

Lean Leadership - Knowledge Productivity for the 21st Century

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What would Peter Drucker have to say about this? This is a question I have asked myself often, particularly when stumped with a situation that didn't fit anyone's expectations. I remember reading *Post-Capitalist Society* fifteen years ago, just as I was completing my first business book, *Managing With Systems Thinking*, and I remain, to this day, in awe of Drucker's insight into the transformation of our capital driven society into a knowledge society. At the time, I had the opportunity to study something Peter Drucker mentioned several times in passing: kaizen (continuous step-by-step improvement of working practices). As part of my research on mental models, I observed how Toyota taught one of its suppliers the techniques of what is now called lean management. I was incredibly fortunate to discover a management practice focused entirely (and explicitly) on developing knowledge. Indeed Toyota's approach to improving operations was very different than what I expected, and it took me quite a while to even recognize how it did what it did. I was looking for superior organizational know-how: the OEM teaching its best practices to its supplier. What I saw was the Toyota consultant teaching problem-framing and problem-solving skills to the suppliers engineers. They taught method, not solutions. In doing so, they consistently developed the supplier's knowledge, whilst instigating more effective practices on the shop floor in local conditions. As a result, the supplier delivered better parts at lower cost not because they complied better, but because they knew more about both the parts and the processes.

Even today, Peter Drucker remains the management thinker par excellence. He created the genre and has never been equaled, neither in the depth of his insights, nor the attractiveness of his broad-ranging style. Even when he turns out to have been wrong, Drucker makes you think like no other management writer does. Drucker's thought has always been complex and multi-faceted. Having defined the professional manager from his early studies of large corporations, he later turned towards describing what a knowledge worker would be in a knowledge society. In his terms, a manager was no longer simply someone who is responsible for the performance of people but became someone who is responsible for the application and performance of knowledge. In this shift, Drucker realized that creating the new has to be built into the organization through three basic practices. First, continual improvement of everything it does through kaizen, which he defines as organized, continuous self-improvement. And here Drucker sees very clearly what has hitherto escaped many commentators in the lean field: one aim of kaizen is to improve products or services so that they become truly different two or three years down the line. Second, organizations need to learn how to develop new applications from their own successes. Third, organizations have to learn to organize innovation as a systematic process.

Furthermore, Drucker also spotted one of the main barriers to leveraging knowledge-based management in our organizations. None of western managerial traditions, whether Taylorism at one end of the spectrum to Human Relations at the other considered that consulting workers was important: workers are told what to do. In knowledge work, improving jobs begins when managers talk with the people who do the work. As Drucker phrased it "In making and moving things, partnership with a responsible worker is the best way. But Taylor's telling them worked too, and quite well after all. In knowledge and service work, however, partnership with the responsible worker is the only way to improve productivity. Nothing else works at all." [1]

Having defined the problem with crystalline insight, Drucker then sought to propose various solutions in organizational terms: the knowledge-based organization should be structured completely differently than the traditional corporation. The puzzling thing, however, is that Toyota,

the one corporation that has consistently mastered the three practices of continuous self improvement, exploiting new applications from their own successes and organizing a systematic process of innovation, turns out to be organized in the most classic bureaucratic, functional form. Toyota is also leading the way in terms of establishing a knowledge-based dialogue with its employees. As Paul Adler has argued convincingly, Toyota is a classical bureaucracy that is managed differently.

Knowing what we know today, what would Drucker say about this? The thought came to me after a dreadful foot-in-the-mouth moment as I was speaking at a conference in Denmark about Lean Transformation [2]. As I was taking questions from the audience, one participant asked me whether there was be a specific “lean” leadership style; I answered off-the-cuff that this was a silly question. Leadership is leadership, no? And I haven’t stopped apologizing since (both for being rude and for being wrong). I then stopped and realized this was in fact an excellent question. If “lean” does not reside in the organizational structure – where else than in management or leadership? It turned out that the other speaker present was David Meier, a well known lean author who had worked at Toyota for many years. I turned and asked him whether there was indeed a specific leadership style for lean. “Well, yes and no,” he answered, amused. “Our leaders were... kind of boring. They sat on in meetings and hardly said anything. They occasionally they’d ask questions. They came to the workplace and asked more questions. But you rarely got big speeches or pep talks. They certainly don’t give you any answers about how to do your job.” [3]

Drucker himself has thought long and hard about the key practices of a successful executive. In his seminal 1966 book *The Effective Executive*, he argued that effectiveness (i.e. getting the right things done) can be learned through five essential practices: 1) knowing where one’s time goes; 2) focusing on results rather than work; 3) building on strengths; 4) concentrating on a few major areas at a time and 5) making few but fundamental decisions, based on ‘dissenting opinions’ rather than ‘consensus on the fact.’

