

Seven levers for corporate- and business-function success: Lean management (lever 4)

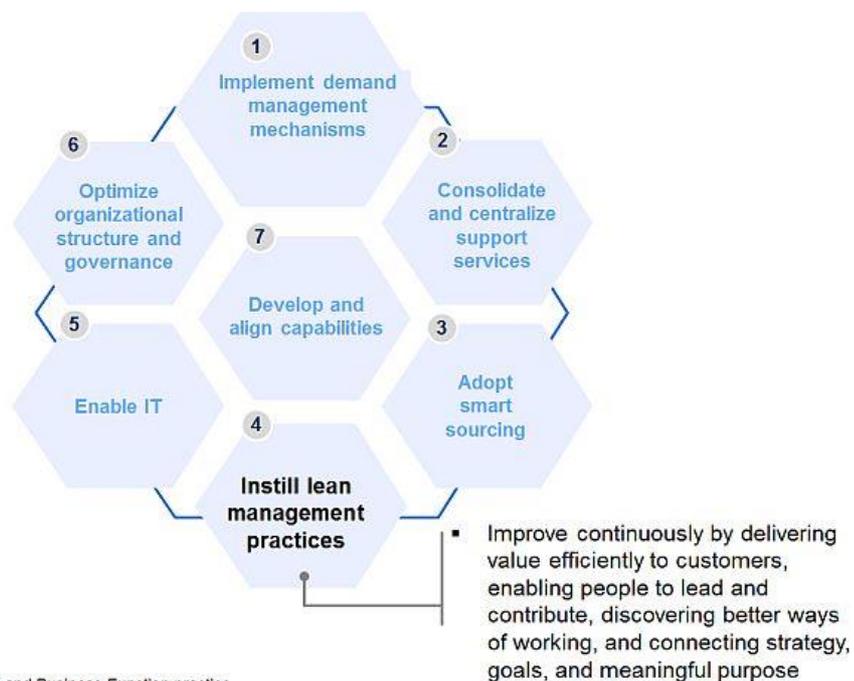
Lean management has a powerful set of tools to improve the way work is done

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For the introduction to this seven-part series on why and how companies can improve the effectiveness and efficiency of their business and corporate functions, please see [“Seven levers for corporate- and business-function success: Introduction”](#), June 2014, on the Operations Extranet.

Exhibit: Lean management (Lever four) provides a toolkit of approaches to start and maintain support function improvements



SOURCE: McKinsey's Corporate and Business Function practice

Lean management is a set of methodologies that has led to significant, lasting performance gains among manufacturers, financial institutions, telecommunications companies, and even government agencies. It provides a powerful approach for helping corporate and support functions create more value, both upon application and continually over time.¹ Once the consolidation and smart-sourcing levers yield decisions

¹ *The Lean Management Enterprise: A system for daily progress, meaningful purpose, and lasting value*, McKinsey, 2014.

about the structure, location, and composition of the workforce,² leaders can focus on the development of lean disciplines and maximize their impact. By concentrating on a small number of targeted locations, such as shared service centers with a critical mass of employees, the organization can rapidly test and refine its application of the concepts so that the resulting improvements are scaled quickly and endure.

Lean management comprises four disciplines that many organizations already follow to at least some degree: delivering value efficiently to customers; enabling people to lead and contribute to their fullest potential; discovering better ways of working; and connecting strategy, goals, and meaningful purpose. The key is to execute on all four at once—by building mechanisms that reinforce each of these disciplines.

1. **Delivering value efficiently to customers.** Lean management starts with ensuring that customers get the exact level of support they require—no less, and also no more. That means understanding who the customers are, what they need, and how to fulfill that need with as few resources as possible.

Implementing this discipline requires particular care in the support-function context. First, because functions such as HR and finance are staffed by people who often work in locations separate from their business counterparts, it is easy for them to miss the wider context of the issues the business is facing, and misinterpret the business's true needs. That raises the second issue: specialized functions must often advise their customers within the wider business on the type and level of support that will best serve that customer's requirements. Failure to educate the customer can be a particular problem. What business customers think they need may differ greatly from what is actually required to support the business effectively—a mismatch that may overburden the function without significantly improving business results.

To fulfill the customer's need efficiently, lean management provides a range of tools that help reduce wait times (through improved work hand-offs), assign tasks to the right people (through "skills matrices" summarizing each employee's capabilities and "performance boards" displaying the status of each team's work), and breakthrough bottlenecks (through "value-stream mapping" showing the waste and obstacles associated with every step in a process from beginning to end). These tools often help uncover opportunities to exploit some of the other seven levers, such as improved demand management through the adoption of chargeback mechanisms.

