



Welcome
to
“LEAN DELIVERS”
...building a model of increasing value

A hosted, collaborative thinking event
with

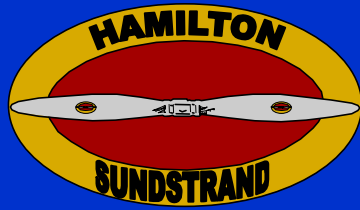
Alden B. Davis

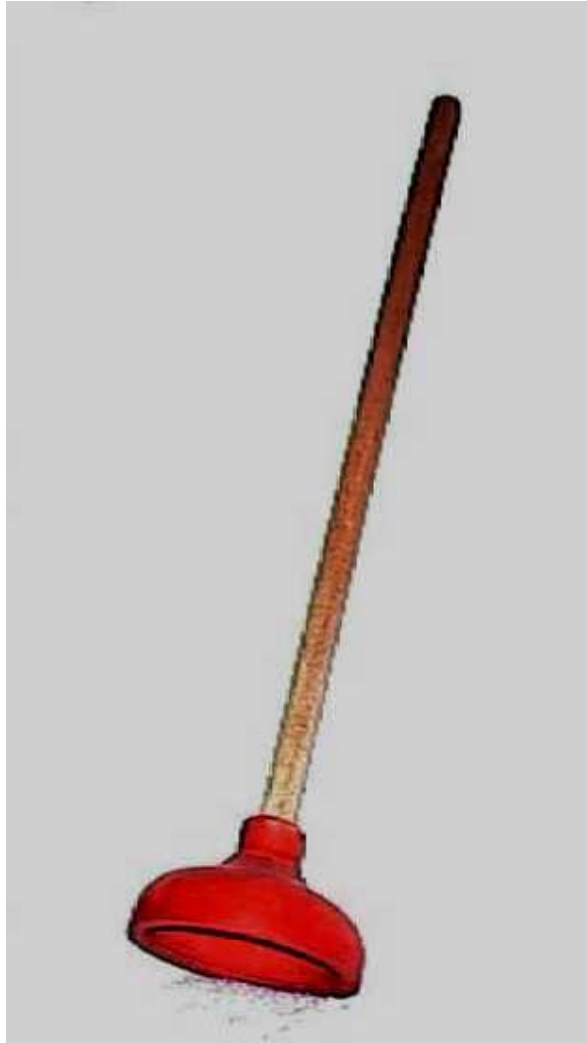
23 May 2002

Workshop Objectives

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

A United Technologies Corporation





Corporate Plumber



Organizational Enema



Wizard of E

Introductions

- Name
- Company
- Role
- Years in Industry
- Favorite food

Opening Questionnaire

1. Most of our workforce 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. Lean-leaders have personal vision/understanding of value creation. **T** **F**
5. “Value” is realized when a lean project has been completed. **T** **F**
6. Pursuing lean projects make business sense because they are the right thing to do. **T** **F**
7. Shared understanding of the business and its finances increases peoples’ ability to “do.” **T** **F**

Workshop Purpose

To demystify the financial world of CFOs and expose the mental model of CEOs

In a way that improves the effectiveness of our leadership

So that we increase the purposefulness of all improvement activity.

Success Looks Like...

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

Workshop Outline

Linking to Value

Affirmations

Value Tree Tutorial

Distill Principles

Presentations

Upgrade Standards

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.

Philosophy

Philosophy

Principles (guidelines for decisions)

Principles

Principles

Principles

Principles

Principles

Standards of Excellence (manifestations)

