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Sustaining continuous improvement: Five leaders' views

We asked five executives with decades of experience in lean management about the most important lessons they learned in helping their organizations sustain continuous improvement.

Erin Ghelber, Ted Iverson, and Christian Johnson

The statistics are well known: only a small minority of transformations manage both to increase an organization's performance and sustain it over time. We therefore spoke with executives who have been using and thinking about lean-management concepts for many years across a wide range of industries, which together illustrate some of the potential that lean management offers when organizations commit to it both deeply and broadly across the enterprise.

The interviewees included:

Tom Hartman, who spent almost 20 years as a senior executive adapting lean management at global auto-safety-systems manufacturer Autoliv.

He is now an executive coach at Catalysis, a training and coaching organization for the health-care industry.

DJ Johnson, vice president for transformation at steelmaker Worthington Industries, is a former McKinsey consultant who spent 12 years as an officer in the United States Navy.

Gary Peterson, a member of the executive advisory board of the Shingo Institute, is executive vice president for supply chain and production at O.C. Tanner, a global employee recognition and engagement company that provides technology solutions and manufacturing capabilities.

Scott Powell, director of operational excellence at Export Development Canada (EDC), has been deeply involved since 2013 in EDC's transformation via lean management.

Rich Sheridan, cofounder and CEO of Menlo Innovations, a software design and development firm that pioneered many of the concepts of agile, collaborative software development.

They spoke with Erin Ghelber, Ted Iverson, and Christian Johnson from their respective offices, and their responses have been edited for publication.



McKinsey: *Where would your organization be today without lean management?*

Gary Peterson: Without lean management, I suspect we would have become a distribution business, which would have taken away our most important differentiator: our ability to create custom products for our customers. I love it when international manufacturing leaders come to our facility and I see the look of disbelief in their eyes as they say, "You really are manufacturing in the United States!"

Scott Powell: It would be harder to innovate and be relevant for our customers. We would still be siloed, fragmented, taking much longer to get things done. We would have less humble, respectful leaders, employee satisfaction would not be as high, and it would be harder for us to innovate and be relevant for our customers.

DJ Johnson: I think we started to become complacent; our CEO likes to say that success is a mighty enemy. We had an intense focus on performance, on making data-driven decisions, and above all on overall equipment effectiveness (OEE). In time, I think, we started to lose sight of what

OEE is for, without considering the system as a whole. OEE could be great for a particular piece of equipment, but if the rest of the system can't absorb what that equipment is producing, you end up with piles of inventory. That's why we needed a broader perspective, one that would take us back to first principles in thinking about how we run our business.

Tom Hartman: Looking at my previous work, for Autoliv, it would have been very difficult to keep up with the demands of the automotive industry without a much deeper understanding of the principles of lean. Our technology was good, but the technology alone would not have been enough. In healthcare, we are still in the early days. The potential is huge: healthcare has a history of command-and-control leadership. In contrast, we are teaching them leadership techniques such as humble inquiry and respectful engagement.

Rich Sheridan: In our organization, we didn't fully realize that what we were doing was essentially lean management. We just saw a lot of problems accumulating in the software industry in the late 1990s. Software development had long been a story of individuals with amazing expertise, but Moore's Law—the doubling of transistors every two years in integrated circuits—made computers more capable; we had to go from individual heroes to teams. Yet across the industry, teams were still built on "towers of knowledge" that couldn't scale up or scale down, even in the middle of a society that was ever more dependent on software. Too often, IT didn't know how to communicate with customers or users. Instead, we blamed them. We wanted to fix that.

McKinsey: *What advice would you offer leaders who wonder what happens after the intensive transformation ends?*

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Tom Hartman: The journey is a continuum. It’s not about abandoning what came before, but constantly building, driving hundreds of thousands of small improvements at every level. That’s the point of *kaizen*, of continuous improvement.

Scott Powell: You’ll hit walls. And you’ll probably hit a plateau, too. You have to keep trying, and when something doesn’t work, try something else—keep learning, keep improving.

Rich Sheridan: “Let’s run the experiment” is one of our mottos. Some will fail, some will run for a while but eventually outlive their usefulness, and others become a permanent part of our process.

Gary Peterson: As a leader, you have to believe—and you have to help every single person in your organization believe—that you will never arrive. You never say “mission accomplished,” even after the tipping point where the majority of people are driving lean themselves.