Towards the end of his long career, Drucker’s thinking on effective executives had evolved. In a key HBR article, he redefined what made executives effective as the eight following practices: [4]

1. asking “what needs to be done?”
2. asking “what is right for the enterprise?”
3. developing action plans - taking responsibility for decisions
4. taking responsibility for communicating
5. focusing on opportunities rather than problems
6. running productive meetings
7. thinking “we” rather than “I”

In true Drucker style, both these proposals are equally insightful and useful. Yet, neither set directly addresses the challenge of managing a knowledge-based enterprise as he defined it himself. Moving away from large corporation, Drucker’s interests shifted towards other forms of organization, from orchestras to hospitals or ONGs. He seemed to think that building knowledge-based enterprises was a matter of finding the right structure and organization, more than any particular management style. Management is management, after all. He articulated the best of modern management leadership’s style, but did not suggest that knowledge productivity would require a radically different kind of leadership. Yet, having studied attempts at lean transformation – few, but spectacular successes, many failures – I’ve come to ponder more deeply the question of a lean leadership style, as a possible answer to the question of what kind of leadership is needed to use existing organizational structures to leverage knowledge. By working closely with a few CEOs, divisional VPs or plant managers who truly transformed their organization, I’ve attempted here to identify common key practices – which turn out to be somewhat surprising and

clearly different from what is generally expected of a manager. The lean leaders I've worked with tended to share some common beliefs and practices, such as:

- they feel more comfortable with knowing rather than thinking
- they study situations themselves rather than rely on reports
- they constantly check the process is in control rather than make specific decisions for their people
- they teach rather than tell
- they challenge rather than command
- they worry about customers first, rather than the share price

Know rather than think

Most executives are proud to manage from the gut. They believe their intuition is better than their peers', which, they feel, is the key to their success. As a result, they think their way through problems, and when a solution feels right, they go for it. This might work well for a few (the lucky ones), but for the rest is a recipe for disaster, leading to very large-scale bad decisions. We often wonder how chief executives can get things so badly wrong – not in the details of execution, mind you – but in the huge gambles they take. Having witnessed many such situations, the reason, to my mind, is that they jump to conclusions born out by their instincts rather than the actual facts of the situations and, as a result, lead their entire organizations in rather tight corners.

Lean leaders, on the other side, tend to be less flashy and more plodding. They act on what they know, rather than what they feel. To a large degree all the lean management techniques have a common foundation of developing a larger, more solid knowledge base. This means first, go and see for yourself at the source to find what the facts are, rather than rely on data. Second, work at any problem through many short kaizen cycles. One of the oddities of Toyota managers is that they keep asking you how many times you have failed before being sure of a conclusion: certainty of knowledge depends of the number of learning cycles one goes through. Third, they discuss continuously across the organization and across hierarchical lines to make sure everyone has a good understanding of the problem. Lean decision making has been opposed to the draw-aim-shoot management style as being draw-aim-aim-aim-aim- shoot, but, although correct, this is a misleading representation. In order to know, one has to act. The many small steps of kaizen are the key way to figure out what the real situation is and experiment with different small scale solutions. By the time the large-scale action is launched, it's both well understood, and fully shared – so execution is far less of a problem. As a result, lean leaders have a very different style. They are felt to be both arrogant in the narrow areas where they know what they know (well, they do know – while other think), and oddly humble in all other areas where others have strong opinions, but no solid knowledge.

Study for oneself rather than rely on reports

The entry ticket to lean management is “go and see” at the source, the management practice of going to the real place – at customers, in the store, in the production, at suppliers, and to look at all problems and how people solve them personally. This is a specific management skill (different from management by walking about) with four main aspects. First, managers develop their own judgment by testing hypotheses against real facts. Second, they build consensus by getting people to agree on the problem, avoiding the common execution issues that occur when people argue about solutions when they're not even trying to solve the same problem. Third, they make sure goals are achieved at the desired speed. Rather than draw out the action plan and let the execution teams execute, the lean manager goes and checks where people are and whether they need help. Fourth, they empower employees by involving them – in sharing the company's objectives, and in listening to their practical problems and helping to resolve them.

