

## A3\* White Paper: The New Management Thinking

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\*A3 is an ingredient of Lean Management, the core principle of which is that management reports and plans should be able to fit on a single piece of A3 metric sized paper (roughly 11" by 17"). This translates to two 8.5" by 11" pages. Our A3 White Papers, therefore, are limited to this length.

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## The New Management Thinking

Managers are being flooded by a host of management ideas and models -- Six Sigma, process reengineering, Lean Enterprise, Lean Production, operational excellence, quality management, value chain analysis, business process redesign, process outcomes management and performance measurement. Whatever else these things are intended to produce, confusion is definitely a by-product.

WCQ<sup>1</sup>: "I can't remember, are we a Six Sigma organization this week or a Lean organization?"

Answer: "Actually, this week we are a Lean Six Sigma organization."

WCQ: "Are we supposed to reengineer, redesign or simply refine our existing process?"

Answer: "I thought we were replacing it."

The good news is that it needn't be so confusing. Most of the ideas being bandied about today are little more than a reworking of some basic ideas that have

<sup>1</sup> WCQ stands for Water Cooler Question and while we understand that very few offices have the proverbial water cooler, the WCQ is representative of the typical day to day questions many of us have and that get asked in workplaces across the country – often mockingly.

been around for a long time. Defining a starting point for the *New Management Thinking* is impossible, but the work of Edwards Deming, starting in the 1950's, is as useful as any, as he laid the foundation of so much that was to follow. Deming made three points concerning organizations that are fundamental to the new management thinking.

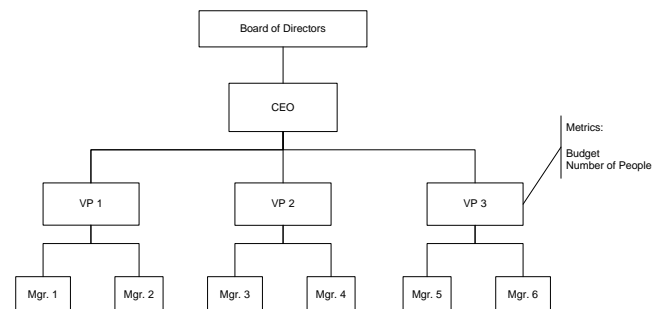
### 1. Organizations are systems.

There are two basic ways to think about any organization, as a hierarchy of vertically aligned functions or as a system of horizontally aligned processes.

Hierarchy is really the management control strategy of the organization. It is used to:

- ▲ control the allocation of resources and their utilization.
- ▲ control the flow of information.

### Organizational Hierarchy



Basically, hierarchical thinking focuses on the boxes of the organization chart and what gets assigned to them – people and dollars. That is why performance improvement in organizations dominated



by hierarchical thinking, so often comes down to cutting budgets and/or people.

Not surprisingly, hierarchical thinking also generates silo behavior, where departments or individuals look out for themselves rather than the good of the organization.

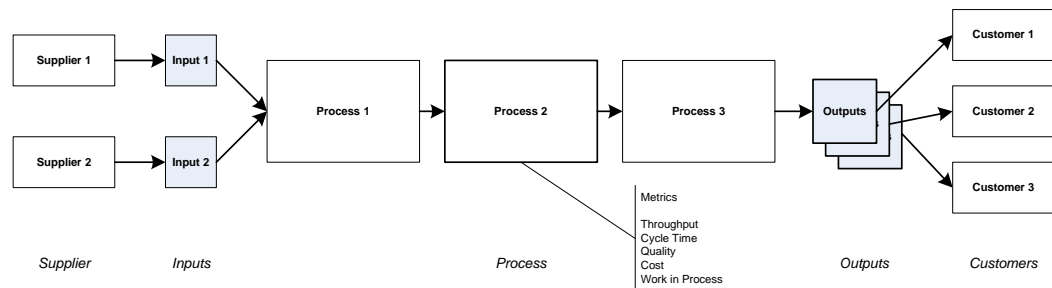
In contrast, Systems and processes represent the productive strategy of the organization. Systems and process:

- ▲ Convert inputs into outputs with the aim of delivering value to the customer,
- ▲ Represent the collective know-how of the organization.

Systems' thinking focuses on the flow of work across the silos. Improvement efforts focus on the workflow typically seeking to reduce cycle times, increase throughput, reduce work in process, cost and waste while enhancing value and customer satisfaction.

A variety of visual mapping tools are used to present this workflow: value stream maps, process flowcharts, critical systems

### A SIPOC Diagram



diagrams, SIPOC diagrams (shown). Regardless of the tool, the intent is the same, to represent the organization as the flow of value-adding work that ultimately serves customers.

