

Building a performance-driven, people-centered leadership system

How Worthington Industries combines caring for people with lean to achieve world-class performance

BY PATRICIA PANCHAK

With a strategy like people-centric leadership, you can be forgiven for thinking that good intentions, strong leadership and a governing philosophy are enough to be successful. But that's only a good start.

Just ask the leadership of Worthington Industries, a Columbus, Ohio, based integrated steel manufacturer. Founded in 1955, the company was built by its founder John H. McConnell based on nothing less than the golden rule, spelled out in a single page document titled "Our Philosophy," and later in a book, "Our Golden Rule."

Written more than 50 years ago, the philosophy, now printed business card-size, is consulted by company leaders "almost weekly," says D.J.



John H. (left) and John P. McConnell built a company based on people-centric leadership long before it became fashionable.

Johnson, VP of Corporate Transformation.

Johnson got his first impression of the company culture when he was being interviewed for his job. "I met with six people and left with five copies of the philosophy," he said, describing how each person told him how important it was, as they handed it to him. "They were so passionate about it, I couldn't tell them I already had a copy," he added. "So, I knew it was a strong part of the culture here."

As well, the company practices already incorporated some elements of a lean culture, without calling them lean. Josie Lewis, transformation lead, says that gemba walks have always been a part of the culture, though not referred to as



such. "Our founder used to walk around and manage on the shop floor, so a lot about that tool is in line with our philosophy and our history," she says. Other examples come from the back office, where McConnell was insistent on eliminating waste, simplifying processes and cutting out middle management; and in the corporate office, where he worked to keep a small staff.

Still, such a strong foundation and obvious buy-in wasn't enough. The company, now led by the founder's son, John P. McConnell had in 2008 embarked on the company's first formal transformation effort. Two years ago, the company rebooted this effort, launching Transformation 2.0 in an effort to systematize its approach to people-centric

leadership through lean, so that it reaches every facet of the company.

No sacred cows

Even before Worthington embarked on what it now calls Transformation 1.0, McConnell himself had modeled the necessary mindset by focusing on change.

“Our founder, John H., gets the credit for establishing a people-centered culture long before that was fashionable,” Mark Russell, the company’s president and COO, explains. “He knew how to bring together a team and to get them to care about each other, because he cared—truly cared—about them as people.”

“His son John P., our current chairman, gets the credit for figuring out how to scale that as we have done in the last decade,” Russell adds, noting that he had to break a few of his father’s “rules” in order to effectively lead a company that is much bigger and more global than the one he inherited.

Among the changes McConnell implemented and that broke precedent set by his father: He invested heavily in enterprise software, hired leadership from outside the company, and engaged a consultant to help with the first transformation effort. His father had thought computers were needlessly complicated; took so much pride in developing and hiring leaders from within that he rarely, if ever, recruited from outside the company; and didn’t believe in hiring consultants.

By challenging existing practices, says Russell, McConnell demonstrated the leadership that is necessary to establishing a strong lean strategy focused on continuous improvement.

“You never succeed without the leader. If you have the leader, you have a chance at succeeding. You don’t have a guarantee, because you need to meet all the other conditions,” he says. “But if you don’t have a leader, your chances

of success, in my experience, are pretty close to zero.”

A good start

The general consensus about the first transformation effort is that it transformed the steel business, but “didn’t take” in other units. “For me, the proof of a lean transformation is in the results. If your results haven’t significantly improved, then you didn’t transform anything,” Russell says, adding that other units did not meet his test.

Looking back, he and other Worthington leaders acknowledge that the steel business’ success was driven by a relatively small group of people, as a top-down initiative, and didn’t reach as wide or as deep as necessary for a corporate transformation. Also, their approach to change was too slow and cumbersome. Transformation initiatives were held one at a time and lasted four to six months.

Still the results in the steel unit “left me and several others here, including our chairman and CEO, wanting more and thinking we could do more,” Russell says. “Transformation 2.0 is that attempt.”

The reason for formally starting anew is because the approach “is different enough in its aims and in its methods



Mark Russell, president and COO, was president of the steel business, which was the most successful in transforming during the first transformation.

