while also helping HR find the capacity to be much more effective for the remaining stages.

When that is not feasible—as is often the case—the third option, shaping the transformation, allows important stakeholders in HR to build capabilities while supporting the transformation of a different unit. Given conflicting demands, it may be tempting to allocate HR staff on only a part-time basis. In practice, however, learning lean management requires more commitment than most people can give to a part-time role. It's usually more realistic for an HR specialist to serve as a business partner or even an on-the-ground change agent for the unit to be transformed, learning both lean-management concepts and the needs of the unit at sufficient depth to achieve real impact.

A leading multinational property-and-casualty insurer successfully applied this model in transforming its businesses in the United Kingdom. In the initial phase, a senior HR executive devoted a large percentage of her time to the entire first phase of the transformation of one of the insurer's operations centers. As she learned the concepts, she began teaching her HR colleagues, enabling them to find their own efficiencies. As a result, HR was able to support the expansion of the transformation with only its existing resources while also continuing to meet its ongoing responsibilities.

resources will be called upon to incorporate lean-management concepts into the leadership-competency model, to design and implement "lean leadership" programs to complement existing leadership-development resources, and to revise leaders' coaching and feedback mechanisms with new mentoring opportunities.

Once these changes are complete, HR's ongoing responsibility will be to revise and realign them continually as the transformed organization's priorities evolve. At the steelmaker cited earlier, the top leaders have further demonstrated their commitment by rapidly promoting candidates with lean skills. Several of the transformation's champions have been appointed to top executive roles, while a functional specialist who joined the transformation team early on was promoted to a senior-manager position after two years instead of the usual ten.

• • •

A successful transformation based on lean management produces a profound cultural change, with major impact for the organization's people. As the shaper and custodian of people practices, the HR function will be instrumental to sustaining that new culture for the benefit of the organization, its people, and its customers. ○

The authors would like to thank Alison Jenkins for her contributions to this article.

Erin Frackleton is an associate principal in McKinsey's Washington, DC, office; **Robert Girbig** is a senior expert in the Hamburg office; **David Jacquemont** is a principal in the Paris office; and **AJ Singh** is an associate principal in the Dubai office. Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

Lean management from the ground up in the Middle East

An interview with Suhail Bin Tarraf, CEO of Tanfeeth

By incorporating lean-management principles from an early stage, a Gulf-based shared-services provider has increased employee engagement and effectiveness, even while growing rapidly.

Tanfeeth, whose name is Arabic for "getting the job done," is a United Arab Emirates (UAE)–based shared-services provider and a subsidiary of Emirates NBD, one of the Gulf region's largest banks. Tanfeeth has been growing rapidly by working with clients to drive improvements in quality, efficiency, consistency, and cost of voice and data in business functions such as call-center operations, collection services, finance and accounting, HR services, and banking operations.

Although Tanfeeth was founded only at the beginning of 2009, it is already branching out beyond its initial focus on supporting Emirates NBD to serve other organizations as well.

CEO Suhail Bin Tarraf, having helped steer the HR integration of the 2007 merger between Emirates Bank and National Bank of Dubai, recognized an opportunity to build a new organization based on lean-management principles. Through enhanced productivity, cost management, professionalism, and employee engagement, Tanfeeth has already delivered a net financial impact of 36 percent to the parent company.

McKinsey spoke with Mr. Bin Tarraf at his office in Dubai.

McKinsey: *Let's start at the beginning—how did you get the idea to create a service-excellence company?*

Suhail Bin Tarraf: I was born and raised in Dubai. Dubai is a very young place. You can see all the skyscrapers, but I've found that some business practices and management systems have yet to catch up with the infrastructure.

One basic concept that's still developing is the idea of a service-level promise—the bar is not yet set. For example, if you apply for a credit card and you know that getting the credit card will take three days, that's the promise. Then it's possible to enhance it to become two days or less. That whole concept does not exist in this region.

We saw an opportunity there. In banking, for example, the products are quite similar these days; it's the service that makes the difference. But what is service, and how do you measure it? We set up Tanfeeth to fill this gap. We help our clients provide better and better service to their customers.

McKinsey: *You set out to make Tanfeeth lean right from the beginning—why did you do that?*

Suhail Bin Tarraf: I'm always trying to make things work better. Even in my HR days, an important goal was to find ways to bring our HR philosophy closer to a business approach. At a visit to a lean-management program at a UK bank in 2009, I saw a way of working and managing that complemented my thinking and style. So I was already a natural believer. As we began building Tanfeeth, that experience confirmed for me that lean management is what Tanfeeth needs in order to fulfill its promises and compete differently in our market.

McKinsey: *What did you find so appealing about lean management?*

Suhail Bin Tarraf: It helps explain important ideas to our people. Lean management gives us rigorous ways to design our processes and management systems. Moreover, it all makes sense to our people and helps them build their skills.

Suhail Bin Tarraf

Suhail Bin Tarraf, CEO of Tanfeeth, has 11 years of experience in the United Arab Emirates's banking sector, specializing in HR and organizational development. Before his appointment as CEO, he was Emirates NBD's general manager of HR. This role included leading the HR integration process for more than 8,000 staff members during the merger of Emirates Bank and the National Bank of Dubai in 2007.

Mr. Bin Tarraf holds a bachelor's of business administration from the American University in Dubai and an MBA from the International University in UAE.

McKinsey: *What are your objectives for lean management at Tanfeeth?*

Suhail Bin Tarraf: For me, success is quite simple. Number one is for Tanfeeth to be the first-tier service provider in the region—one with robust management systems that are hard for others to copy. We call our new way of management the "Tanfeeth Operating Model" (TOM).

Number two is to become a talent institute. If we overinvest in our talent for the future, we will create sustainability and push Tanfeeth to the next level of performance—and further.

McKinsey: *How is lean management helping you to achieve that?*

Suhail Bin Tarraf: It's a mixture of things. It helps us focus on our clients' promises to their customers. Superficially, a loan application may look like just the beginning of a process. But to the customer it's much more—it might be paying for a child's tuition or buying a house. Lean management helps us, as well as our clients, see how our process is just a step in making that customer's goals happen. Equally important is the transparency that lean management creates. Here your targets are so transparent that your manager cannot question whether or not you have delivered them. In fact, you can question your managers if you don't agree with their assessment.

It starts from my office. I keep a visual-management board—a large whiteboard showing current performance at a company-wide level. So does everyone on our executive team. Our boards are there for all to see.

But none of this will work unless people embrace it. That's the third thing about lean management that's so important—it's not a project, it's a culture. This is something we have worked hard to create, and it's the reason for our success so far.

McKinsey: *How have you created your culture?*

Suhail Bin Tarraf: It took us around six months, running two to three workshops a week with the leadership team, to come up with the vision, the mission, the five values, and the behaviors.

But it was worth it. Senior management knows it inside and out and believes in it. And the managers cannot say, "Oh, some consultant gave it to us." We created it ourselves. That itself shows, for lack of a better word, "belongingness"—which is very important for any organization.

McKinsey: *Is belongingness one of your five values?*

Suhail Bin Tarraf: Not that exact word, but "one team" is, and that includes an element of belongingness.

"Continuous improvement" is a value that we work hard on, because our journey has just started and it's still evolving. The mind-set we're trying to instill is that it's OK to make a mistake—that way, more problems will be raised and more improvements will be implemented by people closer to the work.

"Respect" means more than just the basics of respecting time—arriving on time, leaving on time, focusing on the meeting you're in, responding to your e-mails—or diversity, religion, gender, and so on. It means developing your skills to their fullest potential and helping colleagues develop theirs as well.

"Integrity," for us, means that what we say and what we promise is what we deliver. If you promise something, you make sure that you deliver it.

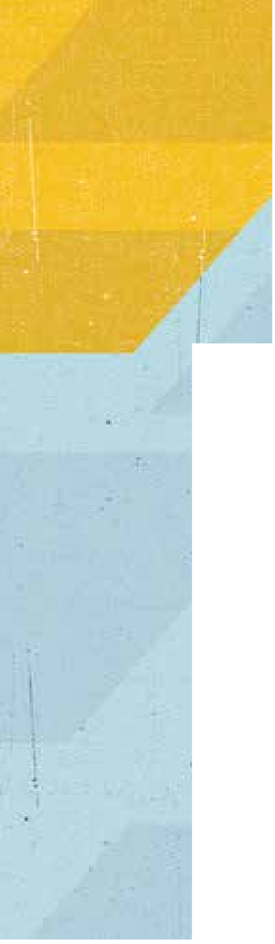
And, of course, "customer comes first." For example, this evening I have a meeting at 8 o'clock with a client. We never say no!

McKinsey: *What does it mean to live up to those five values on a day-to-day basis?*

Suhail Bin Tarraf: I spend 50 to 70 percent of my time on the floor, with floor walks every day. At first staff were uncomfortable, but now they smile and say hello and open a conversation. They tell me the issues they're facing and ask for help when they need it. Recently, for example, in the call center, one of the agents said that the older agents were handling more calls than the new agents because they're more experienced. This was something I'd already picked up on three weeks earlier, and so I was able to explain that we're putting a training program in place. They hear from me directly that we're working on things.

I also do weekly town halls; during these, we have reward and recognition sessions, talent shows featuring employees, and Q&As where

> This office—the CEO's office—can be quite lonely if you let it be. . . I don't want to be lonely, so I go out and spend time with our people where they work. If you visit people at their level, they'll respect you.



people can ask me any question they want. This is something that I am pretty sure never existed here in the region before Tanfeeth.

Finally, I have an "Ask Suhail" portal where they can ask me any question and I'll respond within 48 hours.

Being open to this feedback is new for me. Before I just assumed people were happy. But now I sit down and do "process confirmations" with agents and managers at every level—short one-to-one sessions where we talk about how the process is working and what their issues, pain points, and challenges are.

This office—the CEO's office—can be quite lonely if you let it be. If you want to be lonely, it's your call. I don't want to be lonely, so I go out and spend time with our people where they work. If you visit people at their level, they'll respect you. It's an expectation we have set for all executives. On every floor, every performance board has a place for the relevant executives to sign it each time they visit. If we see too few signatures, that is a problem we address quickly.

McKinsey: *What should the lean leader's priorities be?*

Suhail Bin Tarraf: For me, the most important thing is the people who work here. It's as simple as that. I'm a cost to them—they pay my salary.

My one piece of advice to lean leaders would be to use the "day in the life of," or DILO, exercise, where you go through and record everything that you do for a day. That's what gave me the time to go to the floor. I used to get stuck in a lot of meetings, but now I choose my meetings so that I can keep my 50 to 70 percent commitment to be free to walk the floors. I leave a lot of tasks to the executive committee and make sure our schedules are synchronized. Executive-committee meetings always take place after noon, because in the morning we are all taking care of the floors. That has to come first.

This is all part of our structured root-cause problem-solving process, through which issues get raised to the executive-committee level. Most of our meetings then focus on resolving problems as a group, which is a much better use of our time than the standard executive meeting.

McKinsey: *It sounds as though you have had to change yourself as a leader, too.*

Suhail Bin Tarraf: It feels like growing ten years in one year. Once you accept that you need to learn, you open up to new ideas, to feedback, and to challenges.

I went back to basics—I realized that I had to be part of the call center, to sit in on the call, to see the application and how it works. That shows everyone that problem solving is critical throughout the company, from bottom to top.

It's important to go back to simple stuff. I believe everybody is responsible enough and smart enough. No one person can do it alone, so we empower our people. Believe in your people. And have fun!

McKinsey: *What was the biggest challenge you faced?*

Suhail Bin Tarraf: I underestimated the need for HR capacity. There were HR issues on the floor, such as poor punctuality and low levels of staff engagement, which were taking up a lot of the floor managers' time. Some of the floor managers did not yet have the people skills to handle this effectively. We came up with the idea of introducing "line HR" on the floors.

McKinsey: *How does line HR work?*

Suhail Bin Tarraf: For every 200 or so employees, we dedicate a line-HR professional who works with the local operations team to monitor the group's pulse. That individual helps reinforce our organizational values while also ensuring that any HR issues that employees raise get addressed. It's a structure that allows us to make our talent, evaluation, reward, and recognition practices all work in an unbiased way.

McKinsey: *You've touched on performance management. What else can you share with us about that?*

Suhail Bin Tarraf: Transparency is essential. Robust performance management helps managers systematically develop their teams' capabilities and at the same time meet budgetary and performance goals. That's what success is for us.

McKinsey: *You're rapidly expanding into new areas. How do you manage that process?*

Suhail Bin Tarraf: Our approach is to break a nine-month transition into three phases of three months each.

The first three months for a floor is chaotic. We introduce TOM and redesign the processes. The agents are totally confused.

The next three months are the harvest, when you start seeing the fruits, the crop. The staff is amazed by the performance gains and proud of their ability to deliver on promises to customers. They feel more connected to the way we achieve these outcomes: the sense of community that arises with the daily huddles, weekly problem-solving sessions, and town halls. Agents shift gears and think, "Yes, this is a better way of working . . . this is change we want."

The last three months are when we see a big increase in the number of improvement ideas coming from the floor. They can sense their empowerment; they feel encouraged to question things.

McKinsey: *In building a lean institution, you traveled the world and picked top senior talent from a wide range of organizations and cultures. How did you bring them together around a single lean-management culture?*

Suhail Bin Tarraf: All of them came with their experiences, and all of them wanted to implement their own ideas. What turned them on to lean management was a visit to a US bank. Most of them saw the benefit of lean management and embraced it that day. From then on, they didn't need pushing anymore; they started to preach the concepts themselves.

McKinsey: *I know that part of your aim as a talent institute is to help Emirati development by creating opportunities and building skills. How are you doing that?*

Suhail Bin Tarraf: I want to develop Emiratis and all talented individuals in this region—we do not differentiate between Emirati and non-Emirati. An Emirati goes through the same regular training as everyone else. He or she is competing with expatriates who have world-class talent.

There's a huge gap between new hires who are expats and those who are UAE nationals. Expats typically have four or five years' experience, while a national will be a fresh graduate. Our job is to shrink that gap.

We use a graded approach that monitors their progress on a quarterly basis. We allot a buddy to them and enroll them in our mentor program, where high-potential employees get to mentor two or three people over a period of nine months. But again, this applies to nationals and expats alike.

McKinsey: *Is your selection process different, too?*

Suhail Bin Tarraf: As we do for all our employees, we think hard about what type of Emiratis to source. Are they hungry for change? Are they ready to challenge the status quo? In addition to talent, do they have fire in the belly?

We also think about how to develop them. We want them to add value to the organization rather than to be a cost. We're starting to send them abroad to understand different cultures, so they move out of their fishbowl and see another fishbowl.

We want to train them to become our leaders of the future.

McKinsey: *What would you do differently if you had to start all over again?*

Suhail Bin Tarraf: I always think about that. I would not rush the process as much as we did. We went from 200 people to 2,000 people in less than 18 months, and the sheer volume that we had to handle in the transformation was unbelievable.

Second, I would spend more time and effort to make sure the team embraces the culture so that it becomes one team and takes care of itself.

Last, I'd build in the line-HR element earlier so that it's integrated with the operation.

