

Lean Enterprise Academy



Jim Womack e-letter – 5 November 2009

In Making Everyone Whole

Dear Lean Community Member

I've had a big smile on my face for much of the last month because I've had the opportunity to visit progressive organizations on three continents to look at their efforts to create lean value streams. Walking through any process, good or bad, seems to put a smile on my face for one of two reasons. If the process is awful it's easy to see how it could be better. And, if it has already been significantly improved from its original condition, I'm both pleased by the progress and aware that the next layer of waste is now visible and ready for elimination.

However, I also found myself frowning as I walked along some value streams. This happened when I heard improvement teams complaining about the difficulty of gaining and sustaining the engagement and cooperation of everyone and every part of the organization touching the process being improved.

For example, on one walk through an information processing activity in a large service company, the team was complaining about the resistance of the company's information technology department to substantially modifying the company-standard software package in order to support the improved process. In another case, a team was bemoaning the resistance of experienced financial service workers to sharing the details of how they worked their way around the problems in the existing process. In both cases I found the teams defaulting to the most comfortable explanation for the lack of engagement: Bad people.

When this happens I try to take off my technical analysis hat and put on my human empathy hat. I ask, "How do the team's requests feel to the individuals or departments being asked to do something different?" As I do this I remember our old friend Vilfredo Pareto (1848-1923), who gave us the 80/20 rule. (Pareto's first statement of this rule was based on the discovery that throughout history 80% of the wealth in societies was controlled by 20% of the population. Joseph Juran later (1941) extended the 80/20 rule to quality problems where he found that 80% of a problem is typically caused by 20% of the possible causes. And today the 80/20 rule seems to find application in practically every activity.)

Pareto had a second insight of direct relevance to what I saw on my walks. This was his concept economic optimality which states that any event in society should be judged in a positive light when no one is worse off and some individuals and organizations are better off. Public policy analysts (of which I was one early in my career) later realized that this concept applied particularly well in evaluating policy changes by governments. Not only were "Pareto Optimal" outcomes desirable on grounds of equity. Achieving them, by transferring some of the winners' gains to compensate losers (creating Pareto Optimality if it was not otherwise present), also made such policies much more feasible politically because potential losers were much less likely to resist change.

Applying this idea to the value stream improvements I was observing, I asked if the IT department and the experienced employees would be better off with the changed process. And the answer, after a bit of discussion, was clearly "no". The IT department

would seriously overrun its annual budget in responding promptly to the team's request while falling behind on other projects. The experienced employees would very likely be replaced by younger, lower-paid employees able to operate the new process without the need for all the veterans' workarounds.

The root cause of the problem was therefore not bad people. In fact, those affected were reacting quite rationally to protect their interests because they would be hurt by the changes. Instead the problem was a lack of discussion and negotiation between the heads of IT, HR, and the improvement teams about how winners could compensate losers to make everyone whole.

What was particularly striking to me as the outside observer was that Pareto Optimality easily could be achieved in these value streams by reallocating the substantial savings gained from improving both processes. The total saving would be much more than adequate to compensate IT for the additional hours and cost incurred in modifying the software quickly. And the substantial savings from the revised financial process were ample for giving the experienced employees, most of whom were near retirement, a generous severance package or transferring them at similar compensation to other jobs opened up by the organization's high turnover. Yet the implicit, unexamined thinking of the improvement teams was that all of the savings (plus the positive customer response to the improved processes) would be captured by the departments at the end of the processes and that everyone else should just get used to this new reality.

Understanding how change affects every participant in a value stream takes an extra effort and I often find that improvement teams shudder at the prospect of negotiations with leaders of all affected parts of the organization. But my experience over many years is that making visible efforts to make everyone whole -- by striving for Pareto Optimality whenever possible -- is the best way to make and sustain big improvements in core processes. So please give this concept a try in your organization the next time you find "bad people" standing in the way of valuable improvements in your value streams.

Best regards,

Jim Womack

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