Lean at your service

Internationally recognised author **Andrew Spanyi** and LMJ board member **Brenton Harder** examine the potential and the pitfalls of lean in the service sector.

The application of lean principles in the service sector has always promised significant potential as a method for process improvement. Yet, many organisations sub-optimise the application of lean by failing to see it as a major cultural change that may take years to implement. Lean implementation is not simply a matter of drawing value stream maps (VSM) and attacking pain points with kaizen events; rather, it requires active and engaged leadership to avoid mistakes and missteps in the application of the broad principles. Why is this important? As Peter Hines wrote in Issue 01 of LMJ, "The critical issue with lean is not the tools, the value stream maps or kaizen events. It is about leadership, strategic alignment, behaviour and engaging people." For optimum results, senior management needs to take responsibility for leading the cultural change, defining and improving the organisation's end-to-end processes.

Why should leaders in the service sector care about lean, especially when Toyota, the exemplar from the manufacturing sector, has stumbled so badly? Here we consider five of the foremost dangers involved in transferring lean into services and start exploring how to avoid them.

First, leadership engagement has been problematic in the manufacturing sector and may be even more so in the services industry. Lean emphasises flow and waste reduction, it focuses on enhancing value for customers by examining the value stream and hence is heavily customer centric. Executives in the service sector pay lip service to customer satisfaction and even talk about delighting customers, but what they really care about is profit. And there's the rub. Reduced cycle times, less waste and better on time delivery does not immediately translate into better financial results, as Cooper and Maskell reported in their article "How to Manage Through Worse-Before-Better" (*MIT Sloan Management Review,* Summer 2008). That's a big problem for firms in the service sector, many of which are publicly traded and where patience is not one of the prominent virtues of senior executives. One of the contributing factors to the lack of leadership engagement may be the way in which lean training is conducted for senior managers. They can be wooed by consultants stressing only the technical tool based aspects of lean and leaving out the leader's role in practical delivery. Hype dominates at the expense of practical guidance for executives on their role, the time it takes to shift culture, and the probing questions they need to ask.

Secondly, lean programs can come across as tools and jargon heavy. Frequently, middle management is left with the task of deploying a project which has little alignment to their rewards and recognition schemes. Giving it a name is not the answer. The service sector has seen more than its share of programs over the years; quality, reengineering, balanced scorecard, just to name a few. Introducing VSM, kaizens, Total Productive Maintenance, kanban and a whole host of other terms that need a Japanese phrasebook to negotiate, is unlikely to meet with success unless supported. The Japanese terminology can, and has, been successfully translated and this should be taken advantage of since, to the outsider, the extensive use of foreign expressions propagates an impression of cult tendencies. This is unlikely to play well in the service sector which is already overburdened with tool sets and jargon. Furthermore, from the point of view of executives in the service sector, they are fairly well read and will quickly recognise concepts in lean as having come from the work of Deming and Juran. They have seen it all and as soon as it's a jargon riddled program there is an increased chance of a precipitous decline in management attention. One of the failures of management, especially in the service sector, is that once it's been said leaders assume that it's been done.

Thirdly, the linkage of lean to information technology (IT) has, so far, been sub-optimal. This is especially problematic in the service sector where IT is ubiquitous. Often, powerful tools such as value stream maps are too cluttered. They fail to depict the departments that need to collaborate to create value and do not provide clear linkages to enabling IT systems as the example in Image 1 illustrates.

Fourthly, tasking middle management to deploy lean concepts is a typical mistake made in the industrial sector. According to a survey conducted by The Lean Enterprise Institute (LEI), middle manager resistance was the top ranked obstacle to success with lean, followed closely by lack of implementation know how, and employee resistance. These obstacles are real and they may well be related to the lack of sustainable engagement of senior executives. In the service sector, where organisations are complex and product proliferation runs rampant, loyalty is assigned to department, product line or geography. It's critical to find a better way to engage the members of the leadership team and to communicate that lean concepts take years to embed. Executives need to pay close attention to the value that lean concepts can create throughout the life of multiple projects. Tasking middle management to deploy lean concepts is not the way to go. It generally results in trying to PowerPoint the way to success – and we all know that won't work.
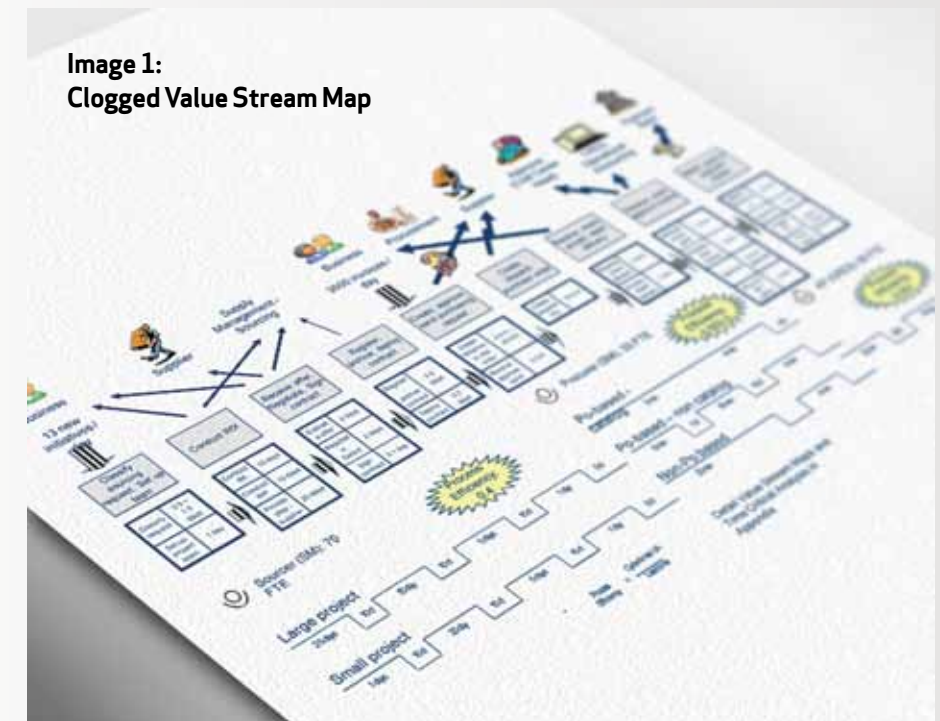
Image 1:
Clogged Value Stream Map