McKinsey: *What would you say to somebody thinking about trying lean management?*

Suhail Bin Tarraf: If we hadn't gone with a management system based on lean principles, in the very best case, it would have taken us many years to get to where we are now. With lean management we have a rocket booster on our backs. It provided us with a system and structure for accelerating our journey. ○

Copyright © 2014 McKinsey & Company. All rights reserved.

Lessons from emerging markets

Three success stories illustrate how emerging-market organizations are using lean management to navigate around constraints and inspire new levels of commitment from their people.

Khurram Masood, Francisco Ortega, Joydeep Sengupta, and AJ Singh

Like their peers elsewhere, by the end of the last decade, leading services enterprises in places such as Latin America, the Indian subcontinent, the Middle East, and sub-Saharan Africa were applying lean-management ideas to reimagine their business models. The changes that the early movers made enabled them not just to respond to growing customer bases but to expand them even further, as lower costs and greater flexibility meant that previously unreachable populations could become attractive market segments.[1]

A more recent wave of transformation, however, shows how quickly emerging-market organizations' priorities are changing. Having resolved many tangible problems such as paper-heavy processes and inefficient branch layouts, these enterprises now face what for many of them is their greatest challenge: successfully developing people to their fullest potential and reducing high levels of variability in their effectiveness.

Admittedly, the term "emerging markets" is a very large umbrella for countries and regions with wildly varying cultural contexts. Yet despite their diversity, a few commonalities form a powerful set of reasons for emerging-market organizations to address their people issues head-on. Probably the most serious is one that organizations almost everywhere will recognize: shortages of talent, which are most acute in emerging markets but are being felt to some degree worldwide.

By tackling the issues directly through three distinct types of comprehensive intervention, emerging-market organizations are accomplishing much more than their leaders would have thought possible and in much less time. A Middle East–based telecom company recently raised customer satisfaction for its store- and field-based operations by 15 to 35 percent—while also reducing store wait times by 50 percent and repeat field visits by 40 percent. At a Latin American bank's commercial-lending operation, total processing time fell by between 30 and 70 percent, and productivity rose by 15 to 25 percent. In India, a leading retail bank increased sales productivity by 50 percent while almost tripling its customer-satisfaction scores—in effect, a triple play of better customer relations, reduced costs, and increased sales.

Moreover, the success of these organizations in overcoming people challenges came from applying lean-management disciplines. Their stories therefore provide lessons that any organization can use.

Three success stories

Some of the concerns common among most emerging-market organizations reflect the strains inherent in high growth. Seizing the moment when millions of people are becoming consumers for the first time, leaders understandably focus more on the revenues to be earned than on the costs to be avoided. Regulatory systems are in constant flux as policy makers respond to rapid change. And customer needs are more diverse, with traditional and modern cultural norms operating in tandem as rising incomes expose consumers to new experiences.

But as different as these pressures may appear to be from those that most affect companies in North America or Europe, the result is actually the same: a need to maximize value from limited resources. And in emerging markets, to an even greater extent than elsewhere, one of the most limited resources is that of skilled talent.[2]

Talent shortages are both a result and a cause of a second factor that exacerbates people issues: the more rigidly hierarchical organizational model

[1] Marco Breu, Francisco Ortega, and Roeland Vertriest, "Capturing growth in emerging markets through lean," *Lean Management: New frontiers for financial institutions*, mckinsey.com, 2011.

[2] Martin Dewhurst, Matthew Pettigrew, and Ramesh Srinivasan, "How multinationals can find the talent they need," *Winning the $30 trillion decathlon: Going for gold in emerging markets*, mckinsey.com, August 2012; for advanced economies, see Byron Auguste, Susan Lund, James Manyika, and Sreenivas Ramaswamy, *Help Wanted: The Future of Work in Advanced Economies*, McKinsey Global Institute, March 2012.

> Identifying, recognizing, and rewarding managers who are thriving under a transformation underscores how the changes help managers succeed.

found in many emerging markets,[3] in which promotion often depends mainly on a willingness to follow instructions. Having risen under that model, line leaders and middle managers—whose example everyone else will follow—tend to see change as a threat. And, lacking support from this crucial constituency, frontline employees may show little interest in changes that at first glance seem to require more of them.

Yet perhaps because of these constraints, three successes illustrate how the unusually intensive application of lean management has helped emerging-market organizations achieve real breakthroughs. The first focuses especially on the middle-management layers, where resistance to change is often strongest. In the second, the organization sought to cut across hierarchies and unleash frontline entrepreneurship across a sales organization. And the third example shows how an organization can integrate its functions and businesses into an ecosystem that supports change.

Middle managers: From stumbling blocks to supporters

As intermediaries between corporate leadership and the front line, middle managers play a critical role both in transforming an organization and later in continuing the improvement. But because they are the information gatekeepers between the decision makers at headquarters and the doers in the trenches, if they perceive the proposed changes as a threat, they can easily undermine all of the leadership's transformation efforts. Showing their opposition is easy: all the managers must do is keep behaving as they always have when not under scrutiny. But a few judicious tactics have allowed several emerging-market companies to turn their middle managers into enthusiastic supporters.

- **Introduce radical transparency.** The first step is to weaken middle managers' chokehold on information by creating many new channels that allow data to flow directly to the top team—and everyone else in the organization as well. Part of the task is technical. With modest investment, new reporting can collect data automatically and distribute information on basic trends to all levels of the organization. But even more important is the discipline to monitor and use data effectively. Some of that will come from the cascade of daily and weekly huddles and meetings, which center on data review. But they may not be enough to ensure follow-up. Again, greater transparency provides an answer: one Indian bank set up web-based "issue-escalation groups" using popular messaging platforms such as WhatsApp. The company set clear rules for the types of issues and ideas to be discussed in each group, along with a messaging template for effective communication and governance mechanisms to aid in tracking, prioritizing, and implementing the resulting actions. Obstacles surfaced earlier, the potential benefits from fixing them became clearer, and corrective actions took hold faster.

- **Prioritize behavioral changes.** People who have spent their entire careers navigating the old

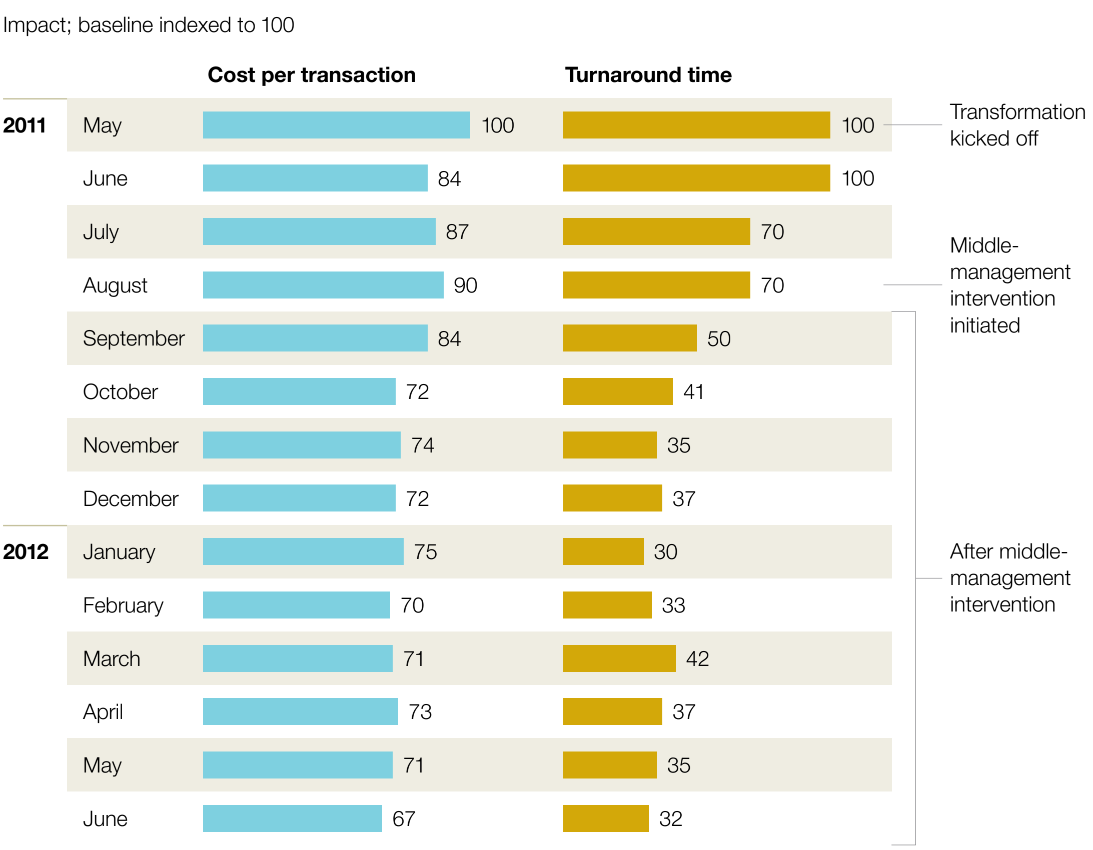
[3] Ayse A. Akcal, S. Tamer Cavusgil, and Pervez N. Ghauri, *Doing Business in Emerging Markets*, second edition, London: Sage Publications, 2013.

ways will question why they should revamp how they operate. Simply ignoring skepticism can easily become counterproductive, as one Latin American institution discovered when it tried rolling out changes more quickly than its people could digest. Leaders then discovered that it was more productive to encourage managers to adhere to just a few core behaviors that are crucial for lean management to take hold: holding the huddles every day, for example, or conducting data-based performance dialogues with each team member. So long as managers followed the norms, they could have even more leeway to lead their teams. From the COO on down, leaders rigorously employed weekly process-confirmation meetings to check that managers were following the norms, with results tracked on whiteboards; the metrics varied with the manager's seniority—ranging from process execution for frontline team leaders to company-wide employee- and client-satisfaction scores for the C-suite. The transformation once again progressed, with productivity in specialized functions doubling and the company winning national recognition for its delivery of customer service.

- Celebrate rising stars. One of the most effective ways to boost momentum among middle managers is to spotlight those who are championing the transformation and thriving as a result. Identifying, recognizing, and rewarding these individuals in a highly public way shows how the changes help managers succeed, spurring healthy competition. During its transformation, the Indian bank added new, change-oriented performance indicators to managers' evaluation metrics, which the bank built into an easy-to-read dashboard that highlighted high-potential individuals. Those candidates who showed sustained promise were celebrated under a new, well-publicized elite rewards program and became eligible for exclusive training programs designed to accelerate their trajectory.

Exhibit

After intervention, middle managers produce top results.



Combining these tactics can have dramatic effects, especially when a transformation's energy starts to flag—as at the Indian bank, where hard-won cost reductions were gradually inching up after huge initial victories. Within ten months of the middle-management intervention, turnaround times had fallen by a further 38 percentage points and cost by more than 20 (exhibit). Both figures were more than double the initial outcomes.

Uncorking an entrepreneurial genie

Even a fully committed complement of leaders and managers will achieve little unless the frontline employees with whom customers interact every day change as well. But in intensely hierarchical environments, workers may have little control over what they do or how they do it, reducing them to the status of order takers. The resulting "box ticking" mentality may leave the organization with few avenues to generate new ideas or improve service quality.

As one Middle Eastern service-sector company discovered, the key to turning that around lies in the prime coping mechanism that employees use in large organizations: entrepreneurialism, albeit of a kind that may help the employee more than the company. Too often it remains hidden. Employees do "whatever it takes" to work around hurdles, often achieving superior results but in a way that sometimes raises risks. Moreover, the type of knowledge these employees acquire becomes a sort of currency that makes them more valuable compared with their colleagues, so they have no reason to share it.

What an organization must do is unleash this entrepreneurialism in a guided way, so that the gains accrue more broadly across the enterprise. The Middle Eastern company's leaders did that through a radical competition model that loosened central control over sales employees, encouraged voluntary learning and capability building, made the operating system more flexible, and completely revamped the incentive system.

The company replaced a rigid, prescriptive sales approach with one that was much more open and transparent. Each high performer, or "champion," was required to assemble a team among the salespeople, develop the team's skills (by choosing among a broad range of tools, support facilities, and learning modules), and deliver excellent results. Top-performing teams would then earn recognition and rewards, and their champions would be eligible for special financial and career incentives. To demonstrate the program's importance, build enthusiasm, and—crucially—cross-pollinate effective practices across the company, senior leaders met with teams every two weeks in the company boardroom to review the choices the teams made, assess the ensuing results, and agree on actions based on the lessons learned across teams.

Within three months, sales productivity doubled in the company's mass segment; in the upper segment, volume doubled while total portfolio size rose by 10 percent. And management came away with a much better understanding of the changes that really worked in the field, pointing to which changes needed extra investment and which could be canceled.

By bringing the support functions into the transformation from the very beginning, the company was able to raise the performance of both the business and the functions.

Reshaping the ecosystem to create a healthy environment for change

The third success story addresses the profound disconnects between functions and businesses that often lie just below the surface in most organizations. Better integrating the two sides makes the entire organizational ecosystem more productive and stable, and thus better able to support change and respond to external forces.

Closer connections are especially important during a transformation, when there is a natural impulse to focus on operating units first (a tendency that is especially marked among mature-market organizations). But a gap can then emerge between the units being transformed and the rest of the enterprise. Functions that still operate in the old way and do not understand the changes in process become a hindrance to the transformed business rather than a help. Given emerging markets' talent shortages, organizations operating in those regions already struggle to make sure the functions are truly capable of working in tandem with the businesses as a general matter. Addressing support-function capabilities has therefore proved essential for emerging-market transformations to succeed.

For one expanding service provider, that limitation actually became an opportunity. By bringing the support functions into the transformation from the very beginning, with support-function staff dedicated to the team leading the change and applying the same concepts to their own work, the company was able to raise the performance of both the business and the functions.

Where necessary, functional specialists worked with the businesses on a full-time basis—in some cases, even working in person alongside business personnel so that they could understand the support needs more clearly. HR specialists, for example, were embedded in each business unit, with their performance assessed jointly by the business and HR against metrics that related both to HR and business outcomes. Tight integration allowed the specialists to focus on understanding frontline employees' concerns, addressing them quickly to minimize any effect on morale, and creating an early-warning system to reduce unwanted attrition among hard-to-find talent.

Under a slightly different approach, IT staff joined the company's continuous-improvement team, which was responsible for supporting each unit through the most intense period of transformation. Using a shared-service model, IT's budget was controlled in part by the businesses themselves, ensuring closer alignment in tailoring IT solutions to meet the businesses' new performance goals.

The company is now growing quickly. Employee satisfaction has doubled. And the functions are improving their results as well: the time it takes to fill a vacant position has fallen by 75 percent, while IT is enabling 5 percent efficiency improvement per year through greater automation.

• • •

As the world's interconnections become more complex, organizations everywhere are realizing that they have much to learn from their peers in emerging markets—ideas they can use both abroad and at home. Increasing economic uncertainty means that now is the time for a better understanding of "what works" with lean management, reaching beyond process improvement to the people who make processes—and real transformation—possible. ○

The authors would like to thank Pablo Correa, Andy Eichfeld, and Pishu Ganglani for their contributions to this article.