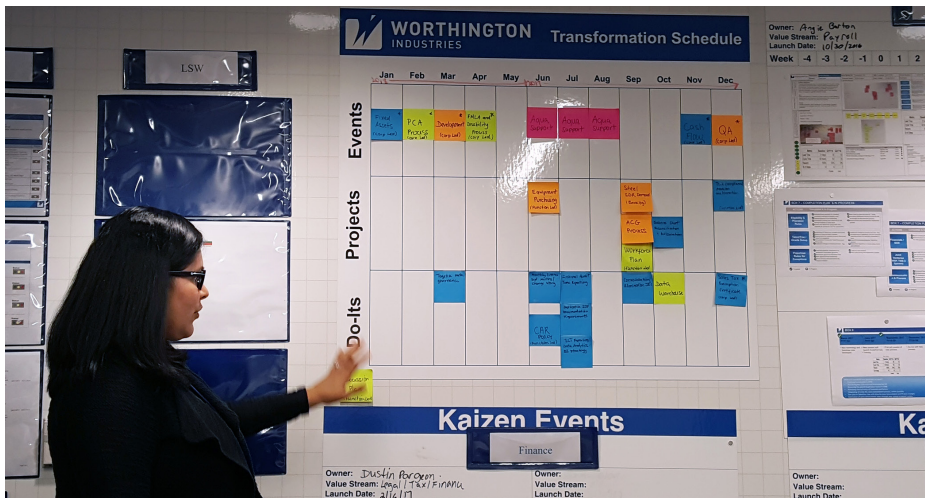
that it merited a relaunch,” he adds. “Our aspiration was to take what had been done at Steel and improve upon it, and then take it wider and deeper. We wanted it to be corporate wide, to touch every business and to touch every person.”

Transformation 2.0

To get and keep everyone in the company engaged and always practicing people-



D.J. Johnson, VP of Corporate Transformation, reviews progress in a “Mission Control” room.



Josie Lewis, transformation lead, describes the work the “office” team is doing as part of Worthington’s corporate transformation initiative.

centric lean leadership, Worthington decided to establish a separate T2.0 organizational infrastructure, with strong leadership standard work, and a heavy emphasis on experimentation, measurement and data.

To launch T2.0, the leadership team took two months off from transformation activities in late 2015 to flesh out the plan. Among other things, they created a management structure outside, but parallel to the company’s organizational structure, because they’d decided that a small, centralized corporate team wouldn’t be able to manage the organization-wide change they envisioned. Johnson leads the corporate team of functional directors at the corporate level, including operations, commercial, supply chain and support (back office).

Also reporting, dotted line, to Johnson are Directors of Transformation at each business unit, who, in turn, have Transformation Managers for each of their strategic business units reporting to them. Plant Transformation Managers report to the Transformation Manager.

“The idea is to create a healthy tension between what we need and where we’re trying to get to,” Johnson explains, noting that they also wanted to build a structure that would reinforce the expectations of T2.0 to existing leaders who

have not fully bought into the system. “You’re not going to get 100 percent acceptance out of the gate,” he notes.

A hoshin kanri process starts at the corporate level, establishing Russell’s A3 goals for the company, including safety, financial and other major initiatives; they are developed in collaboration between him, corporate leaders and his direct reports. Then, using the same collaboration approach, goal-setting cascades through the organization to the shop floor. The process begins a few months before, and ends at the start of the fiscal year, when everyone in the company has a completed A3.

Regular meetings keep the pulse of progress. A monthly steering committee with corporate business and transformation leaders, including McConnell, monitors overall progress. Quarterly business reviews—which include Russell, Johnson and a good portion of the corporate staff, often including McConnell—keep tabs on the company’s business units. In turn, the business units review their overall progress each month, and active projects and kaizen events during weekly or bi-weekly staff meetings.

Johnson meets with his direct reports weekly, but speaks with them daily. And executives take gemba walks every day to coach and review key metrics. This both keeps everyone—from the executives to the plant-floor operators—focused on value creation, surfacing and relentlessly solving problems. It also serves as a continuous on-the-job training about how to do so.

Mission control

Making the organizational structure and work visible are a series of “Mission Control” rooms. There’s one each for corporate, each business unit and their strategic business units, and for the wholly owned plants where T2.0 has been rolled out, which is about half of them, so far.



Sheryl Sorrell, quality manager, reviews the Management for Daily Improvement (MDI) Board at Worthington’s Westerville, Ohio, plant.

In each of the rooms, the company's T2.0 goals are posted, as well as the top executive's A3s, leader standard work and kaizen event documentation, all of which prominently includes tracking data to show progress to plan.

