



Welcome

to

“TheValueTree”

...building financially-based visions of excellence

A hosted, collaborative thinking event
with

Alden B. Davis

27 February 04

Workshop Purpose

To demystify the financial world of CFO's and expose the mental model of Mayors and CEO's

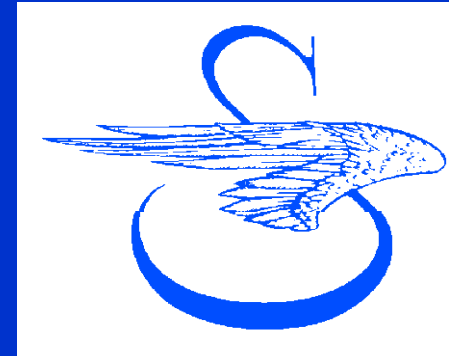
In a way that improves the effectiveness of our leadership

So that we increase the purposefulness of all improvement activity.

Workshop Success

1. Participants will be able to describe how a lean philosophy manifests itself in various institutional processes (captured in “standards of excellence”).
2. Participants will be able to describe how the pursuit of these standards directly impacts the value of our city.

A United Technologies Corporation



**United
Technologies**

Chubb



**International
Fuel Cells**



Corporate Plumber



Organizational Enema



Wizard of -E

Introductions

- Name
- Department
- Role
- Years and major stops along career
- Favorite food

Opening Questionnaire

1. Most of our people can personally connect their daily work and associated expenses to an Income Sheet and Balance Statement. T F
2. Our financial people understand the impact of “lean” so well that they are tough negotiators when setting budget expectations for our lean projects. T F
3. Our organization shares a common understanding of the word “value.” T F
4. Our Lean-leaders in Hartford have personal vision of value creation. T F
5. “Value” is realized when a lean project has been completed. T F
6. Pursuing lean projects make sense because they are the right thing to do. T F
7. Shared understanding of the city and its finances increases peoples’ ability to “do.” T F

Workshop Outline

Linking to Value

Affirmations

Value Tree Tutorial

Standards of Excellence

Meet the Greats

Philosophy

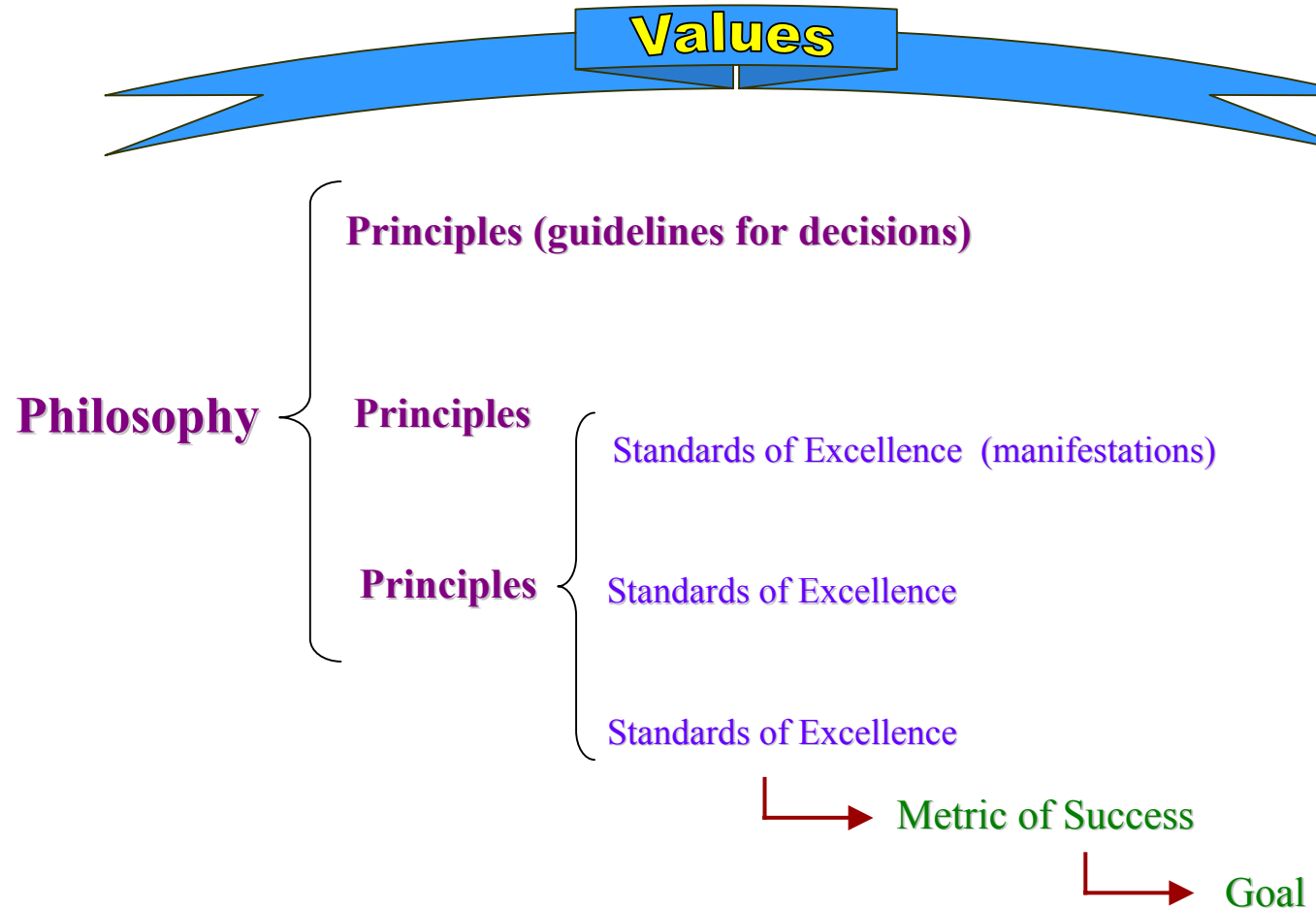
Meet the Greats

- Walter Shewhart (1891-1967): Use information (SPC) to control processes and create profitable situations for both businesses and consumers.
- Shigeo Shingo (1909-1990): Transcend SPC and stop the process when defects occur; good engineering can design out defects. Credited with Poka-Yoke, SMED, Zero Quality Control.
- Kaoru Ishikawa: Created fishbone charts to allow bottoms-up approach to root-cause analysis. Believed in company-wide quality control throughout a products total life cycle.
- Ed Deming: 14 Points, a management guideline. Believes that management controls 85% of what makes a worker successful. Expounded Shewhart's PDS(study)A cycle.