Khurram Masood is an associate principal in McKinsey's Dubai office, where **Joydeep Sengupta** is a principal and **AJ Singh** is an associate principal; **Francisco Ortega** is a principal in the Buenos Aires office. Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

Discovering better ways of working

Most companies, and most leaders, have developed a bias toward tackling what we might call “rocks”: large, top-down interventions such as reorganizations, IT investments, or mergers. For most organizations, the hierarchy, performance metrics, and interaction rhythms all center on managing rocks, which usually translate to projects—each with a manager, a set of objectives, and milestones.

But business isn’t all about rocks. There is also “sand”: the innumerable small issues that cumulatively can wreak havoc on daily work. Sand can take the form of applications that always seem to have errors, progress updates that arrive too late, or workloads that skyrocket and then crash. Sand is ubiquitous, especially at the front line. But a project-based approach is too cumbersome to work at such a granular scale: the only way to deal with sand is to catch it as it comes in and constantly sweep it away. That means empowering, coaching, and trusting people at all levels of the organization to see the problems (the sand) all around them, trace their root causes (where the sand is coming from), and take steps to solve them (to sweep the sand away).

To understand what good problem solving looks like, we pay another visit to Mary and her team. Her experience shows that treating problems as opportunities to improve, together with applying the principles, tools, and mind-sets that lean management fosters, effectively weaves problem solving into the fabric of an organization. Instead of dismissing everyday operating problems as routine, too trivial to bother with, or unfixable, lean organizations seek problems out, search relentlessly to find their root causes, and engage the people most affected by them in helping to develop a cure.

Finding a problem’s deeper sources

Lean tools and behaviors

Monday

Axel is meeting with Eric to **confirm the process** for a new type of claim. Eric’s screen freezes as he enters the provider’s code, so he starts over, losing 15 minutes of work. The claim is finally accepted, but Axel notes that the **standard turnaround** is supposed to be 20 minutes.

Process confirmation

Standard work

Wednesday

Graciela experiences the same frozen computer screen. Axel starts to suggest a solution but instead asks Graciela to start a **problem-solving team** with Eric. She’s skeptical: “Is saving 15 minutes really worth it?” “There may be a deeper problem that affects other claims. If there isn’t, all we lose is some **problem-solving time**—and that’s what it’s for.” Axel makes a note to discuss problem solving in Graciela’s next one-on-one coaching session.

Team-based problem resolution

Capacity set aside for problem solving

Thursday

Graciela, Eric, and Carlos—an IT specialist—start by agreeing that the hurdle is the provider code, which makes a 20-minute claim **take 35 minutes.** Graciela wonders **if the field is coded correctly,** and Carlos suggests **testing a claim** from a different provider. It goes smoothly. But testing the same provider code Eric entered on Monday fails. “Maybe it’s just that provider,” Eric suggests, but Graciela says that the code she entered was different. She asks, “**Why** would just these two providers be a problem?” Carlos suggests meeting again after he does more research.

Clear, quantitative description of problem with impact

Assess current state

Test of hypothesis

The first of “five whys”

Friday

Carlos explains that providers’ data systems record the code in two slightly different formats. **Why** would that matter? Because the data export slightly differently to the spreadsheets that he and his colleagues use to build claims forms. He discovered that the new form fails only with one data format. When his colleagues applied the same format to all of the data and updated the form, it worked consistently. **A test** with Eric and Graciela works; they validate it by reverting to the old form one last time, which again fails. Carlos phones his colleagues to have the revised form **uploaded** to all systems.

The second of “five whys”

Test of solution

Implementation

Friday

Axel is meeting with Mary when the problem-solving team finishes the test. “I think we’re done,” Carlos says. After Carlos describes the solution, Axel asks, “Have you really reached the final ‘why’?” “Meaning?” “**Well, why do these forms still rely on data exported from spreadsheets?**” “Fair point,” Carlos says. “We discussed that with you last year—there wasn’t budget to build a direct data link to the providers.” Mary chimes in: “Let’s revisit it. This could really disrupt our operations. I can reprioritize our budget.” She asks Axel, Carlos, Graciela, and Eric to form a new problem-solving team and makes a note to update her **midterm plan** to reflect the change.

Reaching for root cause

Tactical implementation plan

The problem solving that Mary's team undertakes represents a significant untapped source of value in most organizations.

It starts with a careful procedure for assessing how the work is currently being performed. Process confirmations—first discussed in the introduction to section two—play a role by uncovering aspects of a standard process that may not be working as well as they could be. When conducting a process confirmation, the leader is looking both at whether the team member needs help and whether the standard itself needs revision.

Here, the issue with the process is clear: a technical glitch with the form. When it happens twice in one week, Axel realizes that it needs a second look. He therefore asks his colleagues who directly experienced the problem to form a team—that way, the people working on the problem can accurately describe what it is and the impact it is having on their work. Rather than suggest a solution himself, he relies on his team to do so because they are closer to the work.

When Graciela pushes back, suggesting that the problem is too small to bother with, Axel reaffirms that small problems are important. He understands that it is all too easy to allow small problems to fester until they turn into big ones that are far more expensive and difficult to cure. Moreover, he knows that his organization has allocated a certain amount of time specifically for problem solving. This step, crucial to enabling problem solving at scale, is possible because of the productivity gains that a transformed organization achieves; in essence, the organization reinvests some of the current productivity improvement to enable further improvement in the future.

The dialogue among Carlos, Eric, and Graciela illustrates what a simple problem-solving process should look like and how a team can avoid the typical pitfalls that make problem solving so inconsistent in most organizations. The most important to resist is the impulse to jump to conclusions—such as Graciela did when she assumes the problem is a coding error or Eric did when he suggests it's only one provider that is at issue. But the team presses forward in a more rigorous problem-solving process.

They start by defining the problem, comparing what should be happening against what actually is happening—the 15 minutes of lost productivity when the form fails. They identify and test potential root causes, repeatedly asking why a particular result is happening. Once Carlos's colleagues have developed a solution, Graciela and Eric test and validate it. Carlos then calls his colleagues to ask them to implement the fix.

The team thinks that they are done, but in fact they are not. There are more levels of questions to ask—classically, root-cause problem solving suggests "five whys." Carlos's solution only reaches two whys, so Axel pushes the team further.

The final conversation with Mary illustrates the power and limits of escalation. Her involvement is necessary because there is a budgetary issue that only she can solve. But she does not herself offer a solution; instead, as Axel did before her, she asks the people who know the problem best to assemble a team.

In this case, the immediate problem has been solved, but a real resolution will be possible only with additional effort over a period of several weeks, months, or perhaps even longer. Accordingly, Mary adds it to her midterm planning. Sometimes referred to as a "tactical implementation plan," this provides a structure for working on longer-term changes that may be necessary to resolve a problem fully, detailing the steps required to achieve the change, when the steps will occur, and who will be responsible.

• • •

This section's articles and interviews touch on many of these points. The first, "Building a problem-solving culture that lasts," identifies the five traits that leaders must develop in themselves so that their organizations can solve problems consistently and effectively. Those that do create a capability that is fundamental to continuous improvement, not just for the organization but also for its employees, whose emotional investment in their work deepens.

Next, Carlos Zuleta Londoño, chief operating officer at the Colombian pension-fund administrator Porvenir, explains how the company is enhancing its industry-leading customer experience while also improving productivity. He argues that innovation is not the search for a big idea but rather the ability to keep implementing small ideas that have a powerful cumulative impact. Additionally, he notes that "the best ideas tend to come from the people on the front line who serve customers and operate core processes day in and day out."

The realization that leaders need to step out of the way and enable their teams to solve problems for themselves is one of the messages in "Performance from problem solving: An interview with three leaders at MassMutual." As one of the company's executives points out, "the changes we needed to make were much more at the leadership level than at the front line." It is also important to bear in mind the ultimate purpose a company is working toward: "solving problems is not the goal; the goal is to help the organization improve."

Table of contents

110

Building a problem-solving culture that lasts

Organizations cannot improve unless they consistently seek out and solve their problems. For most, that means undertaking a profound cultural change—which must begin from the top.

117

Many small ideas add up to big impact

An interview with Carlos Zuleta Londoño, COO of Porvenir

At Colombia’s largest private pension fund, lean management has unleashed innovation across the organization.

123

Performance from problem solving

An interview with three leaders at MassMutual

At MassMutual, problem solving leads to higher standards, which in turn mean more problems to solve. The constant cycle is raising performance at every level of the organization.

Building a problem-solving culture that lasts

Organizations cannot improve unless they consistently seek out and solve their problems. For most, that means undertaking a profound cultural change—which must begin from the top.

Randy Cook and Alison Jenkins

When a company engages its people in problem solving as part of their daily work, they feel more motivated, they do their jobs better, the organization's performance improves, and a virtuous cycle starts to turn. Such an approach can tap enormous potential for the company and its customers. At one auto-parts manufacturer, each employee generates an average of 15 suggestions for improvement every year. Over a period of 16 years, these suggestions have helped secure major advances that reached well beyond productivity to safety and quality.

So how can leaders unlock their organization's problem-solving capacity? From our experience with dozens of companies, a clear message has emerged. Through a combination of blind spots and habitual behaviors, leaders can unwittingly impede the very changes they want to see. In this article, we look at five common traits that leaders need to develop in themselves as part of a conscious effort to build a problem-solving culture.

1

Openness to talking about problems

On the face of it, talking about "issues" or "opportunities" rather than "problems" sounds like a good way to avoid sounding negative or critical. In practice, though, great problem solving begins with the ability to acknowledge problems and a willingness to see them without judgment. When an organization treats problems as bad things—as mistakes, defects, or failings—bringing them out into the open will make people uncomfortable. But problems that stay hidden will not get fixed. And problems that go unfixed keep the organization from reaching its objectives.

The reluctance to acknowledge problems often stems from the tendency to personalize them—to see them as someone's (usually someone else's) fault. Some leaders are quick to point the finger instead of taking the time to analyze problems to uncover their root causes. Looking for a culprit rather than a cause can be a hard habit to break, even for those who know how damaging it can be. One insurance executive was attending a workshop on creating a continuous-improvement culture. During a break, he got a call about a systems foul-up that had triggered a deluge of potentially confusing notifications to a small group of customers. Forgetting everything he had just heard, the executive said, "Who's responsible for this? Wait until I get hold of them!"

At the opposite end of the spectrum, some people resort to avoidance strategies, skirting a problem to keep the peace with colleagues. The underwriting team at one commercial lender shied away from discussing a particular problem openly but told us privately they were convinced it was caused by inconsistent practices between their department and another. The reluctance to speak out prevented the issue from being recognized and studied objectively.

Neither attributing blame nor brushing a problem under the carpet is helpful. Organizations that embrace continuous improvement take the opposite approach. They understand that when a problem is properly identified, the root cause usually turns out to be not a particular group or individual but an underlying factor that the organization can address, such as a lack of transparency, poor communication, inadequate training, or misaligned incentives.

This means that organizations should see problems as something to prize, not bury. Raising and discussing problems is not just normal but desirable and critical to success. As one lean leader told us, "Problems are gold nuggets we have to search for. It's when we don't have problems that we have a problem."

2
Willingness to see problems wherever they may be

Before you can acknowledge a problem, you have to be aware of it. Identifying problems, particularly before they grow into a crisis, is a skill that can be learned. In lean thinking, all problems can be attributed to some form of waste, variability, or overburden. Learning how to spot these factors as they arise is one of the most important skills leaders and their organizations can develop.

Picture a bank supervisor who takes a call from an irate customer demanding to know what has happened to the loan she applied for two weeks ago. What should the manager do? Tell the customer her application is in the system and she should get her decision soon? Track down the application and quietly expedite it? Or go and find out what is causing the delay and whether it is affecting other applications as well? Only the third option will enable the manager to bring the problem's real causes to light and get the team involved in identifying and fixing it.

Problems are particularly difficult to see when they are hardwired into "the way we do things around here." For instance, some organizations place a lot of value on certain tasks that their best employees perform in order to work around uncooperative business partners or cumbersome IT work flows. Yet under closer examination, many of these tasks turn out to add no value as far as customers are concerned.

At one commercial lender, senior underwriters were so inured to complex processes, multiple hand-offs, and long delays that they had come to define their value by their prowess at navigating around these obstacles. Rather than wait for automated updates on the cases they were handling, they would routinely leave their desks to tap specialists' shoulders for the latest information. The company was so oblivious to the problem that it even began trying to standardize the work-arounds and encouraging others to follow them.

A reliable way to help individuals learn to spot problems is to make the ideal outcome for their work as obvious and easy to follow as the lines between spaces in a parking lot. In one disability-claims organization, claims managers were given a brief list of questions to resolve during initial phone calls with claimants. By providing an easily understood target, the list ensured that the claims managers probed for critical information, and it helped managers coach their team members toward ideal performance.

Organizations can often achieve significant improvements simply by exploring what is preventing them from applying current best practices consistently across the entire workforce. Once they reach stable performance at this level, raising the target creates a new gap to be explored.

3
Understanding that small problems matter

Most large organizations design their processes for managing big, top-down strategic interventions—reorganizing, migrating to a new IT platform, or outsourcing a process. They have well-honed routines for handling them: appoint a manager, set objectives, and check progress at regular intervals. If the effort fails to move in the right direction or at the right speed, leaders intervene. Leaders themselves, having grown up in this kind of environment, believe that implementing these big strategic projects is central to their job—and perhaps their next promotion as well.

However, this view misses an important truth. Businesses don't stand or fall by big projects alone. Small problems matter too and are often more critical to great execution. A well-designed application form and a well-oiled hand-off between sales and underwriting can reduce rework and stress for employees and give customers better service. Conversely, a lack of flexibility in accommodating varying levels of demand can create backlogs in new-business processing and trigger follow-up calls from salespeople and their customers.

Monitoring issues such as these requires constant effort and a systematic method for bringing them to light. The project-based approach used to manage major interventions is ineffectual at such a small and fragmented scale. Even so, it may end up being used by default: we have seen more than one organization introduce a new IT system to "solve" multiple small problems that the organization hasn't properly defined or understood.

Leaders carry the responsibility for modeling coaching and analytical problem-solving behavior and ensuring it is adopted at all levels of the organization.

If a project-based approach doesn't work, what will? In fact, the only way to manage these small, everyday issues is to detect and solve them as they arise (or even before). That calls for leaders to shift their dominant mind-set from that of "knowing the answers and directing employees" to "learning from and coaching the people who are closest to the problems." Solving hundreds of small issues each year—as opposed to managing a dozen big projects—requires an organization to develop a more distributed problem-solving capability. Leaders carry the responsibility for modeling coaching and analytical problem-solving behavior and ensuring it is adopted at all levels of the organization.

It can take years of practice for this way of working to become truly ingrained, but when it does, organizations see the results year after year. The ultimate goal is for everyone in the organization to take the initiative to solve the problems that are most relevant to them. For instance, while a frontline team at a bank is working to revamp an account application form to prevent customer error, a manager might be reviewing capacity management across the branch network or tackling a persistent overtime issue, while a senior leader might be exploring what new product areas offer the greatest opportunity to meet the institution's growth aspirations.

