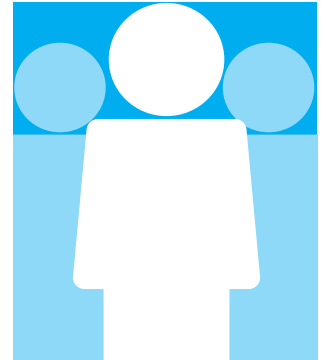McKinsey Center for Government

Transforming government performance through lean management

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Transforming government performance through lean management

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This article is the first in our series *Capabilities for Execution in the Public Sector.*

Introduction: Governments are learning to do more with less

Around the world, government organizations from local law enforcement to national benefits administration struggle to improve performance and cut costs. Some of them are now discovering how to make dramatic improvements in efficiency and service—without spending more money—using management practices developed in leading private companies and public-sector institutions. Agency workers and managers, more energized and engaged than ever, are working together to streamline complex processes. Customers are getting better service, wasted effort is shrinking, and more real improvements are in sight.

For example, when one US regulatory agency changed the way its 350 frontline managers and teams served customers, they made decisions 35 percent faster and cut backlogs by over 70 percent. A European immigration office made decisions four times faster and improved file-processing efficiency by 25 percent. Additional improvements emerged as fewer applicants called with questions, and these steady, visible improvements boosted employee attitudes and engagement.

The agencies delivered these results with lean management—a new approach that integrates "hard" operational principles, such as just-in-time production, with the "soft" side, including the development of leaders who can help teams make continuous improvements. The impact is dramatic—and enduring. As services get faster, better, and more efficient, customers[1] are more satisfied, employees become more engaged in making improvements, and managers can spend more time on coaching and less on paperwork, creating a virtuous circle (Exhibit 1).
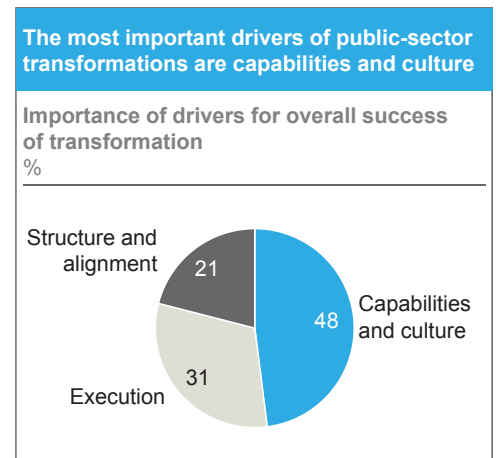
What's different about lean management

Public-sector organizations have been adopting lean methods for years, but many have found the improvements fleeting—often because they focused on small, isolated improvement projects. Lean management creates more systemic impact by changing how managers manage and workers work. The approach offers faster, scalable, and more durable improvements.

Lean management helps the public sector streamline processes by addressing the causes of organizational inefficiency, building the management systems and capabilities to sustain new ways

EXHIBIT 1

Most transformational change efforts fail because they don't focus on the right elements

The most important drivers of public-sector transformations are capabilities and culture

Importance of drivers for overall success of transformation
%

Structure and alignment — 21

Capabilities and culture — 48

Execution — 31

Source: McKinsey's 2012 public-sector transformational change survey of 974 public-sector leaders

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1 In serving government agencies, we define "customers" as anyone who benefits from or has a significant stake in the outcome of a process. This includes citizens who are served directly, those served by "internal customers," such as colleagues in other parts of government, and other stakeholders, such as industry and environmental groups with an interest in a regulatory decision or a government department whose mission is affected by the performance of another.

of working, and engaging managers and staff to make continuous improvement a part of everyone's day-to-day job (Exhibit 2).

That's one reason lean management succeeds where other approaches fail: while experts and change agents can kick-start the lean process, it is only when people in the line organization feel fully accountable and have learned the right capabilities that improvements are sustainable.

Lean-management programs generally start with pilots to accelerate organizational learning and quickly build a foundation for organization-wide change. Teams diagnose problems in a small area, and then design and implement solutions, refining them along the way so they can be scaled up to the larger organization. Within 6 to 18 months, this approach can deliver genuine transformations: typical improvements include better employee engagement and development and 15 to 30 percent rises in personnel productivity; 30 to 50 percent higher quality and service-level adherence; and dramatically faster turnaround times and more customer satisfaction.

