

## Lean Management in Services

**Abstract:** *In the 1990s, lean production emerged as an alternative management paradigm for manufacturing firms, following an analysis of the global automotive industry. Since then, the concept has spread to other industry sectors, including service organizations. In this chapter, we present the core constructs of lean management in services – leadership, learning, and the adoption of a long-term perspective. We also distinguish between two types of demand seen as critical for understanding waste and for driving continuous improvement in service organizations, namely "value" demand and "failure" demand.*

**Key Words:** Lean Management, Service organizations, Learning, Leadership, Long-term perspective, Continuous Improvement

Lean management is one of the most celebrated and criticized business concepts of our time. As a term, lean production was popularized in the seminal work of Womack et al. (1990) – *The Machine that Changed the World* – when it was presented as a superior means of dealing with customers, designing cars, running factories, integrating supply chains, and managing the [automotive] enterprise. Since then, lean has spread rapidly beyond this initial setting into new industries, including construction, software development, food processing, healthcare, education, and indeed, a plethora of other services.

Having analysed various applications of lean within and across different industry types, Netland and Powell (2016) suggest that lean – cut to the core – is about creating a culture for continuously improving a business or organization. They suggest that everybody in a lean organization should be involved in improvement activities using problem-solving methods, and that any lean transformation (regardless of sector or application area) is dependent on *three essential Ls of lean*: leadership, learning, and the adoption of a long-term perspective. This then, sets the perspective for this entry on *lean management in services*.

***"The application of methods without a long-term perspective on business transformation is not lean thinking"***

- Netland and Powell (2016)

For decades there have been countless, misguided attempts to apply manufacturing best practices to service organizations – often with the aim of short-term cost savings. Though some firms have succeeded in applying "factory thinking" to its operations (e.g., McDonalds, Starbucks, and Taco Bell), the major contribution of lean is not that it presents firms with a set of tools and techniques for operational excellence, but rather extends a profound challenge to the classical management paradigm. Lean thinking encourages managers to go and see the

work to better understand problems and realise opportunities at system level – by learning how to face their current misconceptions about problems and their causes. As such, to successfully adopt lean management in the context of services, service organizations must first avoid the mistake of pursuing the headlong rush into adopting tools and ignoring the system perspective, while also avoiding the prescription of manufacturing best practices into a service context, in the same way as we might force a square peg into a round hole.

***"Continuous improvement without learning is not lean thinking"***

- Netland and Powell (2016)

The underlying issue appears to be a fundamental misunderstanding of the systems perspective of lean thinking and practice. Lean is not a production system, but rather an education system. In this respect, the tools are not there to simply optimize the production system and improve efficiency – but represent learning frames to better understand the production system and its problems, and to encourage sustainable lean growth. Given then, that the purpose of lean management is to solve more of our customers' problems with less resources, we must therefore increase the capacity of the system by designing a system that responds better to customer demand. To do this, service organizations must develop the capability to distinguish between two types of demand: *"value" demand*, and *"failure" demand* (Seddon & Brand, 2008).

Assuming that we have defined the purpose of our service system, we can consider the demands placed on it by its customers (a demand is any customer action that triggers work in the system). Some of these demands can be classified as *"value" demand* – demand that is consistent with the system's purpose. This is exactly what the system is designed to do – and represents the demands which customers make for the things they want, e.g., *"can you help me solve a problem?"*. Unfortunately, much of the demand can in contrast be classified as *"failure" demand* – demand caused by a failure to do something, or indeed to do it right (the first time), for the customer, e.g., *"what is happening...it hasn't arrived"*. Understanding these two types of demand will enable the firm to better understand how much genuine work is being loaded on the system, and perhaps more importantly to understand how much unnecessary work is overloading the system – contributing to poor response times and subsequently, even more failure demand.

***"A lean journey without dedicated and engaged leaders is destined to fail"***

- Netland and Powell (2016)

However, failure demand can only really be identified and eliminated by adopting the *Genchi Genbutsu* principle of lean – where managers must go and see for themselves to really understand the work, challenge themselves to find and face the business-critical problems, frame them as learning projects, and then form solutions together with those directly exposed to such problems – day in, day out. In this manner, managers often discover that the problems they thought they had are actually nothing like the real problems that the company faces, which makes lean a strategy for both production and service organizations alike.

Pre-print of Powell, D.J. (2023) Lean Management in Services. In Gallouj, F., Gallouj, C., Monnoyer, MC. and Rubalcaba, L. (EDS). *Elgar Encyclopedia of Services*. Edward Elgar Publishing, Cheltenham (UK).

The future of lean management in services is very bright. The only secret is our attitude towards learning, leadership, and the adoption of a long-term perspective. When leaders begin to engage directly in lean management as a discovery process (rather than outsourcing it to consultants as an implementation process), its true potential becomes apparent. Errors and defects are cut in half, people productivity soars, and product / service development times are slashed.

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