

Lean Enterprise Academy



Jim Womack e-letter – 30 June 2009

Sailing a Straight Course in a Time of Variances

Dear Lean Community Member

Recently I spent a day as a lean anthropologist, sitting in the back of the room and observing the behavior of senior managers during the monthly leadership team meeting of a large corporation. I hadn't done this in some years and it caused me to reflect again on how organizations do strange things, particularly in difficult times.

The first agenda item of this meeting was to review how the team was progressing on its lean journey, but I quickly noticed a lack of actionable detail in the team's mandate. They wanted to create a "world class" lean enterprise, responsive to customers and all other stakeholders. That's fine, of course (whatever "world class" means -- I always ask and rarely receive a useful answer.) But how? What were the big, cross-organization problems standing in the way? What countermeasures were being pursued to clear the problems in the path? And who was taking responsibility to do what when to implement the best countermeasures?

Given the lack of clear objectives and the lack of progress toward stating them, I was not surprised to feel the relief in the room when the meeting moved on from the high-level overview of "lean" challenges for the whole enterprise to the next agenda item, a discussion of each department's performance on its annual plan. Given that the plan had been developed in the second quarter of 2008 for a fiscal year beginning July 1, 2008, it was not surprising that there were a lot of variances from the plan to explain. But was the original plan wrong? Or had the economy collapsed in the mean time? (It had, of course.) Or was the plan poorly executed? Or was it all three? Or was it two of the three? Or...?

In fact no evidence was presented and no analysis was done. Instead the discussion was about tactical measures to make the situation look as positive as possible by the rapidly-approaching end of the fiscal year. And the path of least resistance was short-term cost cutting including more lay-offs. I was disappointed with the turn of the discussion, but I did learn something. I could see more clearly than I ever had the phenomenon present in every recession as companies rushing to avoid variances in out-of-date plans continue to cut costs and jobs after economies start to stabilize and stock prices start to rise (as is happening across the world right now.) This instinct then shortly turns to a realization that the skeleton crew doesn't have the capacity to deal with revenue growth in a rebounding market. And this is followed by a burst of re-hiring or outsourcing. The intensity of this natural but unfortunate response by senior managers to cut costs – which economist John Maynard Keynes long ago called the "paradox of thrift" – is a key determinant of the length and depth of a recession.

That's a shame for all of society because the recession is longer and deeper than it needs to be. But the loss to the company in this meeting was that the urgent – variances – had once again crowded out the important – the organization's long-term need to find its North Star and steer a steady course toward sustainable, superior performance. In fact, setting a course to stabilize the organization is what senior managers are supposed to do. And this is what senior leadership meetings should be for.

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Next time you are in a management team meeting, whether you are a senior manager or working at a lower level of the organization, I hope you will keep a few simple questions in mind. (You might even want to ask them out loud at the start.)

"Are we all clear on what is really important for our organization in order to solve customer problems and succeed in the long term? (Or, stated another way, can we get past the merely urgent.)"

"Are we agreed on what big problems we need to solve as a team?"

"Are we sure what obstacles are in our way and their root causes?"

"Have we – or will we now – assign responsibility for determining the best countermeasures and removing the obstacles?"

"Critically important, do we have a way of surfacing and resolving all of the cross-function, cross-department conflicts that stand in the way of resolving all major problems in any multi-functional organization including ours?"

If you can answer these simple questions -- blowing away the clouds that obscure your North Star -- you'll be on your way to sustainable success as the world economy recovers in the coming years. And you may avoid disruptive shifts in course to deal with short-term variances in financial performance.

Best regards,

Jim Womack

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