Lean management also offers substantial risk-management benefits. When managers understand more about the real needs of stakeholders and customers and eliminate non-value-added activities, organizations can deploy human and financial resources to the areas where they can make more of a difference. With rapid test-and-learn events, managers understand the implications of changes before rolling them out across the organization—and can make course corrections early and often. Standardizing work increases the predictability of outcomes and captures best practices. Creating a culture of transparency and constructive problem solving encourages staff to identify and mitigate risks and inefficiencies.

In this paper, we describe the factors that help governments achieve sustainable, long-term improvements and how the lean-management solution is distinct from other approaches, from small-scale pilot to full rollout.

## How lean management works for government organizations

A government agency can make game-changing advances only by improving a wide range of processes, from hiring and procurement to customer services. Focusing on a single process can yield incremental progress, but it often falls short of real and lasting transformation.

Indications that lean management could help your organization

- Processes take longer than necessary and frustrate customers and employees.

- Work practices vary widely across individuals and groups—or you don't know how much they vary.

- People struggle to describe how their day-to-day efforts link to organizational goals.

- No one has a clear view of the organization's historical performance or what "good" looks like.

- Managers rarely discuss team or individual performance and struggle to match resources to demand.

- Employees are not encouraged or able to conduct work more efficiently over time.

- Few people can clearly identify recent improvements in the workplace and the impact they had on customers, the public, or employees.

- Managers spend more time on paperwork and phone calls than face-to-face interactions with their teams.

Lean management improves organizational systems and management practices through the line organization
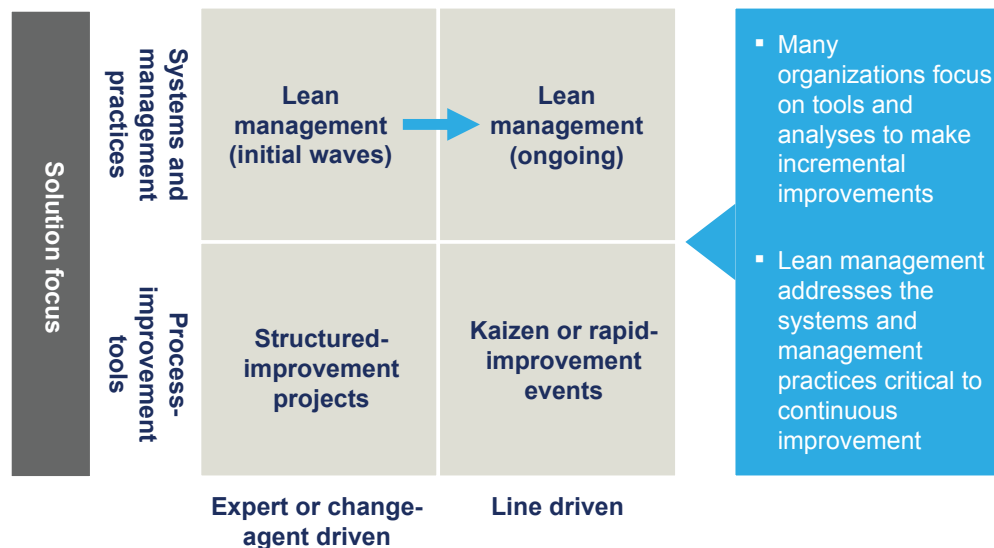
For example, a federal benefits department in the United States rejects about 65 percent of the millions of new disability claims it receives each year, leading to millions of appeals. In 2008, a claimant could expect an appeal to take 532 days. After the agency hired judges and staff to reduce the backload, average resolution time fell to 390 days, but a backlog of more than 700,000 pending hearings remained. Further progress, without significant new hires, will require a fundamental shift in how the department conducts its work. Wasted time and effort (that is, unnecessary handoffs, mistakes requiring rework, slow processing due to poorly trained and motivated workers, and so on) will need to be identified and addressed. Managers will need to set more ambitious performance goals and engage their workforce in finding creative ways to achieve them.
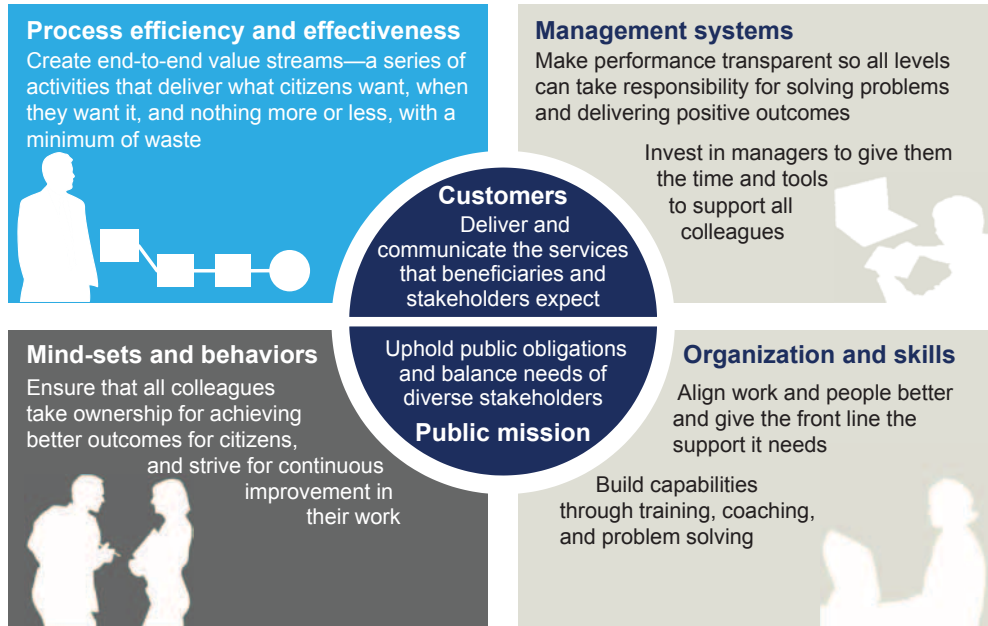
This agency's experience is not unusual. In our 2012 public-sector transformational change survey of 974 public-sector leaders, we found that only about 39 percent of transformation efforts achieved full impact.