The systems thinking approach has a number of important implications:

- ▲ **The purpose of business is to serve customers because without customers, there is no business.** The constant preoccupation of management, including the formulation of strategy and selection of business priorities, must be increasing the value delivered to customers.
- ▲ **The business is the sum of its systems and processes.** Processes define how the business has organized the work. Systems define how the business has organized its processes. Together, they present a comprehensive picture of how the work actually gets done in the business. .



- ▲ ***The current set of systems and processes represent the collective know-how of the business.*** How you do, what you do, is your current best practice and represents the state of knowledge or know-how in the organization. To improve performance, you must increase your knowledge of your systems and processes and implement change.
- ▲ ***Teamwork is required.*** Teamwork is not a nice nor a feel good exercise. It is a requirement of all organizations because systems and process flow across organizational boundaries. Hierarchical thinking creates silos which impede flow and destroy value.

## 2. Processes determine performance.

Performance, regardless of how it is defined, is primarily a function of the organization's processes (including the value chain). Deming estimated that 94% of performance of the organization is attributable to the system of processes at work. Everything else, including the impact of people working in the process, amounts to the remaining 6%.

- ▲ ***To improve performance you must improve the process.*** Because processes are the primary determinants of organizational performance, improving organizational performance means improving processes. This is true regardless of the form of the organization – from global enterprise to the HR department in a small company to the success of a not-

for-profit. If you want to get better, focus on the process.

- ▲ ***Performance of any process is measured in terms of the value delivered to a customer.*** Value is what we seek to create but processes do not operate with 100% efficiency or effectiveness. Anything that doesn't add value is defined as waste. Eliminate waste and you improve the value-add performance.
- ▲ ***Performance measurement can only measure the processes.*** Performance is a characteristic of processes not of organizational hierarchies. Because of this, only the performance of a process (or system) can be measured. Performance of a hierarchical unit (organization, department, individual, etc.) cannot be measured directly, but only inferred from the measurement of various processes with which they are associated.
- ▲ ***Performance measurement (and process management) requires an understanding of variation and statistics.*** You can't manage what you don't measure has become a management mantra of sorts. The evidenced is in variety of balanced scorecards and management dashboards that are popping up everywhere. Most of these ignore variation and proper statistical treatment of the data. Without considering both, most management information is only so much window dressing – reports that look pretty but convey no useful information.

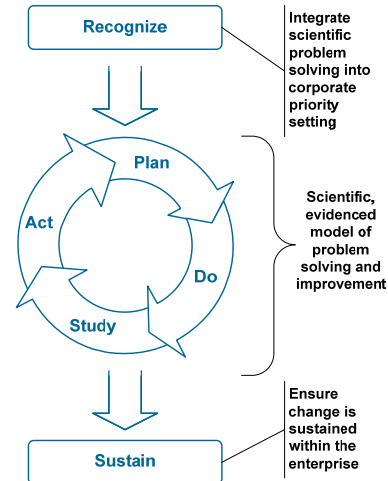


### 3. Improvement is a continuous scientific process.

Improvement in organizational performance requires an evidenced-based, scientific approach. Deming captured the essence of this approach in his Continuous Improvement: Plan, Do, Study, Act (PDSA) Cycle. As such, this requires an understanding of systems and processes, performance measurement and statistics as well as of human behavior.

- ▲ **The foundation of the PDSA Cycle is the scientific method.** Our ideas and theories (Plan) are put to the test through experiments and pilots projects (Do). The results of the experiment are examined (Study) and changes are made (Act). What is critical in all this is it is experience that is used to evaluate our ideas and theories and not the other way around. This is the basis of evidenced-based management. All modern models of improvement, including the DMAIC model of Six Sigma, are based on this fundamental idea.
- ▲ **Knowledge requires both theory and practice.** It is not enough to examine an issue, conduct a study, draw conclusions or make recommendations. The only way an organization can claim to know something is if it has successfully married theory with actual experience. That is, implemented change and studied the results.

#### PDSA Cycle



- ▲ **Experiments are required and some experiments will fail.** Knowledge generation and improvement require that experiments be done. In practice, organizational experiments take the form of pilot projects where an idea is tried out on a small(er) scale. Some of these will succeed and some will fail. Both success and failure generate knowledge. Organizations that refuse to accept failure or acknowledge it, will soon experience it in large doses.

#### The Bottom Line

Managers may be feeling a little overwhelmed with all the new theories of management. All these new theories, however, are constructed on a foundation of three basic principles – organizations are systems, processes determine performance and improving performance is a continuous scientific process.