Standards of Excellence

Standards of Excellence

Standards of Excellence

Standards of Excellence

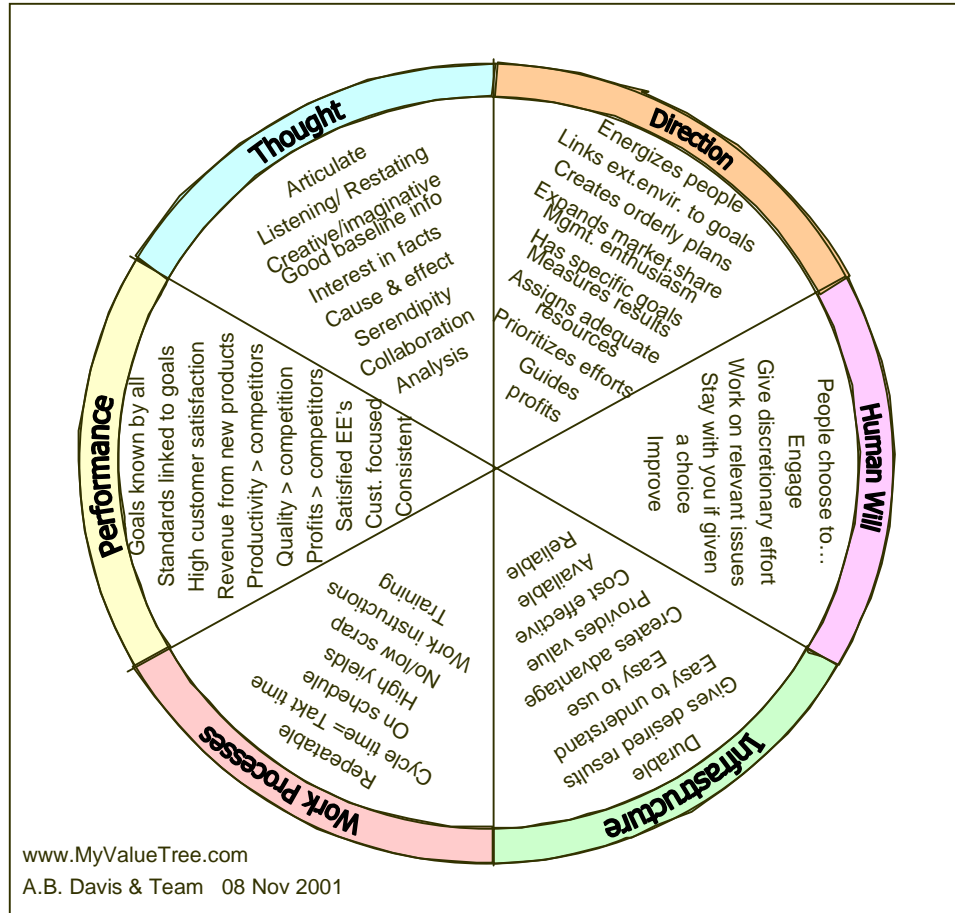
Group Work: How would I recognize Lean if I bumped into it?

Task: Upgrade the “audit list” for assigned topic

With the people around your table...

- Introduce yourself
- Open the envelope and read your work assignment
- Upgrade your list
- Post on our Wall of Fame
- Summarize standards into a principle by filling in the blanks...“To (non-negotiable) in a way that (freedom given) .”
- Be prepared to present

Lean Audit Wheel



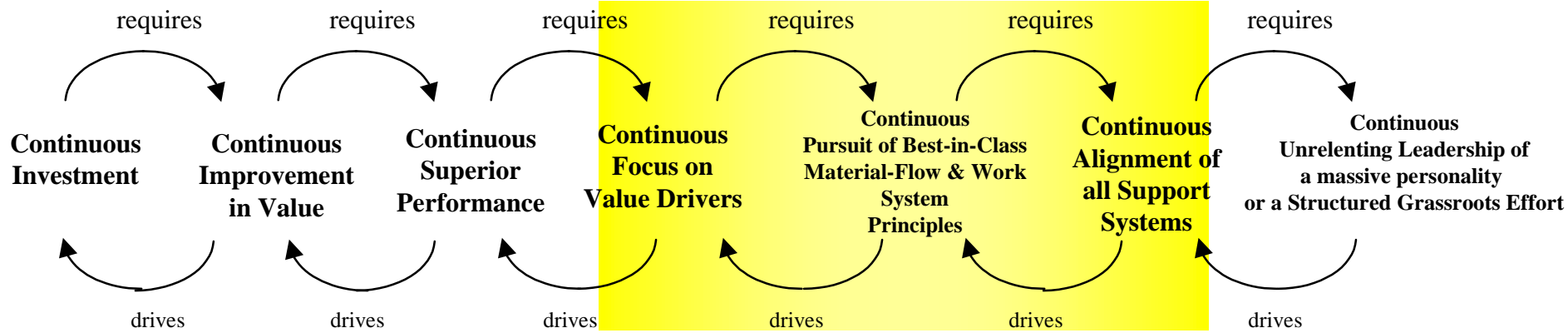


\$hifting
Performance
Using the *Value Tree*

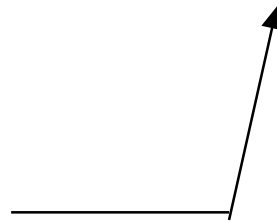
What is the Value Tree?