To be sure, many government organizations have made strides with process-improvement tools such as lean value-stream mapping and Six Sigma's "define, measure, analyze, improve, control" problem-solving process. Some can now point to individual projects with impressive results, and some have made technical improvements. But our survey results showed that lasting, organization-wide impact is more likely to be felt when leaders address the root causes of underperformance and include all of the important elements in the change program. That's what lean management offers.

It relies more on senior-leadership involvement and the energy and talents of the people closer to the work and the customers—and less on expert-driven analysis or special projects (Exhibit 3).

EXHIBIT 3

Lean-management methodology in the public sector looks at change through five lenses

Process efficiency and effectiveness
Create end-to-end value streams—a series of activities that deliver what citizens want, when they want it, and nothing more or less, with a minimum of waste

Management systems
Make performance transparent so all levels can take responsibility for solving problems and delivering positive outcomes

Invest in managers to give them the time and tools to support all colleagues

Customers
Deliver and communicate the services that beneficiaries and stakeholders expect

Uphold public obligations and balance needs of diverse stakeholders
Public mission

Mind-sets and behaviors
Ensure that all colleagues take ownership for achieving better outcomes for citizens, and strive for continuous improvement in their work

Organization and skills
Align work and people better and give the front line the support it needs

Build capabilities through training, coaching, and problem solving

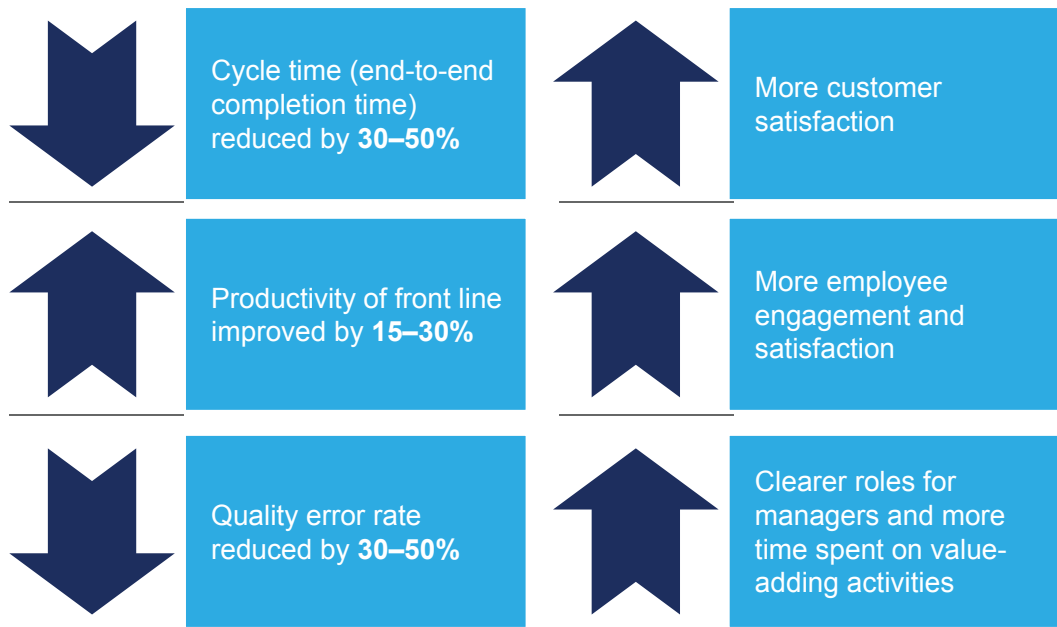## New ways of working begin with the customer's perspective

Government organizations using lean management look at themselves from the perspective of their customers and stop doing what customers and taxpayers do not value, taking a range of steps to boost efficiency such as:

- eliminating unnecessary touch points and wait times from the beginning of the process to the end

- improving coordination across functional areas

- standardizing work to reduce variations in processes and performance

To sustain and add to these improvements, lean management also changes the way managers work by:

- making performance visible to balance capacity and improve accountability

- revealing the connections between performance gaps and waste in the process

- moving them from a supervising to a coaching mode

- creating a culture of continuous improvement by exposing problems and their causes for all to see and act on

Five focus areas (Exhibit 4) form the basis of an effective lean-management approach: customers and public mission, process efficiency and effectiveness, management systems, organization and skills, and mind-sets and behaviors. Effective lean-management change efforts must address all these areas to establish a solid foundation for continuous improvement.

EXHIBIT 4

Lean-management programs have a quantifiable impact on organizations

Cycle time (end-to-end completion time) reduced by **30–50%**

More customer satisfaction

Productivity of front line improved by **15–30%**

More employee engagement and satisfaction

Quality error rate reduced by **30–50%**

Clearer roles for managers and more time spent on value-adding activities

In the public sector, lean management has two main purposes: delivering to customers and upholding the public mission. All activity in a public-sector organization can be evaluated on whether it adds value for the customer or helps the organization meet its obligations to the public. By clarifying its obligations to the public, an organization can reinforce its mission-oriented mind-set. And when customer and public-mission needs conflict, the organization is better prepared to make smart trade-offs and risk-mitigating decisions. The US Environmental Protection Agency, for example, reports that lean has helped it dramatically reduce the number of steps in setting water-quality standards.[2]

To better meet customer and public needs, organizations using lean management apply different techniques to eliminate non-value-added steps:

- Long, complex processes can be segmented by complexity, eliminating unnecessary reviews and sign-offs for low-risk items and conducting some steps in parallel instead of in sequence.

- Customer service and business support can often be improved by managing demand, simplifying handoffs (for example, through a colocated work cell), and balancing resource capacity for each step to better match demand.

- Field operations can route work to eliminate unnecessary transportation and improve scheduling to allocate resources more efficiently.

Furthermore, while IT system enhancements can often be part of comprehensive, long-term efforts, many organizations find major efficiencies through low-tech process improvements. Improving end-to-end processes and establishing best practices first can make it easier to define IT requirements later and can save the organization millions of dollars and years of effort and frustration.

2   "Lean: Excellence in government," fact sheet, November 2011, epa.gov.

