Lessons from emerging markets

Three success stories illustrate how emerging-market organizations are using lean management to navigate around constraints and inspire new levels of commitment from their people.

Khurram Masood, Francisco Ortega, Joydeep Sengupta, and AJ Singh

Like their peers elsewhere, by the end of the last decade, leading services enterprises in places such as Latin America, the Indian subcontinent, the Middle East, and sub-Saharan Africa were applying lean-management ideas to reimagine their business models. The changes that the early movers made enabled them not just to respond to growing customer bases but to expand them even further, as lower costs and greater flexibility meant that previously unreachable populations could become attractive market segments.[1]

A more recent wave of transformation, however, shows how quickly emerging-market organizations' priorities are changing. Having resolved many tangible problems such as paper-heavy processes and inefficient branch layouts, these enterprises now face what for many of them is their greatest challenge: successfully developing people to their fullest potential and reducing high levels of variability in their effectiveness.

Admittedly, the term "emerging markets" is a very large umbrella for countries and regions with wildly varying cultural contexts. Yet despite their diversity, a few commonalities form a powerful set of reasons for emerging-market organizations to address their people issues head-on. Probably the most serious is one that organizations almost everywhere will recognize: shortages of talent, which are most acute in emerging markets but are being felt to some degree worldwide.

By tackling the issues directly through three distinct types of comprehensive intervention, emerging-market organizations are accomplishing much more than their leaders would have thought possible and in much less time. A Middle East–based telecom company recently raised customer satisfaction for its store- and field-based operations by 15 to 35 percent—while also reducing store wait times by 50 percent and repeat field visits by 40 percent. At a Latin American bank's commercial-lending operation, total processing time fell by between 30 and 70 percent, and productivity rose by 15 to 25 percent. In India, a leading retail bank increased sales productivity by 50 percent while almost tripling its customer-satisfaction scores—in effect, a triple play of better customer relations, reduced costs, and increased sales.

Moreover, the success of these organizations in overcoming people challenges came from applying lean-management disciplines. Their stories therefore provide lessons that any organization can use.

Three success stories

Some of the concerns common among most emerging-market organizations reflect the strains inherent in high growth. Seizing the moment when millions of people are becoming consumers for the first time, leaders understandably focus more on the revenues to be earned than on the costs to be avoided. Regulatory systems are in constant flux as policy makers respond to rapid change. And customer needs are more diverse, with traditional and modern cultural norms operating in tandem as rising incomes expose consumers to new experiences.

But as different as these pressures may appear to be from those that most affect companies in North America or Europe, the result is actually the same: a need to maximize value from limited resources. And in emerging markets, to an even greater extent than elsewhere, one of the most limited resources is that of skilled talent.[2]

Talent shortages are both a result and a cause of a second factor that exacerbates people issues: the more rigidly hierarchical organizational model

[1] Marco Breu, Francisco Ortega, and Roeland Vertriest, "Capturing growth in emerging markets through lean," *Lean Management: New frontiers for financial institutions*, mckinsey.com, 2011.

[2] Martin Dewhurst, Matthew Pettigrew, and Ramesh Srinivasan, "How multinationals can find the talent they need," *Winning the $30 trillion decathlon: Going for gold in emerging markets*, mckinsey.com, August 2012; for advanced economies, see Byron Auguste, Susan Lund, James Manyika, and Sreenivas Ramaswamy, *Help Wanted: The Future of Work in Advanced Economies*, McKinsey Global Institute, March 2012.

Identifying, recognizing, and rewarding managers who are thriving under a transformation underscores how the changes help managers succeed.

found in many emerging markets,[3] in which promotion often depends mainly on a willingness to follow instructions. Having risen under that model, line leaders and middle managers—whose example everyone else will follow—tend to see change as a threat. And, lacking support from this crucial constituency, frontline employees may show little interest in changes that at first glance seem to require more of them.

Yet perhaps because of these constraints, three successes illustrate how the unusually intensive application of lean management has helped emerging-market organizations achieve real breakthroughs. The first focuses especially on the middle-management layers, where resistance to change is often strongest. In the second, the organization sought to cut across hierarchies and unleash frontline entrepreneurship across a sales organization. And the third example shows how an organization can integrate its functions and businesses into an ecosystem that supports change.

Middle managers: From stumbling blocks to supporters

As intermediaries between corporate leadership and the front line, middle managers play a critical role both in transforming an organization and later in continuing the improvement. But because they are the information gatekeepers between the decision makers at headquarters and the doers in the trenches, if they perceive the proposed changes as a threat, they can easily undermine all of the leadership's transformation efforts. Showing their opposition is easy: all the managers must do is keep behaving as they always have when not under scrutiny. But a few judicious tactics have allowed several emerging-market companies to turn their middle managers into enthusiastic supporters.