- 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?”

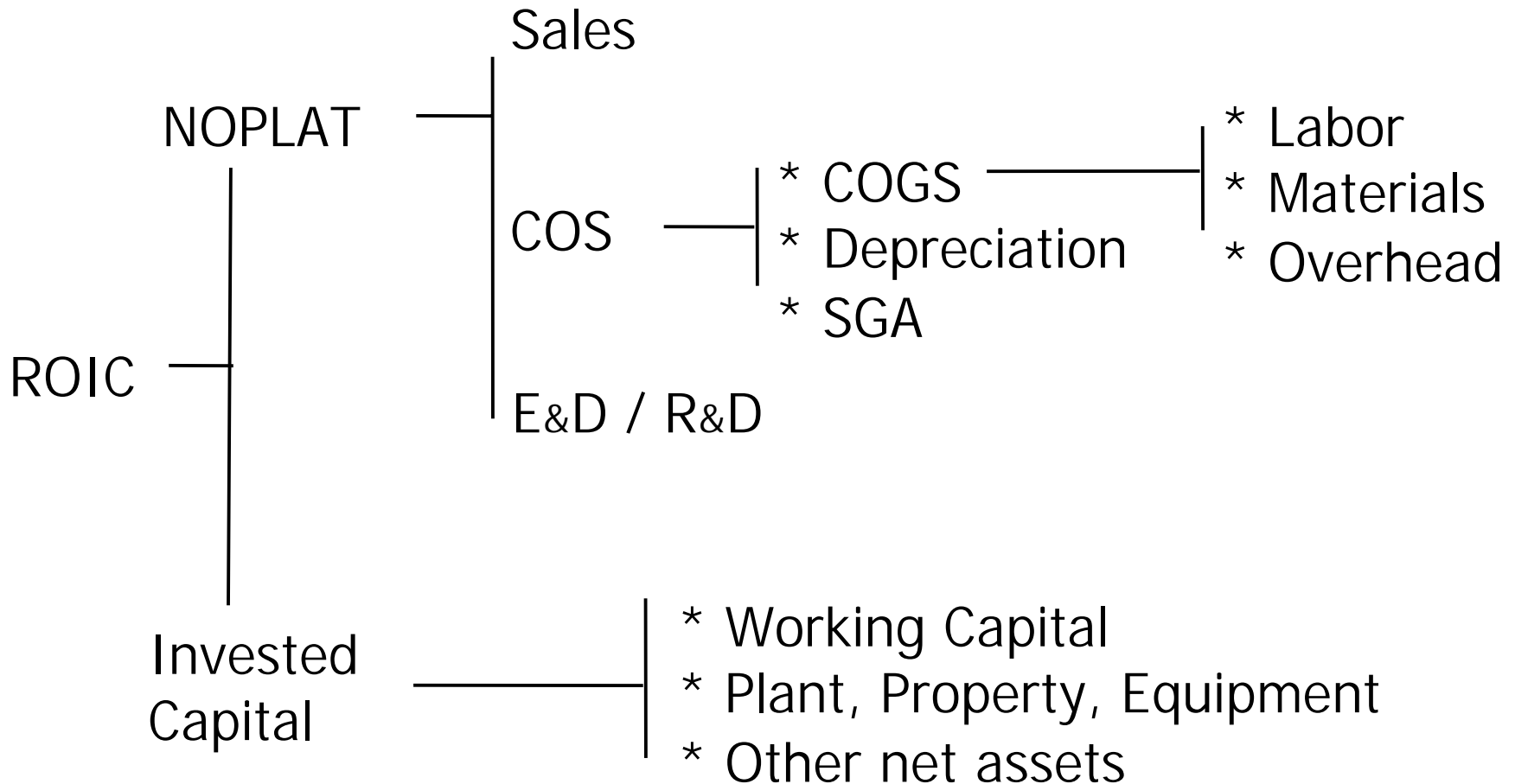
Context within which the Value Tree Fits



