Lean management failure at HMRC

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The controversy and negative reaction surrounding the introduction and practice of lean management in HM Revenue and Customs (HMRC) seems well-deserved. A recent journal paper by Bob Carter et al, Lean and Mean in the Civil Service: The Case of Processing in HMRC, describes the flawed approach taken and the resulting terrible outcomes.

From that paper and other sources, it is clear that lean management was not actually put into practice at HMRC. The civil service unfortunately applied a highly degenerate and dysfunctional derivative form of new management practice that resulted in a proliferation of zero-sum (win-lose) outcomes. I have long called this ‘fake lean’. A better name, perhaps, would be ‘no lean’.

Fake lean
It is far more common, by a factor of 500 to 1 or more, to witness the rapid emergence of zero-sum fake lean in organisations due to a combination of short-term thinking, ignorance of what lean management is and ineptitude on the part senior managers and consultants. The ability to discern the true intent of lean management and, hence, to practise it correctly, requires one to understand the history of progressive management and its evolution over the last 100 years.

The forerunner of lean management is scientific management. It too is much derided – until one realises the true intent of its originator, Frederic Winslow Taylor. Taylor wanted to improve productive capacity for the good of workers (wage increases, less arduous work and better trained workers), enterprises (sales growth and improved profitability) and the Nation (GDP growth and international trade), and also improve cooperation between workers and management. He was specifically interested in eliminating disputes between workers and management which inevitably led to zero-sum outcomes.

Taylor said the following words in testimony he gave to the US Congress in January 1912: “It ceases to be scientific management the moment it is used for bad.”

This statement captures Taylor’s enormous frustration with how most senior managers and consultants mistakenly interpreted his work, as a fast way to achieve zero-sum outcomes that benefit the company at the expense of workers. Taylor’s statement can be updated to characterise lean management today: “It ceases to be lean management the moment it is used for bad.”

Lean management used for bad is not lean management; it is simply bad management. This causes enormous headaches and confusion among managers and workers as to what lean management really is. Being used for bad, one can only conclude that lean management must be bad. But lean is not bad in and of itself; this is a very important point to remember.

Unfortunately, zero-sum thinking is deeply ingrained among most senior managers and consultants, which is the principal way in which lean is recognised as bad. Zero-sum thinking is so integral to management’s mindset that senior managers simply do not understand how to achieve non-zero-sum (win-win) outcomes. It is a concept so foreign to them that they ignore it altogether. The approach to lean taken at HMRC, and resulting outcomes, were thus entirely predictable.

Different focus
Importantly, this same mistake is made over and over again by senior managers and consultants, despite having gained decades of practical knowledge that inform us of what to do and what not to do when introducing progressive
lean management into organisations.

Consultants should know this, but apparently practising progressive lean management correctly does not generate sales to senior managers, most of whom are narrowly focused, time-constrained and demand immediate cost savings for political or other purposes.

Lean management is defined by two inviolate principles: ‘continuous improvement’ and ‘respect for people’. These became principles of progressive lean management because its foremost practitioners – Frederick Winslow Taylor (US, practice period ca 1880-1914), Frank George Woolard (UK, practice period ca 1915-1933) and Taiichi Ohno (Japan, practice period ca 1947-1978) – realised that you cannot have continuous improvement without respecting people. Importantly ‘people’ in this context means an organisation’s stakeholders: employees, suppliers, customer, investors and communities.

The ‘continuous improvement’ principle expresses the need to improve on a daily basis in response to changing circumstances. The world changes every day and so must we. At minimum, customers’ expectations of quality and timeliness, for example, increase over time and costs, which increase inexorably, must be levelled or reduced by improving processes – not by laying people off.

The ‘respect for people’ principle reflects the need to help ensure that improvements do not result in zero-sum outcomes – winners and losers. Taylor, Woolard and Ohno were management practitioners, not academics, who each held positions in industry, ranging from engineer or shop floor worker to senior executive as their careers matured. They learned from experience the importance of the ‘respect for people’ principle and that it must not be seen by anyone – especially not by senior managers and consultants – as something that is optional.