Management effectiveness often relies on new skills and patterns of behavior

The long-term effectiveness of any lean-management effort is only as good as a manager's ability to define success for his or her area and create a shared sense of accountability across the organization. An effective management system relies on metrics and targets, makes real-time performance transparent, and ensures that the organization responds to performance signals appropriately and effectively. Improved management systems usually include clear measures of success for each process area; easy mechanisms, such as scorecards and whiteboards, to track and display these measures; regular forums, such as daily huddles, to discuss results and to raise and solve issues; and effective and ennobling ways to build frontline skills and hold people in the organization accountable for results.

A lean-management approach must improve the workforce's organization and skills. Organizations must learn to recognize duplicative structures and areas that could be consolidated as well as improper spans of control, which can suggest ways to optimize management effectiveness. Organizations must also understand the relevant technical, problem-solving, and leadership capabilities of the workforce, where there may be gaps, and how these gaps can be filled to support more effective processes and management systems.

Mind-sets and behaviors are also crucial. Managers must understand their employees' attitudes and habits to build on strengths and address limitations. Useful tools may include an organizational-change story tailored to each audience, workshops to help identify frontline beliefs and understand individual aspirations, and refined personnel-evaluation systems to help employees align with new organizational goals and expected ways of working.

From pilot to rollout: the journey to sustainable improvement

The goal of lean management is to change how organizations manage and work day to day in order to continuously identify and solve problems to meet the needs of the public and other stakeholders. Lean management is therefore a journey, not a destination. Leading organizations of all kinds, never satisfied with the status quo, continue to find new and innovative ways to eliminate waste, improve performance discipline, and deliver on promises.

While the journey may be endless, the initial phases of lean management should be well-defined and time bound. Launches in large, complex organizations can take two to three years, often with the help of internal or external experts. After launch, internal leaders and change agents can lead the effort. Notable performance improvements become apparent within the first few months.

Successful programs have a few common characteristics:

- **Showing versus telling to build conviction and skills.** High-functioning management systems are hard to describe, so managers may need to see what "good" looks like in an actual organization. Early in a transformation, they should make visits to world-class lean organizations or those in the process of building a lean-management program. Once a program is under way, internal visits become crucial ways for managers to share best practices and learn from one another.

- **Rapid testing and learning cycles.** The right amount of analysis will help managers identify the root causes of a problem and the right solutions, but any solution must be refined through hands-on implementation. The sooner an organization can pilot solutions, the quicker it can learn from the experience. Activities such as finding best practices for a process, selecting the right metrics to track progress, and even visually displaying metrics on a whiteboard, require trial and error. The

Housing agency does more with less

The Office of Multifamily Housing Programs, part of the Federal Housing Administration (FHA) within the US Department of Housing and Urban Development, provides $80 billion worth of insurance to lenders who finance apartment buildings. In the wake of the 2008 financial crisis, applications for assistance tripled as the private sector retreated from lender insurance. Meanwhile, retirements and other departures led to a 15 percent reduction in agency staff—employees who could not be replaced due to budget constraints.

As the FHA fell behind in its work, the lender community grew increasingly frustrated with delays in decision making. The agency launched an improvement initiative with McKinsey's support, aiming to raise productivity to speed response times while reinforcing risk-management practices and improving employee morale.

After conducting an assessment with leaders and employees, the team developed a framework for the transformation effort. It piloted lean-management approaches in local offices and developed a rollout timeline and materials to train more than 300 managers in headquarters and more than 40 field offices across the country, building consensus around the new process.

The team pursued a range of initiatives:

- improving the transparency of application status for lenders and creating an early-warning system to identify flawed applications more quickly

- defining standard work for each role and arranging staff in small work teams that worked closely together on a common pool of applications

- instituting regular "huddles" to balance workloads, communicate priorities, and resolve issues, and involving frontline staff in customizing each initiative for their own offices

- creating and using team barometers to track morale and engagement

It trained leaders on critical skills, such as coaching and problem solving, and on defining new roles to give them more time with their teams. A cascading performance framework and a simple but effective local planning process now links local efforts with national goals.

The changes have produced lasting impact: a year later, the department was making 50 percent more decisions per month, the backlog of loans in process for more than 90 days had been cut by more than 70 percent, and employee-engagement scores had risen by 15 percent. The agency is now steering this success to its asset-management area and applying similar principles to help manage the workload challenges faced in portfolio management.

rapid "do and learn" approach enables this refinement and in the process builds broad conviction around solutions.