More Greats

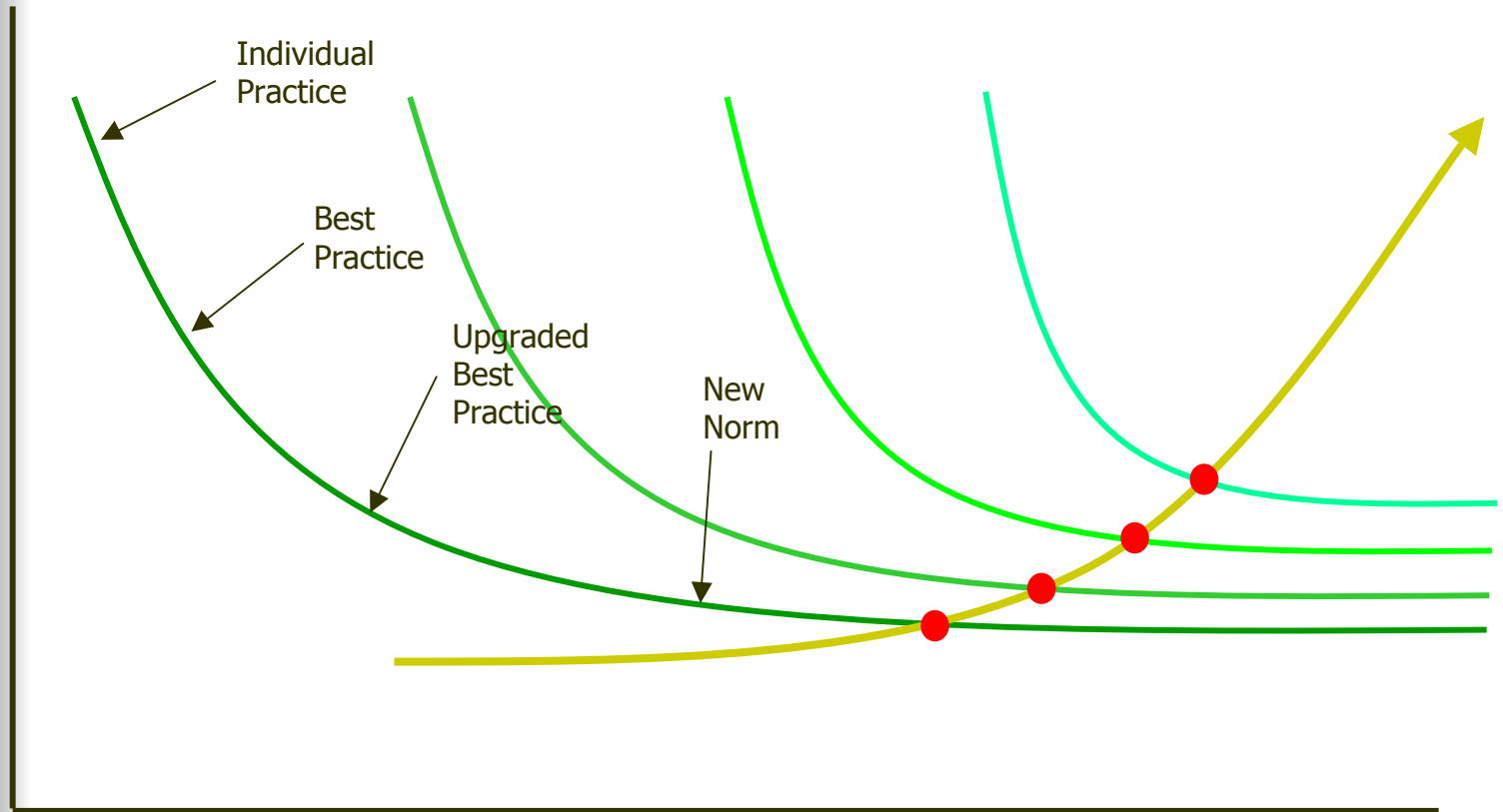
- Genichi Taguchi: Equated quality with cost (and lost revenue). Devised set of tools to identify and prioritize “noise” in the work process.
- Joe Juran: Believed that people were key to quality; shaped Total Quality Management philosophy. Key tenets included management involvement, Pareto, training, project approach. Defined quality as “fitness for use”.
- Philip Crosby: Simplified the language and concepts for a broader audience. “Quality if Free”, Zero defects, conformance to requirements and prevention are the mantras.
- Jack Stack: Inspired “open book management” as a way of sharing power. Give people as much financial information as possible so they can think and act like owners. You get the highest performance by appealing to the highest thinking.

Standards of Excellence



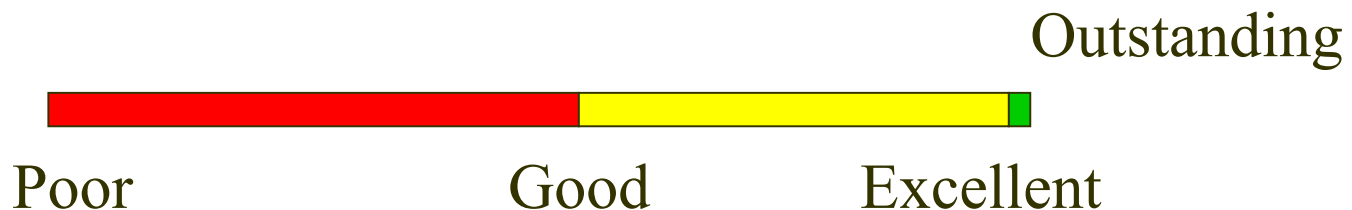
Standard of Excellence: the criterion for measuring or judging goodness as established by an authority.