Area of concentration



The Value Tree Exercise



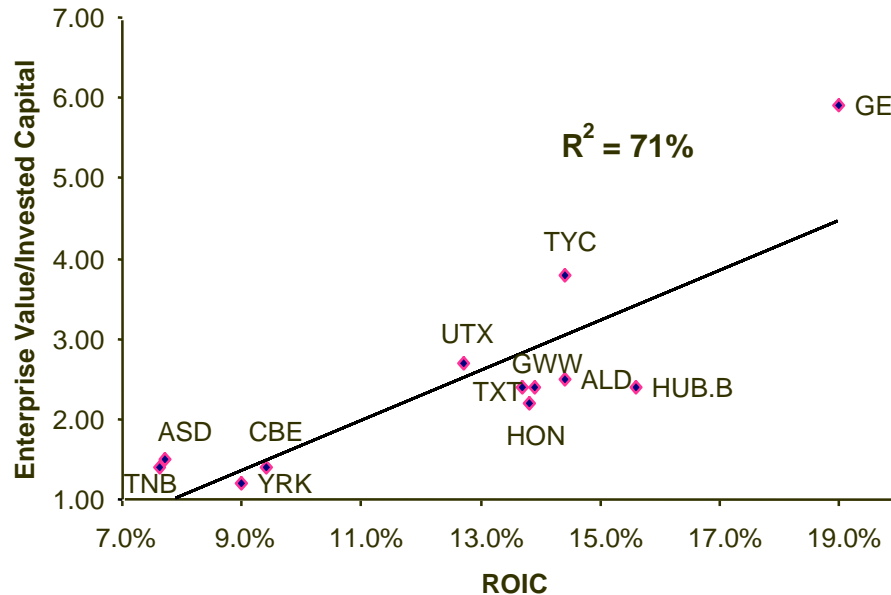
Guiding Beliefs of the Value Tree

- 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

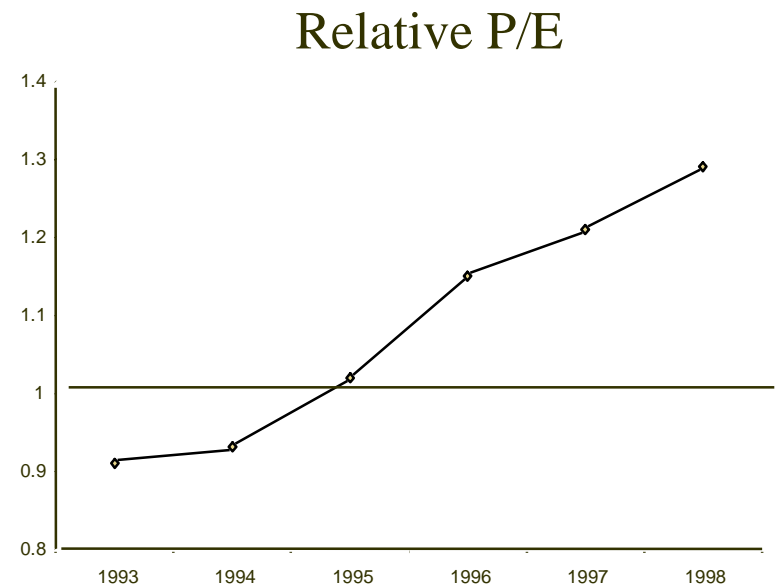
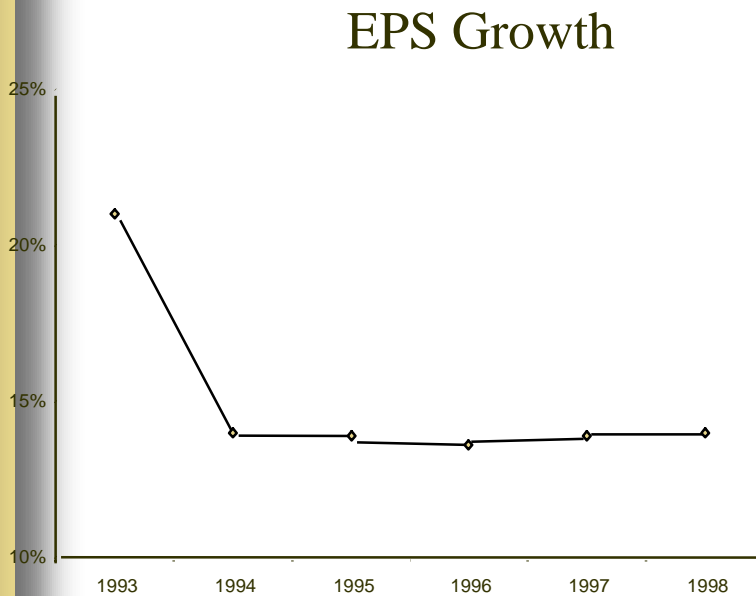
Electrical Equipment Regression Analysis
1998 Enterprise Value/Invested Capital vs. ROIC



