



## **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.

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**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.

#### **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

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.)

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.

#### 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

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)

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.<sup>1</sup> 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.

<sup>1</sup> 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.

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**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.

**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.<sup>2</sup> As current and future leaders learn the new behaviors—and learn to exhibit them—they will need comprehensive support. HR’s

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

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

## 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. ○

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