Learning Organizations Achieve Continuously Improving Results with Greater Ease Over Time




Our Choice

- Poor standards deliver Downright Bad results/rewards
- Good standards deliver Poor results/rewards
- Excellent standards deliver Good results/rewards
- Outstanding standards Take all the rewards



Lean Audit

City Direction	Service Processes	Performance
<ul style="list-style-type: none"> • Aligned with citizen value • Clear ethics/values • Uniqueness of product and processes • Metrics aligned with direction and help define actions, interfaces and outcomes i.e. financials and employment levels • "Partnership" approach with all key stakeholders i.e. labor, citizens, suppliers, public • Supply chain integration • Supportive skills and abilities • Education, technical and interpersonal • Balance and inter-dependence within the supply chain • Stability, conviction, commitment 	<ul style="list-style-type: none"> • Service is delivered right the 1st time • Mistake-proofing tools in use (poke-yoke) • Standardized procedures used throughout • Grouped work (cells) for all services • Right item/right place/right time/right condition... <ul style="list-style-type: none"> - skills - tools - engineering - process plans - procedures - finance • High usage of effective visual controls • Relevant communication of pertinent information throughout the organization • Everyone knows and delivers their quality rights. 	<ul style="list-style-type: none"> • Service delivered to expected specs. • Entrepreneurial approach rewarded • Info flows seamlessly along the chain to places where decisions must be made • Adapts to requirements /qrmts understood • People are curious and always learning • Good work is given recognition immediately • All metrics improve at defined rates
Making Choices	Infrastructure	Organizational Thinking
<ul style="list-style-type: none"> • My choices are driven by citizen qrmts. • My decision making environment is known • Choices are made that... <ul style="list-style-type: none"> - improve morale "I like it here!" - value my ideas and participation - keeps work challenging and enjoyable - compensates commensurate with my value • I understand the value of my work and my contribution • Issues are acknowledged and tackled as a team; finger pointing doesn't happen • The status quo is rejected; learning and seeking knowledge is a norm to continually improve and adapt. 	<ul style="list-style-type: none"> • Responsive, flexible, no "deep roots" • Just-in-time philosophy deployed • Flattened management structure • Clean, efficient facilities • Integrated & flexible business systems (accessible data via I.T.) • Evidence of training & continuous learning • Processes & procedures documented & in practice • Documented partnership agreements with key stakeholders (i.e. labor, suppliers, community) • Skilled people available when required 	<ul style="list-style-type: none"> • Purposeful- has meaning • Systematic- one step at a time • Clear- Easily understandable • Profitable- Drives thinking paradigms to bottom line results • Embraced- People believe it • Consistent- Replicable and reproducible • Adaptable- Open to needed changes • Proactive- Anticipating new ideas • Forward looking- Creating new ideas • Citizen focused- Translate citizen requirements into most efficient operations • Engaged workforce- All parties involved • Collaborative- Looks for & refines decisions • Sharing & listening- Across and through the organization • Open- No pigeon-holing, stereotyping
<div>  <div> February 27, 2004 </div> <div> Lean Philosophy Audit List </div> </div>		

Group Work: How would I recognize Lean if I bumped into it?

Task: Personalize the standards on the “audit list” for assigned topic

With the people around you...

- Introduce yourself
- Customize your topic with examples
- Summarize standards into a principle by filling in the blanks... “To (non-negotiable) in a way that (freedom given) .”
- Be prepared to present

...a key metric for the quality of our standards would be our bond rating!

Moody's	S & P's	Meaning
Aaa	AAA	Bonds of the best quality, offering the smallest degree of investment risk. Issuers are exceptionally stable and dependable.
Aa	AA	Bonds of high quality by all standards. Slightly higher degree of long-term investment risk.
A	A	Bonds with many favorable investment attributes.
Baa	BBB	Bonds of medium-grade quality. Security appears adequate at present but may appear unreliable over the long term.
Ba	BB	Bonds with speculative element. Moderate security of payments; not well safeguarded.
B	B	Cannot be considered a desirable investment. Small long-term assurance of payments.
Caa	CCC	Bonds of poor standing. Issuers may be in default or in danger of default.
Ca	CC	Bonds of highly speculative quality; often in default.
C	C	Lowest rated class of bonds. Very poor prospects of ever attaining investment standing.
-	D	In default.

FD-204 (Rev. 1-1-79)

TREASURY
DIRECT

TENDER FOR 26-WEEK TREASURY BILL

OMB No. 1530-0008
Expires 01-31-89

TENDER INFORMATION

AMOUNT OF TENDER

BID TYPE (Check One)

☒ NONCOMPETITIVE

ACCOUNT NUMBER

0345-21

INVESTOR INFORMATION

ACCOUNT NAME

JENNY PFISTER

ADDRESS

101 SOUTH FERRY ROAD

PARSIPPANY

CITY

TAXPAYER IDENTIFICATION NUMBER

YET NAMED OWNER

951-31-542

SOCIAL SECURITY NUMBER

TELEPHONE NUMBERS

WORK

(201) 555-3000

PAYMENT ATTACHED

TOTAL

CASH (01): \$

SECURITIES (05): \$

OTHER (06): \$

DIRECT DEPOSIT INFORMATION

ROUTING NUMBER

085992

FINANCIAL INSTITUTION NAME

WILMINGTON GUARANTY TRUST COMPANY

ACCOUNT NUMBER

085023

ACCOUNT NAME

JENNY PFISTER

AUTOMATIC REINVESTMENT

1 2 3 4

AUTHORIZATION

For the notice that I authorize this tender public notice

Under penalties of perjury, I certify that the number shown on this form is my correct taxpayer identification number and is not subject to backup withholding because (1) I have not been notified that I am no longer subject to backup withholding, or (2) the Internal Revenue Service has notified me that I am no longer subject to backup withholding. I certify that the number shown on this form is my correct taxpayer identification number and is not subject to backup withholding. I certify that the number shown on this form is my correct taxpayer identification number and is not subject to backup withholding. I certify that the number shown on this form is my correct taxpayer identification number and is not subject to backup withholding.