Plant floor mission control rooms feature similar sets of documentation that track improvement projects and progress to goal. Plants also track plant-floor employee participation in kaizen events and rapid experiments, to measure the plant's "cultural health."

Meetings are held in the mission control rooms, and leaders begin every meeting with a discussion of progress toward meeting their own A3, which both keeps everyone on track and reinforces the importance of everyone focusing on achieving their A3 goals.

Getting the facts

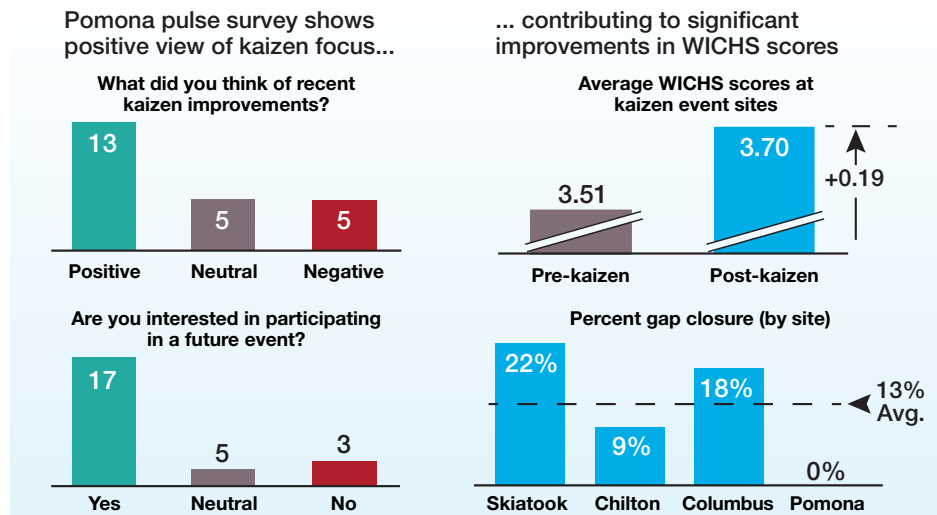
Worthington deploys several assessment tools to monitor how well the company and leaders are following T2.0 practices and principles. Biannually, the company conducts the Worthington Industries Cultural Health Survey (WICHHS), a survey of every facility and function, which measures employee engagement and satisfaction, along with location based focus groups. Results are reviewed with leadership, and each facility creates a "Commitment Poster" listing items that employees and management at that location are committed to improving.

A shorter, "Pulse Check" survey is conducted in alternate years.

The T2.0 Assessment is a proprietary on-site review of continuous improvement process and culture. This tool is used to monitor the results each site has achieved where they've already rolled out the system, as well as how well the operations and transformation managers are using the system.

Results of the WICHHS are impressive. "Since we started surveying about 10 years ago, our results have improved

Cultural Impact of Kaizen Events



A "pulse" survey taken following a kaizen event in the Pomona, California, facility shows a positive view of the kaizen focus. These events contribute to significant improvements in Worthington Industries Cultural Health Survey (WICHHS) scores.

about 10 percent, which in cultural health surveying circles is massive," Russell says. "Cultural health moves in glacial increments and, based on survey results, we've been able to move it in a positive direction every year since we started measuring it."

He adds that Worthington's corporate average is 3.94 on a 5-point scale, and that several businesses and functional teams are well over 4, which indicates high-performance teams.

The expectation for change

New to T2.0 is a focus on kaizen, a lean tool that hadn't been fully utilized in earlier efforts. Referring to the four- to six-month change process used in the first transformation, Russell explains that the new kaizen approach still takes the same amount of time, but most of it is spent conducting "pre-work," gathering information and generating theories to test. Then in the final week, when the actual kaizen event is held, as many people as possible participate.

"At those events we're looking to make, between Monday and Friday, the kind

of changes we used to look for in four to six months," Russell says. "We come into those kaizen events with aspirations to cut some bad thing by half, like inventory, or to double some good thing, like productivity, by the end of the week. We come in with a whole bunch of rapid experiments that we're going to run, and everybody gets involved."

These big, formal kaizen events are just one part of Worthington's kaizen philosophy. At the company, kaizen is so central that everyone in the company is given formal responsibility to achieve improvement, which is communicated through their A3s.

"Everybody has an A3 that describes what they are individually responsible for—and everybody is responsible for something," Russell says. Through the hoshin process, each A3 is "focused and aligned" with the priorities determined by the company's annual Value Stream Analysis (VSA), and in collaboration with their peers, subordinates and bosses. The A3 includes metrics and ways to measure progress and a baseline of data.