- Introduce radical transparency. The first step is to weaken middle managers' chokehold on information by creating many new channels that allow data to flow directly to the top team—and everyone else in the organization as well. Part of the task is technical. With modest investment, new reporting can collect data automatically and distribute information on basic trends to all levels of the organization. But even more important is the discipline to monitor and use data effectively. Some of that will come from the cascade of daily and weekly huddles and meetings, which center on data review. But they may not be enough to ensure follow-up. Again, greater transparency provides an answer: one Indian bank set up web-based "issue-escalation groups" using popular messaging platforms such as WhatsApp. The company set clear rules for the types of issues and ideas to be discussed in each group, along with a messaging template for effective communication and governance mechanisms to aid in tracking, prioritizing, and implementing the resulting actions. Obstacles surfaced earlier, the potential benefits from fixing them became clearer, and corrective actions took hold faster.

- Prioritize behavioral changes. People who have spent their entire careers navigating the old

[3] Ayse A. Akcal, S. Tamer Cavusgil, and Pervez N. Ghauri, *Doing Business in Emerging Markets*, second edition, London: Sage Publications, 2013.

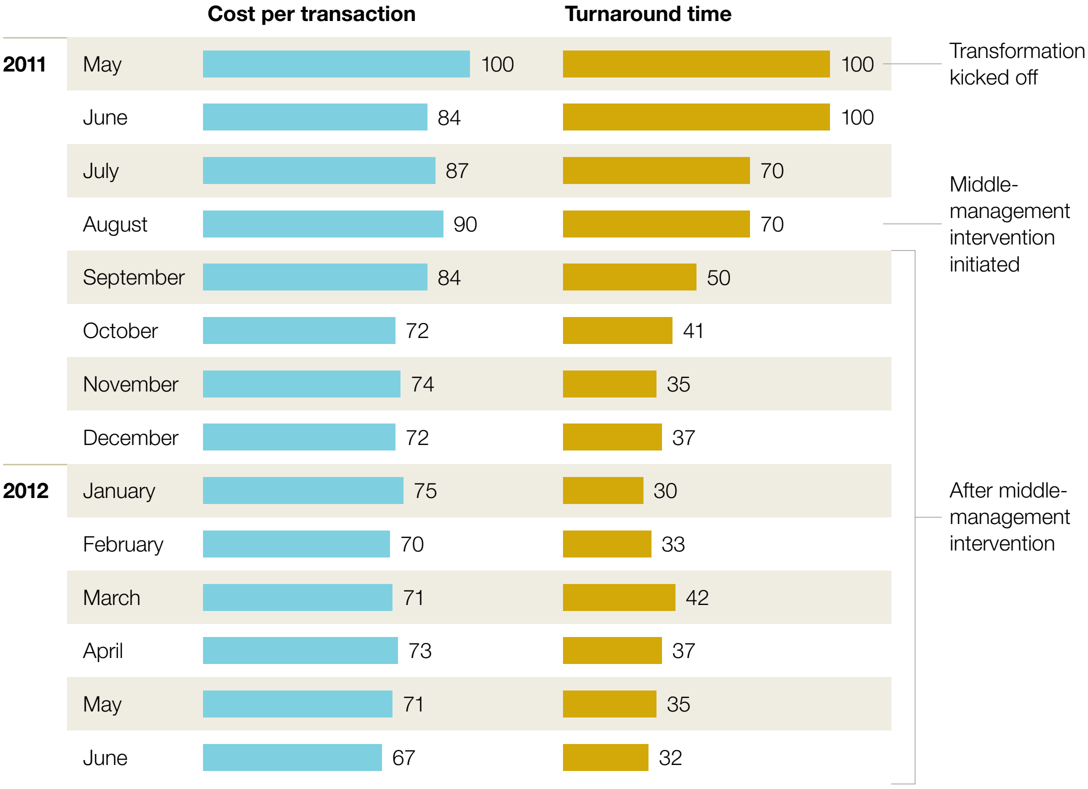
ways will question why they should revamp how they operate. Simply ignoring skepticism can easily become counterproductive, as one Latin American institution discovered when it tried rolling out changes more quickly than its people could digest. Leaders then discovered that it was more productive to encourage managers to adhere to just a few core behaviors that are crucial for lean management to take hold: holding the huddles every day, for example, or conducting data-based performance dialogues with each team member. So long as managers followed the norms, they could have even more leeway to lead their teams. From the COO on down, leaders rigorously employed weekly process-confirmation meetings to check that managers were following the norms, with results tracked on white-boards; the metrics varied with the manager's seniority—ranging from process execution for frontline team leaders to company-wide employee- and client-satisfaction scores for the C-suite. The transformation once again progressed, with productivity in specialized functions doubling and the company winning national recognition for its delivery of customer service.

- Celebrate rising stars. One of the most effective ways to boost momentum among middle managers is to spotlight those who are championing the transformation and thriving as a result. Identifying, recognizing, and rewarding these individuals in a highly public way shows how the changes help managers succeed, spurring healthy competition. During its transformation, the Indian bank added new, change-oriented performance indicators to managers' evaluation metrics, which the bank built into an easy-to-read dashboard that highlighted high-potential individuals. Those candidates who showed sustained promise were celebrated under a new, well-publicized elite rewards program and became eligible for exclusive training programs designed to accelerate their trajectory.