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?

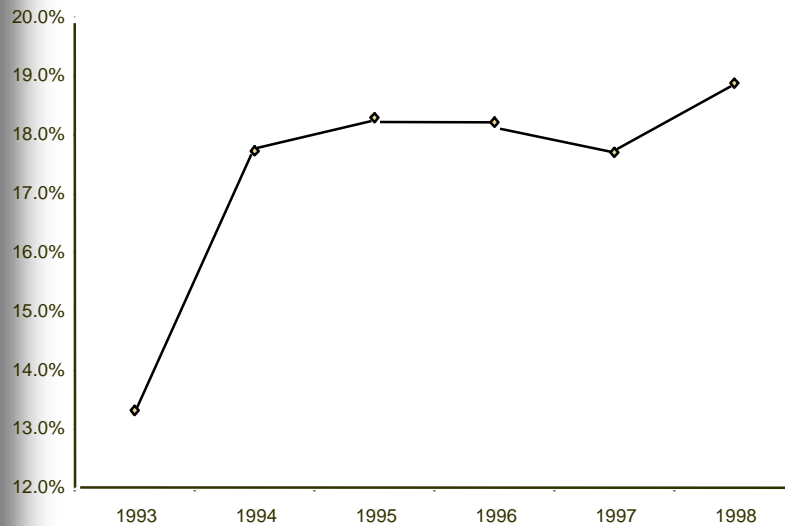
For G.E., EPS does not appear to be the driver for the price-earnings multiple.



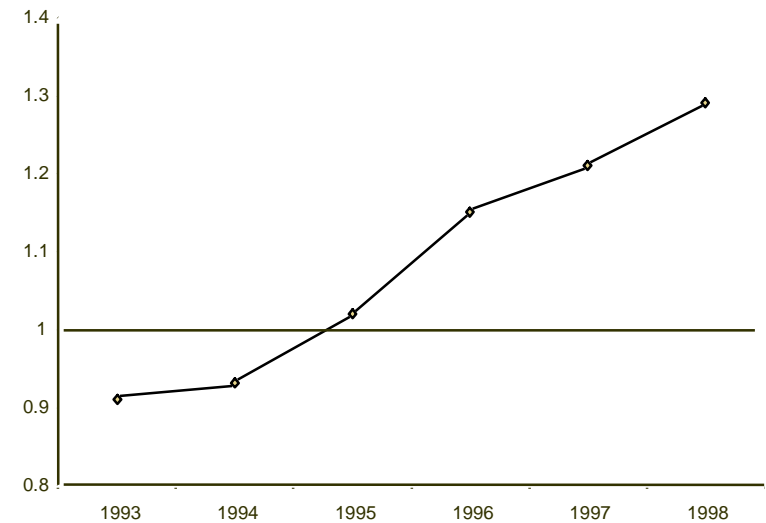
What determines a firm's worth?