4

Commitment to approaching problems methodically

Most of the leaders we meet pride themselves on their problem-solving ability. But when we watch how they work, we often see them behaving instinctively rather than following a rigorous problem-solving approach. All too often they fail to define the real problem, rely on instinct rather than facts, and jump to conclusions rather than stepping back and asking questions. They fall into the trap of confusing decisiveness with problem solving and rush into action instead of taking time to reflect.

Why does this happen? Following a systematic problem-solving process takes discipline and patience. There are no shortcuts, even for leaders with a wealth of experience. An organization that consistently uses a single, simple problem-solving approach across its entire enterprise can achieve more than just greater rigor in asking the right questions—it can create a new "shared language" that helps people build capabilities more quickly and collaborate across internal boundaries more effectively. But to do so, it will need to avoid getting caught up in sophisticated problem-solving techniques until it captures all that can be learned from the simple ones. The main objective is to uncover problems, ask the right questions, engage everyone in the problem-solving effort, and develop the organization's problem-solving muscles. An effective process for identifying and solving problems involves five steps:

1. Define the problem. Clarify what should be happening and what is happening. The gap between the two is where the problem lies. Defining the problem well ensures that the team has a shared understanding of the real issue.

2. Identify root causes. Learn as much as possible about the problem, preferably by observing it as it occurs. This step is often skipped, but it is essential; without it there is no way of knowing whether you are solving the real problem.

3. Develop a solution. Crafting a good solution rests on distinguishing cause from effect. A solution that tackles the root cause will eliminate the symptom that the problem causes; if the root cause has truly been found, removing the proposed solution will lead to the symptom's return.

4. Test and refine the solution. The solution must be tested to ensure it has the expected impact. If it solves only part of the problem, further rounds of the problem-solving process may be needed before the problem disappears completely. For validation, conduct a final experiment without the solution to see if the problem recurs.

5. Adopt new standards. The last step is to incorporate the solution into standards for work, with training and follow-up to make sure everyone has adopted the new method. That should eliminate any possibility of recurrence; moreover, sharing the solution more broadly across the organization allows others to glean insights that might be applicable in seemingly different scenarios.

Although easy to understand, this process is hard to master. In our experience the first two steps are often skipped, so the third step becomes weak—and it's far from unusual to see the last two steps skipped as well.

5

Recognition that observations are often more valuable than data

Most organizations are good at gathering and analyzing financial and accounting data for reporting purposes. The average executive is inundated with management information on revenues, cost of sales, valuations, variances, and volumes. However, this information is geared toward financial outcomes, not operating processes, and works like a rearview mirror, showing where the organization has been, not where it is heading. It is of little or no use for identifying operational problems and uncovering root causes or helping leaders and frontline teams do their jobs better. Instead, organizations struggle to understand basic questions about their capacity and level of demand. How many transaction requests did we receive today? What was our planned capacity? How many transactions did we complete? What was the quality of the work?

Why don't organizations have this information at their fingertips, as they do with financial information? Probably because they have never asked these questions or understood how the answers could help them improve the way they work. Once they appreciate how useful the information could be, they tend to assume that some kind of IT solution must be put in place before they go any further. But the cost and time involved in application development can be enough to stop the problem-solving effort in its tracks.

There is another way. Taiichi Ohno, the executive often cited as the "father" of lean manufacturing, noted that while data are good, facts are more important. When operational data are not routinely available, teams can often find what they need not by commissioning new reports but simply by observing team members as they work and talking to them to find out exactly what they are doing and why. Observation and questioning provide a powerful and immediate source of insights into processes, work flows, capabilities, and frustrations with current ways of working. Teams can typically get the information they need within a week, sometimes sooner.

Consider a team that experiences substantial variability in the time people take to complete a common task, such as initiating a mortgage application. A capable and experienced associate can complete the work in 30 minutes, but some associates take 40 minutes and a few need 60 minutes. The company could spend a long time researching how many associates complete the task at various speeds. For the purposes of making improvements, though, it is enough to know there is a difference of 100 percent between the fastest and slowest speeds. The team needs no further data or reports to begin narrowing the gap. By codifying how the top performers are doing their work and replicating their practices for the rest of the team, the employees themselves should be able to bring the gap closer to 10 percent. At that point, the whole process will reach a level of stability and predictability that will lead to significant additional improvements, both now and in the future.

From problem solving to continuous improvement

Executives are often amazed at the sheer number of problems their organization is able to identify and fix in the first few months of a lean transformation. Some wonder whether it can last. But the good news is that in our experience, problem solving is immune to the law of diminishing returns. Quite the opposite: problems never cease to arise. One company we know has been on a lean journey for 20 years without seeing any letup in the flow of improvement opportunities. Year after year it surprises itself by managing to achieve yet another 10 percent increase in productivity and speed.

Building a problem-solving culture that lasts is not about fixing particular problems but about always striving to do things better. Eliminating long-standing niggles and introducing more efficient ways of working are not the only gains; companies with a well-established problem-solving culture also benefit from the strength of the capabilities people develop and the engagement and enthusiasm they bring to their work. These give organizations the means and the momentum to sustain their performance in the future.

Frontline employees come to see their job in a different light. They are no longer hired hands doing their superiors' bidding; now their role is to improve the way they work and own the processes they use every day. Their job becomes a series of experiments: If I approach this task in a different way, will it be easier or better? Taking part in team problem solving gives people's jobs more meaning and creates the foundation for an ethos of ownership, pride, and trust. What might an organization achieve if everyone from the front line to middle management to the executive suite routinely dedicated an hour a week to problem solving?

To help create this kind of environment, leaders must themselves change, respecting the expertise of the people on their team and finding ways to support them. No longer pretending to have all the answers, they should focus instead on defining targets, creating a safe environment for raising problems, ensuring people have enough time for problem solving, and helping them develop their skills. Adjusting to this change in role can take time for leaders accustomed to being the "team hero." But by learning how to help others participate to the full, they can find a new identity and an even more powerful way to add value to their organization. ○

Randy Cook is an expert in McKinsey's Detroit office, and **Alison Jenkins** is a senior expert in the Washington, DC, office. Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

Many small ideas add up to big impact

An interview with Carlos Zuleta Londoño, COO of Porvenir

At Colombia's largest private pension fund, lean management has unleashed innovation across the organization.

Porvenir, a member of the leading Colombian conglomerate Grupo Aval, is the largest private pension-fund administrator in Colombia, serving about 11 percent of the country's population. In early 2012, the company launched a lean-management program, Innovacion y Productividad ("Innovation and Productivity"), to bolster its industry-leading customer experience while improving profitability.

The program is headed by Carlos Zuleta Londoño, a vice president who serves as Porvenir's chief operating officer. McKinsey spoke with Mr. Zuleta at his office in Bogotá.

McKinsey: *What motivated Porvenir to start its lean-management transformation in 2012?*

Carlos Zuleta Londoño: Since Colombia reformed its pension system in 1993, private defined-contribution funds such as Porvenir have played an increasingly important role in helping Colombian workers save for retirement. As the system matured, we found that profit margins were getting narrower and narrower while the level of regulatory scrutiny seemed likely to rise. It was becoming clear that the factors that made us the industry leader were not likely to help us maintain that leadership position over the coming 10 or 20 years.

McKinsey: *What steps did you take initially?*

Carlos Zuleta Londoño: We knew that we needed to become an innovation company. Yet regulatory constraints limited our ability to launch new products or design new marketing approaches. We tried working with experts in innovation, bringing in speakers, studying cases—but everything was too theoretical. Even when an idea was conceptually appealing, we just couldn't find a way to translate it into a real-life context.

McKinsey: *That's a serious gap.*

Carlos Zuleta Londoño: Yes. But when I started reading about lean management and getting to know the methodology, I realized that we needed to think of innovation in a different way. I think most people see innovation as the search for a "big idea," for a moment of epiphany that pushes a business into the future. Lean management helped us recognize that innovation is much more than that. It's about small ideas that together have a big impact. And the best ideas tend to come from the people on the front line who serve customers and operate core processes day in and day out.

For Porvenir, this was a really important insight. I could see that lean management could give us a tangible, practical methodology for bringing an innovation mentality to our daily work.

McKinsey: *How did you convince the rest of Porvenir's leadership that lean management was the right choice?*

Carlos Zuleta Londoño: I knew that selling a commitment of this magnitude to our CEO and the rest of the executive team was not going to be easy. So I decided to try a pilot on my own, with no outside help—just my team, focusing on a single process for paying out pension benefits.

It took just three months and the result was incredible—really incredible: at first, people didn't believe it. The pilot achieved a 98 percent reduction in processing time, so benefits that used to take more than 100 days to process are now done in 48 hours from start to finish. Once we proved that the reduction was real, we had the leaders' attention. They agreed to move forward with a larger-scale program that would engage everyone in the company and ensure sustainability by changing the way we manage at every level.

McKinsey: *Now that you had the executive team on board, what did you do to win the rest of the organization's support?*

Carlos Zuleta Londoño: We decided to create a brand that would clearly communicate our goal. Because very few of our employees speak English, we opted against using the word "lean" and instead came up with Innovacion y Productividad.

We also recognized that for people to accept and embrace such a profound transformation, they needed to understand what it would mean to them. This was especially important for the frontline employees. Explaining the program's rational benefits—why it would be good for the company, for the shareholders, or even for the customer—would convince some people but not the majority. We needed to find a compelling incentive.

McKinsey: *A financial incentive?*

Carlos Zuleta Londoño: No, that wasn't realistic for us. And, more important, we needed to convey a deeper sense of purpose than we could achieve by handing out checks. We want to appeal to employees' sense of pride. The truth is, we're not selling gadgets: we're selling

Carlos Zuleta Londoño

Carlos Zuleta Londoño is a vice president who serves as the chief operating officer of Porvenir SA, the leading Colombian pension-fund administrator, with almost five million customers and $25 billion in assets under management. After starting his career as a consultant with Booz Allen Hamilton, Mr. Zuleta joined Porvenir in 2004. He previously served as a corporate-planning manager and as head of a payment-processing subsidiary. He then joined Porvenir's seven-person executive team in 2009.

Mr. Zuleta holds an undergraduate degree in business administration from the Universidad de los Andes and an MBA from the Darden School of Business at the University of Virginia.

> For me, the single most surprising attribute of lean management is how it makes the invisible visible.

future economic peace of mind. That's very sensitive, especially in a country such as Colombia. Increasing productivity or reducing cycle time is not just about the bottom line—it has an impact on society and on the individual.

Instead, we focused on recognition. For example, teams who outperform get a message from the CEO, or even lunch with him in a nice restaurant—that type of visibility is incredibly valuable. Participants also get preferred admission to our corporate university programs. And we constantly underscore that people who choose to continue their careers outside Porvenir will have a big advantage in their next job interview: they will be able to say that they took part in a transformation that increased productivity by 50, 70, or 80 percent.

McKinsey: *Given that motivation, how have people changed the way they work?*

Carlos Zuleta Londoño: For me, the single most surprising attribute of lean management is how it makes the invisible visible. In big companies, so many things tend to be invisible. It's not because people are trying to hide them, but because it's hard to see through the layers of bureaucracy. For example, as a senior executive, you may have no quick way to find out how many claims are in process at once—in other words, how big your inventory is. Now we have that sort of data available at a glance, just by looking at our performance boards—the whiteboards around the floor that track our performance metrics.

That gives people a language that simply didn't exist before. People are talking about productivity, eliminating waste, and cycle times in ways that genuinely improve performance.

McKinsey: *What have been some of the challenges?*

Carlos Zuleta Londoño: There have been many. This type of transformation takes persistence—lean management is not going to solve all your problems in just a few weeks. But the evolution is very positive.

We have learned a lot along the way. One of the first processes we started to transform included a step for legal review, so we needed to incorporate attorneys into the new team. There was substantial resistance. They were worried that the new structure would devalue their expertise.

McKinsey: *Many companies have a very difficult time persuading highly trained professionals to support lean management.*[1] *What worked?*

Carlos Zuleta Londoño: Two things. First, we made sure that the leaders of the two groups—myself as head of operations and my colleague as head of the legal department—were completely aligned. Second, we reexamined our communications to make sure that we met the lawyers' concerns. The head of the legal department emphasized that everyone would still be recognized as lawyers, that they would still be fulfilling a legal role, and that they would have a new opportunity to learn. We didn't retreat on the need for a new structure, but we presented it in a way that the lawyers could support.

---

[1] For more information, see "Bringing lean to a highly skilled workforce: An interview with Thierry Pécoud of BNP Paribas," *Lean Management: New frontiers for financial institutions*, mckinsey.com, 2011.

You have to give people a chance to talk about their concerns. We make sure to do that every time we deploy in a new area.

McKinsey: *What effect has lean management had on you as a leader?*

Carlos Zuleta Londoño: It has changed me in many ways. The social impact of our work has always been important for me—11 percent of Colombia's population are our customers, and we work with them at some of the most important moments in their lives. From here on, lean management is how I personally choose to work so that I can help fulfill that responsibility. I don't see myself working without visual management; I don't see myself working without interdisciplinary teams; I don't see myself working without analysis that highlights where the waste is and how we can eliminate it.

McKinsey: *And in the background I can see your own performance board.*

Carlos Zuleta Londoño: Definitely. We have boards at four levels of the organization. The one behind me is a level-four board. When somebody walks into my office and looks at that board, they know that I am totally aware of what is happening in the processes in which Innovacion y Productividad is operating. From a management standpoint, that makes a huge difference.

Lean management has also brought me a lot closer to my team, as we now have constant communication through daily huddles, problem-solving sessions, coaching, and floor walks. People can't just sit quietly day after day until the end of the month or quarter. Everyone has to be able to know what's happening every day, every week. I'm now regularly in touch with people who previously never had the chance to show their results.

McKinsey: *Now that the transformation is taking hold, what is Porvenir doing to maintain its momentum? How do you make sure that the improvements are sustainable?*

Carlos Zuleta Londoño: Early on, we established a "lean team" to manage the transformation under the Innovacion y Productividad banner. But because the need for further innovation and productivity gains will never go away, we made this organization permanent.

Committing to lean management means making a few sacrifices. One of the most important ones we made was to staff the lean team only with A players—and in fact, the head of that team was one of my best managers. At the time, I figured that if I'm really convinced that lean management is the way to go, I can't be selfish. Moving forward, we really must pay attention to that team, keep them motivated, and reward them for results. They will be responsible not only for maintaining what we have accomplished but also for strengthening our capabilities over time.

Communicating is the second key to sustainability. If we're meeting our productivity goals and the customer is having a much better experience, the whole organization needs to know. And the people who contributed most need to feel acknowledged—not necessarily financially but tangibly. Even something as simple as an e-mail from the CEO works wonders.

The third element is accountability. We can never lose our discipline about the basics of lean management: holding the daily huddles, updating the performance boards, reviewing the data. If we stop any one component, we know our progress can start eroding quickly.