Exhibit

After intervention, middle managers produce top results.

Impact; baseline indexed to 100



Combining these tactics can have dramatic effects, especially when a transformation's energy starts to flag—as at the Indian bank, where hard-won cost reductions were gradually inching up after huge initial victories. Within ten months of the middle-management intervention, turnaround times had fallen by a further 38 percentage points and cost by more than 20 (exhibit). Both figures were more than double the initial outcomes.

Uncorking an entrepreneurial genie

Even a fully committed complement of leaders and managers will achieve little unless the frontline employees with whom customers interact every day change as well. But in intensely hierarchical environments, workers may have little control over what they do or how they do it, reducing them to the status of order takers. The resulting "box ticking" mentality may leave the organization with few avenues to generate new ideas or improve service quality.

As one Middle Eastern service-sector company discovered, the key to turning that around lies in the prime coping mechanism that employees use in large organizations: entrepreneurialism, albeit of a kind that may help the employee more than the company. Too often it remains hidden. Employees do "whatever it takes" to work around hurdles, often achieving superior results but in a way that sometimes raises risks. Moreover, the type of knowledge these employees acquire becomes a sort of currency that makes them more valuable compared with their colleagues, so they have no reason to share it.

What an organization must do is unleash this entrepreneurialism in a guided way, so that the gains accrue more broadly across the enterprise. The Middle Eastern company's leaders did that through a radical competition model that loosened central control over sales employees, encouraged voluntary learning and capability building, made the operating system more flexible, and completely revamped the incentive system.

The company replaced a rigid, prescriptive sales approach with one that was much more open and transparent. Each high performer, or "champion," was required to assemble a team among the salespeople, develop the team's skills (by choosing among a broad range of tools, support facilities, and learning modules), and deliver excellent results. Top-performing teams would then earn recognition and rewards, and their champions would be eligible for special financial and career incentives. To demonstrate the program's importance, build enthusiasm, and—crucially—cross-pollinate effective practices across the company, senior leaders met with teams every two weeks in the company boardroom to review the choices the teams made, assess the ensuing results, and agree on actions based on the lessons learned across teams.

Within three months, sales productivity doubled in the company's mass segment; in the upper segment, volume doubled while total portfolio size rose by 10 percent. And management came away with a much better understanding of the changes that really worked in the field, pointing to which changes needed extra investment and which could be canceled.

By bringing the support functions into the transformation from the very beginning, the company was able to raise the performance of both the business and the functions.

Reshaping the ecosystem to create a healthy environment for change

The third success story addresses the profound disconnects between functions and businesses that often lie just below the surface in most organizations. Better integrating the two sides makes the entire organizational ecosystem more productive and stable, and thus better able to support change and respond to external forces.

Closer connections are especially important during a transformation, when there is a natural impulse to focus on operating units first (a tendency that is especially marked among mature-market organizations). But a gap can then emerge between the units being transformed and the rest of the enterprise. Functions that still operate in the old way and do not understand the changes in process become a hindrance to the transformed business rather than a help. Given emerging markets' talent shortages, organizations operating in those regions already struggle to make sure the functions are truly capable of working in tandem with the businesses as a general matter. Addressing support-function capabilities has therefore proved essential for emerging-market transformations to succeed.

For one expanding service provider, that limitation actually became an opportunity. By bringing the support functions into the transformation from the very beginning, with support-function staff dedicated to the team leading the change and applying the same concepts to their own work, the company was able to raise the performance of both the business and the functions.

Where necessary, functional specialists worked with the businesses on a full-time basis—in some cases, even working in person alongside business personnel so that they could understand the support needs more clearly. HR specialists, for example, were embedded in each business unit, with their performance assessed jointly by the business and HR against metrics that related both to HR and business outcomes. Tight integration allowed the specialists to focus on understanding frontline employees' concerns, addressing them quickly to minimize any effect on morale, and creating an early-warning system to reduce unwanted attrition among hard-to-find talent.

Under a slightly different approach, IT staff joined the company's continuous-improvement team, which was responsible for supporting each unit through the most intense period of transformation. Using a shared-service model, IT's budget was controlled in part by the businesses themselves, ensuring closer alignment in tailoring IT solutions to meet the businesses' new performance goals.

The company is now growing quickly. Employee satisfaction has doubled. And the functions are improving their results as well: the time it takes to fill a vacant position has fallen by 75 percent, while IT is enabling 5 percent efficiency improvement per year through greater automation.

• • •

As the world's interconnections become more complex, organizations everywhere are realizing that they have much to learn from their peers in emerging markets—ideas they can use both abroad and at home. Increasing economic uncertainty means that now is the time for a better understanding of "what works" with lean management, reaching beyond process improvement to the people who make processes—and real transformation—possible. o

The authors would like to thank Pablo Correa, Andy Eichfeld, and Pishu Ganglani for their contributions to this article.

Khurram Masood is an associate principal in McKinsey's Dubai office, where **Joydeep Sengupta** is a principal and **AJ Singh** is an associate principal; **Francisco Ortega** is a principal in the Buenos Aires office.