Reports and data analysis are important, clearly – but data only becomes information when put into context. Lean leaders have learned how to do this, by the discipline of going to the real place and directly observing the work. Again, this is a basic knowledge production technique that ensures that information is passed around, not merely data. It also relies on the understanding that information without understanding does not create knowledge – just more noise. By looking for oneself how people actually resolve problems or improve processes, one gains a more profound understanding of situations, and hence all information becomes truer knowledge.

Check rather than decide

The fundamental fact of the executive relationship is that it is asymmetrical. Everyone manages upwards, and conversely, any remark by the top dog is overemphasized by all employees – often in unexpected ways. One of the clever ways of sucking up to one's boss is to let them feel that no important decision can be taken without their direct involvement or say so. This only reinforces most executive's gut feeling that only they can take the right decisions – on everything – and that, at the end of the day, is what they are paid for. As a result the executive becomes the major decisional bottleneck of the organization, and does not necessarily take the best possible decision in knowledge-based environments.

Lean leaders get involved in every detail of their operations, but in a rather different way. They go and see and check that the process is running correctly. They see that people are clear on what they're expected to deliver, have been trained and are doing what they've been trained at properly, and know how to resolve their own problems in the right fashion. Sure, there will always be some fire that only the top executive can put out, but for the most part, lean managers spend the majority of their time looking at the normal run of operations and challenging that rather than get involved in signing off every decision. The idea here is that people have to take ownership for their own decisions, and make their own stands. However, people are not left alone either – the process is checked, so that even if they get things a bit wrong, they won't be completely far off. As one of Toyota's presidents explained: "I don't look at myself as a leader in the sense that you mean it. I have just been telling everyone in the company that we should do properly what we are trained to do. I can check how well people understand the Toyota Way in day-to-day management in any function. I visit different places to find out myself." [5]

The principle in lean is that managers should not manage the process. The process should be robust enough to run itself. Managers should manage the gaps to standard that appear in the process. In practice, this means checking everything is happening as it's supposed to, and raising an alarm when something is not. When that happens, the process has to stop, and the people themselves have to figure out what the problem is and solve it. The hardest and most effective technique of lean leadership is also the simplest: ask "Why? Why? Why?"

Teach rather than tell

Lean organizations appear to be traditional bureaucratic vertical set-ups but with a distinct bias. Traditionally silo-type organizations are seen as transmission gears from the decisions from the top to transmit all the way down to the workers at the bottom, to be executed. In the lean case, the same vertical organization is used as a knowledge accumulator. Departments are organized around knowledge specialties and the head of each section is not seen as an administrator, but as a knowledge producer. Essentially, supervisors must create knowledge as well as run things. Knowledge is created by each worker as they solve specific problems through kaizen, but this knowledge can be created because their supervisors, who know more about the area, coach them into how to solve the problem correctly. This virtuous circle reinforces both the general understanding of the supervisor by adding one more specific case to his or her knowledge base,

as well as fostering the knowledge of the employee by making them solve problems by themselves.

When a former Toyota Motor Manufacturing North America president was asked by lean expert Jeffrey Liker about his greatest challenge in teaching the Toyota way to American managers, he responded: “They want to be managers, not teachers.” [6] How do lean executives teach? Not by giving their solution to every problem, but by coaching employees through the rigorous Plan-Do-Check-Act Deming cycle. They coach by asking informed questions: Do you correctly understand the problem? Have you grasped the situation fully by identifying the driving factors? Have you looked for the root cause of the problem? Have you investigated alternative strategies to solve this problem? Have you got a precise action plan to implement your solution? Are you monitoring the results of your actions? If the results are unsatisfactory are you adjusting immediately? And what conclusions do you draw from this experiment?

One unexpected implication of teaching rather than telling is that responsibility gets disconnected from authority. [7] The responsibility to solve problems doesn't go to the turf owner, but to the person who most needs to learn to solve this type of a problem. Learning how to work with other team members to crack the problem and get them engaged in the solution (they'll have to execute it in the end) is a big part of what's being taught. This has wide-ranging implications on the management culture, as boundaries will be far less defined than in other organizations, but responsibility to solve problems is clearly shared. Problems must be faced, problems must be resolved. Arguing that it's someone else's issue because it falls on the other side of a wall doesn't cut it. Teamwork is about cooperating across specialties, but responsibility remains individual.