- **Strong and visible leadership involvement.** Success comes only when leaders become the driving force behind change, act as role models for the changes they want to see, and take the time and effort to develop the capabilities required to maintain and improve new lean-management systems.

- **Talented change team.** Scaling up a lean-management effort requires a critical mass of capable change agents to facilitate successive implementation waves, train and coach managers and frontline personnel on new tools and practices, and follow up regularly to ensure that targeted

Lean management speeds asylum and cuts costs

The Swedish Migration Board's more than 3,000 employees process 20,000 to 35,000 asylum applications each year at a cost of about $300 million to $450 million. In 2008, despite a dramatic increase in refugees from Afghanistan and Iraq, the board got no additional funding and took an average of 267 days to process each application.

Introducing lean management in 2009, the board designed a new operating system, upgraded management practices, and introduced continuous-improvement techniques. By the end of 2010, average application-processing times had fallen by more than 50 percent, to 130 days. In the units that had adopted the new way of work, processing times averaged 85 days.

Since Sweden allots $45 per day in subsistence funding to each applicant waiting for processing, shorter processing times save over $160 million annually. Direct processing costs fell 12 percent, from $115 million to $100 million, as head count and legal fees declined.

Nonfinancial benefits included a reduction in successful appeals from 5 percent to 3 percent, reflecting improved decision making. After the lean-management pilot, 75 percent of employees preferred the new model.

Today, lean management has been rolled out across the Swedish Migration Board and serves as a reference for transformational change in the Swedish public sector.

changes have stuck and desired results are being achieved. As a rule of thumb, about one skilled change agent is needed per 100 affected employees during an active training and deployment wave. Change agents typically move from one area to another with each wave and, in the process, develop more skilled change agents and managers. This "train the trainer" approach (Exhibit 5) is essential to build capacity and momentum in a large organization quickly. As the initial lean-management program or deployment winds down and becomes the normal way of working, skilled change agents often roll back into manager or technical roles, move on to help other parts of the organization with change efforts, or become part of an internal consulting or continuous-improvement group.[3]

The main phases of a lean-management program (Exhibit 6) are aspire, assess, architect, act, and advance.

In the aspiration stage, senior leaders learn about lean management and how it can help the organization improve. They may visit other organizations to see lean management in action, experience training simulations, and so on. As they gain a clearer understanding of the opportunities and of realistic goals and timelines, the leaders agree on a vision, begin to build the case for change, and agree on the shape and direction of the transformation journey. This phase typically lasts one to three months.
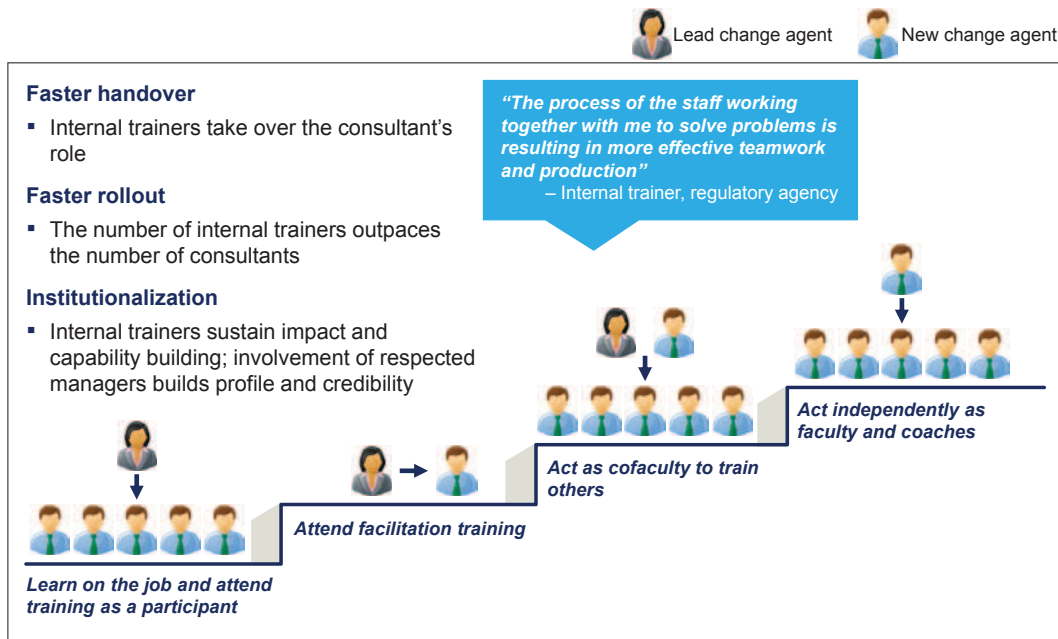
The assessment phase, over the next three to six months, begins with a rapid diagnostic to reveal the areas and processes where improvement efforts should be focused. Using these guidelines, the team selects functions and processes where pilots should be launched and chooses a team of change leaders who will oversee and help drive the first wave of the transformation.