Each individual's A3 also has a stretch goal, for which they're expected to develop a plan to achieve. If they have trouble coming up with a plan, they are expected to seek help from their supervisor—which leadership sees as an important part of the learning process.

A spectrum of kaizen

Day-to-day, everyone also is expected to conduct rapid-improvement events and “tri-storming” as ideas or necessity arises. For example, in an andon situation on the line, if operators can test a counter measure, they do; if they can't, they call for help and it comes in real-time.

“What we want is kaizen everywhere all the time with everybody, but there's a spectrum,” Russell explains. “The rule in the kaizen spectrum is, if you can run that rapid experiment by yourself, with no help whatsoever, you only wait as long as it takes to inform everybody around you that you're going to do this. Then you run it and share the results.

“If you need help, then you wait just long enough to get help, then run. As you move along the spectrum we'll identify ideas that are so big, they almost have to be done offline, or they require a large amount of help or preparation, gathering data or conducting investigation. Those are the ones that become events, where we plan in advance and bring resources to bear.”

“What we want is kaizen everywhere all the time with everybody, but there's a spectrum.”

— MARK RUSSELL, PRESIDENT & COO,
WORTHINGTON INDUSTRIES

Striving for perfection

Russell admits that not every A3 he reviews meets the hoshin standard, but says, “more do at this point than ever before. Every year we get more and more that meet the standard.”

Musing on the challenge, he adds: “I drew the first A3 at Worthington the first week of February 2007, and eleven years later, we're still working to make sure everybody has a good A3 that meets the hoshin kanri standard—that it's focused and aligned and stretched.”

Perfecting A3s is critical to Worthington's goal of engaging everyone, everyday, he says: “The A3 is the foundation because that's what gets everybody focused on the most important things and aligned with each other, and in the zone of working to stretch, and trying things using the scientific method.”

“Involving everybody requires people development,” Russell concludes. “That's what it's all about, and it takes a long time.”

What T2.0 leaders do

To develop people and sustain T2.0 practices, Worthington deploys specific leadership practices. The leaders' role is to “set the expectation and give recurring authorization,” Russell says.

During a formal kaizen, for example, the leader sets the expectation for change, he says: “On Monday morning of a kaizen event, the sponsoring leader stands up and says ‘This is a kaizen event. It's about change. We're going to change the state. So, if by tomorrow at lunch-time, we haven't changed some things significantly, we will have failed already.’”

Then during the event, the leader provides recurring authorization when the inevitable obstacles arises. “Things are not going to work like you planned, your experiments are going to fail or you're going to come up to a situation where to move forward, you're going to have to change something that people think is a sacred cow or, in the extreme cases, to spend some money,” Russell explains. “In those cases, the leader is there to say ‘do it.’”

Reinforcing the culture

Getting everyone fully engaged, where they need no outside influence or leader

guiding them to follow the principles and practices of T2.0, is an on-going process. However, both Russell and Johnson agree that in changing beliefs and behaviors, the most effective approach is to involve people in a successful kaizen event.

At Worthington, the aim of every kaizen is to “blow the participants' minds” with what has been accomplished, Russell says. “For the events we've run in the last three years, we're 100 percent successful. We do something that nobody thought was possible, except for maybe the one person who had the theory that we were testing,” he adds. “Once your mind has been blown once, then it's open, and you're teachable to all other kinds of possibilities.”

Developing leaders is, for the most part, achieved the same way as everyone else—through experience and coaching. One of Johnson's primary roles is to coach SBU leaders to forcefully set expectations and give authorization, “but they can't do that unless they see what that is,” he explains. So, Johnson, Russell or others model expected leader behaviors. The idea is to put the managers in the position to be the leaders and guide them through the behaviors they need to become leaders of transformation 2.0.

In some cases, it's clear to Johnson when a manager is only doing what he's asked because he's being told to do it. Johnson says that's not only o.k., but “That's the coolest part of the whole thing. I'm all about bottom line impact, but when I can see a leader who was hesitant and who's now a champion of this, and truly is doing what we want on their own... that lets me know that we've created the perpetual cycle that will never stop.”

