

Issue #5, May-Jun 2015

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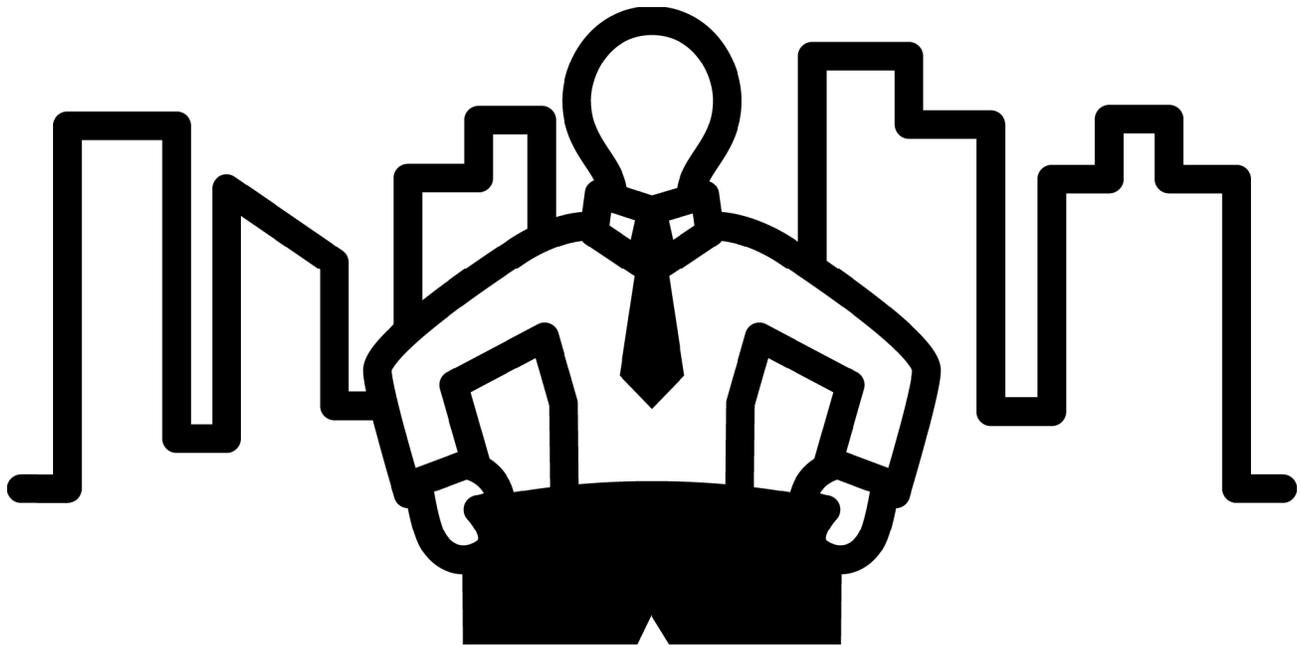
**MONDAY\***

**CORPORATIONS**

**NONPROFITS**

**GOVERNMENT**

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## **THE CUTTING EDGE OF LEAN MANAGEMENT**



### **FRAME WORK**

A VIDEO ON A COMPANY  
USING "LEAN STARTUP"  
PRINCIPLES

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### **VOX BOX**

INTERVIEWS WITH JOHN  
SHOOK, BETH KANTER AND  
HARRY KENWORTHY

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**WATER COOLER  
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**DIRECT FROM DRUCKER**

A SELECTION FROM THE  
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MORE ON LEAN  
MANAGEMENT

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**MONDAY MANDATE**

WHAT YOU CAN DO ON  
MONDAY THAT'S DIFFERENT

“Lean” has become a widely used approach to business, thanks to the production system created at Toyota. The Japanese auto company, in turn, was inspired in part by Peter Drucker, who emphasized a number of principles that lie at the heart of Lean: having a clear sense of mission (or “True North” in Lean parlance); keeping the customer front and center at all times; pushing responsibility and accountability to the front lines of the organization; and systematically improving products, services and processes so that they add more and more value. Just like the organizations that use Lean, Lean itself has not been static. Refinements to the model across all sectors are constantly being introduced, as can be seen inside three organizations: Virginia Mason Health System, the government of King County, Wash., and the music streaming service Spotify.



# THE CUTTING EDGE OF LEAN MANAGEMENT

By T.A. Frank

Even for this outside observer, the tension in the room was palpable. The Acme prep fold department had turned into a bottleneck, and time was running short.