McKinsey: *Porvenir was recently recognized for customer service. How do you keep people from resting on their laurels?*

Carlos Zuleta Londoño: The award was from Colombia's leading business newspaper and was an incredible honor. But we must also remember that we won before the lean-management program officially launched. As part of the competition process, we documented our experience from the pilot—the 98 percent reduction in payout time—but that was all. That background helps us put the award in perspective, because it gives our people a sense that we can do so much more.

McKinsey: *If you were speaking to a peer executive who is thinking about lean management, what two or three things would you tell him or her to bear in mind when starting a transformation?*

Carlos Zuleta Londoño: This will sound like a cliché, but whoever is going to lead the effort must feel it from the heart. If your interest in lean management is only at an intellectual level, you risk losing the energy you will need to overcome all the hurdles. I would ask: Are you really convinced? Do you feel you have the passion inside to move this transformation forward?

If the answer is yes, you will need a dedicated team of A players. If you are not willing to assign a significant number of top performers to lead the transformation—for us, that meant five or six really good people—forget it.

Finally, look for where you can make immediate impact. When I say "immediate," I don't mean tomorrow—it took us three months to turn a 100-day process into a 2-day process. But you need an early victory because that is your ticket to credibility.

McKinsey: *How confident are you about the next stage of Porvenir's journey?*

Carlos Zuleta Londoño: It's like learning to ride a bicycle. We're pedaling on our own, not very firmly yet, but I'm confident that we will continue to get stronger. I am convinced that Innovacion y Productividad is the foundation for our continued leadership for the next 20 years. ○

Copyright © 2014 McKinsey & Company. All rights reserved.

Performance from problem solving

An interview with three leaders at MassMutual

At MassMutual, problem solving leads to higher standards, which in turn mean more problems to solve. The constant cycle is raising performance at every level of the organization.

With more than $600 billion in assets under management as of the third quarter of 2013, Massachusetts Mutual Financial Group—better known as MassMutual—is one of the largest financial-services companies in the United States. Although its namesake life-insurance operation is still its largest single business, MassMutual also offers retirement and asset-management services, particularly through MassMutual Retirement Services and MassMutual affiliates Babson Capital Management, Baring Asset Management, and OppenheimerFunds.

The company has a history of financial strength. In 2012, sales of MassMutual's core whole-life-insurance product notched a seventh consecutive record, while retirement-services sales set a fourth consecutive record. The year ended with the largest dividend in the company's history.

But to strengthen its future, in 2011, MassMutual began adopting lean-management principles as part of the "MassMutual Way." It started with the US insurance business, in a transformation that eventually will reach the entire company. We spoke with Mike Fanning, executive vice president for the US insurance group; Mike Rollings, executive vice president and CFO; and Doug Russell, senior vice president for strategy and corporate development. The three executives emphasized the critical role that more rigorous problem solving has played in the transformation's success.

McKinsey: *How did the transformation begin?*

Doug Russell: For three or four years before this enterprise-wide effort, a number of internal groups started applying ideas such as "lean Six Sigma" and value-stream mapping. The success of those efforts, measured largely in productivity, started to build real grass-roots momentum. At the same time, the leadership began thinking about where to take the company over the next ten years or so. The ambition centered not just on growing the top line or becoming more efficient but also on better understanding our customers—our distribution partners, policyholders, and participants in our retirement-services business. There was a growing belief that we needed to improve the value we were providing for them and a recognition that it needed to be an enterprise-led effort.

McKinsey: *And yet, by many measures, it seemed that MassMutual was starting from a strong position.*

Mike Fanning: This was a growth transformation—a way that we could build on our position. Coming out of the financial crisis, our ratings and dividends were among the highest in the industry. This was a real chance to create long-term advantages for the entire institution.

Doug Russell: Traditionally, we saw ourselves as a "manufacturing" firm—we manufacture products, which are sold through our strong partnerships with agents and distributors. But given changes in the regulatory and economic environment, along with advances in technology and long-term demographic trends such as the rise of the millennial generation, we knew that we needed to reexamine our assumptions. Looking at how other companies operate gave us the sense that we could fundamentally improve the way we run our business if we could deepen our understanding of our customers' evolving needs.

McKinsey: *Has there been improvement?*

Doug Russell: It's still early days, but we've already seen some highly encouraging results: faster responses to our distribution

> When people see that you take problem solving seriously as part of your everyday work, it makes a difference.

partners, higher placement rates, greater flexibility in accommodating peak demand times, and even tighter management of our cash system. All of that ultimately flows from better understanding what the customer values.

Mike Rollings: We try to view every action from a customer's perspective—would a customer pay us for doing what we're doing right now? If the answer is no, then we need to understand why we are doing it. We can find capacity to do things that we could not have done before and better meet our customers' needs.

McKinsey: *Across the organization, what are some of the most important differences you see between today's MassMutual and the MassMutual of two years ago?*

Mike Fanning: When we first started learning about lean management and visiting companies that were already doing it—some of them for 10 or 20 years—one of the consistent themes was that problem solving was core to their business systems. It was visible at every level of the organization, from people answering customer calls right up to the CEO. Everyone was actively involved in that problem-solving process.

Doug Russell: And that process was essential to improving over time. As a result, we believed that in designing the MassMutual Way, if we didn't put problem solving at its core, all of the tools and all of our work in establishing the other foundational elements would collapse at some point in the future.

McKinsey: *How would you describe problem solving at MassMutual before the transformation started?*

Mike Fanning: It probably wasn't very different from other large companies. When people first saw a problem, there was a sense of urgency to dig in and fix it, but then 3 or 6 or 12 months later the problem would resurface—usually because the first time around, no one spent enough time finding out what the underlying causes actually were.

Doug Russell: In our culture, people thought that if they had a problem they should go to the most senior person on the team to solve it. Also, in any organization, there's a natural tendency for managers to think that the higher they rise in the organization, the more they have to have the answer.

Mike Rollings: The approach would be to step in and do something—to help to fix the problem rather than to stop, step back, ask questions, and coach.

Mike Fanning: We needed a little humility and the willingness to say, "Maybe that's what the problem and answer were 25 years ago, or 20 years ago, or 5 years ago, but it may not be the answer today." We had to recognize that we have a lot of smart people in the organization who really know what they are doing and that we can trust them.

McKinsey: *What was it like to change that mind-set?*

Mike Fanning

Mike Fanning was appointed executive vice president for MassMutual's US insurance group in 2006. He came to MassMutual from MetLife, where he rose through several operational roles, most recently serving as vice president of new individual business. Mr. Fanning holds bachelor's degrees in economics and in organizational behavior and management from Brown University.

Mike Rollings

Mike Rollings has served as executive vice president and CFO of MassMutual since 2006, after serving the company for several years in other financial capacities. Mr. Rollings received his undergraduate degree in finance from Georgetown University and holds a postgraduate degree from the Kellogg School of Management at Northwestern University.

Doug Russell

Doug Russell has been MassMutual's senior vice president for strategy and corporate development since 2009. He joined MassMutual in 2007 as senior vice president, chief operating officer, and CFO of MassMutual's retirement-income business. Earlier in his career, Mr. Russell was an executive at insurers, including Cigna, ING, and Prudential. He holds a bachelor's in economics from Brown University and an MBA from the Tuck School of Business at Dartmouth College.

Mike Fanning: It required a lot of patience. We had to stop thinking, "We have a problem, let's solve it today." Instead, we had to learn how to maintain our sense of urgency while methodically asking, "Do we have the right problem? Can we describe the problem? Have we really reached the root cause?"

Doug Russell: In the early days, it felt like we were moving more slowly in solving problems, but it meant that we were finally solving the correct problems, because we were being more thoughtful about not just what we do but how, and especially why, we do things. Reexamining why we do something is what lets us improve the "what" and the "how."

More important, if done right, problem solving brings the design and execution of solutions closer to the source of the problems. Over time, that is the real power: frontline associates recognize a problem, work on the solution with their management team, then implement all on their own. In the old system, when problems were usually escalated, they either got lost between one management layer and the next and were never reviewed or the recommended action was too superficial and did not actually solve the problem.

McKinsey: *What effect did that evolution have on you as leaders?*

Mike Fanning: I got to a point one day where I realized I had to step out of the way. We were working on the transformation of our new business and underwriting area. Having run a very large underwriting shop earlier in my career, my reaction to some of the ideas was that I would not do things that way.

But you know what? What I think is not the issue. These people are operating the business, they have the right data, and they finished the right process of thinking through the problem and resolving it. What they think is what matters.

Doug Russell: As a leader, you start to set the expectation that people should solve their own problems. The only problems that should be coming to your desk are the ones that require your involvement, either because you are truly the only person who can solve them or—more typically—because you can remove a barrier that the team is running into, such as an out-of-date policy that you can repeal. We must also set the expectation that once problems are solved, we should see benefits in our performance.

McKinsey: *Are people generally willing to identify problems?*

Mike Rollings: We have always worked with employees to address problems and improve. Still, for us it was a change of mind-set to say, "Let's be very comfortable in recognizing that we have problems and that there are places where we can get better." One of the things I have been focusing on and coaching my leaders on is how to create a safe environment for uncovering problems.

Mike Fanning: In large organizations, there's usually a fear of failure. We had to establish a norm that we are always going to have problems—moreover, problems are our opportunities. We celebrate the identification of problems. If, on a whiteboard, we see that all of the boxes are green, that's probably an indication that the system isn't working. There may be problems that we aren't finding, or we need to recalibrate our targets. We keep telling everyone, "Red means things are going well."

Doug Russell: People need to get in the habit of identifying the factors that are inhibiting the team from performing at a higher level. Higher targets therefore almost automatically translate into more problems to solve. In this way, teams learn that solving problems is not the goal; the goal is to help the organization improve.

McKinsey: *What does problem solving at MassMutual look like now?*

Mike Fanning: Problem identification mainly operates through our huddle meetings, which happen at every tier, right up to tier six—the CEO and leadership team. If a problem can't be resolved at a lower tier, typically because it requires coordination among different teams or internal units, it gets passed up to the next tier. For example, there was a problem regarding space-allocation policies in the US insurance group. That had to come to me because we needed a consistent standard across the business.

Doug Russell: The huddles also helped us find time for designing and executing solutions. With the huddle cycle, we could eliminate weekly staff meetings entirely—freeing about eight hours per person per month—and many one-on-one meetings as well. And while the huddles still took time, the total they required was substantially lower.

McKinsey: *How does an organization as large as MassMutual do that at scale?*

Doug Russell: One of our objectives this year is to make sure that we have an effective problem-solving culture throughout the company—that we see a common set of practices regardless of what business or level of the organization we are in. We therefore built problem solving into our definitions of what managers and leaders do. To borrow lean-management terminology, problem solving is now part of the role expectations of leaders, so a large part of their time is spent observing and coaching managers on how they do problem solving.

McKinsey: *As senior executives, how do you know that you are working on the right problems?*

Mike Fanning: Fewer problems are bubbling up to the senior-executive team, which is a good sign that solutions are happening at the local level. We are also pushing fewer problems down the organization from above. Recently, a couple of senior executives heard anecdotes suggesting that there may be problems with our competitive intelligence. We went through our standard problem-solving process and concluded that in fact there was no problem: we could find no factual basis for the concerns. So, rather than take a lot of employees' time to come to the same conclusion, we took the issue off the list.

McKinsey: *What changes do you see among the executive team?*

Mike Fanning: Fundamentally, the changes we needed to make were much more at the leadership level than at the front line—our own behaviors and practices, not those of people working directly with our customers. It was tough to let go, but in the end we wanted our legacy to be an organization that can solve problems and operate on its own.

Mike Rollings: You cannot say, "This is great and we want everyone to do it—but it is not relevant for me." You've got to be in it. When people see that you take problem solving seriously as part of your everyday work, it makes a difference.

Doug Russell: Our CEO now leads a weekly huddle as well, which allows the leadership team

to discuss issues that might have arisen just a day or two earlier. The informality means that an executive can raise a problem without feeling that he or she must think through every possible implication first.

McKinsey: *How would you describe the impact so far?*

Mike Rollings: As CFO, I like to measure return on investment (ROI), and in this context, both the short- and long-term ROI are compelling. But the value is much more than dollars and cents. This is about cultural change that lets us change the way we serve our customers.

Mike Fanning: And although we are still in early days, customers seem to be responding. Historically, we knew what percentage of our applications would end up underwritten, delivered, and paid for by the customer. And we knew that if we shortened our turnaround times for applications, we could raise that figure. It has now increased by about 10 percent. In 2012, we grew our core business by over 20 percent. And we did not have to add a single person to the organization.

Doug Russell: Our employees are more engaged as well, partly because rather than reviewing performance data in the aggregate and in arrears, we see it at the individual level in real time. Employees now understand the impact they are having for our customers, which strengthens alignment around our purpose: helping people protect those they love.

Mike Fanning: The percentage of employees saying that they are proud to work at MassMutual jumped from the mid-70s to the mid-80s; our goal is to reach 90 percent. I'm seeing the emergence of a real ownership culture, where people want not just to work but to have a career. People understand the customer better. They don't wait for someone to tell them what to do: if compliance says that our process is x, but the customer wants y, they figure out how to provide what the customer values in a compliant way.

We started 162 years ago with one policyholder and one agent. Getting closer to the customer again is highly satisfying.

McKinsey: *What lessons would you offer to others just starting out?*

Mike Rollings: There are very few people who just naturally are great problem solvers. Almost everything about problem solving is a learned characteristic. You need to train, practice, get better at it—that is the virtuous cycle that lets an organization continuously improve. ○

Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

Connecting strategy, goals, and meaningful purpose

Within each of lean management's other three disciplines—delivering value to customers, enabling people to lead and contribute, and discovering better ways of working—lies a question related to direction. What value are we trying to deliver? How do we want our employees to contribute? Which new ways of working matter most?

The answers depend on the fourth discipline: connecting strategy, goals, and meaningful purpose. This discipline seeks to align what the organization as a whole wants to achieve, given its larger business context, with what the people who work for it want to achieve every day.

The organization does this in two ways. First, it develops aspirations that provide a clear idea both of what the organization wants to achieve and how. Communicating the aspirations broadly and frequently ensures that the entire organization has a general understanding of where it is headed.

Second, and equally important, the organization supports its aspirations with an infrastructure that makes them tangible. The aspirations inform the targets that the organization sets for itself, the tasks that people perform, and the measurements it applies to assess its performance. Over time, the organization also reexamines the aspirations by building feedback mechanisms that let it see how well it is meeting its aspirations and whether they need to change.

Recommitting to a larger purpose

Lean tools and behaviors

Thursday

Phil, Mary's assistant manager, resigns because he feels the company isn't meeting its promise to "**build the most creative, efficient solutions.**" He is Mary's third high-potential employee to leave in six months. **Mary calls her boss, Sandra, to tell her.** Sandra says the problem is widespread—and the CEO has already convened a team to address the issue.

Clear statement of aspiration

Providing upward feedback

Reassessment of aspiration

Tuesday

An all-company CEO e-mail announces the planned creation of a new service. "Now, more than ever, we need to live our **principles of developing creative, efficient solutions.**" Citing the faster processing the new service offers, he raises the revenue target by two percentage points. "But no extra budget—that's what 'efficient' means." Mary sees a golden opportunity to prevent further attrition: her team is the natural owner of this new service.