Recognition

Also critical to reinforcing the culture of employee engagement is the company's long-standing practice of profit-sharing. “That is the recognition

that is almost as perfectly tied to results as I've ever seen," Russell says. He explains that long-time Worthington employees who have benefited from profit-sharing "are in a different place mentally. They understand how the business makes money. You don't need to explain to them that if we can free up cash, that that's a good thing... if we can increase velocities in the system, that's a good thing... if we can cut the number of humans that have to be involved in this process by half, that's a good thing."

As for the latter, they know not to be concerned. "In our system they know by experience that that means profit sharing is going to go up, and nobody is going to lose their job—because nobody ever has," Russell says, adding that employees who figure out how eliminate their own job are likely to get a raise or promotion.

Benchmarking

As interesting as what Worthington is doing to enhance their people-centric system with lean is how they've gone about doing it. Consultants McKinsey, Simpler, Shingo and Shingijitsu helped at various times, and the company benchmarks relentlessly.

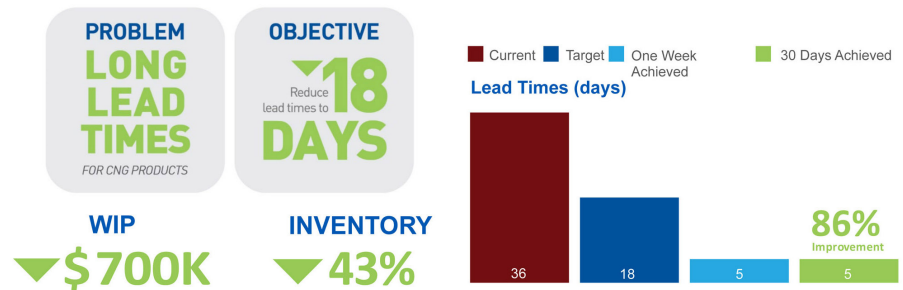
However, Russell and Johnson say that, though what they learned from consultants and benchmarking has been helpful, they've heavily customized the outside practices to mesh with Worthington's existing practices and culture.

For example, growing through acquisition is a pillar of Worthington's growth strategy. The leadership team benchmarked the acquisition practices of Danaher, which holds a kaizen on the day of close, and Reliance Steel, which basically allows the acquired company to continue operating as they had been before being acquired.

Though highly complementary of Danaher and its approach, the leadership team decided not to follow Danaher's

TRANSFORMATION 2.0

Less inventory, shorter lead times and higher customer satisfaction



When Worthington conducts a kaizen event, it looks for 2x improvements. The results of a project to reduce inventory of CNG products did that and more, meeting the company's other kaizen goal: to "blow the minds" of participants by achieving improvements that few people, if anyone, thought possible.

practice. "The symbolism of the kaizen on day one is that we're looking for results," Russel explains, and company leadership wanted to emphasize the people-centric and andon culture they'd benchmarked at Toyota, which they believe creates a more sustainable culture.

That said, much like Danaher, Worthington moves quickly: "If you become a Worthington company, you are going to become part of Worthington. Everything. We have a business system, though we don't call it that like some companies do, but it goes to every part of what you do, and we're going to put that in," Russell says.

By adapting, rather than copying best practices, Worthington is building an approach unique to its culture. Says Russell: "We like to say we're looking for the results of Danaher, with the sustainability of Toyota."

Never-ending journey

As successful as T2.0 has been so far, Johnson spends nearly as much time describing the next change he'd like to implement, to make the process more effective. He says his No. 1 goal this year is to identify a repeatable process to identify the best opportunities for improvement. He'd like to have mission control documents updated more

frequently. And he'd like the tracking documents to meet the 5 x 5 rule: "I should be able to look for five seconds from five feet" and know whether we're on track or not, he says.

He likely gets that healthy discontent from McConnell, who, according to Russell, frowns on using the phrase "Worthington Business System," because "he thinks we haven't earned the right to call it that at this point." However, it's clearly a long-term company goal to systematize or codify their unique people-centric leadership philosophy by using lean principles and practices.

In the meantime, the Worthington team is working every day to build a growing company, while remaining faithful to its founding people-centric philosophy. "We've been a people-focused company for a long time, but our people focus has not been as focused on what I would call a growth mindset, a stretch mindset—asking people to do more and believing that they can," Russell says. "This is why we've taken a really good culture—one that's founded on the Golden Rule and the concept that people matter as much as 'I' do—and are adding this layer of world-class performance through lean principles." ●

Patricia Panchak, a business journalist and public speaker, is *Target's* managing editor.