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Holding a mirror to the management system: How mature is it?

To keep its performance improving, an enterprise must keep its management system improving, too. A regular, rigorous cycle of assessing itself reveals actions that help make the system more mature.

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Over the past 20 years of evaluating and diagnosing lean transformations, our research keeps confirming the familiar statistic: fewer than 30 percent of organizations succeed in improving both their performance and their long-term health.[1]

Much of our work has therefore focused on what makes those 30 percent different. Certainly, their paths aren't easy. The enduring transformations, like their less-successful counterparts, encounter barriers where performance plateaus or even slips. But what's unusual among the successful organizations is that the barriers aren't the end of the story. Instead, they become new beginnings.

One difference, we find, is how the 30 percent learn: they undergo repeated problem-solving cycles—identifying issues, finding root causes, implementing countermeasures, and taking the time for reflection. These cycles reexamine not just how the companies operate but also how they think about their operations. Their rigorous use of this basic structure expands their capacity for change and strengthens the interrelated disciplines of the lean management system: delivering value, developing people, discovering new ways of working, and connecting broad strategy to goals and a meaningful purpose.

The entire cycle is based on an even more critical difference. A successful organization understands itself—its strengths and, most especially, its weaknesses—to a depth that keeps its people from ever being entirely satisfied with its performance. From the front line to the C-suite, all of them know that there's always something important they can help to improve. And the scope of what might need improvement includes how the organization goes about improving itself.

The resulting clarity keeps it from becoming overconfident about its success, so it can understand the terrain ahead, deal with the perils of the journey, and set off in a new direction as conditions dictate. With these insights, one basic-materials company, for example, has increased its agility in a challenging market, recommitting itself to develop its people and to change constantly by rating their ability to use its management systems in all performance reviews and by enhancing cross-functional training. A leading insurer is developing a new generation of leaders to handle digital disruption. And a financial institution is reinforcing its senior management's capabilities to prepare for a major expansion of its business.

How success can lead to failure

Fundamentally, the problem many organizations face with lean management is how to respond to the performance advances the initial effort often produces. Ideally, organizations would continue to pursue improvement, compounding the early impact. But, paradoxically, early success may instead play out negatively in several ways.

Losing business purpose. The experience of the basic-materials company illustrates how an organization can get sidetracked by (and ultimately recover from) one of the most common dangers of lean transformations: a loss of focus on business objectives, so that transformation increasingly occurs for transformation's sake. Certain diagnostic tools helped the company to identify waste so effectively that people started thinking about where the tools could be applied next rather than which challenges were truly most important. Over time, the company recognized that simply doing more lean things wasn't enough to ensure it was changing in the way its business required.

Focusing on tools, not ideas. Typically, focusing too intently on particular tools points to a deeper issue: people haven't fully assimilated the ideas underlying the tools, whose point is to reinforce a continuous-improvement culture, not to create experts in the tools.

Performance boards, for example, are often the single most visible evidence of a lean transformation. The data they display is essential to how a transformed organization works. Yet it isn't the boards that are truly important, or even the data. It's the ideas they represent: that people measure what truly matters to customers (and the company's strategy), that those measurements define good performance, and that people use them to talk openly about ways to improve. The boards can disappear at any time if whatever replaces them is at least as effective in reinforcing the same ideas.

Changing behavior but not mind-sets. The change-management literature[2] has long focused on the need to overcome resistance. But resistance can imply intent, when in reality people often revert to old behavior out of habit or instinct, reflecting old mind-sets that may persist even after an apparently successful initial transformation.

One financial institution, for example, adopted lean management enthusiastically after an early round of changes cut project-time requirements almost in half and helped the company to weather a crisis. But over the following years, the gains started to erode. Managers reported that they felt they were spending more time enforcing standards than questioning whether the old ones still made sense.

The continuous-improvement culture the institution thought it had created hadn't fully taken hold. Consequently, under stress, many leaders reverted to command-and-control behavior, making decisions and solving problems for their teams or managing solely by outcomes rather than developing the skills of those teams. Some leaders paid only lip service to the new ways of working: they remained spectators rather than coaches and failed to shape expectations by modeling the desired behavior.