Compelling story

Tuesday

Mary gathers her team, **adapting the CEO's message to inspire her people.** "You heard our CEO call for a new service that will be the next competitive edge. As **individuals,** we're going to develop new skills to make this product work. Faster, more accurate claims turnarounds will help our agents provide better peace of mind to customers while preventing fraud and keeping a lid on insurance costs. We can do this—this is our chance as a team to shine." She ends by **appointing a new team to lead development** of the product. Phil asks Mary if he can withdraw his resignation and join the team—she agrees.

Adapting the compelling story for a new audience

Appeal to different potential sources of meaning

Clear organizational design with defined roles

Friday, two weeks later

In a managers' meeting covering the **latest performance data,** Mary notes that metrics for innovation center mainly on new revenues. A team that designs new products with no additional resources would get the same rating as one that got extra development funds. **"Where's the efficiency?"** she asks. The head of accounting explains that the metric was designed when revenues were a greater focus and agrees to bring the problem up with the CFO.

Review of key performance indicators (KPIs)

Upward feedback

Wednesday, one week later

The CFO releases revised innovation metrics, in which projected new-product revenues will be adjusted by estimated development budgets. Mary immediately revises her team's **individual performance measures** to reflect the changes.

Performance measures updated to reflect aspirations

Cascading KPIs

Thursday, three months later

The new service goes live. By reassigning personnel from a declining product, Mary's team has been able to launch it with existing personnel. Take-up is rapid: the CEO's goal of a two-percentage-point revenue increase looks like an underestimate.

For an organization such as Mary's, the gap between the promise of its long-standing aspiration and its reality has become a real threat because of attrition among high-potential employees. The organization does, however, have upward-feedback mechanisms to surface the issue and respond. Mary feels enough confidence in her ability to be open with her boss about problems that she immediately calls Sandra to let her know of Phil's departure. It turns out that Mary is not alone in dealing with the issue: Sandra is able to tell her that the CEO knows of the problem and is working on a response.

A critical part of that response is the announcement of a new service, the development of which will require the organization to meet its aspiration in a renewed way. Mary immediately recognizes that the CEO's call to action provides her with a way to combat further attrition. But she also knows that simply forwarding the e-mail may not motivate her team in the right way. She needs to translate the message so it will be relevant to her team. Her conversation with her team therefore refocuses on what the product will mean at the individual and team levels, and she appeals to multiple potential sources of meaning to cover everyone in the group. Mary's quick and decisive action is enough to persuade Phil to rescind his resignation, creating an immediate benefit to the organization.

Mary's organization already has a process for reviewing performance, which provides an additional forum for upward feedback. At one of the regular managers' meetings, Mary takes the opportunity to raise a concern about the innovation metric—which is more important for her team than it ever was before. She points out that the metric's focus on revenues undermines the efficiency part of the aspiration. The accountant explains why the metric evolved as it did and agrees to pose the problem to the CFO.

The CFO's announcement of a revised metric reflects how the organization adapts its performance indicators as needed to match its aspirations. Mary is then able to incorporate the new metric into evaluations for her team members.

• • •

The way Mary's organization responds to the challenges it faces regarding its aspirations reflects several of the lessons discussed in the article and interviews that complete this section (and this compendium). The first, "The aligned organization," describes the importance of the connections among strategy, goals, and meaningful purpose, particularly at the individual level. The authors note that the need to change—sometimes radically—an organization's vision must be matched with changes in planning and with communication that conveys the new vision adequately at every level.

In “A shorter path to an asylum decision,” Marcus Toremar, lean manager for the Swedish Migration Board (Migrationsverket), recounts the challenges of balancing multiple aspirations at once while making a renewed commitment to reduce dramatically the time that asylum applicants would have to wait for a decision. His organization faced the further complication of needing to persuade highly specialized lawyers, caseworkers, and other staff to embrace a style of work that differed significantly from their previous practices.

Yves Poullet, CEO of Euroclear Bank, focuses on the value that lean management provides as a tool supporting strategic development in “The strategic enabler at Euroclear Bank.” While cautioning that lean management is not itself a strategy, he notes that it enables an organization to execute a strategy more efficiently and effectively.

Finally, in “‘Discovering America by looking for India,’” the former chief operating officer of TDC, Denmark’s leading telco, tells of the company’s unusual path to a lean transformation. In his words, it was “almost by accident,” starting in a seriously challenged sales team and growing to encompass nearly the entire company. The customer-satisfaction and productivity improvements that TDC has logged are enabling the company to invest in future growth to a degree that otherwise would have been quite difficult.

Table of contents

136

The aligned organization

Bringing meaningful purpose, practical strategies, and goals together makes an organization's aspirations more credible—and more likely to be achieved.

143

A shorter path to an asylum decision

An interview with Marcus Toremar, lean manager for the Swedish Migration Board

For a government agency facing intense scrutiny and a dramatic increase in applications, lean management was the solution that let it reduce wait times by two-thirds while meeting budgetary, legal, and policy constraints.

149

The strategic enabler at Euroclear Bank

An interview with Yves Poullet, CEO

Six years into Euroclear Bank's transformation, the CEO reflects on how lean management has evolved to let his institution execute its strategy more effectively in turbulent times.

154

'Discovering America by looking for India'

An interview with Martin Lippert, former COO of TDC

For TDC, Denmark's leading telecom provider, a lean-management transformation has been a "necessary condition" for investing in future growth.

The aligned organization

Bringing meaningful purpose, practical strategies, and goals together makes an organization's aspirations more credible—and more likely to be achieved.

Thierry Nautin

Think of a successful organization, regardless of industry. One of the measures of an organization's success is its agility—whether it manages to stay at least one step ahead of its market. Achieving real alignment, where strategy, goals, and meaningful purpose reinforce one another, gives an organization a major advantage because it has a clearer sense of what to do at any given time, and it can trust people to move in the right direction. The result is an organization that can focus less on deciding *what* to do—and more on simply *doing*.

Recent research accentuates how important the connections between direction, strategy, goals, and purpose are to an organization's sustained performance. One study found, for example, that when people understand and are excited about the direction their company is taking, the company's earnings margin is twice as likely to be above the median. And it showed that high-achieving organizations are also better than others at turning their visions into viable strategies that guide operational planning—something many business leaders may believe they already do well, but which often proves difficult in practice.

The final connection is to the goals that motivate people as individuals. In their 2011 book *The Progress Principle*, Harvard Business School professor Teresa Amabile and independent researcher Steven Kramer found that the strongest organizations were those that nurtured their employees' inner work lives by allowing them to make progress in meaningful work.

That is rare. More typically, the individual level is where the vision breaks down: employees see only the gap between the aspirational language and their daily work lives and may become cynical rather than motivated.

But some organizations make all of the links, so that vision, strategy, and goals come together to become meaningful work. In so doing they instill a sense of achievement that, in turn, enables their people to achieve more and more.

Vision to strategy to goals

Organizations that are starting their transformations typically find themselves in one of two categories when it comes to their visions. The larger category consists of organizations whose visions have weakened, as may happen out of neglect or inconsistent understanding. An organization whose vision focuses on quality and operational efficiency may discover, for example, that the decisions it made to increase efficiency have undermined quality. Or the organization that seeks to be credible across major market segments finds that internal competition reduces organizational focus, leading to declines in almost every segment.

The smaller category consists of organizations whose visions are still quite strong but where changing circumstances—technological developments, economic conditions, or perhaps new market openings—mean that they will no longer be able to achieve the vision in the same way. Massachusetts Mutual Financial Group (MassMutual), for example, started its transformation when it was outperforming its industry by many measures. Its leaders, however, sensed that demographic, economic, and other changes meant that it needed to reassess its long-term competitive position (see "Performance from problem solving: An interview with three leaders at MassMutual," page 123).

Organizations in the first category must start by realigning according to what the vision should be. Organizations in the second category may omit this step, but if anything, they may face even larger challenges later on—in convincing their people that despite today's success, the strategy and goals that implement the vision must change radically in light of external conditions.

Envisioning a future

In our work with organizations, we have found that a vision is effective only if it balances multiple dimensions at once. First, it must be broad enough to be recognized by everybody, even in a large and diversified environment, yet it must also be sufficiently specific to differentiate the organization clearly from its competitors. It must be enduring enough to serve the organization over the long term while also allowing its execution to change as the enterprise evolves. It must articulate ideals while describing how the organization wants to progress in ways that seem achievable. And, to be truly compelling, the story must appeal to the five sources of meaning that organizational research has identified, which stem from how the changes will affect the individuals themselves, their teams, their customers, the organization, and society.[1] Each of the five sources is the primary motivator for about 20 percent of the population, so touching on all five is essential.

But within those broad guidelines, there is no particular content that appears to offer an advantage: organizations have been equally successful with visions focused on improving cost, growth, market share, sales, or even external constraints. What matters is that the organization finds the right vision for itself and then communicates and pursues it in a way that is concrete, relevant, and meaningful to individuals (see sidebar "A hospital's vision").

By 2008, the leaders of a specialized European financial-services firm had already recognized that its longtime vision, which focused on quality of service regardless of cost, was under threat from new competition. As the financial crisis took hold, the old vision began to show cracks: one of the company's top clients threatened to end its relationship unless the company agreed to a 50 percent price reduction. Similar messages from other clients underscored that what had once seemed like an enduring vision simply

A hospital's vision

For a hospital seeking to improve treatment outcomes and reduce wait times, the vision was framed around patient safety. Leaders continually reinforced the message that a hospital could be a dangerous place for a sick person; the longer a patient stayed in the hospital unnecessarily, the greater the risk of an adverse event such as a new infection or injury. That mantra became the basis for a whole new series of metrics that evaluated the quality and timeliness of patient discharges—how long the process took, whether all of the required information was available when needed, and whether patients were later readmitted for preventable complications. The average time for discharge fell by 45 percent with no negative impact on readmission rates—creating capacity to treat more patients, more promptly, with reduced costs from complications.

[1] Danah Zohar, *Rewiring the Corporate Brain: Using the New Science to Rethink How We Structure and Lead Organizations*, San Francisco: Berrett-Koehler Publishers, 1997; Richard Barrett, *Liberating the Corporate Soul: Building a Visionary Organization*, Woburn, Massachusetts: Butterworth-Heinemann, 1998; and Don Beck and Christopher Cowan, *Spiral Dynamics: Mastering Values, Leadership, and Change*, Malden, Massachusetts: Blackwell Business, 1996.

wasn’t anymore. The company therefore took on the task of developing a new vision, one in which it maintained its commitment to quality but added a customer-service dimension that included sharper attention to cost and more customization options.

Creating a strategy

Nevertheless, a new vision is of little use on its own unless it becomes a strategy that supports a tangible set of organizational goals. Together, they outline where the organization’s competitive advantage will come from and how it will be sustained.

The European firm determined that while it could continue to rely to some degree on its long-standing top product, it needed to increase the pace of innovation. Both realizations would have major effects on the company’s strategy. For the top product to maintain its position, its price would need to fall, with ramifications across the entire cost base—cuts of 25 percent would be necessary. At the same time, improved innovation would require new investment, along with profound cultural change in order to tame bureaucracy and foster entrepreneurialism. These became the core elements of the company’s transformation, which the CEO tested (with board encouragement) at a small scale to build support. Encouraging preliminary results aligned the leadership behind a much more comprehensive plan, which the company successfully deployed over the next two years and has continually updated ever since.

MassMutual, by contrast, knew it needed to become more agile in response to rapidly changing external conditions and customer needs. The new strategy and goals it adopted sought to encourage new ways of working with customers while eliminating internal barriers that impeded the sharing of information.

Communicating change and setting targets

The third connection brings the vision and strategy into people’s daily work, raising the question of how the organization will communicate the transformation more broadly. If it communicates the changes too early, before people can see any evidence that they are important and actually work, the organization risks losing credibility; people may view the transformation as yet another corporate initiative destined to fall by the wayside. But if the organization communicates the changes too late—particularly if the changes will reduce the organization’s size—rumors may spread, with even greater damage to morale.

The better option, typically, is to wait until the organization has finished testing the transformation with a few teams. Those early successes help refine the organization’s transformation story (see sidebar “The transformation story”). As the story spreads through the organization, managers and their people adapt the vision to their groups’ work—a process that gives the vision the bottom-up credibility it needs. At MassMutual, for example, “stewards of financial strength” became the central idea for reassessing the function’s priorities and creating new goals that reinforced the point for each employee, from the CFO on down.

As people at all levels begin to understand the need for the transformation, they also begin to see the transformation’s effects. The greatest impact on employees will be that the targets they seek to meet each day will change—indeed, in some organizations, employees may be getting explicit targets for the first time. These

The transformation story

Adapted from Steve Sakson and George Whitmore, "Communications strategy: A vital (but often overlooked) element in lean-management transformations," McKinsey Operations Extranet, 2013.

Before the transformation launches, the vision, strategy, and goals should all be in place. But the most successful transformations also incorporate a detailed communications plan guiding every stage of the transformation, from initial launch to sustaining and building on the improvement.

A transformation's top-down communications start with a compelling, personal "transformation story" in which the organization's leader summarizes a profound need for change while also giving an inspiring view of the future. But the story itself is only part of the effort. The leader must start cascading the story through each management layer. As the story moves down, each manager-storyteller customizes it to his or her audience so that, eventually, all employees understand why and how they must change, and what they'll get out of it.

In this way, the communications start to incorporate a bottom-up component. Purely top-down messages rarely work for cultural change; people see the effort that the new beliefs and behavior will require, and they naturally resist. In especially difficult situations, employees may see the changes as only exacerbating their problems. If, however, the organization presents the changes as a way to help people meet challenges that they already face, people will start to want the changes. Accordingly, a two-pronged strategy is often best: the organization first communicates the circumstances that necessitate change and then frames the changes as enabling people to respond to the circumstances.

Writing the transformation story. As the foundation upon which all other communications are built, the transformation story is the most important single element of any communications strategy. To be effective, the story must help people make sense of, and engage in, the changes they are being asked to make. That means it must be personal—reflecting not only the organization but also the heartfelt commitment of the person telling it. In addition, it must be flexible so that it can motivate employees with wildly different priorities and personality types.

These requirements mean that the organization leader, and not just the communications or HR staff, must be involved in writing the initial story. That way the leader "owns" it, using his or her own language and connecting with authentic values that make sense to the wider audience.

Crafting the message requires care. Corporate metrics such as shareholder value may excite the CEO, but these tend not to motivate most employees. Instead, as with vision, the transformation message must appeal to the five potential sources of meaning noted in the main text: the individuals themselves, their teams, their customers, the organization, and society.

One bank whose story met all these requirements was able to dramatically increase its measurements of employee motivation for change. The story described how the bank's transformation would offer employees more attractive jobs and opportunities to shape the institution; help working teams cut unnecessary duplication and feel more influential over results; give customers simpler, more reliable service at lower prices; enable the company to reduce unsustainable cost growth; and benefit society by providing more services to deliver affordable housing. With that story, the transformation achieved 10 percent efficiency improvements in the first year, far above initial expectations.[1]

Cascading the transformation story. Once the leader refines the story, with feedback from direct reports, it's time to start spreading the word. The reports recast the story for themselves, retaining the leader's major themes but using their own words and providing examples that will resonate with their direct reports and below. Each management level repeats the process, ultimately with frontline managers sharing their stories with workers. (To maintain the story's authenticity, this is best done face-to-face—such as in small meetings or town halls, never by memo or e-mail.)

