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TWO LEAN PENNIES TO RUB TOGETHER

Analysing lean's place in the world of finance

Organisations and interviews featured in this edition include: Commonwealth Bank of Australia, Industry Forum, BMA Consultants, John Bicheno, Jean Cunningham, Ian Machan, Bill Bellows and Bob Emiliani.

IN THIS ISSUE:

Increase quality, increase velocity: LMJ editorial board member, Joseph Paris, explores the financial industry's attempts at lean and shows where savings have been made in processes within both personal and investment banking sectors.

Turning loss into cost: Paul Hardiman, TPM consultant manager at Industry Forum explores how organisations can control their losses and turn them into profits by learning how to use value analysis/value engineering (VA/VE) and industrial symbiosis.

Lean accounting: Consultant Brian Maskell outlines the effectiveness of lean in accountancy departments and provides case studies from a range of sectors around the world.

Bring back, lean out and serve: Ian Machan asks readers to help in understanding the future of lean, the effects of reshoring and servitisation.

Profits, pragmatism, and the possibilities of possessing other eyes

“There is little
evidence that we
give a hoot about
profit”

W. Edwards Deming



LMJ editorial board member *Bill Bellows* explores the ideas of teamwork and how Deming's ideas on working with a new set of beliefs could help an organisation with productivity.

On July 22, 2014, Apple announced financial results for its fiscal third quarter, reporting a revenue of \$37.4b and a quarterly net profit of \$7.7b. From sales of iPhones to iPads to computers, Apple executives offered explanations for these results and predictions for the future.

The value of profits as an ingredient for organisations to sustain and develop their operations is undeniable. Thinking beyond the design and development of the next product, profits allow for improvements to current products, needed technology upgrades, employee development, and dividends for shareholders. But, do organisations solely exist to earn profits or meet financial goals, or, are their profits the result of how well they invest their resources, from innovation to revenue and equipment, and then deliver new and improved products or services?

As with Russell Ackoff, who once described a focus on sufficient profit as “like a person saying his mission is to breathe sufficiently,” Dr. Deming saw profits as the result of a well-designed and managed organisation. In his 1993 book, *The New Economics*, he posed, “profits must exist, and industry must work as a team in which all participants, large and small, prosper.” Further, “The boundary of a system....may be drawn around a single company, or around an industry, or...the whole country. The bigger the coverage, the bigger the possible benefits, but the more difficult to manage. The aim must include plans for the future.”

Moving from profits to pragmatism, let us not lose sight of the need to be practical in our efforts to manage systems of increasing size and complexity. A common description of a pragmatist is one who takes a practical approach to problems and is concerned primarily with the success of failure of their actions.

In consideration of this explanation, I was once asked, “is it practical to work on things which are good and arrive on time?” in reference to a question I posed during a presentation, specifically, “how much time is spent discussing parts, tasks, activities, programme milestones, etc. which are good and completed on

“When we shift our thinking from forms of yes or no questions and define quality, we begin to see systems differently, comprised of interdependent parts, tasks and elements, and move away from value streams of independent parts, tasks, and elements” //

time?” While the answer to this question is routinely none, my response to this inquiry was, “is it practical to wait for a crisis to take action?” In other words, why wait for trouble that can be prevented, if it can be anticipated?

Consider, for example, being the passenger in a car and asking the driver if the car has petrol. Ask again in an hour and the answer may remain the same, yet the amount of petrol in the tank has declined and will continue to do so until the car runs out of fuel. By asking questions such as “does the car have petrol?” or “is the part good?” and “does this step add value?” each of which has only two answers, yes or no, we are overlooking how the tasks are organised as a system.

When we shift our thinking from these forms of yes or no questions to “how much petrol does the car have and what action should we take now?” and define quality as Deming did, we begin to see systems differently; comprised of interdependent parts, tasks and elements, and moving away from value streams of independent parts, tasks, and elements. In doing so, what is pragmatic in terms of seeing systems (asking how well the parts, tasks, and elements work together) will be viewed as impractical for those who continue in the tradition of seeing parts, tasks, and elements as independent (asking if the parts are good or bad). Could it be that pragmatism depends on how one sees systems?

Another example of pragmatism; consider the situation of a plant manager, faced with a decision to invest £100K per year to redesign the fabrication process of a consumer product with excessive warranty claims. With the ability to see a larger system than the plant and also the ability to ask how well do the parts, tasks, and elements work together, an engineer proposed an annual £100K investment as a means to drastically reduce world-wide expenses for warranty claims, estimated at £10M per year for parts and labour, and reduce the impact of customer discomfort. In terms of corporate profits, consider the pragmatism of a solution in which customers received a better performing product, all with a 100:1 payback.

Consider also an investment opportunity that was revealed by shifting from a traditional view of quality (are the parts good or bad?) to Deming’s systemic view of quality: “a product or service possesses quality if it helps somebody and enjoys a good and sustainable market”.

Sadly, from the perspective of the plant manager, who rejected the proposal, as it was not practical for him to spend his budget to help the corporation. Did this manager care about profit? Deming would remind us that this manager is being practical under the confines of the prevailing system of management, wherein parts, tasks, elements are managed as being either good or bad. Which includes meeting the plant’s financial goals and not overspending its budget, with a goal of maximising the plant’s profits.

“Profits must exist, and industry must work as a team in which all participants, large and small, prosper” //

To borrow again from *The New Economics*:

“If the various components of an organization are all optimized (each for individual profit, each a prima donna), the organization will not be. If the whole is optimized, the components will not be. The prevailing style of management must undergo transformation. A system can not understand itself. The transformation requires a view from outside.

The outside view. The layout of profound knowledge appears here in four parts, all related to each other:

- Appreciation for a system
- Knowledge about variation
- Theory of knowledge
- Psychology”

Contrary to the dominance of the prevailing style of management, Deming saw possibilities for individuals to work together. Throughout his lifetime, he saw clear evidence of teamwork and the benefits it could bring.