\$ 20,000.00

☐ COMPETITIVE AT

1.12

STATE

ZIP CODE

OR

EMPLOYER IDENTIFICATION NUMBER

HOME

(201) 555-1584

PAYMENT: \$ 20,000.00

CHECKS (02/03): \$

\$

\$

FOR DEPARTMENT USE

TENDER NUMBER

912794

CUSIP

ISSUE DATE

RECEIVED BY

DATE RECEIVED

EXT REG

FOREIGN

BACKUP

REVIEW

CLASS

NUMBERS

ACCOUNT TYPE ☒ CHECKING (Check One) ☐ SAVING

Circle the number of sequential 26-week reinvestments you want to schedule at

under the Privacy and Paperwork Reduction Act, see the accompanying instructions.

Under the provisions of Department of the Treasury Circulars, Public Debt Series Nos. 1-85 and 1-86, issued by the Department of the Treasury.

Under penalties of perjury, I certify that the number shown on this form is my correct taxpayer identification number and is not subject to backup withholding because (1) I have not been notified that I am no longer subject to backup withholding, or (2) the Internal Revenue Service has notified me that I am no longer subject to backup withholding. I certify that the number shown on this form is my correct taxpayer identification number and is not subject to backup withholding. I certify that the number shown on this form is my correct taxpayer identification number and is not subject to backup withholding.

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Literature search...

For example...



edina, minnesota

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About Edina](#)

Bond Rating

Independent bond rating agency Standard & Poor's in 2002 upgraded its rating for the City of Edina's general obligation bonds.

Standard & Poor's upgraded Edina's general obligation (GO) bond rating to AAA, the company's highest rating. Edina is just the fifth city in the state to receive the rating. Bonds issued by Minneapolis, St. Paul, Rochester, and Bloomington also have Standard & Poor's AAA rating. There are just 55 cities in the country with the AAA rating. Of those, Edina is just one of 20 with a population less than 50,000.

Moody's Investors Services, another independent bond-rating agency in 2000 gave the City of Edina its highest rating, Aaa. Edina is just one of three Minnesota cities to have the top rating from both agencies. The other cities are Bloomington and Rochester.

Standard & Poor's emphasizes four factors when assigning the AAA rating to a municipality. The factors are: strong and proactive administrations, effective debt management with moderate to low debt, a vibrant and diverse economy and strong finances.

Edina they say...

According to Standard & Poor's officials, the AAA rating specifically reflects Edina's continued above-average financial performance with very high fund balance levels, ongoing growth of the local economy, which has continued to diversify the tax base and attract new development of both retail and commercial property despite the fact that the community is almost completely developed, and ongoing strong management practices."

Additional factors include the City's participation in the Minneapolis MSA and role as a first-ring suburb in the prosperous western suburbs of the Twin Cities and a manageable debt burden with most GO-backed debt supported by tax-increment financing or other revenue sources. The stable outlook attached to the rating shows Standard & Poor's expectation of the City's continued strong financial performance with good fund balances and appropriate management of its debt profile.



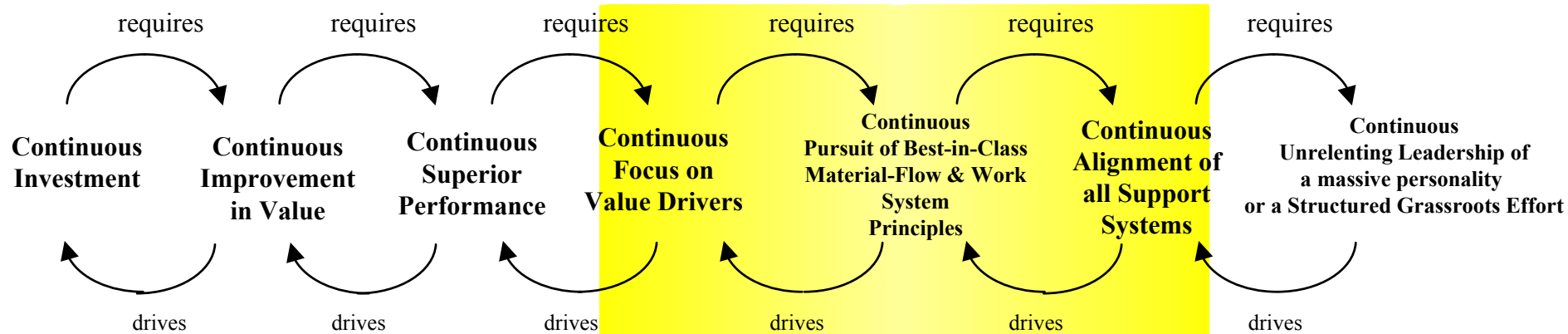
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Performance
Using the *Value Tree*

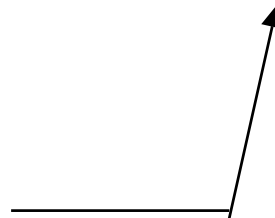
What is the Value Tree?

- Financial model of the business on one page
 - Visually oriented
 - Interactive
 - Easily understood by people
- Financial tool for developing business context
 - Interrelationships of various dollar flows
 - Drivers of business decisions
- Financial “range-finder”
 - Target identification
 - Target selection
- Financial-world de-mystifier
- Financial guidepost helping answer the essence question...“Is the institution increasing its value (how much its worth) or destroying its value?”