A US health insurer, for example, used lean practices to identify projects in its market-research function that required significant rework. Closer examination of the workflow for this function showed that the root cause was poor demand planning, which led to unexpected use of external agencies as the department

² See "*Seven levers for corporate- and business-function success: Consolidation*", and "*Seven levers for corporate- and business-function success: Smart Sourcing*"

rushed to meet tight deadlines for last-minute jobs. The insurer therefore altered its internal chargeback structure for unplanned requests. Over time, the new pricing encouraged better planning by the business, reducing the number of “emergency” last-minute requests.

- 2. Enabling people to lead and contribute to their fullest potential.** For a function to deliver to its customers consistently—and, even more importantly, to provide value as customers’ needs evolve—its people must continually build their own capabilities. Yet many functions discover that their tools for measuring performance or delivering feedback are inadequate.

Too often, organizations rely on generic assessment practices that fail to account for major differences in the type and scope of work performed in specific roles. Employees find themselves unable to understand their performance adequately, or to get the right guidance on what they should do to develop the required capabilities. For example, frequent reviews are important for call-center employees so they can quickly focus on strengths and address performance gaps. A three-month gap between reviews means they will miss critical opportunities to learn.

By contrast, for highly specialized IT experts, even a quarterly review cadence may not allow sufficient time to generate meaningful data. Building a better performance infrastructure across each function therefore requires a tailored approach and often a substantial investment. This is essential to make performance management credible and effective.

One finance function tackled this problem by grouping its positions into four basic categories according to the degree of standardization in their work and the duration of the typical task. For “specialists,” who must quickly respond to requests for ad-hoc management reports, feedback and workload management occurs mainly via frequent (e.g., daily) team huddles where specific issues can be discussed and work can be quickly rebalanced among the team members. In comparison, the highly standardized work of the “operator” archetype lends itself more readily to conventional metrics such as error and productivity rates. These can be summarized easily on performance boards that show how each employee is doing in meeting performance objectives and allow supervisors to tailor one-on-one coaching to those employees who need it the most.

- 3. Find better ways of working.** As customers and external circumstances change, so must the way the function works. The most vital (and, in many organizations, most difficult) task in meeting this obligation is to create an expectation that people will recognize when something is not working, discuss openly what to do, and follow up on designing and implementing the solution.

Even organizations that make a point of finding problems often discover they could do even more. Mike Rollings, [CFO at US](#)

insurer MassMutual, reflects the experience of many executives in noting, “it was a change of mind-set to say, ‘Let’s be very comfortable in recognizing...that there are places where we can get better.’” In addition, very few functional organizations have a structure for systematically tracking the development, implementation, and sharing of solutions—the essence of continuous improvement.

A particular barrier to finding better ways of working in corporate and business functions is the need to work across different functional areas, each of which may have its own processes, norms, standards, and working styles. Over time, these harden, impeding workflows. Organizations can mitigate these problems by designing work teams around a coherent set of responsibilities that align to an end-to-end process, such as the entire set of activities from identifying suppliers to executing final payment for goods and services, or managing the entire order-to-cash cycle from processing incoming orders to receiving and booking payment.

4. **Connect strategy, goals, and meaningful purpose.** The final discipline ties each person’s day-to-day work with the organization’s broader direction. Managing performance becomes more transparent and equitable, alerting leaders of potential issues more quickly while also giving individuals more meaning in their work lives.

Sometimes the link is fairly easy to make. Rollings describes how MassMutual was able to relate its corporate purpose directly to its finance function: “Our long-standing vision is to be the best company in the industry in delivering three things: financial strength, high dividends, and customer service. In corporate finance, we view ourselves as the stewards of financial strength.” But more typically, the connection requires more effort to tease out. A European retail bank that was transforming its culture from a bureaucracy to a federation of entrepreneurs illustrates how it can work. To adapt the entrepreneurialism idea for a functional audience, the HR director highlighted HR’s role in identifying potential highfliers and enabling them to rise more quickly from low-impact jobs.

One result of tightening alignment is to prioritize functional activities according to what the organization as a whole needs, even if that means pushing back against specific requests. Accordingly, job descriptions must be redefined to minimize transactional work in favor of higher-value activities. Other corporate- and business-function levers, such as IT enablement, must be employed as well. For example, to give HR business partners—the specialists who work with particular businesses on strategic HR issues—the capacity to focus on implementing enterprise-wide initiatives, several companies have launched online self-service portals that allow line managers to resolve simple HR issues on their own.

As is the case for core functions such as manufacturing or operations, lean management brings a powerful set of tools to improve the way in which work is carried out in corporate and business functions. When applied as part of a sequenced transformation in conjunction with the other levers discussed in this series, lean management produces results that can be substantial. For example, a global logistics firm was able to implement lean practices in four strategic-finance shared-service centers. Because these locations had already been consolidated, they were quickly able to develop and disseminate new working practices that generated a 20 to 40 percent initial improvement in processes such as record-to-report and procure-to-pay. Furthermore, the development of new ways of working and better performance management systems allowed the centers not only to sustain this improvement but also to capture an additional 2 to 3 percent gain year after year ■

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