Four workers around a table were supposed to be decorating paper sheets using a magic marker and a round sticker, but they lacked complete supplies. “Is there a ruler for any of these?” asked Richard, one of the workers, looking around.

“We ordered a ruler,” Kendall, a co-worker, called out.

Representatives of the production control department hovered around the table wringing their hands, eager to keep production moving, but the measuring sticks didn’t arrive. A few tables away stood the buyers, Josh and Kelsey, growing impatient. “I want it done right,” Josh said.

Finally, one finished product, a paper airplane folded and decorated according to exacting specifications—the dot a precise few centimeters up from the fold and away from the edge, the paper clip facing a certain direction—reached the shipping department, which had to sign off on its flightworthiness. But Jason, one of the department inspectors, pointed out a new problem: “We don’t know what to inspect.”

With the clock winding down, Chris delivered the news nobody wanted to hear. “We’re gonna have to tell the customer we can’t meet the order,” he said.

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## FRAME WORK

The Drucker Institute’s Phalana Tiller visits the El Segundo, Calif., offices of CrowdStrike, a cybersecurity company that is using Lean principles to better protect its customers from online threats.

03:08



The simulation concluded. Acme’s paper airplane production process had failed—which is exactly the way the **Lean Enterprise Institute**, which was conducting the two-day workshop, wanted things. The instructor, Karl Ohaus, reminded his 22 students that this exercise was intended as a learning opportunity, and often the only way to learn is to fail.

In the ensuing discussion, everyone agreed that workloads had been uneven, with production control doing too much and most other departments doing too little. The simulation was to be repeated at least twice more, with notable improvements each time.

“Lean” is not new. Over the past 25 years, it has become a widely used business approach, thanks mainly to the production system created at Toyota by executive Taiichi Ohno. Toyota, in turn, was inspired in part by Peter Drucker, who emphasized a number of principles that lie at the heart of Lean thinking: having a clear sense of mission (or “True North” in Lean parlance); keeping the customer front and center at all times; pushing responsibility and accountability to the front lines of the organization; and systematically improving products, services and processes so that they add more and more value.

#### **LEAN LEGEND**

Taiichi Ohno is widely seen as the father of the Toyota Production System and Lean manufacturing. *Photo courtesy of Toyota Material Handling Europe*



As Shoichiro Toyoda, the Japanese carmaker's honorary chairman (and father of the current CEO, Akio Toyoda), once said, "Professor Drucker was long a believer. . . in always improving."

The reason that Drucker pushed organizations in this direction was based on a simple but powerful insight: "Eventually," he pointed out, "continuous improvements lead to fundamental change."

Just like the organizations that use Lean, Lean itself has not been static. Refinements to the model across all sectors—corporate, nonprofit and government—are constantly being introduced. With that in mind, here are three reports from Lean's cutting edge.

## VOX BOX

### WHAT'S THE MOST INTERESTING APPLICATION OF LEAN THAT YOU'VE SEEN RECENTLY?

—Interviews by Ian Gallogly



#### JOHN SHOOK

Chairman and CEO, Lean Enterprise Institute  
One application I'll mention is in service—for example, a meat counter at a grocery...

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#### BETH KANTER

Social Sector Trainer,  
Author of *Measuring the Networked Nonprofit*  
Lean is a great approach for nonprofits, but I think sometimes the culture of nonprofits gets in the way...



#### HARRY KENWORTHY

Principal, Lean Government Center  
The best I've seen is the Washington State Department of Enterprise Services...

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## RESTORING ORGANIZATIONAL HEALTH

It was a crisis that took the leaders of Virginia Mason Health System from their home offices in Seattle to the factory floors of Japan.

During the 1990s, changes in reimbursement policies, the rise of managed care and an increasing gap between revenue and expenses had put a squeeze on the organization. Virginia Mason's leaders worried that the nonprofit organization, launched in 1920, might not last much past the dawn of the new millennium.

The staff had been through quality improvement campaigns for years, but, to many, these efforts felt faddish and superficial. Something more fundamental was needed.

In 2000, Gary Kaplan, a doctor of internal medicine who had been with Virginia Mason since 1981, took over as CEO. He soon began conversations with board members and senior executives about how to undertake a major course correction. A number of approaches were considered, but Lean seemed especially promising.

“We started studying various manufacturing organizations—even though no one in healthcare was doing this,” says Cathie Furman, who was senior vice president of quality and compliance at the time. “It took us about 18 months to make the decision to go down this path.”