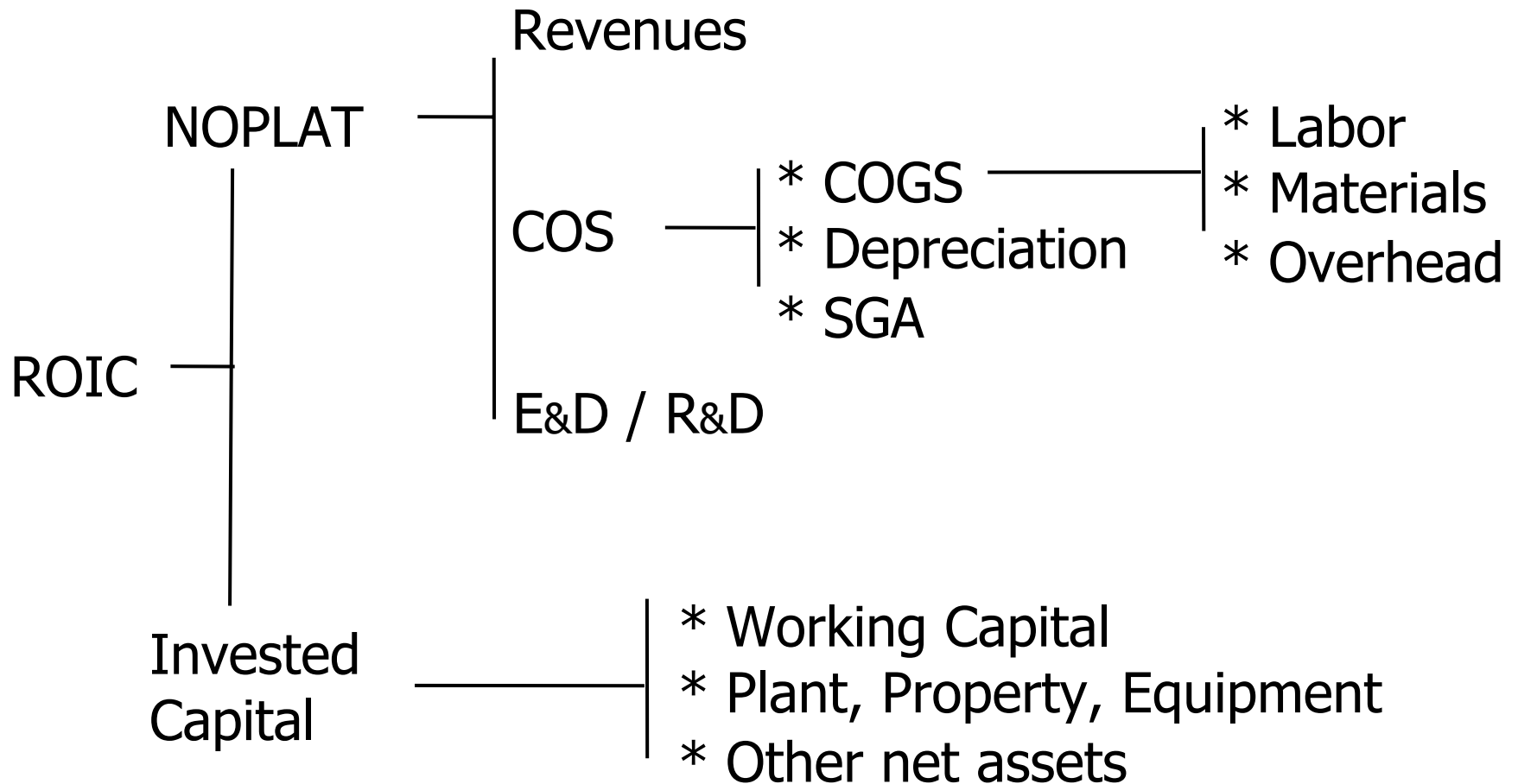
Context within which the Value Tree Fits



Area of concentration



The Value Tree Exercise



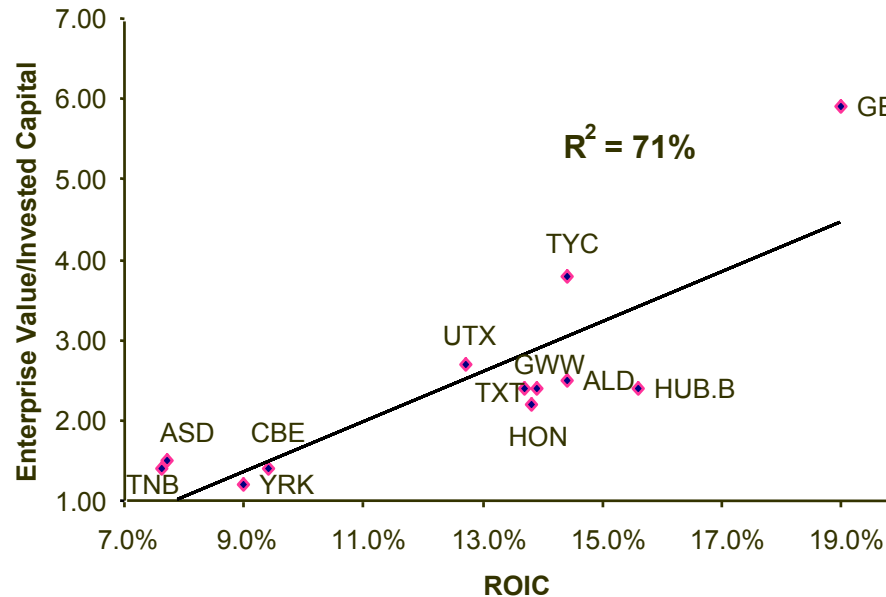
Guiding Beliefs of the Value Tree

- Long-run institutional health = long-term value creation.
- The majority of the value of most institutions, at any time, is the cash flow derived from existing assets.
- The most significant value creator is superior performance in existing operations
- Value creation is not exclusive to manufacturing organizations.
- Discounted cash flow (NOPLAT-Invested Capital) not EPS is the most comprehensive valuation tool consistent with long-term value creation.
- Value is created by investing capital at returns $>$ the cost of capital.
- Equity holders require all information of all revenues and all claimants to make good decisions.