To many executives, it feels like this teaching approach to management takes far too long – the problem will have moved on by the time people have figured it out. In practice, is more efficient to just tell them the right way to do things and make sure they comply. But actually, experience shows that it's the other way around. The full implementation lead-time of the teaching approach is far quicker than all the false starts and unnecessary arguments created by the “do as I tell you” method. Furthermore, the managing as teaching path is also the key to one of Drucker's main subjects: knowledge productivity. The more you teach, the more you develop your people, and the more the entire organization performs.

Challenge rather than command

A prized skill of top executives is their ability to set a strategy, define a vision of where they want the organization to go, and get everyone else to buy into it. Hopefully, this is the right vision. Rather than express a specific vision (30% of parts sourced in low cost countries in two years), lean executives tend to formulate broad challenges (zero emissions): large-scale problems that need to be addressed and solved. Interestingly, in the early nineties both Toyota and GM had access to the same technology for a hybrid engine. GM felt there would be no obvious market for a hybrid electric car. The car only solved the environmental problem marginally, and it would be expensive to produce. This didn't fit GM's vision of what kind of cars it needed to sell to be profitable. At the same period, Toyota also believed that there would be no obvious market for a hybrid and that it would be hard to produce cost-effectively. But Toyota leaders believed also that the challenge of improving mileage and reducing emissions had to be met, and while the Prius was not a dramatic step, it was definitely a kaizen step towards more fuel efficient, less polluting cars. GM abandoned the project, and Toyota went to market with the Prius. As one GM executive told me much later, it becomes much harder to sell top range cars (the GM vision) when the market perception is that you've lost the technological edge.

Setting the challenges is a leadership skill that develops through the longtime practice of “problems first.” In the lean approach, the biggest problem is thinking you are okay. James

Wiseman has spoken about having been a factory manager in several industries when he joined Toyota's still-new Georgetown plant in 1989. He recalls presenting at the Friday senior staff meeting run by the then Georgetown President, Fujio Cho (now Chairman of Toyota Worldwide): "I started out going in there and reporting some of my little successes," describes Wiseman. "One Friday, I gave a report of an activity we'd been doing and I spoke very positively about it, I bragged a little. After two or three minutes, I sat down. And Mr. Cho kind of looked at me. I could see he was puzzled. He said 'Jim-san. We all know you are a good manager, otherwise we would not have hired you. But please talk to us about your problems so we can all work on them together.'" To Wiseman, this was a revelation: "Even with projects that had been a general success, we would ask 'What didn't go well, so we can make it better?' I have come to understand what they mean when I hear the phrase 'Problems first.'" [8] Framing problems correctly is a key skill. [9] In a lean organization, managers are selected for their engage teams in solving problems and teaching others, which is how they learn how to phrase the defining challenges for their areas of responsibility, and how to lead their organizations in responding to these challenges by improving short term through kaizen, and improving long term by keeping a steady direction on the challenge.

This "challenge" dimension can be tough: "close the warehouse" (all parts in stock should be held internally); "one-breath change-over!" (the tool change over has to happen while the team leader holds her breath); "No conveyor" (dismantle the conveyor and flow work one-piece-flow); "release the new product three months earlier"; "zero engineering change" (after start of production). These typical challenges are not "soft." Once I saw a Toyota forklift plant increase its capacity by 14% without lengthening the production line as a response to such a challenge. This meant narrowing every workstation on the line, so getting rid of the component shelves and, in the end, through kaizen, creating an elaborate "small train" delivery system through the plant which also reduced the total inventory. But no one told the plant: supply the line with a small train – the plant had to find out by itself. As you hear time and time again from veterans: challenge! Open mind! Teamwork!

Customer first

A fundamental tenet of sociology is that the way people define situations has real effects – the way that they frame problems fundamentally changes the type of solution they seek. Should executives worry about their share price first? Or their enterprise? Or their customers? Lean executives have two overriding obsessions: satisfying their customers and taking costs out of their processes by eliminating waste. The lean approach to customer satisfaction is reflected in very specific challenges:

- How can we deliver a continuous stream of new products faster than our competition?
- How can we make sure that each new product satisfies customers from the day it's launched?
- How can we maintain customer satisfaction throughout the lifetime of the product?
- How can we do so using less resources than our competitors?

Most companies consider that total customer satisfaction has an exponentially increasing cost for a marginally decreasing benefit. Getting from 99% on time delivery to 100% sounds unreasonable because, yeah, stuff happens. Of course, some products will be defective, and some customers will complain – what do you expect? Managers assume that there is a certain amount of waste acceptable in any operation because the cost of going to 100% good becomes disproportionate to the benefit.