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3   Change agents play different roles in lean management and Six Sigma. In lean management, change agents train managers and frontline workers to use new tools and practices and to solve problems on their own. Six Sigma black belts usually lead improvement projects and deliver those solutions to the front line. In lean management, the line organization becomes the driving force and owner of the change; in Six Sigma, the expert does.
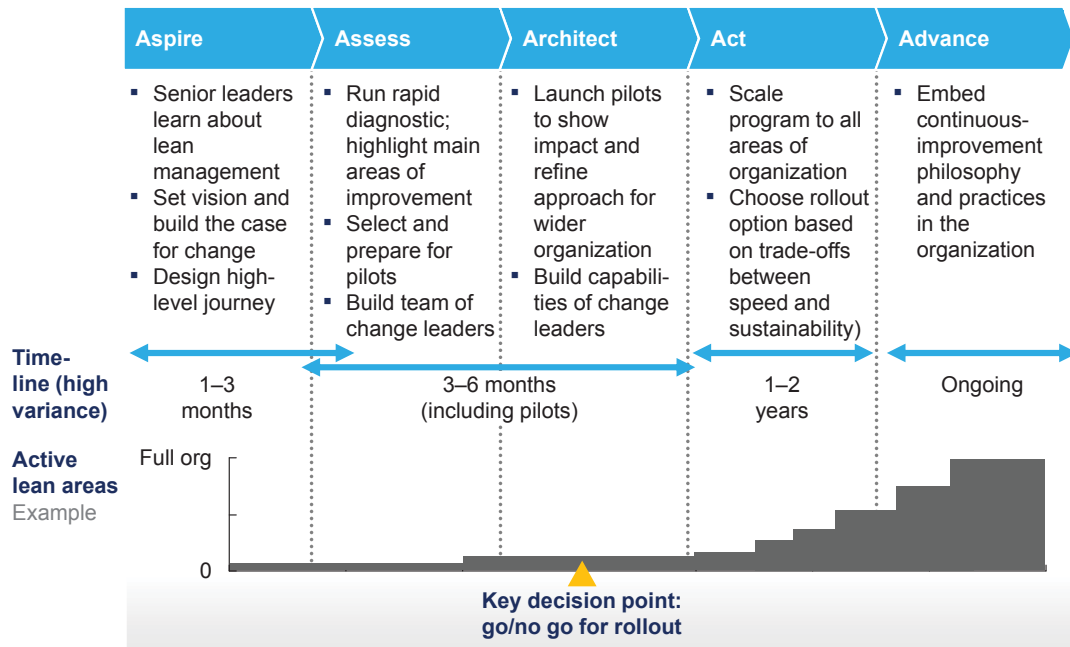
EXHIBIT 5

## Lean management uses a 'train the trainer' approach to build capabilities quickly in large organizations

Lead change agent   New change agent

Faster handover
- Internal trainers take over the consultant's role

Faster rollout
- The number of internal trainers outpaces the number of consultants

Institutionalization
- Internal trainers sustain impact and capability building; involvement of respected managers builds profile and credibility

"The process of the staff working together with me to solve problems is resulting in more effective teamwork and production"
– Internal trainer, regulatory agency

Act independently as faculty and coaches

Act as cofaculty to train others

Attend facilitation training

Learn on the job and attend training as a participant

EXHIBIT 6

Organizations typically go through five stages during a transformation

Aspire	Assess	Architect	Act	Advance
• Senior leaders learn about lean management • Set vision and build the case for change • Design high-level journey	• Run rapid diagnostic; highlight main areas of improvement • Select and prepare for pilots • Build team of change leaders	• Launch pilots to show impact and refine approach for wider organization • Build capabilities of change leaders	• Scale program to all areas of organization • Choose rollout option based on trade-offs between speed and sustainability)	• Embed continuous-improvement philosophy and practices in the organization