Key Premise

A direct correlation exists between ROIC and the value (worth) of a company

Electrical Equipment Regression Analysis
1998 Enterprise Value/Invested Capital vs. ROIC

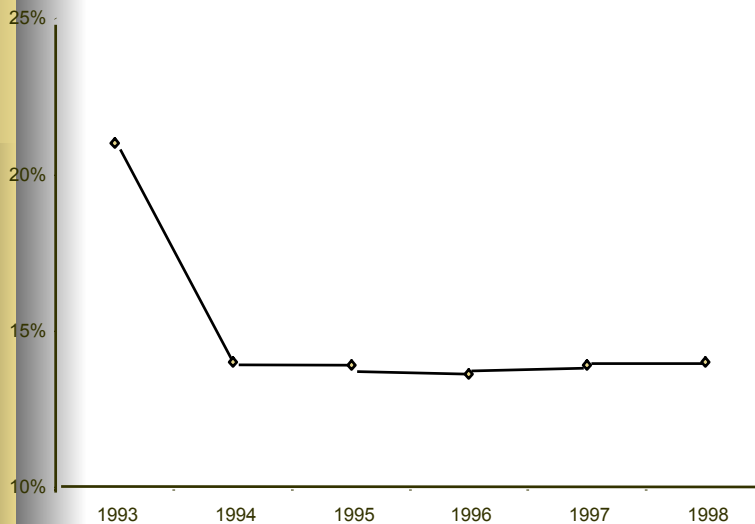


TNB	Thomas & Betts Corp
ASD	American Standard Company Inc
YRK	York International Corp
CBE	Cooper Industries Inc
TXT	Textron Inc
HON	Honeywell Inc
GWW	Grainger WW Inc
ALD	AlliedSignal Inc
HUBb	Hubbell Inc
TYC	Tyco International Ltd
GE	General Electric Co
UTX	United Technologies Corp

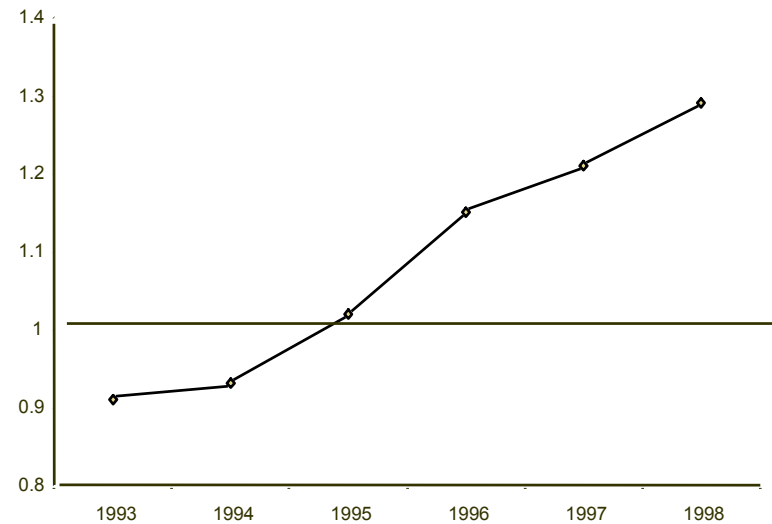
What determines a firm's worth?

For G.E., EPS does not appear to be the driver for the price-earnings multiple.

EPS Growth



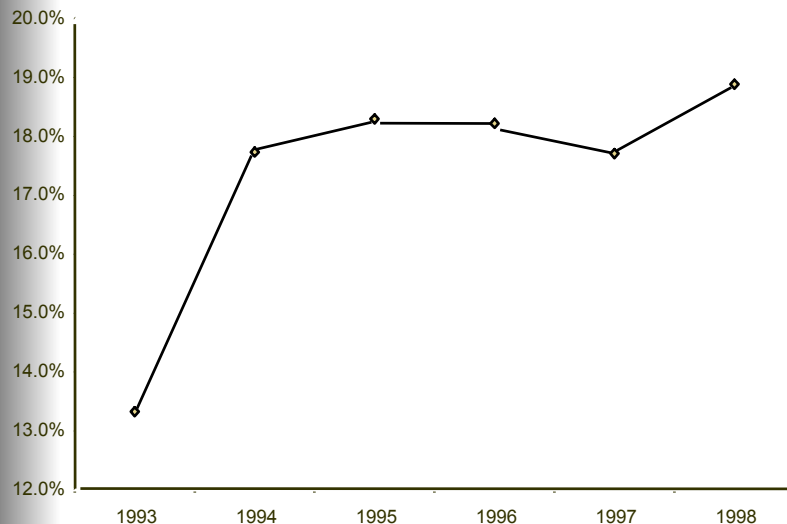
Relative P/E



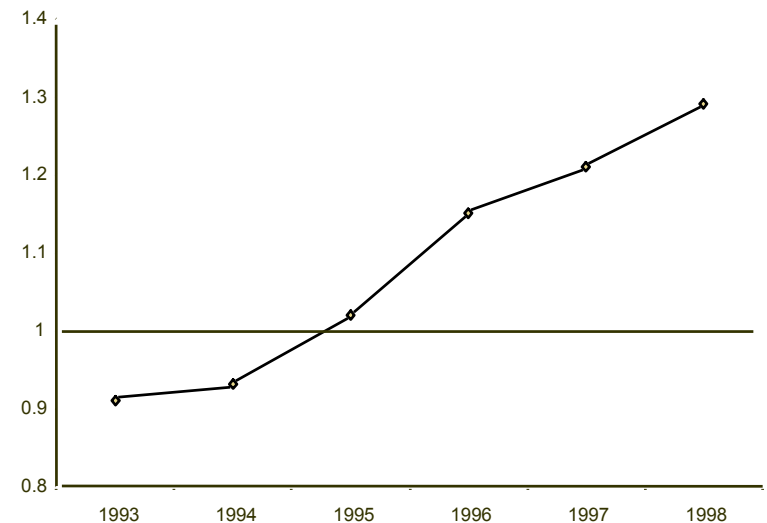
What determines a firm's worth?