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Finally, executives can learn from mistakes in the manufacturing sector in failing to align recognition and reward systems with customer value creation. In the absence of this alignment, the lean activities involved in VSM and kaizen events, will be little more than a supplemental activity before managers get back to their 'real jobs'.

There is no doubt that lean concepts are useful when properly applied in the service industry. The five lean principles defined by the LEI and depicted in Table 1 do have merit in the service sector.

Table 1: Lean principles

- Provide the value actually desired by customers
- Identify the value stream for each product
- Line up the value stream for each product
- Line up the remaining steps in a continuous flow
- Let the customer pull value from the firm

Better application of lean in the service sector will rely on toning down the hype and turning up concepts and practices – creating value for both customers and companies as the root philosophies of Deming and Juran guide us to.

In elevating lean concepts and practices, it may be useful to integrate lean concepts and practices with the broad principles of process management, summarised in Table 2 and outlined in *More for Less: The Power of Process Management*. This will take the focus off the method per se and place it squarely where it belongs. This will require that key tools such as VSM be applied to the end-to-end business processes, promoting focus on cross-departmental collaboration, linkage to IT, aligning recognition and reward systems, and embedding key metrics on time and quality into the scorecard of the senior leadership team.

Table 2: Key principles in process management

1 Look at the business from the outside-in, from the customer's perspective

2 Tightly integrate strategy with end-to-end business processes

3 Articulate strategy in a process context to inspire frontline staff

4 Design end-to-end business processes to deliver on strategic goals

5 Ensure that organisation design enables end-to-end business process execution

6 Deploy enabling technology based on the value added to end-to-end business process performance

7 Hard wire the end-to-end process performance measurement system into operating reviews

8 Sustain focus and alignment

This may assist in better engaging senior managers and help to avoid the mistake of making it a program flavour of the year. In addition, for success in applying lean in the service sector, it's important to take action to mitigate the mistakes outlined above through a focus on the following:

Better analytics are needed to express the likely results of cycle time reduction and waste elimination in financial terms. If it's true that financial results will lag operational results then let's at least be able to forecast when the operational results will become visible. This will require close collaboration between lean practitioners and experts in business intelligence.

Bigger projects that are aligned and owned by the business are critical for success with lean in the service sector. Lean cannot be seen as just a central initiative. The practice of using a value stream map to identify opportunities and then launching a series of small kaizen events will not work in an environment that is fragmented in terms of both organisation design and

IT systems. Just consider the typical bank that offers loans. Such a bank will have car loans, mortgages, credit card loans, home equity loans. Each loan area will have its own marketing department and probably its own IT system, with a set of complex and hard to maintain interfaces. Eighty percent of the activities in the end-to-end value chain for each type of loan will be the same and 20% will be different. Small kaizen events, diving into the detail of each type of loan, may produce some short term results but will do little to engage leadership and are unlikely to attract the attention of senior IT people. Larger end-to-end projects are needed to drive cross-product and cross-department collaboration, reduce redundant effort, engage IT, and reveal where the opportunities for recognition and reward alignment reside.

Better training is needed too. Lean training in the service sector should include only those tools that are directly applicable to services. It wouldn't hurt to tone down the use of Japanese terms either, although that may be difficult for hard core lean disciples. The area requiring greatest improvement is the training provided to executives and senior managers, who deserve to receive

practical guidance on their roles in applying lean practices for greater value creation. This calls for greater emphasis and clarity around the time it takes to shift culture and the specific probing questions they need to ask. Here, it would be useful to embed key leadership concepts from the body of literature on change management such as Kotter's *Leading Change* to address how leaders can create leadership a sense of urgency and form a guiding coalition.

The ultimate success of lean in the service sector will depend on the extent to which a tight linkage can be made with information systems, the close alignment of improvement projects with rewards and recognition systems, and the ability of senior managers to understand the firm's end-to-end business processes in creating value. E N D

Editorial Comment
It is constantly surprising that after so many years of improvement initiatives there is still so much diversity of view in how and what should be done for success.

The five key pitfalls highlighted here are real and can be recognised in many companies but the suggested solutions could perhaps be expanded further. I agree that the strategy should be aligned with customer needs but implementers must also remember to constantly refer back to those customer needs when applying strategy to process improvement.

Focus on lean tools will not, in my experience, provide better projects or better leadership development. You must make management understand the work and from that point develop the right approach to fulfil customer needs.

Middle management is often placed between daily work which has no direct customer contact and top-down strategy with no link to daily work. It is therefore no wonder that gaining their engagement is difficult and I agree that Japanese terminology often makes it harder still. It is time to see lean tools for what they are – enablers, not solutions in themselves. Cut out the mystique.

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