Building without balance. In the deepest sense, this problem's root cause is an incomplete or unbalanced approach to lean management. Our analysis of survey data on organizational transformations[3] underscored the point that lean management works when its four disciplines reinforce one another (Exhibit 1). To deliver more value, a company must find new ways of working, so its people must develop new capabilities consistent with its strategy and purpose. Accordingly, no single discipline will remain stronger for long unless the rest get stronger as well. Of course, at any given time, an organization may have to emphasize some aspects of lean management more than others, but ultimately all of the disciplines must work in unison. That means finding out how good the organization is at each of them.

The value of management-system maturity

To find out exactly why a transformation is no longer producing the expected results, an organization must look in the mirror and truly see itself. Because a few organizations have built such an advanced self-awareness into their management systems, they have little need to ask how mature those systems are or which components may need further work. They know that improvement tends to happen in cycles and are probably already at work on the next one's most important opportunities.

But such organizations are rare, particularly among large enterprises where informal practices and tacit knowledge don't scale very well.

How can you assess a management system's maturity?

Most enterprises instead need a more explicit approach to assessing themselves—one that allows leaders to pinpoint exactly where (and how) to intervene so that improvement remains truly continuous.[4] In our review of several organizations that successfully strengthened their management systems, a few characteristics came to the fore:

- *Comprehensive coverage of the system.* For anything as comprehensive and interdependent as lean management, an assessment must be just as comprehensive, covering all disciplines in equal depth. Assessing only parts of the system may be tempting, especially when leaders have a strong hypothesis about which disciplines seem weakest. But that shortcut risks missing critical issues and leads to ineffective half measures as a result.

- *Detailed standards.* Lean management systems require new behaviors such as root-cause problem solving, systematic coaching and mentoring, and in-person confirmation that processes actually work as planned. These are so different from long-standing norms that the assessment must set clear expectations. For each behavior, it should provide examples of different levels of performance. Consider root-cause problem solving. Companies might decide that basic performance is characterized by problem-solving sessions that are frequently preempted by other priorities. By contrast, the proficient standard might require the sessions to be held on a consistent schedule, with regular follow-up by senior leaders and only rare preemption.

- *Aspirational top-level descriptions.* Descriptions of the top level require particular care because they serve as a motivator to keep people reexamining how well they are doing—a true north that represents a perfect (and unattainable) score. To return to problem solving, the top-level standard might require that leaders always allocate sufficient time and resources to this discipline, so that preemption never occurs.

Exhibit 1

Implementing the four disciplines of lean management dramatically increases the chance of sustaining improvements over time.

Each of lean management's four disciplines comprises two elements

- All employees understand how their work relates to the organization's vision
- Everyone is fully engaged in meeting individual goals and targets

- Best practices are systematically identified, shared, and improved
- Everyone is actively engaged in identifying errors and defects before they reach customers

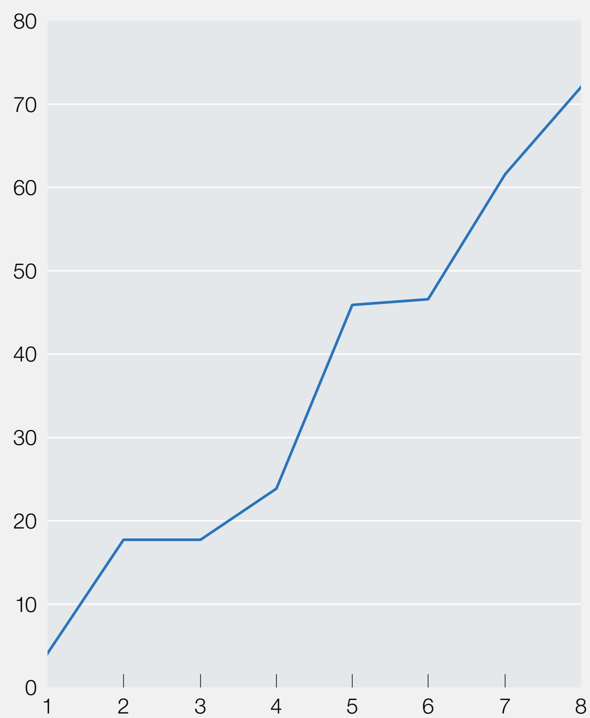
- The organization develops its people so that they can surpass expectations for performance
- Managers understand that their primary role is to lead and develop their teams