DJ Johnson: I’d say that you can’t let the intensity end. When you feel it fade, that’s when you have to change. You don’t let off the gas pedal.

McKinsey: *What are the biggest challenges your organization has faced in adhering to lean ideas?*

DJ Johnson: Honestly, it’s keeping people from reverting back to pre-lean-management ways.

Gary Peterson: No matter how good you get, you will have people who want to try to do things the old way, even if you’ve known for ten years that the old way doesn’t work well.

DJ Johnson: One of the ways we try to combat that impulse is to avoid putting too much focus on “projects,” or on *kaizen* “events” where there’s a big push to demonstrate continuous improvement. Those are useful for helping people learn but over time, the big money comes from solving problems on a daily basis.

Scott Powell: It’s easy to think that you are doing really well at this across the organization when in fact you may not be. A few years ago, we made that discovery when we asked the Shingo organization to assess our lean-management maturity. Our score was much lower than we expected. Initially that was hard to hear, but it meant we had a lot more opportunity waiting for us.

Tom Hartman: The biggest challenge is weathering the turbulence created by operating in the world of traditional leadership methods, while building the foundations and management systems of principle-based leadership that will make future challenges much more achievable and sustainable.

McKinsey: *How has lean management evolved over time, for you and your organization?*

DJ Johnson: Early on, we emphasized building a central team to guide our transformation. That was necessary but not enough; we needed to engage our employees more and have them working on continuous-improvement activities that people in the central team would not have the resources to lead.

Gary Peterson: That's true throughout the organization. As leaders, it's about relying less on your own decision making and more on helping other managers and executives develop their people.

Scott Powell: Development has been crucial for us. Since the Shingo assessment, our focus has been top-down at the enterprise level, among our executive team.

Tom Hartman: We started with tools and techniques like almost everyone but quickly moved on to a principle-based approach that was critical to building a culture of continuous improvement. This applied in all areas: product development, human resources, finance, supply chain, as well as operations.

McKinsey: *There's no question that senior-leadership engagement is crucial to sustaining lean management, but how do you best engage senior leaders?*

Tom Hartman: You start by recognizing that for most people in the C-suite, the idea that the greatest value they can contribute is by teaching and mentoring their people is not natural. Regardless of their background, whether they were engineers or MBAs or physicians, that's not the way they were trained.

DJ Johnson: We developed an executive immersion program for lean management, a two-week program in which senior leaders visit

other sites to see what their peers are achieving. But what matters more than seeing is doing, so the training culminates in a *kaizen* event. For capability building, these events are incredibly valuable because they provide a way for senior leaders to learn how to make continuous improvement happen. At a given location, we'll have the business-unit COO, the general manager, the operations manager, and the whole leadership team all participating and developing their skills at once.

McKinsey: *How do you make sure that it isn't a one-time exercise for them?*

DJ Johnson: We changed our performance reviews to incorporate lean-management behaviors, such as the impact achieved from problem solving in the area the executive or manager leads.

Scott Powell: We put a lot of effort into developing a strong core of coaches and support mechanisms to help deepen the sustainability of what we call the EDC Way. For example, the workplan of every employee—including our CEO and executive team—includes a performance measure that requires improvement in critical EDC Way indicators. One of the CEO's most important *hoshin kanri* (or policy-deployment) initiatives is to improve the culture through the EDC Way. Our strategy-creation tools require identification of essential lean management systems, and we have a senior executive-level annual development plan cycle for the EDC Way, which helps drive our systems forward year over year.

Tom Hartman: We emphasize that the C-suite must be constantly learning, which is important not only on its own but also because it implies a degree of humility—which is crucial to driving improvement and thinking at a higher level of performance. We ask executives the question, “How many times have you missed an opportunity to learn because you were blinded by your own knowledge?”

McKinsey: *That's a significant mind-set change to build into an organization. To what degree do you develop it from within, and to what degree do you bring in new talent?*

Scott Powell: To supplement our coaching and development-plan methods, we also build EDC Way capabilities into all leaders, as well as into important sustainability teams and associates. Also, it becomes easier as you build lean management into your approach to finding talent. I'd say that about 70 percent of our executives are promoted from within, and with generational rollover, that means about 70 percent were frontline leaders back when we started with lean management. At this point, our executive team has had enough experience in hiring lean leaders that we're pretty optimistic about supporting our culture.