### WATER COOLER CHATTER

Industrial engineer Taiichi Ohno of Toyota, commonly thought of as the father of Lean manufacturing, said he

In 2002, a group of 35 representatives from Virginia Mason flew to Japan to learn more. They spent time at a Hitachi air-conditioning plant, and they learned about the Toyota Production System. (That same year, as it happens, a hospital system in Wisconsin called **ThedaCare also began studying** Lean—in its case by visiting a local snow-blower manufacturer—and applying many of the same ideas. But for all intents and purposes, this was virgin territory for the medical field.)

“It was totally scary,” Furman says. “We knew it was going to work, but how to translate the manufacturing principles to healthcare was going to be a challenge. We were building the airplane as we were flying.”

Takeoff was a bit rocky. “It felt a little regimented, very top-down, and ER people tend to be skeptical,” says Christin Gordanier, director of medical telemetry at Virginia Mason, who at the time was a new nurse.

got most of his ideas from Henry Ford. **Tweet this**

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If you want to impress colleagues with your grasp of mistake-proofing, use the Japanese term for it: *poka-yoke*. **Tweet this**

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UNICOR, formerly known as Federal Prison Industries Inc., has adopted Lean Six Sigma methodologies to “improve efficiency, reduce waste and enhance customer satisfaction.” **Tweet this**

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Lean is easier said than done. An *IndustryWeek* survey from several years ago found that 74% of companies trying to introduce Lean were not yet making progress with it. **Tweet this**

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*A hat-tip to consultant Norman Bodek; businessdictionary.com; UNICOR.gov; and IndustryWeek, respectively.*

Projects were often too ambitious as well. “We used to scope these big, audacious goals,” says Dana Nelson-Peterson, director of ambulatory nursing. “You’ve got to narrowly scope for success.” Only when projects were set more realistically from the bottom up—with staff meetings, section meetings, unit huddles, and leaders steadily talking to team members—did the reforms begin to take.

Today, the changes are numerous and *kaizen*—the practice of continuous improvement—is ingrained.

Nurses who once spent most of their time fetching things they needed, walking as much as five miles a day to track down supplies, now have materials delivered to them and spend 90% of their time with their patients.

Previously, when a patient was hospitalized, staffers might trickle in one after another—nurse followed by doctor followed by nurse. Today, the whole care team of doctors and nurses and other support personnel enters the room together and greets the patient, with the doctor laying out a clear course of action. Colleagues constantly share data.

“They’ve gotten so transparent in the emergency department that improvement times are posted on the wall,” says Gordanier, “and you can see how quickly providers are getting patients through the process.”

Lean principles have even been incorporated into the architecture of a new hospital wing, the Floyd & Delores Jones Pavilion, a 350,000-square-foot, \$250 million addition that was the result of many months of discussions, simulations, hypotheticals and meetings.

“We had 90 people in this overall effort, and many were

leaders of teams that were consulted on the development of these spaces,” says Chris Backous, who led the effort to integrate the Virginia Mason Production System into the building design.

Details are constantly scrutinized—and re-configured, as needed, for maximum efficiency and effectiveness. Outside the patient recovery rooms, for instance, storage cabinets and lines on the floor now separate two parallel hallways. The outer hallway is for patients only, giving them ample space to walk up and down and rehabilitate without having to dodge the normal sea of obstacles: wheelchairs, gurneys and staff whizzing past. The inner hallway is for hospital personnel.

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**“For us, it’s a learning journey and the only way to truly learn is to give ourselves the permission to not be perfect.”**

**— CHRIS BACKOUS**

Faculty Member, Virginia Mason Institute

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So committed is Virginia Mason to Lean that it has established a nonprofit, the Virginia Mason Institute, which offers workshops and classes and helps bring Lean thinking to healthcare organizations around the globe. (Similarly, the **ThedaCare Center for Healthcare Value** was launched in 2008 to promote Lean across the medical community.)

Yet even though Virginia Mason is now the teacher, the executives there are hyper-conscious of the fact that much remains to be learned. Indeed, no matter whom you speak to at Virginia Mason, you are likely to hear that *kaizen* never stops. “For us, it’s a learning journey,” says Chris Backous, a faculty member at the Virginia Mason Institute. “And the only way to truly learn is to give ourselves the permission to not be perfect.”

#### **EARLY INTERVENTION**

King County, Wash., is using Lean management tools to reimagine how to provide the right services—much sooner in the process—to people who suffer from mental disorders or chemical dependency and keep landing in jail.