- All employees adapt their day-to-day capacity to changes in demand
- Everyone starts the day with a formal team discussion about the previous day's results and the current day's work

Success rate by number of elements implemented (n = 1,624)

Sustainability

% of transformations that sustained improvement over time



Number of elements of the four disciplines that were implemented

Source: *McKinsey Quarterly* transformational change survey, November 2014 (correlation analysis and factor analysis)

- *Expert assessors.* The people who perform the assessment must not only understand the standards well enough to grade particular kinds of behavior consistently but also provide practical suggestions about what to change. Internal assessors, such as core people from the team that led the transformation or from other parts of the organization, are therefore especially valuable because their suggestions will be grounded in its culture and operating environment. Training internal assessors takes time and work, but the effort can pay off. If, say, the follow-up for root-cause problem solving is inconsistent, the assessor should be able to suggest realistic ways to determine which current activities could be eliminated to free up time. And as a European conglomerate has discovered, internal assessors help accelerate the cross-pollination of the best ideas.

Enabling a practical follow-up

For the assessment to have a lasting impact, the reports it generates must lead to thoughtful, pragmatic action. Leaders should be able to understand what they must do to advance the company from one level of maturity to the next—for example, creating clear implementation mechanisms so that new solutions are fully disseminated, or incorporating problem-solving expectations into all role descriptions.

Well-designed digital innovations provide further advantages in converting assessment data into results. First, they help the expert assessors to evaluate behavior and calibrate the findings more quickly. Second, and more important, they make the results more accessible—not only physically, by putting them in the hands of anyone with the right screen access, but also psychologically, by improving the way companies visualize data.

Consequently, managers can see, for example, exactly how many problems teams are resolving and how many other problems haven't been addressed. That creates a new sense of urgency, which makes it easier to undertake moves such as protecting time for problem solving in team schedules or prioritizing implementation when solutions are ready. The result is a dramatic increase in the number of problems resolved.

Assess, improve, repeat: Keeping the value-creation cycle humming

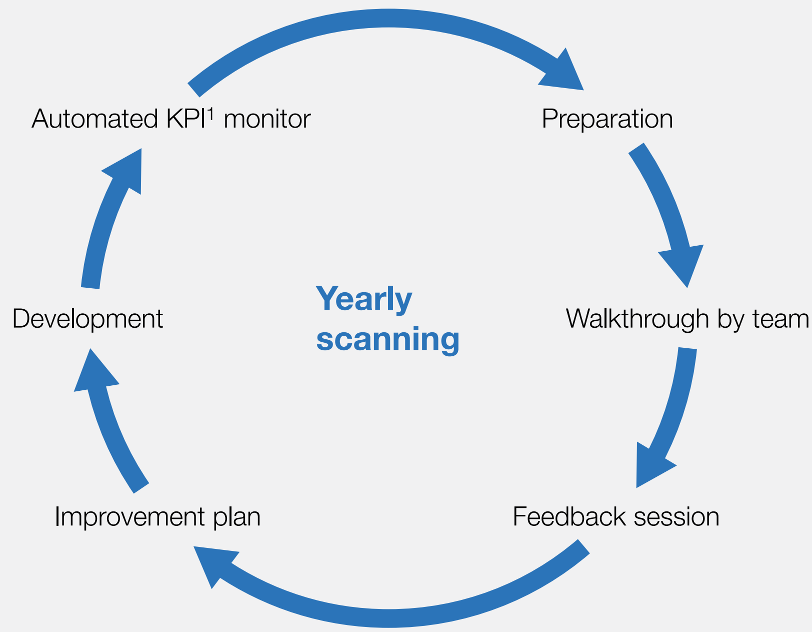
The value an organization gets from assessing itself keeps increasing as the process is repeated across the organization over time.