If the ‘respect for people’ principle is not recognised, or is recognised but viewed as optional by senior managers, then failure is certain. The mistake that senior managers almost always make is to lay people off as the result of process improvement.

That kills employees’ desire to participate in continuous improvement and fundamentally contradicts the ‘respect for people’ principle.

Bilateral negotiation

Is not the cause-and-effect obvious? Instead, people who have been made redundant must not lose their job and instead be re-deployed to other areas of the organisation to do productive work. This process is one of bilateral negotiation between employee, current manager and future manager to assure non-zero-sum outcomes.

Workers are not the pawns of management in lean, to be placed in jobs that are convenient for management but difficult for workers.

The ‘continuous improvement’ and ‘respect for people’ principles are practical and effective and they encourage people to think. And thinking is what lean management requires, as it is often referred to as the ‘Thinking Management System’. Managers have to think and they also have to learn to trust workers to think.

However, the HMRC case shows that neither the ‘continuous improvement’ nor the ‘respect for people’ principles were understood and thinking among managers was obviously on extended holiday.

Taking HMRC’s ‘no lean’, zero-sum approach to process improvement to other civil service departments in the UK will result in almost certain disaster.

What happened at HMRC is a major failure that has negatively impacted many different stakeholders. It is too important a failure to quickly dismiss it as the result of bad planning or bad execution, by blaming employees or suppliers (the consultants), or by scapegoating one or two high-level managers. The act of doing this would, in itself, demonstrate that the ‘respect for people’ principle is not understood by HMRC senior managers. There is no thinking going on here.

The root cause of this failure should be carefully determined using formal root cause analysis, such as by creating A3 reports. As senior managers at HMRC are responsible for the failure, they must be the ones to think and learn from it by analysing its root causes and identifying practical countermeasures in order to avoid future failures.

Importantly, failure analysis must not be used as yet another tactic to assign blame and it must not become politicised. It must instead be used as a means to identify process-related problems
Senior managers, in particular, have a lot of homework to do to gain a correct understanding of lean management, which is a prerequisite for its correct practice.

Management will have to admit its mistakes and show the way forward to better its lean practice and achieve favourable outcomes. It is likely that some mid-level HMRC managers are very frustrated by what happened and may also have a poor understanding of lean management. I am sure they would love the opportunity to put their knowledge to use in leading efforts to help senior managers repair the damage. It will be very tough going as employees do not easily give second chances to management.

**Lack of understanding**
As always, the weakness in senior management's efforts to introduce progressive lean management into organisations is their lack of understanding of the 'respect for people' principle. They typically think they are already practising this principle or that they know what it means. These are horribly faulty assumptions. If the 'respect for people' principle were easy to understand, including its inter-relationship with the 'continuous improvement' principle, then fake lean would be rare and real Lean would be common. But real lean – the daily application of both the 'continuous improvement' and 'respect for people' principles – is rare while fake lean is, unfortunately, common.

The senior managers of HMRC and other civil service departments must realise that 100 per cent of their university education and work experience pertains to non-lean management. To emphasise this point, I tell people: “Don’t confuse getting an ‘A’ or receiving a diploma with knowing anything.” That may seem harsh, but it’s true. Formal education systems teach batch-and-queue information processing, while lean seeks to achieve flow in information processing. The two are completely different fields of knowledge and practice, with almost no areas of overlap.

Therefore, to adopt lean management in HMRC or elsewhere in UK civil service means to learn something completely new. Senior managers, in particular, have a lot of homework to do to gain a correct understanding of lean management, which is a prerequisite for its correct practice. The bad news is that most senior managers are not eager to learn new things. The good news is that there are resources today that did not exist ten or 15 years ago to help senior managers learn new things.

The question is: will senior managers be motivated to find and study those resources, put into practice what they learned and make adjustments as their learning develops and improves over time? Or will they simply blame someone for failure and move on?

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