**VIEWING INMATES AS CUSTOMERS**

As it turns out, you can find one of the leaders of Lean in the public sector practically down the street from Virginia Mason: at the seat of government of King County, Wash.

King County started implementing Lean in 2011, when its chief executive, Dow Constantine, asked Boeing veteran Fred Jarrett to be his deputy. As someone who had visited Japan and studied Lean while he was at the aerospace giant, Jarrett was eager to try making local government a little more Camry and a little less Pinto.

That year, the county government held a number of multi-day *kaizen* events to introduce Lean concepts to county workers and see what they thought. The response was enthusiastic, and the county budget for 2012 included funding for a Continuous Improvement Team that is now 12 people strong. Several county departments also employ Lean specialists.

The county's early efforts were small by design, based on improving discrete processes in single departments. King County Metro Transit, for example, developed better procedures for monitoring and handling vehicle maintenance, with the aim of increasing the number of miles traveled by an average vehicle between trouble calls.

The Finance and Business Operations Division, after some initial stumbles in 2012 ("too tools-focused," it was said), has undergone a complete change of culture and integrated Lean thinking into all of its work. The result: Processing an invoice in accounts payable now takes one day instead of five, training sessions have been consolidated, and numerous timewasters in report preparation and check cutting have been eliminated.

With these successes in hand, the Continuous Improvement Team this year launched its most ambitious project yet: an effort to transform how King County deals with what it has termed "familiar faces"—people who are booked into jail four or more times a year and suffer from mental disorders or chemical dependency.

## DIRECT FROM DRUCKER

Chosen by the Drucker Institute's archivist,  
Bridget Lawlor



The big challenge faced by King County—or any locality, for that matter—is how to handle such an unstable population. Under the current system, a mere 1,250 people account for more than 7,000 bookings a year in King County alone; many of those bookings are for failure to show up for appointments such as court dates. King County spends a lot of resources on responding after the fact, and the familiar face tends to interact with a wide variety of government workers



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who have little contact with one another. That makes interventions disjointed and ineffective.

For instance, a mental health professional in jail might have no idea who is working with the inmate in the outside world. This creates a lot of unnecessary repetition, waste, confusion and frustration for the familiar face: “Why do they keep asking me the same questions?” Worst of all, this typically leads to more trips to the county jail.

Thus it was that the Continuous Improvement Team began working on a project to bring together some 40 professionals from more than 30 government departments and nonprofit organizations. The goal was to get them aligned and pulling together—rather than working independently or even at cross purposes—in dealing with this particularly difficult population.

In April, after many months of process walks and an earlier three-day event to map out the “current state” of things, the group gathered in a large conference room in downtown Seattle to begin its next phase of work.

“Now we get to the more woo-woo part of the exercise,” Lori Heniff, one of the workshop leaders, announced in the early afternoon. “Is everyone in a position where it’s safe to close your eyes?”

As soft music played, Heniff asked participants to imagine themselves as a familiar face being picked up by first responders. “Imagine now something has happened and you do go to jail,” she continued. “What is that interaction like? What happens to you when you’re in jail? What happens to you when you are released from jail?”

Some of the ideas that emerged— like ensuring that adequate shelter would always be available to those in need—ran smack into budgetary constraints. In time, though, more realistic solutions surfaced. For instance, there was a lot of excitement around assigning a single person or a small team to manage all aspects of a familiar face’s case. Meanwhile, participants reimagined jail as more of an “in-patient” setting that worked in conjunction with other departments.

## DEEPER DIVES



Lean case studies  
Lean Enterprise  
Institute



*The Lean Startup:  
How Today's  
Entrepreneurs  
Use Continuous  
Innovation to  
Create Radically  
Successful  
Businesses*  
by Eric Ries



*Management on  
the Mend: The  
Healthcare  
Executive Guide  
to System  
Transformation*  
by John  
Toussaint, M.D.



“NUMMI”  
by Frank Langfitt



“The Genealogy of  
Lean Production”  
by Matthias  
Holweg



Drucker  
on continuous  
improvement



By the end of the session, the participants had produced a revamped “value stream map”—a Lean tool that is used to document, analyze and improve the flow of information or materials required to produce a product or service for a customer. Instead of starting the value stream with an encounter between the familiar face and a police officer on the street—the typical pattern—the new map started upstream, with earlier interventions and services.