General Electric's P/E seems to be better characterized by a strong return-on-invested-capital number.

ROIC



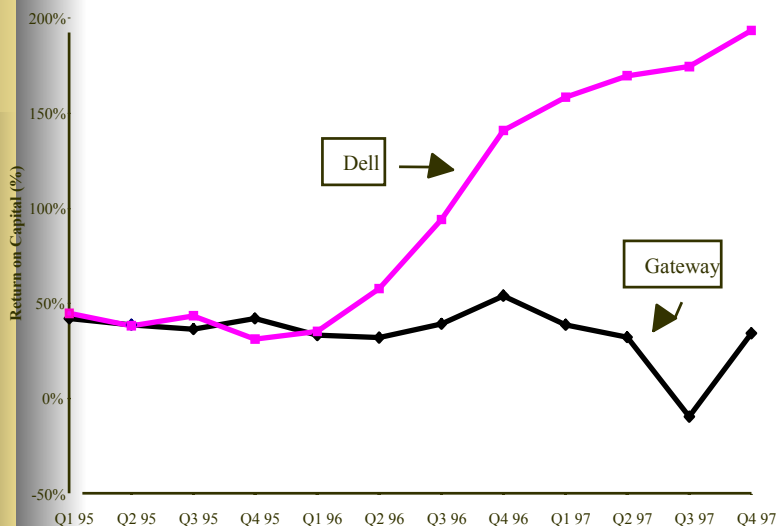
Relative P/E



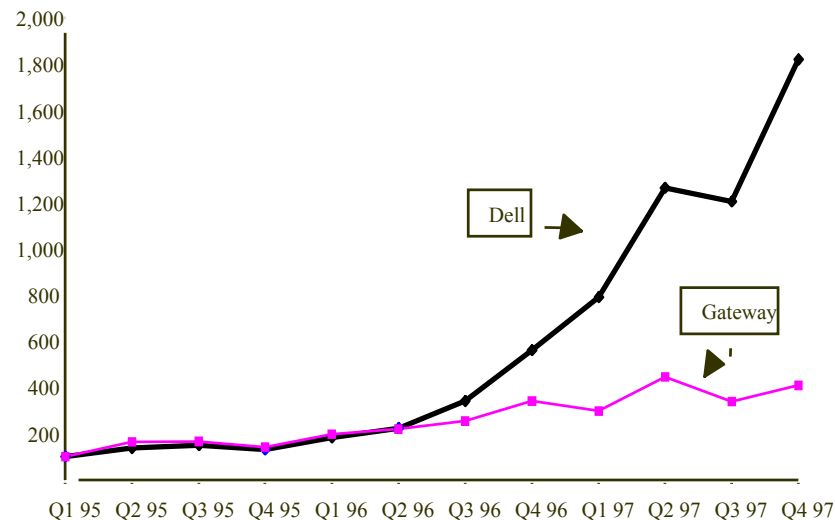
What determines a firm's worth?

The same relationship seems to exist at Dell and Gateway; strong ROIC, strong stock price.

Return On Invested Capital



Stock Price



A decorative vertical bar on the left side of the slide, featuring a gold-colored background with diagonal lines and a white shadow.

Getting to know "the tree"

The Value Tree for Targeted Insight

Sales /Marketing: Quality of sales \$; preparing for improvements

Fin.Analyst: Budgeting improvements

Ops/Shop: Knowing the big “whys”

HR/IR: Enablers of change

Procurement: Supply chain mgmt

EHS/Med: Waste chain mgmt.