Rich Sheridan: We were a new organization, which might seem easier, but one of our central challenges was overcoming the traditional culture of software development. The classic work setting is a cube farm, everyone listening to headphones, coding silently, often at weird hours. And yet, when the company releases a product to the world that makes no sense, leaders lament the serious communication problems in their engineering organizations.

My cofounder and I decided that it doesn't have to be that way. We don't do traditional interviews, which I think of as two people sitting across a table lying to each other. Instead, our process is immersive; we give people actual work and have them work together the way our employees do. That's how we find out whether people can succeed in our culture.

Gary Peterson: When we hire or promote a leader, we don't actually give them the job for three months. We give them a project in an area that's

unfamiliar to them and that cuts across the enterprise. They're expected to get big results, of course, but the really important thing is how well they follow lean-management behaviors. We design the assignment so that it comes with no authority: no one is obligated to help them. We watch how they perform, and give them intense training on the principles of lean management.

If in three months they don't quite make the cut, they either revert to their previous job and try again later or leave the company. That's how important it is for people to lead in the right way. We also do day-to-day connections, monthly coaching sessions, and semiannual review cycles that are all very clear on our expectations as to how individuals lead, how they develop their people, and how they reach out and help.

Tom Hartman: Whenever possible, it is better to promote from within, I think. Promoting those who are already immersed within your culture enables the organization to accelerate its primary mission, which is to unleash the creativity of its team members, thereby building a perpetual improvement machine. Hiring from outside is occasionally necessary, but each of these new team members must learn the delicate balance of distributed, empowered leadership.

McKinsey: *How do you make sure these behaviors reach the middle manager and frontline levels?*

Scott Powell: We zigged and zagged over the past ten years, initially starting in the middle and frontline levels, then really putting an emphasis from the top down. Now we're in a great position to reengage the middle and front line, because once the role modeling and alignment were strong enough at the top, we could move on to the rest of the organization. The knowledge training we offer at every level is now deeper, with stronger coaching

so that people can really integrate different streams of value together.

Tom Hartman: Autoliv also invested heavily in people, starting with the top leaders and moving progressively down the organization. The messages became more concrete and granular as we got closer to the factory floor. Over time, however, we realized that people becoming team leaders needed more than the tools-and-techniques training they had as operators. They needed to understand the reasons why the tools exist. That led us to develop a whole new type of capability building—a sort of Lean 201 that followed from Lean 101.

Gary Peterson: Rotating people is also essential, at every level. At O.C. Tanner, after three years on the job, you're due to be moved, almost always to a different value stream if you're a manager or above. Even frontline leaders get rotated within the same value stream. It's about supporting teams, not the personality and connections of a particular individual.

One of our managers was very good at running a particular system, so we didn't rotate her for five years. I was on a bus tour in Japan and mentioned how essential she was to a local executive. He looked confused, asking, "Don't you like her?" He wasn't moved by my argument. When I came home, we moved her. Her replacement picked up the role, refined it, and made improvements. Meanwhile, she's moved on yet again and is doing really well.

McKinsey: *What would you say is the most powerful effect that lean management has had for your organization?*

DJ Johnson: One of the biggest things we got out of lean management was capability building. We realized we couldn't rely on central offices all

the time; we needed more from the shop floor. That changed our idea of what is possible.

Gary Peterson: Number one has to be the empowerment of our people. They've gone from basically sitting there, quietly doing what they're told, to doing real strategy implementation. On the other hand, when people hear our story, where I see the most disbelief is in the idea of trusting the power of your own people.

Scott Powell: Employee engagement was the first thing that came to my mind as well. Our mind-sets have shifted—our whole approach to what we do has evolved—and we're using a common language to ensure we build capacity and greater relevance for our customers.

Rich Sheridan: Belief in our people—our teams—is what's enabled us to help change the way software is made, and the way people interact with software.

Tom Hartman: I would say that the key to building a culture of continuous improvement is respecting the capability of the people. One of the people who taught lean management at Autoliv used to walk the floor, see people doing the same thing every day, and ask, "Is this a people job or a dog job? If people aren't changing, they're doing work they're trained to do like dogs. Why don't you engage them every day so that this is a people job?" ■

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