Because healthcare workers and insurers were in the room along with employees from the county jail, the map erased the wall between the health services someone receives when they’re incarcerated and those received when they aren’t locked up. With the same medical professionals and case managers responsible for staying in contact with these familiar faces, the new system promises to provide far better continuity of care.

“This has been at a scale I’ve never seen, not only in the ‘future state’ we’re trying to describe but in the number of participants involved,” says Travis Erickson, co-lead on the familiar faces initiative. “It’s just awesome to see how far we’ve been able to come.”

And how far there is yet to go. “This,” Heniff says, “is when the real work starts.”

### **MOD SQUAD**

Spotify, the music streaming service, encourages a huge amount of autonomy among its employees. They work in five- to seven-person “squads”—each meant to feel like a startup.



## KEEPING EVERYONE IN TUNE

If ever there was an organization that illustrates the importance of pushing autonomy throughout the organization—a fundamental tenet of Lean—it’s Spotify, the Stockholm-based music streaming service.

The fundamental organizing block at Spotify is the “squad,” a five- to seven-person team that is meant to feel like a miniature startup. Each squad has a specific mission and focus.

For example, one squad might be in charge of Spotify’s playback experience, while another might be in charge of the search experience.

Meanwhile, cross-squad relationships take the form of “chapters” and “guilds” made up of groups of people with similar competencies and interests who might be able to learn from one another—and also avoid running into each other. Each squad may have a person who specializes in testing, for instance, and the testers all belong to a chapter that meets regularly to share information and see if they can offer solutions to problems that may be similar across squads.

The very architecture of Spotify’s software is also geared toward autonomy, with components made sufficiently independent of one another to allow for “blast-proofing,” meaning that failure in one area doesn’t invariably lead to failure in others. If the search feature has a bug and stops working, for example, it probably won’t affect your playback.

Spotify also encourages frequent releases in small batches—embodied by the slogan “think it, build it, ship it, tweak it”—with a “release train” (akin to a “sprint” at other tech companies) going out every three weeks. All code is

slotted into production, whether a feature is completed or not. If it's not ready, it's hidden from the user until it is.

This “creates a forcing function for collaboration and iteration,” as Lean consultant Henrik Kniberg has explained.

In effect, Spotify is running an endless series of experiments, with the stakes not too high for any one of them. It's like building a house one brick at a time, testing each for stability before adding another, instead of unveiling the entire structure and hoping it remains standing.

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**“Up until we were 40 or 50 teams, it was still easy enough to keep a mental log of... what was going on with the organization. At the level we are now, there is no single person in the organization to keep all that in their head.”**

**— ANDERS IVARSSON**

Spotify

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Spotify's leaders are careful to stress that their model has inherent tradeoffs. The biggest is that it's difficult to make sure everyone is going in the same direction and staying abreast of developments from team to team.

This becomes all the more true as the company grows. In 2006, Spotify was just an idea. Its service hit the market in 2008. Now, just seven years later, it has more than 1,500 employees (serving some 60 million users).

“Up until we were 40 or 50 teams, it was still easy enough to keep a mental log of who was on what team, what people were doing, which team you should be working with, what was going on with the organization,” says Spotify's Anders Ivarsson. “At the level we are now, there is no single person in the organization to keep all that in their head.”

Yet, in the end, Spotify wouldn't trade its Lean culture, with front-line workers responsible for cooperating, coordinating and constantly experimenting and improving things.

“If we could get away without being a really big company, we would,” Spotify's Joakim Sundén told a Lean conference in Germany a couple of years ago. “But

we want to change how people listen to music for all the world, and to do that we need to be a lot of people and we need to have a development speed that actually scales.”

Sometimes, the best way to get big is to get Lean.\*

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## MONDAY MANDATE

\* What will you do on Monday that's different?

### ADOPT A POLICY OF “ORGANIZED IMPROVEMENT”:

Make sure that all of your key products and services, as well as internal processes and systems, are being improved systematically and continuously—with Peter Drucker having deemed an annual improvement rate of 3% “realistic and achievable.”

### DEFINE PERFORMANCE CLEARLY:

If performance is to be continuously improved, the organization first needs to be clear on what “performance” means in a given area—and, in many cases, getting all of your colleagues on the same page can be tricky.

### REGULARLY SCRUTINIZE WHERE YOU CAN CUT WASTE:

“There is no loss to the customer,” Drucker pointed out, “by eliminating activities that do not add value.”

**LAST  
MONDAY\***    **NEXT  
MONDAY\***

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