Quality: More than SR²

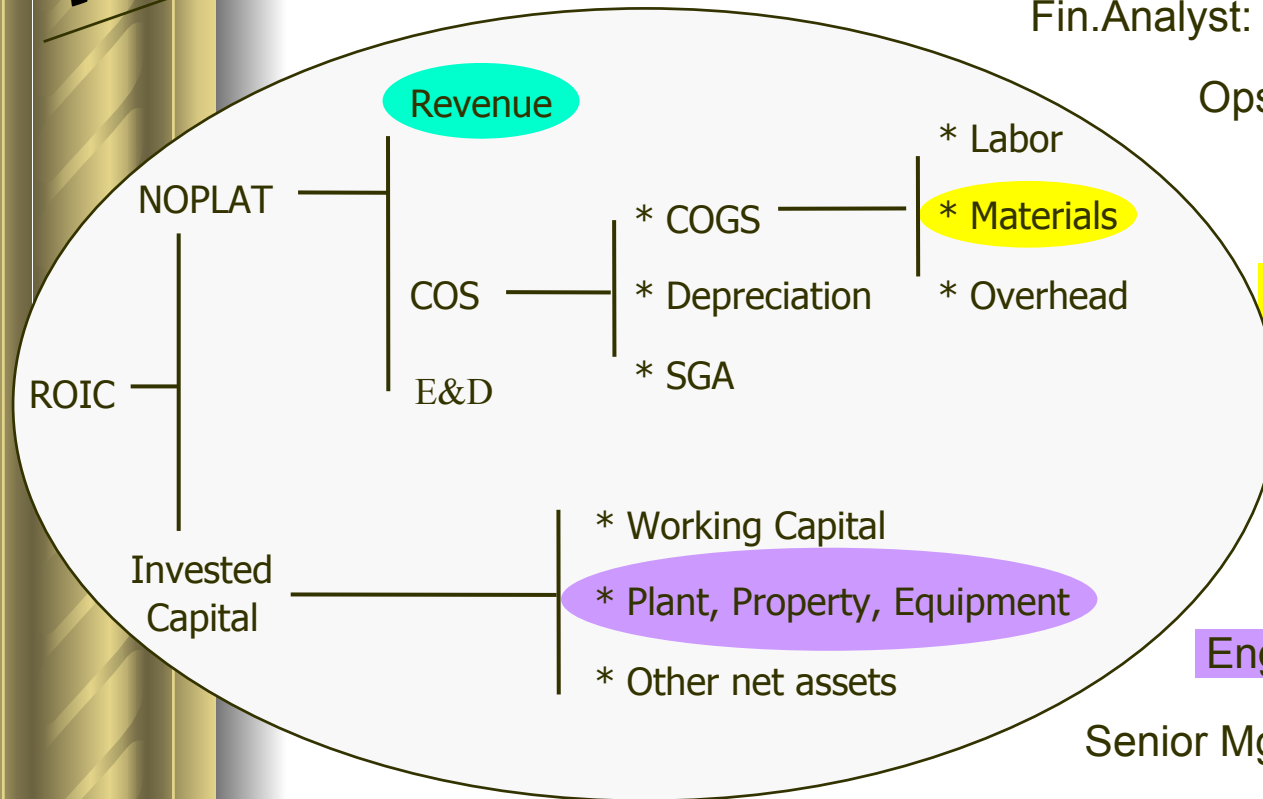
Facil./Maint: TPM & Utilization

Engineering: Defining infrastructure

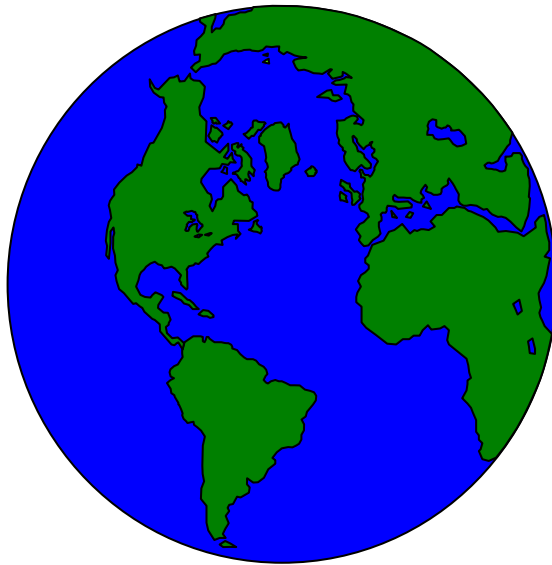
Senior Mgmt: Targeting & implications

Financial Planning: Detailing long-term performance

Order-to-Cash: Optimizing an enterprise flow



World Class Lean Concepts



Improvements Possible

Key results to be expected with a soundly implemented and well maintained "kaizen."

Immediately:

- 20% - 30% Productivity improvement
- 30% - 40% Increased equipment uptime
- 30% - 50% Reduction in space rents
- 10% - 20% Reduction in purchased costs
- 50% - 60% Improvement in product quality
- 10% - 20% Reduction in WrkComp Accrual
- 70% - 90% Reduction in WIP inventory

Translating into value?

Working "the Tree"

1. This is a Small group exercise. The objective is to identify "how" and "where" a serious pursuit of lean concepts will deliver value.
2. Review the lean concepts for shared understanding.
3. Pick a concept, discuss what gets saved when the concept is implemented.
4. Find each "budget line" which would be impacted and list it on the "Finding Value" sheet.

5. Red boxes = 10
White boxes = 5
Blue boxes = 1

Finding Value	
Lean Concept	ValueTree Linkage
Lead	
Chart	
Flow	
UP	
SMED	
Visual Control	
Walking	
Distances	
5 S	
Cells	
Standard	
Shadow	
Markers	
Kanban	
Poka-Yoke	
Standard	
WIP	
Part Travel	
Super-	
markets	
Consign-	
ment Mkt	
P.O.L	
Labeling	
Red Tag	
Andons	
Lineage	
WIP	
Spots	
SFO	
Process	
Unit	
High Perf.	
Concept	
Reception	
Shaping	
Distribution	
Storage	
Fluid	
Reception	
Teaming	
Travel	
Understanding	

[illegible]



Grand Finale

Leadership Exercise

Success Looks Like...

Given The ValueTree, Lean concepts and our Lean Philosophy audit sheet
Stand in front of the group and deliver a leadership (“for me” or “to me”) statement
In a way that puts lean concepts within the context of a lean philosophy & directly links them to ROIC through The ValueTree.

Exercise

- Pick a concept from the "Finding Value" sheet which is linked to the ValueTree.
- Prepare to complete the following statement:
 - "We are pursuing _____ (tool) _____ because it addresses our Lean Philosophy of _____ (ref. the Lean Audit) _____ and it contributes to improvements in our ROIC by _____."

Finding Value						
Lean Concept	ValueTree Linkage					
% Load						
Chart						
Flow						
TPM						
SMED						
Visual Control						
Walking Distance						
5-S						
Cells						
Standard Work						
Shadow Boards						
Kanban						
Poka-Yoke						
Standard WIP						
Part Travel						
Supermarkets						
Consignment Mtrl.						
P.O.U.						
Labeling						
Red-tag						
Andons						
Lineage						
5-Whys						
6-Sigma						
SPC						
Process Cost						
High Perf. Concept						
Disciplined Thinking						
Distributed Decisions						
Fluid Employees						
Teaming						
Shared Understanding						



**Drive on to
Excellence**