A European retail bank illustrates how a transformation story evolves through a successful cascade. It started with the CEO explaining to his direct reports that the only way to boost revenue and profits—results important to this audience—would be to deliver far better customer outcomes at a lower cost. The bank culture, he continued, would have to change from a bureaucracy to a federation of entrepreneurs. The nature of work would change, with managers rewarded for taking charge of problems and deciding how to fix them.

To recast the story for his audience, the human-resources director sought to improve the company's system for identifying and nurturing potential highfliers so they would spend less time on low-impact jobs. The director of retail operations focused on faster customer service. At the branch-manager level, this included replacing faulty document imagers that slowed operations and frustrated branch staff.[2]

---

[1] Carolyn Aiken and Scott Keller, "The inconvenient truth about change management," mckinsey.com, May 2008.

[2] Emily Lawson and Colin Price, "The psychology of change management," mckinsey.com, June 2003.

targets will reflect the vision in highly practical terms.

The European financial-services firm began assessing employees based in part on their contributions to cost reduction and innovation. Within a year, every function, business process, and location in the company had identified improvement opportunities of between 30 and 50 percent. At MassMutual, a crucial portion of manager's reviews now rests on how well they encourage problem identification and resolution, thus improving customer service. With falling turnaround times, placement rates—the percentage of insurance applications that customers commit to—have risen by 10 percent.

• • •

Together, deeper meaning and tangible progress cement the trust that the transformed organization builds as it delivers more efficiently for customers, enables its people to lead, and (especially) discovers better ways of working. The organizations that earn and keep trust are those that can continue improving indefinitely. ○

Thierry Nautin is a principal in McKinsey's Paris office.

Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

A shorter path to an asylum decision

An interview with Marcus Toremar, lean manager for the Swedish Migration Board

For a government agency facing intense scrutiny and a dramatic increase in applications, lean management was the solution that let it reduce wait times by two-thirds while meeting budgetary, legal, and policy constraints.

According to the United Nations High Commissioner for Refugees, in 2012 Sweden received the fourth-largest number of asylum applications among industrialized countries, ranking behind only the United States, Germany, and France.[1] But Sweden's population is less than 10 million, compared with 315 million in the United States. Proportionate to its population, Sweden's applicant total was second only to Malta's, with that of the United States lagging far behind, in the 24th slot.

Assessing and processing the mass of applications is the responsibility of the Swedish Migration Board, Migrationsverket, a national government agency that oversees other immigration services as well. The board must protect applicants' human rights, comply with international treaties and European and Swedish laws, and conduct fair and accurate reviews, all within the budgetary and staffing constraints that every public body must meet.

Since 2009, the board has been using lean management to help it meet all of these demands. We spoke with Marcus Toremar, the Migration Board's lean manager, at the McKinsey office in Gothenburg, Sweden.

McKinsey: *What are some of the constraints that the Migration Board faces as a public-sector organization?*

Marcus Toremar: Among the many realities that make a government body different from a private organization is the sustained level of scrutiny we are under from the media, elected officials, external organizations. While we must protect our applicants' privacy, when questions come up about our processes, "no comment" is not our way of working. We comment on everything—we have to, constantly. It means we have to be very conscious of what we do, to make sure we do it in a good way.

We recognize that scrutiny is just an ordinary part of the democratic process. It needs to be; as an organization, we have a lot of influence over people's lives. We are not like a shop where a customer who gets poor service can go somewhere else. It may sound counterintuitive, but our awareness of that fact focuses us even more on seeing things from the applicant's perspective.

McKinsey: *What led the Migration Board to look to lean management?*

Marcus Toremar: Some of the issues never change. For example, we are always looking for new ways to maintain our level of quality so that our decisions are legally correct. That is a given. What we began to notice, however, was that our processing times were becoming longer and longer.

If you ask asylum applicants what they want, they will answer, "A decision, and a swift one." This is universal. They want to know, "Will I be able to live my life in this country?" Nobody likes to wait for months on end for an answer to that question.

Everyone was becoming frustrated with delays—we were, too. Our people did not like having to tell applicants that we still had no decision for them.

McKinsey: *How did you try to address the situation?*

Marcus Toremar: Originally, we studied other organizations. We would apply one idea to one part of our process and another idea to

[1] *UNHCR Asylum Trends 2012: Levels and Trends in Industrialized Countries*, United Nations High Commissioner for Refugees, March 21, 2013 (unhcr.org).

Marcus Toremar

Marcus Toremar, lean manager for the Swedish Migration Board, has served in a variety of management roles for the board since 2007. He assumed his current position in 2011.

Mr. Toremar holds a diploma in sociology from the University of Gothenburg and a master of laws degree from the School of Business, Economics, and Law at the University of Gothenburg.

another part. In retrospect, it is not surprising that the results were inconsistent.

We had heard about lean management, mainly from the private sector. But after trying out other changes and not seeing much improvement, our leadership decided that we had to stop hedging our bets and commit. By that point, lean management seemed worth trying because it was comprehensive. We thought we should at least see if it would work on a small scale.

McKinsey: *What convinced you and the leadership that it was the right direction to take?*

Marcus Toremar: The results of that first, small-scale test did it. We knew we had to try lean management with real cases, following our real processes, so we started with some newly received applications.

We chose the location of the test with some care. The Migration Board is somewhat unusual in that it is responsible not only for the legal aspects of the asylum process but for most of the practical aspects as well. Our agency therefore provides housing and related support for thousands of people every year. The logistics can become quite complicated: a person might file an application in Stockholm, but the most suitable housing might be 1,000 kilometers away. To give lean management a proper test, we started at an office that handles the entire mission rather than just part of it.

The new approach cut processing times quite dramatically. It showed that we could resolve a case in three months or even two months, not nine months or a year.

McKinsey: *How did leaders elsewhere in the organization react?*

Marcus Toremar: We knew they would naturally be skeptical, so we relied a lot on showing them how it worked in person. Leaders needed to understand that the ideas would work for all of our operations.

Our view was that people should form their own opinions, good or bad, about lean management based on what they saw themselves, not on what others told them. Of course, we knew that the results were strong enough that most would come away with a positive impression. But we suspected that their support would be stronger if we let the leaders come to their conclusions on their own.

McKinsey: *In communicating more broadly about lean management, what did you find worked well?*

Marcus Toremar: We provided a lot of training, especially to the managers who would be most responsible for making it work every day. But a lot of what worked was simply to be present and take opportunities to communicate as they came up naturally. If I heard someone in the hallway express a concern, I would start a conversation right there to address the issue.

Among some employees, there was fear of change. We have strong unions in Sweden, so we made sure to involve union representatives in our workshops, which underscored that the changes would be good for workers as well.

McKinsey: *How did the Migration Board adapt lean-management concepts to its internal culture?*

Marcus Toremar: At the beginning, we limited our adaptation. During the first couple of years, we intentionally used English terms such as "lean" so that people could look them up on the Internet and become more comfortable with them. Over time, we have started to modify the way we present the ideas so that they feel more like a reflection of our values rather than an outside system. The transition has not been easy; the terminology has to feel honest and authentic.

We keep revising our training as well, so that it reflects what our people are doing in their jobs right now. The examples we give are all based on actual problems that our managers and employees are seeing.

McKinsey: *Which changes surprised you the most? What can the organization do now that it couldn't before?*

Marcus Toremar: Our flexibility is so much greater now. Last year, we processed over 36,000 applications, which was roughly twice what we were expecting. It put a huge strain on the organization, but we were able to absorb them without any increase in our budget or staff. In fact, we reduced the average decision time from 149 days to 108. To put those numbers in perspective, 2008 was another very busy year, with almost 34,000 applications processed. But we were not using lean management then, and an average application took over 270 days to finish.

Previously, people tended to focus on their own caseload. Now, when the Migration Board is busy, many of them are starting to wonder if their caseload is the most important thing that they should be doing—whether they need to put it aside and work on something that is a higher priority for the authority as a whole. That is a huge change for us.

McKinsey: *What effect has lean management had on the organization's strategic direction?*

Marcus Toremar: For me, lean management alone cannot provide us with direction. Instead, it helps us navigate in the direction that our leaders have chosen. I think of lean management as a compass. A compass does not choose a direction, and it cannot guarantee that you will arrive at a certain point. But it does increase your chances.

McKinsey: *How did lean management change the way you and your peers lead?*

Marcus Toremar: It did in many ways. Historically, we have always relied heavily on experts—on lawyers, for example. Like many organizations, we promoted people because of their expertise. But we know that being the best lawyer does not make you the best manager. We now realize that much of what we are doing centers on helping our experts become better managers. It's a lot of work, but I think it will be one of the most important benefits from our transformation.

We are much better about making sure that our decisions have a strong factual basis. Our best leaders now listen to their colleagues; they don't just make quick recommendations based on how things were when they were asylum officers eight or ten years ago.

Some of the changes seem small, but they turn out to be quite important. For example, "go and see"—the idea that leaders and managers must physically go and see what is happening in their units—has had a major impact. To make that work, we had to divide our units into smaller teams; it would have been impossible for a manager of 50 people to understand what all of those colleagues were doing. Now the manager can rely on the team leaders to handle that day-to-day oversight.

We then discovered that the new structure makes it much easier to bring new staff on board. In a 50-person unit, recent hires could easily feel lost. Now they can learn much more quickly.

McKinsey: *What are the transformation's next horizons?*

Marcus Toremar: We will certainly need to keep increasing our quality and efficiency, because we think that the expectations for the Migration Board will likely increase. We want to be prepared for new pressures. Much of the world has been through one financial crisis; we know from looking at other governments that even in good times, refugee and asylum matters are not an area that easily attracts funding.

That is why we have assembled a strong core group of people who are well trained in lean ideas, some of whom came to us from the private

sector. They will help us keep pushing. We know that we need to extend into other areas, to break down internal barriers.

It's an enormous task to change the behavior of 4,000 people, and we cannot let our guard down. We constantly keep questioning ourselves: Do we have the right facts? Are we solving problems the way we should? Is this the right standard?

At the same time, we have to remember that learning to work in this new way takes time. We should not be too hard on ourselves, expecting to achieve too much too quickly.

McKinsey: *If you were to look at the impact that lean management has had so far for the Migration Board, which results are most gratifying to you?*

Marcus Toremar: Part of what is gratifying is just the knowledge that we tried. In Sweden alone there are hundreds of other government authorities, some of which have really tried to change the way they work. But I see some real breakthroughs for us because our senior-management team was willing to commit. That is a source of pride.

It's easy to look to the statistics, see how much faster we are in resolving cases and how many more we can handle, and think that our work is done. But I believe there is so much more ahead of us. We are still very new to this game, and we can do more to make it into a way of life. ○

Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

The strategic enabler at Euroclear Bank

An interview with Yves Poullet, CEO

Six years into Euroclear Bank's transformation, the CEO reflects on how lean management has evolved to let his institution execute its strategy more effectively in turbulent times.

Brussels-based Euroclear Bank is a provider of securities-settlement, asset-servicing, custodial, and asset-optimization services for cross-border transactions involving domestic and international bonds, equities, derivatives, and investment funds. With clients in about 90 countries, the bank offers a single point of access to post-trade services covering more than 40 markets.

In 2007, the bank launched an ambitious transformation with lean management at its core, and has held to it throughout the extraordinary pressures that the global financial-services industry has faced in the years since then. The results have justified Euroclear Bank's commitment. Over the past five years, customer satisfaction has risen by 12 percent and quality incidents have fallen by 75 percent, even as transaction volume rose by 30 percent. Moreover, employee engagement is up by approximately 15 percent despite the workforce shrinking by one-quarter.

Six years into the transformation, lean management has become fundamental to how Euroclear Bank does business. But the way that it applies the principles continues to evolve as the company refines its strategy. To get a better understanding of that evolution, McKinsey spoke with Euroclear's CEO, Yves Poullet, at McKinsey's office in Brussels.

McKinsey: *How has lean management contributed to Euroclear Bank's strategic development?*

Yves Poullet: One of the most important factors to bear in mind about lean management is that it is not a strategy—it is a strategic enabler. It enables an organization to execute its strategy more efficiently and effectively, aligning the company more closely with its objectives. In our case, our whole industry has been through quite turbulent times over the past six years. Lean management focuses us on our clients, helping us reevaluate what "improved client satisfaction" really means as our clients' priorities change. We can then adapt ourselves while making sure that our control environment remains sound.

The beauty of lean management is that it creates a focused, transparent management environment, without directing our strategy one way or another.

McKinsey: *How has Euroclear Bank evolved with lean management over the past few years?*

Yves Poullet: Since the goal is to ingrain a series of mind-set changes in the company, lean management must be more than just a couple of PowerPoint slides or high-level statements. As our experience with lean management has deepened, we have seen a gradual evolution in how people view the principles.

The initial focus is "How do I master these systems and techniques?" Later, the question becomes, "Why do I use them?" Once I understand why I use them, I can change them—for better efficiency, client satisfaction, and so forth.

In the last stage, the perspective expands to see the whole end-to-end process, revealing opportunities for closer collaboration across divisions.

McKinsey: *What does that mean on a day-to-day basis for Euroclear Bank's business?*

Yves Poullet: It means improved alignment. Lean management highlights bottom-up problems at the same time as it helps cascade top-down priorities through the organization. That makes it much easier for divisions to communicate with one another and work together.

Both approaches are critical today. Our mission is to make post-trade easy for our customers. Right now a number of regulatory changes are being introduced that will, for example, increase the need for collateral management. In Europe, a new settlement platform, Target2-Securities, or T2S, is in development.

We need to offer our customers the right service and products in this new context. Lean management is helping us adapt to these changes more effectively, bringing us closer to our customers so that we understand their needs more clearly. We are faster at developing new products and better at selling them as well—and we are more effective at "industrializing" them, further reducing our cost while increasing our capacity for further innovation.

McKinsey: *Tell us more about how lean management itself has evolved at Euroclear Bank.*

Yves Poullet: The risk with lean management is that it can become static. We cannot forget that lean management is a means to an end, not the end itself.

The tools matter because of how they help the organization change. But what matters even more is how you stay focused on clients, how you keep identifying problems and solving them in a sustainable way.

Consequently, a tool that is useful at a specific point in time might not be useful later. It is crucial to "apply lean to lean," as it were—to make sure that lean management also continuously improves. The focus should be more on the underlying principles of lean management and less on any one tool.

Yves Poullet

Yves Poullet has been the CEO of Euroclear Bank since 2007. He joined the bank in 1991, holding a variety of senior positions in the finance, risk-management, corporate-strategy, product-management, and operations divisions before serving as the bank's head of operations from 2003 to 2007.

Mr. Poullet holds a degree in business administration from the Université catholique de Louvain and a degree in electrical engineering from the Katholieke Universteit Leuven.

> The beauty of lean management is that it creates a focused, transparent management environment.