On the contrary, lean managers understand that you do everything you can to completely satisfy your customers – and endure the cost. But you don't do this passively, you also measure very

carefully the exceptional costs of satisfying customers fully, and you get your people to kaizen and solve the problems until the costs fall down to nothing. Then, because the challenge is knowledge productivity, you apply what you've learned in the new processes or products. "The productivity of knowledge is increasingly going to be the determining factor in the competitive position of a country, and industry, a company," Drucker writes, "in respect to knowledge, no country, no industry, no company has any 'natural' advantage or disadvantage. The only advantage it can possess is in respect to how much it obtains from universally available knowledge. The only thing that increasingly will matter in national as well as in international economics is management's performance in making knowledge productive." [10]

Peter Drucker has been one of the principal architects of our understanding of modern management. His Concept of the Corporation drawn on his study of GM became a template for what most modern enterprises would look like – although he spent most of his subsequent career discussing, debating and criticizing the command-and-control structure. The GM model was built on feeding information up through the reporting line, and executing decisions down from the top to frontline employees. Its' main strength was leveraging decisiveness from a hard-nosed, bottom line perspective at all levels. At the turn of the XXIst century, GM is now bankrupt – brought to its knees by an unexpected competitor – Toyota, a firm that never acquired many of the features of modern management. Indeed, the firm remained under the radar of management interest for many long years as it grew and developed its own unique approach to getting the right things done. Toyota was generally dismissed by analysts for having no clear strategy, overly conservative cash management, and a general lack of flair. Still, what Toyota did develop was an answer to Peter Drucker's other spectacular insight: the shift to a knowledge society. Toyota's management model doesn't leverage decisiveness, but knowledge application. It was developed by adopting the scientific approach to business: understanding and solving problems together to produce knowledge as well as products or services.

Drucker had a keen understanding of the relationship between continuous learning and kaizen: "One keeps on doing what one is already doing well until a new level of innovation is reached, through a long series of small steps. One is a very short time period but it blends into a very long time period. I hope that makes sense because kaizen practiced diligently, leads to innovation. Another way to say it is that one is much more likely to be innovative in an area one knows extremely well." [11] This is the ideal Toyota has pursued, and, in its best days, achieved more than any other large corporation – part of this achievement is about learning from one's mistakes as much, or more, as from one's successes. It has explicitly pursued the ideal of "making people before making parts", and developed a management style focused on leveraging knowledge. The surprise, in studying non-Toyota executives who strive to replicate the lean approach to management, is that they developed specific leadership practices along the way, to support the kaizen effort. For the past twenty years, organizational solutions have been sought to improve knowledge productivity (flatter structures, process management, autonomous teams, etc.) and yet, lean practice suggests that the key to success in leveraging knowledge lies not in the organization, but in the mode of leadership, from the strategic top, to the day-to-day management of operations. As one former Toyota executive once explained, [12] the method is simple: go and see, show respect, ask "why?"

[1] Drucker, P. (1993) Post-Capitalist Society, p. 83

[2] DI Lean Conference, Munkebjerg 2009

[3] Personal communication

[4] Drucker, P., "What Makes an Effective Executive", Harvard Business review, June 2004

[5] Lessons from Toyota's long drive, an interview with Katsuaki Watanabe, HBR, July 2007

[6] Liker, J. & D. Meier, Toyota Talent, McGraw Hill, 2007

[7] Shook, J. , Managing To Learn, Lean Enterprise Institute 2008

[8] Fishman, C., “No Satisfaction”, Fast Company, Dec 2006/Jan 2007

[9] As Drucker points out: “To connect and thus to raise the yield of existing knowledge – whether for an individual, for a team or for the entire organization – is learnable ... It requires a methodology for problem definition – more perhaps that it requires the (now fashionable) methodology for ‘problem solving’.”, Post Capitalist Society, p.175

[10] Drucker, P., Post-Capitalist Society, Butterworth-Heinemann, 1993, p. 176

[11] I am grateful to the distinguished Drucker scholar and collaborator, Prof. Joseph Marciariello, for pointing out this quotation, from Drucker’s article, “A View of Japan through Japanese Art”, reprinted on pages 363-380 Drucker, P., The Ecological Vision, 1993

[12] Womack, J. & J. Shook, Lean Management and The Role of Lean Leadership, Lean Enterprise Institute presentation, Oct. 2006