Assessment as teaching tool

Continual exposure to the assessment process teaches leaders at every level to view the organization and themselves more objectively,

The value an organization gets from assessing itself keeps increasing as the process is repeated across the organization over time.

Exhibit 2 **A European conglomerate's assessment cycle helps build the continuous-improvement system.**



[1] Key performance indicator.

particularly if the assessment provides comparisons against benchmarks from mature organizations. Even internal comparisons of units with one another can highlight patterns and best practices that create significant value—initially, just by providing hard evidence of performance that's regarded as really good. Over time, the structured assessments encourage organizations to pursue balance across the detailed leadership behavior in all four lean-management disciplines.

This knowledge often reveals that organizations have a significant new improvement potential—an almost inexhaustible supply of targets, setting up a continuous-cycle journey of improvement and learning. That in turn leads to better business results.

Accelerating continuous improvement

Organizations that stick to an assessment timetable are seeing a wide range of improvements.

- *Breaking through plateaus.* The basic-materials company detailed earlier has used its assessment to achieve new levels of performance. Its leaders focused the assessment on a small number of top-performing sites—an approach that not only exposed opportunities unique to each of them but also helped the leadership as a whole to see common themes. That led to a reexamination of company-wide practices and behavior.

- *Jump-starting a deeper transformation.* At companies in sectors from mining and metals to industrial equipment, an in-depth assessment has identified core strengths for improvement by targeting a few critical opportunities. The transformation initiatives of these organizations hit the ground running, and the leaders were better able to describe their future ambitions and to tell their people what the journey would look like. Moreover, these leaders report a greater understanding of how their own behavior had to change to sustain performance improvements. More broadly, the preparation kept people committed and engaged through temporary setbacks.

- *Reinforcing an annual improvement cycle.* The European conglomerate mentioned earlier now undertakes yearly assessments for each of its units as part of an annual improvement cycle (Exhibit 2). Since managers report over time that they have a better understanding of what they are expected to do, they can improve their skills substantially and find new S-curves of better performance for their teams.

Recommitting to culture change

One of North America's largest asset managers has been building its lean management systems for more than five years. It has recorded major improvements in critical metrics, such as customer satisfaction and average account-funding levels. But as new pressures on the industry grew, particularly from digitization, the company's leaders realized that they needed a broader understanding of how these systems would have to evolve. The company therefore launched its first assessment of its systems.

The basic findings seemed clear: in the four years after the initial transformation, 80 percent of the assessed sites showed continuing progress, while 20 percent had stagnated. But a deeper examination of the results showed that some of the reported progress was more apparent than real, especially from a sustainability perspective. Some sites showed worrying lapses in essential forms of behavior—lapses that, if allowed to persist, would

probably lead to declining performance. In short, parts of the organization had reverted to boosting their results in the wrong way.

The company then recommitted itself to cultural change, particularly emphasizing its line leaders' responsibility to encourage problem solving. Since then, the number of problems identified and solved has more than doubled, to upward of 50,000 a year. Most important, an assessment conducted two years later shows clear business results: customer satisfaction, employee engagement, quality, and productivity have all increased.

■ ■ ■

The experiences of these companies show how the perils of the continuous-improvement journey are in fact essential to learning—so long as organizations have the self-awareness to understand that the most important perils lie within. A cycle of well-structured assessments builds that self-awareness, so the management systems enabling continuous improvement can themselves continue to improve. ■

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[1] "How to beat the transformation odds," April 2015, McKinsey.com.

[2] For example, see John P. Kotter, "Leading change: Why transformation efforts fail," *Harvard Business Review*, March–April 1995.

[3] "How to beat the transformation odds," April 2015, McKinsey.com.

[4] The examples discussed in this article are based on a McKinsey capability: the Operational Excellence Index and its predecessors.

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