Reaching this level takes time, of course. As leaders become more familiar with lean-management concepts and systems, they learn to adapt the tools more effectively as needs change, while continuing to adhere to the principles.

McKinsey: *What have you discovered about lean management along the way?*

Yves Poullet: Communication about lean management is always important. People must see the principles as part of the "company's DNA," rather than as add-ons to existing management processes. This is a factor that organizations should consider when deciding what name to give lean management. Creating a new name, one that reflects the organization, is a good way to embed the principles more quickly.

McKinsey: *What can the organization do today that it could not have done six years ago?*

Yves Poullet: I see greater management and leadership capabilities, particularly among middle managers. The level of communication—about client issues, business issues, efficiency issues—has increased. These are being discussed in a much more open, transparent environment where there is no fear of highlighting a problem. That has generated an energy; you feel like everyone can contribute more to the success of the company.

McKinsey: *In the past you described lean management as "common sense executed with discipline."*[1] *Does that description apply equally well today?*

Yves Poullet: Definitely. Our customers rely on our reliability—on our capacity to deliver on a day-to-day basis at a very high standard. Being able to execute on that promise on a sustainable basis is essential. That is the "discipline" part.

And I think that "common sense" is a nice way to describe what lean management is about. It is about being focused, starting with the clients, and making sure that whatever you do, you do it for them.

These elements remain valid whatever the environment. They are as true today as they were six years ago.

McKinsey: *How do you keep lean management fresh after so many years of working with the concepts?*

Yves Poullet: When you are trying to change mind-sets, there is always a high risk that the results will drop off at a later stage. From early on, we sought to think through all of the classic management techniques that an organization can use to retain a new practice: building training programs, setting new objectives, creating new performance evaluations and self-assessments. Any organization undertaking lean management had better have multiple levers ready to sustain the transformation to a lean environment.

[1] "Common sense executed with discipline: An interview with Yves Poullet, CEO of Euroclear Bank," *Banking on Lean*, McKinsey & Company, 2008.

Energy often dissipates when lean management seems to be most successful. When no major issues appear and capacity is well under control in a stable environment, the routine of daily work allows inertia to set in. Recalibrating our targets—and making sure that they focus on customer value and innovation rather than just productivity—enables us to continue challenging our teams in a constructive way.

Whenever we sense that our lean-management discipline might be faltering a little bit, we accept that finding and then see what needs to be done to reinject energy into our work. It doesn't need to be a costly exercise; it just needs to get the momentum started again. ○

Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

‘Discovering America by looking for India’

An interview with Martin Lippert, former COO of TDC

For TDC, Denmark’s leading telecom provider, a lean-management transformation has been a “necessary condition” for investing in future growth.

TDC is Denmark's largest provider of business and consumer telecommunications. Long the country's incumbent telecom company, TDC was gradually privatized in the 1990s as part of a broader liberalization of Denmark's telecom market.

After a group of private-equity firms acquired a controlling interest in TDC in 2005, the company spent the next several years restructuring its operations. But by 2009, rapidly evolving financial, commercial, and technological conditions led the company to turn to lean-management principles for a new wave of performance improvement. Starting on a small scale, the program quickly expanded to become "TDC 2.0," a company-wide transformation that has boosted employee and customer satisfaction significantly while building a much more flexible and responsive organization.

As CEO of TDC Business, the company's enterprise-service unit, and later as groupwide chief operating officer, Martin Lippert was responsible for overseeing the implementation of TDC 2.0 up until mid-2013, when he left TDC for a new opportunity. Before his departure, McKinsey spoke with Mr. Lippert at TDC's headquarters in Copenhagen.

McKinsey: *What were the origins of TDC 2.0?*

Martin Lippert: To be honest, it started almost by accident. The original idea was just a short-term project to improve sales efficiency in the business-services unit.

At the time, the unit's customer- and employee-satisfaction scores were falling. An important reason turned out to be that customer meetings were too short and infrequent. That led us to a difficult realization: efficiency levels were so low that it was simply impossible for the team to cover the entire potential market with a proper sales approach—the numbers just didn't add up. We could not afford to hire hordes of salespeople, so we had to increase efficiency dramatically.

McKinsey: *How did you do that?*

Martin Lippert: We recognized that the only way to reach the improvement target was to find a new way of working: clearer roles and responsibilities, better management, more knowledge sharing, everything. So we started out with a small test case, following a bottom-up approach in which the sales unit adapted a basic lean-management tool kit to its distinct needs.

After about six or eight weeks, the result was an enormous increase in productivity and efficiency. Employee satisfaction rose as well. And when we measured long-term health factors such as employees' sense of direction and control, we saw a lot of improvement. To our surprise, the transformation addressed many of the long-standing issues the organization suffered from, even though that had not been our original goal when we started.

Like Columbus, we set out to find a new route to India. Instead, we discovered America.

McKinsey: *How did the rest of the organization respond to the discovery?*

Martin Lippert: Word quickly got around that the people in the test organization were suddenly happier—performance was much higher, bonuses were higher. Demand for similar change started to build, and so we started to roll the concepts out to different sales organizations.

We saw the same results. Then we thought, "Can we use this approach in customer care?"

We soon realized that lean management was working all over. That was the birth of TDC 2.0. It was not something we consciously designed from the start—we evolved into it, and it proved enormously effective.

McKinsey: *What are some of the things that TDC 2.0 can do now that the old TDC could not?*

Martin Lippert: In short, we are more agile. I see greater agility throughout the organization, starting with how people interact in the regular team meetings that take place every day.

My role is usually to listen, not to participate actively. I can see that employees are much more engaged in solving issues than they were before. They aren't just responding to some point that I raised or that the manager raised. Instead, they are finding problems and solving them on their own, coming up with responses like, "I had a meeting with the business division yesterday. We realized that the way they enter orders into the system is what has been generating the extra code we see, so we standardized the order entry to eliminate the issue."

That sense of agency and initiative is enormously important. I can see employees sticking to the problem-solving process—holding the meetings, doing the analysis, finishing the follow-up—even when their managers are away.

And because our way of working is now standardized—it's fundamentally the same whether you work in the network division, the business division, or another area—no one needs permission to go to another organization to ask for help in solving a problem. Teams know that they will get visits from colleagues elsewhere in the company who have issues to solve.

McKinsey: *How do teams—and especially managers—find the capacity to help from other parts of the company?*

Martin Lippert: Lean management has built our employees' problem-solving capabilities so that more issues get resolved without the manager's involvement.

In the old days, managers were the ones who solved problems, not the employees. With a team of 15 or 16 employees, there were always enough problems that just keeping track of them was practically a full-time job for the manager.

Now we empower the entire organization to go about finding solutions. A few issues will still come back to managers, but much fewer than before. The organization can solve more problems, and that means we can better serve our customers.

McKinsey: *What were some of the challenges that you saw with the transformation?*

Martin Lippert: Transformation is always going to provoke resistance, but because we started in the sales organization, the nature of the resistance was different.

In sales organizations, there are always a few stars, people who have been "the hero" for forever. Their attitude was, "It's great that you're doing something to help the rest of the bunch, but I'm a star here. I'm not going to change, because what I'm doing is working."

We had to be prepared to lose some of them. Our message was very clear: we are creating a new

Martin Lippert

Martin Lippert served as group chief operating officer for TDC until August 2013; earlier in his career, he was CEO of TDC Business and was appointed to TDC’s corporate-management team in 2009. Before joining TDC, he was CEO of the Luxembourg-based cloud-services provider MACH. He holds an MS in economics and business administration and a PhD in economics, both from Aarhus University.

way of working. You will participate in designing the process, and once that is in place, we will all follow it. No exceptions.

In the end, I don’t think we lost any of them.

McKinsey: *That’s an interesting distinction, because organizations more typically see a lot of resistance among middle managers.*

Martin Lippert: We encountered that too. It was a big change for them. Before, middle managers spent only about 10 or 15 percent of their time on real leadership—performance management, coaching, finding out what’s going on in their organization. Instead, almost all of their time was consumed by projects, mostly to fix problems. That’s a very inefficient way of working. We needed to reverse those numbers so that managers could spend 80 percent of their time being managers and leaders.

Some of the managers were truly unable or unwilling to make the change. But eventually most of them saw that what we were providing was a set of techniques that they could adapt as they needed. In working together with the front line and senior leadership to design the transformation in their teams, the managers gradually came to recognize how the whole system of lean management could help them accomplish more. It took time, of course, but once they did, we saw more involvement from them than ever before.

McKinsey: *What about the senior leaders?*

Martin Lippert: Again, the message centered on empowerment. Usually senior executives would start by saying, “Great project. You should understand, however, that while it might work in the sales organization, my group is different.”

Every time we listened, and every time we pushed back.

We pointed to the results they could achieve. We acknowledged that there would be resistance. And we finished by underscoring that we would provide the tools; they would design the transformation so the results would be their own.

By being persistent and emphasizing ownership, we were able to persuade the leadership that the approach was worth trying.

McKinsey: *So persistence and empowerment are the essential elements?*

Martin Lippert: We also had the top team's commitment. TDC 2.0 may have started in one small part of the business, but its success made the top team interested. I expended a lot of time to help implement the process, and so did my colleagues.

The quality of the core transformation team matters. We moved senior vice presidents out of line positions to make sure that team would have people's respect from the start.

Additionally, we found that by effectively communicating the results, the results started to reinforce themselves. When people hear that a sales organization more than doubled the number of renegotiations it completed, they simply have to pay attention. I would say that communication in every direction—toward the board and top management, toward employees, toward other parts of the organization—was a major reason we succeeded.

Being able to decrease our cost every year gives us much greater flexibility in how we respond to changing customer demands.

McKinsey: *How have the changes played out across the organization?*

Martin Lippert: One of the most important effects was to build a real performance culture. Before, there were lots of discussions about figures and key performance indicators (KPIs) and so forth. But it seemed like everybody had their own reports, each showing something different. There were endless debates. So, in reality, people did not discuss performance. What they thought were discussions about performance were instead just discussions about data.

In the transformation, we sought to identify which KPIs really were the most important for leading the business in the right direction. Those became the new report, which is now produced automatically on a weekly and daily basis. We announced that this is the only report that matters, and we shut down the other reports—rogue reports, we call them—so that there was only one set of figures.

McKinsey: *So just standardizing the data was a very big deal?*

Martin Lippert: Yes. But we also needed to change what we did with the data. Rather than use the report to put negative pressure on poor performance, we used it to find positive opportunities, as a way to say, for example, "This salesperson must really understand how to go to market with this product. Let's learn from him and replicate what he does." It became the basis for coaching discussions, so that our lower performers could learn from the stars.

McKinsey: *What was in it for the stars?*

Martin Lippert: They also got more attention, in a positive way. Before, with only 10 to 15 percent of their time available for coaching, managers naturally focused on the weaker team members and ignored the stars. But redesigning the manager role gave managers a lot more time to spend with each team member. For the first time, the stars were getting coaching sessions and seeing that even they could improve.

McKinsey: *And that meant more sales.*

Martin Lippert: New sales increased by 80 percent—that’s 80, not 18—in the transformed teams, with no added personnel.

McKinsey: *That’s astonishing.*

Martin Lippert: But really, the other outcomes matter more in the long run. We have better knowledge sharing. We have increased agility. And in the process, we are reducing our costs by between 9 and 11 percent each year while raising our employee-satisfaction and customer-satisfaction scores.

In the business division, customer-satisfaction scores rose 15 index points in a single year. Usually companies struggle to raise those scores by 3 or 4 points; 15 is so unusual that the statistician rechecked all of the data.

McKinsey: *What are the broader implications for TDC in the future? How does this transformation inform TDC’s strategy?*

Martin Lippert: As an incumbent telco, TDC faces the same challenges confronting the rest of the industry, especially in Europe. Revenues are flat or decreasing. Competition is only getting tougher.

Increased efficiency is a necessary condition for us to be able to invest in the businesses that will provide future growth. The fact that we are able to decrease our cost every year gives us much greater flexibility in how we respond to changing customer demands.

McKinsey: *What comes next for TDC 2.0?*

Martin Lippert: I would say that we are only halfway through TDC 2.0, even though we are completing our implementation across the entire organization. We want to combine the strengths we have developed in different product areas so that we are even more precise in meeting customers’ needs. That is a large part of our organization-wide efficiency agenda as TDC 2.0 takes on a life of its own.

At the same time, we are already looking into what we can do for a third wave, which we are calling “radical simplification.” The idea is to build on the lean-management premises underpinning TDC 2.0 and push them further. ○

Copyright © 2014 McKinsey & Company. All rights reserved.

Table of contents

We welcome your comments and questions.

Europe

David Jacquemont
Principal
+33 (1) 4069 9363
David_Jacquemont@McKinsey.com

Paul Jenkins
Director
+47 22 86 2656
Paul_Jenkins@McKinsey.com

Thierry Nautin
Principal
+33 (1) 40 69 95 01
Thierry_Nautin@McKinsey.com

Marcel Normann
Principal
+49 (40) 3612-1366
Marcel_Normann@McKinsey.com

Jasper van Ouwerkerk
Director
+31 (20) 551 3220
Jasper_van_Ouwerkerk@McKinsey.com

Americas

Deniz Cultu
Principal
+1 (612) 371-3125
Deniz_Cultu@McKinsey.com

Andy Eichfeld
Director
+1 (202) 662-3341
Andy_Eichfeld@McKinsey.com

Kweilin Ellingrud
Principal
+1 (612) 371-3132
Kweilin_Ellingrud@McKinsey.com

Krish Krishnakanthan
Principal
+1 (212) 446-7208
Krish_Krishnakanthan@McKinsey.com

Francisco Ortega
Principal
+54 (11) 5776-3817
Francisco_C_Ortega@McKinsey.com

Rohit Sood
Principal
+1 (416) 313-3313
Rohit_Sood@McKinsey.com

Middle East and Asia

Joydeep Sengupta
Principal
+971 (4) 389 9286
J_Sengupta@McKinsey.com

The editorial board would like to thank the colleagues listed below for their contributions to McKinsey’s perspective on lean management:

Kalle Bengtsson, Santiago Carbonell, Pablo Correa, Wouter De Ploey, Joao Dias, Alessandra Fantoni, Ron Fardell, Leo Grepin, Petter Hallman, Klemens Hjartar, Martin Hjerpe, Julie Klinge Johansen, Scott Lippert, Sarah Ryerson, Steve Sakson, Sameer Shetty, Jacob Staun, Zachary Surak, Vincent Van Lierde

For service organizations, the goal of sustained improvement has been at least as frustrating as attractive. But a select group is pointing the way forward by adhering to four management disciplines: delivering value efficiently to the customer, enabling people to lead and contribute to their fullest potential, discovering better ways of working, and connecting strategy, goals, and meaningful purpose. Together, these form the lean-management system, an integrated approach that transforms the entire organization from the front line to the executive suite, allowing it to renew itself continuously for lasting value.

January 2014
Designed by Global Editorial Services
Copyright © McKinsey & Company

McKinsey Practice Publications meet the Forest Stewardship Council (FSC) chain-of-custody standards.

The paper used in this publication is certified as being produced in an environmentally responsible, socially beneficial, and economically viable way.

Printed in the United States of America.