Lean is a waning fad

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Persuaded that adopting lean will lead to Toyota-style levels of performance differentiation, managers of service organisations have flocked to the bandwagon. The persuasion comes from both consultants and academics. With the former this is understandable, but that academics have been cheerleaders is lamentable. At this time many people are becoming disillusioned: results fail to come up to expectations; the ‘improvements’ reported by lean projects don’t throw real money to the bottom line. We need to understand why.

Lean arrived in service organisations that were already highly industrialised – for instance, call centres and back offices managed as mass-production systems. Managers of these organisations think of their job as continually juggling the following equation: how much work is coming in, how many people do I have, and how long do people take to do things? Central to this production-driven view is that activity equals cost; hence, the argument goes, the more we reduce activity times the more we cut costs. It is a fallacious argument, to which we will return.

Mass-production managers are constantly looking for new ways to do three things: standardise work, reduce activity times and drive out waste. For them, lean seemed like an answer from heaven. They were encouraged by the promulgators to believe that lean was a new solution to management’s known problems.

Yet that very assumption – that we already know what our real problems are – runs directly counter to the teachings of the originator of ‘lean’ (a label he would have rejected), Taiichi Ohno. Ohno, the man who developed the Toyota Production System, taught managers that their first and primary task is to study their systems, to identify and understand what their real problems are. He taught that through acting on the system – the way the work works – and focusing on relationships, financial results would follow. To focus on financial results is to do it the wrong way round – they are the by-product of identifying and resolving the problems in the system.

Studying service organisations as systems reveals some counterintuitive truths. To treat all demand as though it is work to be done is to miss the truth that much of it is what I call *failure demand* (demand caused by a failure to do something or do something right for the customer [Seddon 2003]). Much failure demand is predictable, and if it is predictable it is preventable. It cannot be removed without understanding its causes, however. And studying service organisations as systems reveals that two of the major causes are – wait for it – standardisation of work and management's focus on activity management. When we switch off preconceptions and really study service organisations as systems, we discover that they have very different problems to solve from car manufacturers. By far the most important is designing a system that can absorb the variety of customer demand. If we can achieve that, costs will fall as service improves. It is the essence of the 'Toyota solution' for service organisations – and has little to do with what is commonly accepted as 'lean'.

By believing the pitch that the Toyota tools are universal (again contradicting the advice of Ohno, who insisted that codifying method would have exactly this damaging result), managers have failed to realise they have missed the first and vital step and thus the whole point of the Toyota approach. A focus on reducing activity times to cut costs not only leads them to ignore a much more powerful lever for improvement – understanding demand – but also lulls them into the belief, understandable but erroneous, that they must automatically be improving end-to-end performance, the complete flow of service from first contact to final solution, as well. As careful analysis shows, focusing on activity times usually damages end-to-end performance from the customers' point of view, with inevitable upward impact on costs.

To take an example, the leaders of Portsmouth City Council's housing repairs service learned, through studying their service as a system, that focusing on the activity of their tradesmen actually drove costs up, a counterintuitive realisation. Working to standard times failed to reflect the variety in the work being done (not all tap repairs, for example, are the same) and setting targets for jobs-per-man-per-day led to meeting the target, but not ensuring jobs were completed. Using knowledge gained by studying demand – the type and frequency of repairs required by the properties – they have designed a repairs service that now delivers repairs on the day and at the time tenants want (if BT could learn to do that we'd all cheer), and this revolutionary design operates at half the original cost – a result on a par with Toyota's original level of differentiation [Zokaei, Seddon and O'Donovan, 2010]. Ohno would have been impressed; Gary Hamel recognised Portsmouth's innovation with an award, it is a true economic benchmark [Hamel and LaBarre, 2010].

Studying demand leads managers to the recognition that service organisations need to use people to absorb variety; in Portsmouth's case it means the tradesman determines how long he needs to complete repairs. Likewise, in service centres it means removing all arbitrary measures of performance, like standard times and productivity targets in favour of developing measures of actual performance in customer terms and designing a service based on knowledge of customer demand. But lean, as it has been applied in so many service organisations, ignores these vital realisations. Instead lean interventions treat all demand as work to be done, assume that activity is equivalent to cost and report reductions in activity time as annualised savings, in complete ignorance of the true impact on performance. The reality is, as it was for Ohno, that true costs are in flow, not activity, and in service organisations this means the true costs of service are the total number of transactions it takes for a customer to receive a service.

The most egregious example of the folly of treating activity as cost is Her Majesty's Revenue and Customs, many years into its lean programme, never out of the news for performance failure and subject to perpetual scrutiny by the Treasury Select Committee. Accountants despair at the number of transactions it now takes to get a service and the failure of call-centre operatives – if they can get through (many millions of calls are abandoned) – to provide answers to questions. While HMRC's leaders argue they have achieved efficiencies through reducing transaction costs, the regular spectacle of PAYE mistakes and other failures continue.

HMRC managers point to an academic report [Radnor and Bucci, 2007] as support for what they describe as their 'journey', but it is a journey to a terrible destination as HMRC's 'customers' and the incessant failures attest. As well as performance failures, HMRC suffers from incredibly low morale, a consequence of the industrial design [Carter et al, 2011]. The Radnor and Bucci report amounts to little more than a collection of interviews with HMRC personnel, gathering opinion, and includes no critical evaluation of management's assumptions, instead supporting the ideas that work should be standardised, that activity equals cost and targets have a role in performance management, all of which may be conventional but are also shown to be wrong when such services are studied as systems. Radnor and Bucci ignore what academics call the dependent variable: in lay terms, does it work?

Meanwhile in the private sector, where money talks more loudly, many are abandoning their lean programmes. Some do so simply on the basis of the failure of 'improvements' to hit the bottom line, the more enlightened do so from a recognition that lean only served to reinforce the current management paradigm, and it is this that has to change if we are to emulate Toyota's original achievements.

Lean has all the hallmarks of a fad: it fits with the current management paradigm, it offers to solve problems managers think they have, it reinforces the notion that change can be achieved with projects and tools and the promises of consultants fail to be realised. To cap it all, academics join the bandwagon instead of concentrating on the discipline of learning. The lean fad is about as far from Ohno's philosophy as it is possible to get.

The good news is that as more service organisation leaders learn, just as Ohno learned in manufacturing, that a focus on relationships (the system) in service delivers levels of performance improvement that most people wouldn't dare dream of the fad's wane will speed; the faster the better.

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