Time-line (high variance)

| 1–3 months | 3–6 months (including pilots) | 1–2 years | Ongoing |

Active lean areas *Example*

Full org

0

Key decision point: go/no go for rollout

In the architecture phase, the pilots begin. They demonstrate the impact of lean-management techniques and help the team refine and tailor its approaches to increase the chances of success in a wider rollout. The pilots also help change leaders build their capabilities, see what approaches work best for each internal and external audience, and build conviction among managers and staff that the new way of working will improve results.

EXHIBIT 7
Full transformations take time, but progress begins immediately
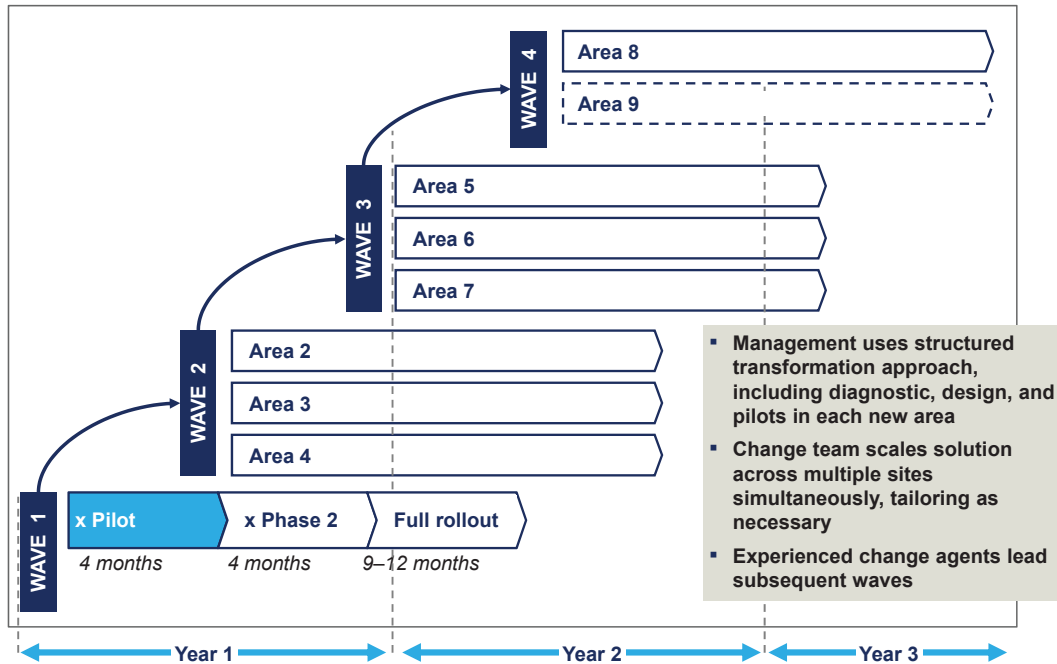
In the action phase, which usually begins a year or more after the lean-management effort has begun, the program rolls out to the entire organization. Each rollout phase is informed by what team leaders learned during the diagnostic and pilot phases. In most cases, an organization-wide rollout is possible only with a train-the-trainer approach: the capabilities to work in new ways cannot be learned by reading memos or watching presentations. Full lean-management transformations often take several years, but improvements in customer and employee satisfaction, productivity, and turnaround time will begin to accumulate as each new area of the organization undergoes its own focused lean-management launch (Exhibit 7).

In every successful lean-management transformation that we have seen, senior leaders have played strong, highly visible roles throughout the process. They are much more than cheerleaders: they walk the walk, consistently demonstrating the new behaviors they are seeking in managers and staff.

Next steps

Success with lean management requires senior leaders to commit to learning and changing. Success also requires managers, change agents, and frontline people to work in new ways and learn to solve problems on their own. Every leader knows how hard that is. But lean management works.

Around the world, organizations of all kinds are knocking down the roadblocks to efficiency and energizing managers and workers to find new solutions—making previously unimaginable improvements in service, satisfaction, and the public good.

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