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Getting better than the tools we'd been taught: Lean and people

An auto-industry veteran describes how rededication to lean-management principles—especially to fostering leadership at every level—led his organization to new performance breakthroughs.

Erin Frackleton, Erin Ghelber, and Christian Johnson

Since 1949, Denso has grown from its roots in Japan to become one of the world's largest automotive suppliers, with more than \$40 billion in revenues as of the year ended March 31, 2016. Almost one-quarter of that total comes from Denso's North America operations, which includes more than 14,000 employees in the United States alone.

Denso's origins mean that the principles underlying lean management have been a part of the company's culture almost since the beginning—not only in its home country, but also as it expanded overseas. That dedication to lean management led to receiving the Shingo Prize, which was awarded to two of Denso's North America units, one in 2007 and another in 2008.

Don Tracy, an auto-industry veteran who is a vice president at Denso, spoke with McKinsey's Erin Frackleton, Erin Ghelber, and Christian Johnson from his office in Maryville, Tennessee.

McKinsey: *Denso had a long history of applying lean concepts, well enough to be recognized by Shingo. But then the pace of improvement accelerated. Could you tell us more about what Denso did to trigger the sudden shift?*

Don Tracy: Denso had long experience with lean management—it was one of the automotive suppliers that transplanted into North America to supply the big Japanese automakers when they expanded here. Even 29 years ago, when I started at

the company, Denso was already perceived as a leader in applying the tools of lean manufacturing.

At that time, from the director level on up, the leadership was all Japanese. Their early challenge was to empower and engage the workforce in applying *kaizen* principles—meaning continuous improvement—to their own processes.

McKinsey: *That would already have been a major change from the way most companies operated at the time.*

Don Tracy: It was. But in retrospect I now realize that there was a real gap in the development of leaders. Instead, we developed great process managers.

Including me.

Moving into management made me realize how limiting the process focus was: we couldn't get better than the tools we'd been taught.

We'd been in a child-parent relationship with our counterparts in Japan for many years. But your parents can only teach you to tie your shoes

so many times. We wanted not just to follow, but also to lead.

McKinsey: *Was there a moment when the need to become a leader rather than a manager clicked for you? Or was it a gradual realization?*

Don Tracy: There was actually a moment. I knew that I was not comfortable being a manager; something in my core didn't like it. I was managing by results. And, quite frankly, I was expecting a lot of people but not supporting them as much as I should.

I thought I had to answer all of the questions. It's natural as a manager; you want to show your knowledge. But in the back of people's minds, it gives the impression that you don't trust your people.

One day, a person brought a question to me that was really important to that individual, but didn't seem important to me. I wasn't very accommodating.

Later on I apologized, and said, "I really think this is something that you can handle. Just let me know

Don Tracy

Don Tracy, vice president of Denso International America's North America production innovation center, has more than 34 years of experience in automotive engineering and management. After joining Denso in 1989, Tracy assumed a series of managerial and leadership roles at the company's site in Tennessee, particularly in the body-electronics division. He is also responsible for leading the Tennessee site through a cultural transformation centered on changing leadership behaviors and practices. A member of the executive advisory board for the Shingo Institute, Tracy holds a bachelor's degree in management and mechanical engineering. He has been an instructor in the Denso and Toyota production systems both in the United States and in Japan, for both companies.

what you decide.” The reaction surprised me—the person’s eyes lit up, and the result he achieved was far better than I expected.

This was in November of 2007. From that point on, I realized what I needed to do. I committed to myself that, although I may make decisions on strategy and direction, I’m not going to manage by results anymore. And the results have taken off exponentially. That’s the reality.

McKinsey: *How did that realization change how you lead?*

Don Tracy: I did lot of research on mind-sets, especially growth mind-sets versus fixed mind-sets. My old style was a perfect example of operating on a fixed mind-set. In a growth mind-set, you need to push people into thinking on their own and let them struggle.

That led to a question about leadership at the individual level—how to become more of a leader, not a manager of people. In manufacturing, it’s all about problem solving. You have to go through struggle to be a learning organization, not just a managing one.

McKinsey: *What did that mean for the organization as a whole?*

Don Tracy: We hired industrial-coaching psychologists to do a 360-degree review for us, followed by leadership-development classes and discussions among top managers. Over a four-year period we have almost completely transformed—we don’t know if we’ll ever be finished, but we’re a much less top-down organization. Our structure has gone from a triangle to more of a circle. We’re trying to establish ownership at all levels instead of a hierarchical mentality that tells people to get everything approved by upper management.

We have to empower associates, and as leaders we have to learn how to function and teach. I’m now looking two levels above my position to understand what’s expected, and two levels below to train, so my successor comes in with a similar consistency of leadership investment and the whole cycle sustains itself.

McKinsey: *How do you create that infrastructure?*

Don Tracy: I started talking with our HR team, because this is not the sort of change that you can drive into the organization—you have to develop it within people.

We needed to establish a common language about what the organization should do, with training at each level that worked from top to bottom. Our environment is so heavily influenced by top management. People had to feel their engagement, their example.

McKinsey: *How does HR interact with the rest of the organization?*

Don Tracy: The head of HR is part of our strategic leadership team, which meets once a week to talk about overall direction—including leadership transformation. HR’s role is critical because they’re the voice and advocate of associates at all levels.

For example, if you’re serious about adopting a growth mind-set, you start by recognizing that something isn’t working well. That’s hard—it can feel like you’re walking through fire. But you find an insight, make changes, and the situation improves. And morale follows.

But you have to go through the fire first. HR was a great advocate to help us communicate this idea effectively.

McKinsey: *What was the reaction to these changes?*

Don Tracy: Even with a group as big as 900 people, if just 5 people are extremely negative, they can have a big impact, especially if they've been with the organization a very long time. I asked HR, could you help me to help them? There's something they aren't understanding. I want to turn them around. How do we do it?

Their answer: communication, communication, communication. At a general level, we had engagement surveys where I would see specific feedback. And I started taking time to engage with people who I knew were having a negative experience. It took time, but putting myself out there much more made a difference.

McKinsey: *How could you tell?*

Don Tracy: The most vocal person turned into our number-one cheerleader. We recently celebrated a quality breakthrough, and the associates decided to hold a pep rally—something that had never happened before. I now have a video of him running up and down our office during the pep rally waving a Denso flag.

McKinsey: *What challenges do you see for HR and the company coming up?*

Don Tracy: We're a big organization with plants around North America, so it's been a struggle to make sure our policies promote all of these changes. But we're now taking this transformation to

our other facilities: Tennessee, California, Mexico, Canada. So, for example, now we want a one-HR policy for all of North America. Our plant-level HR head has just taken on all of North America, so that's his mission.

We really need HR to help us avoid becoming complacent or falling back into a fixed mind-set. And we have to develop our talent. Our frontline associates are functioning at what was once a leadership level, so now we need to give them some more autonomy in order for them to keep building.

And we have to keep being vulnerable—willing to say, “I’ve made a mistake.” That was our catalyst for change. ■

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The authors wish to thank Ted Iverson for his contributions to this article.

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