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

ROIC

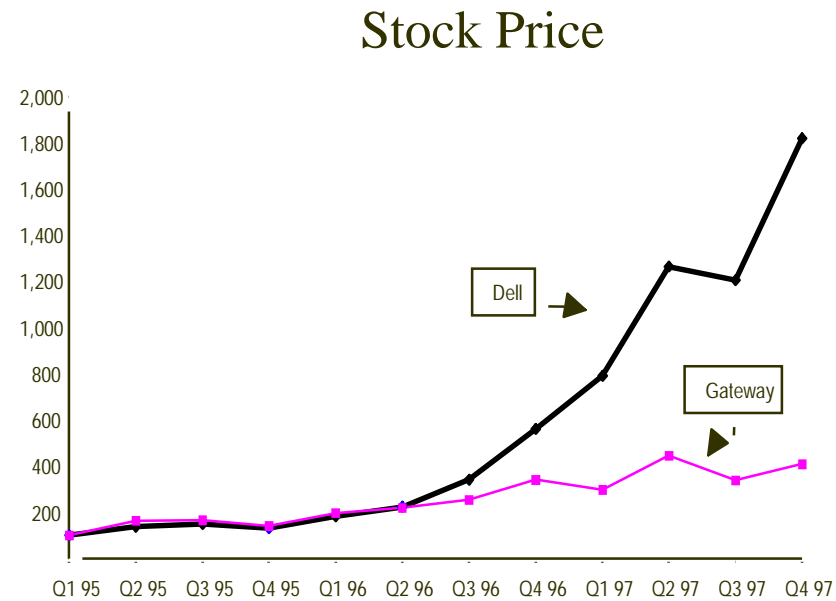
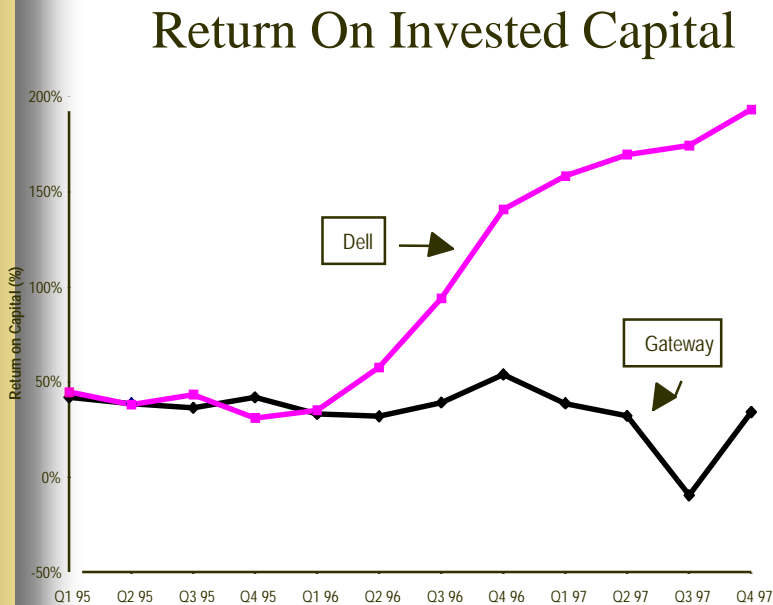


Relative P/E



What determines a firm's worth?

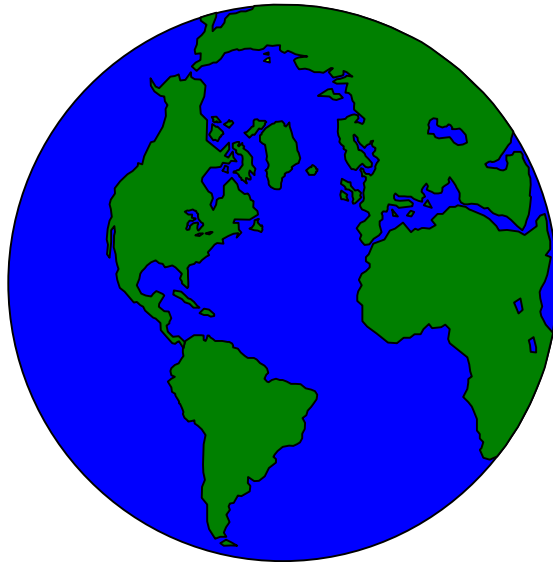
The same relationship seems to exist at Dell and Gateway; strong ROIC, strong stock price.





Getting to know "the tree"

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?

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

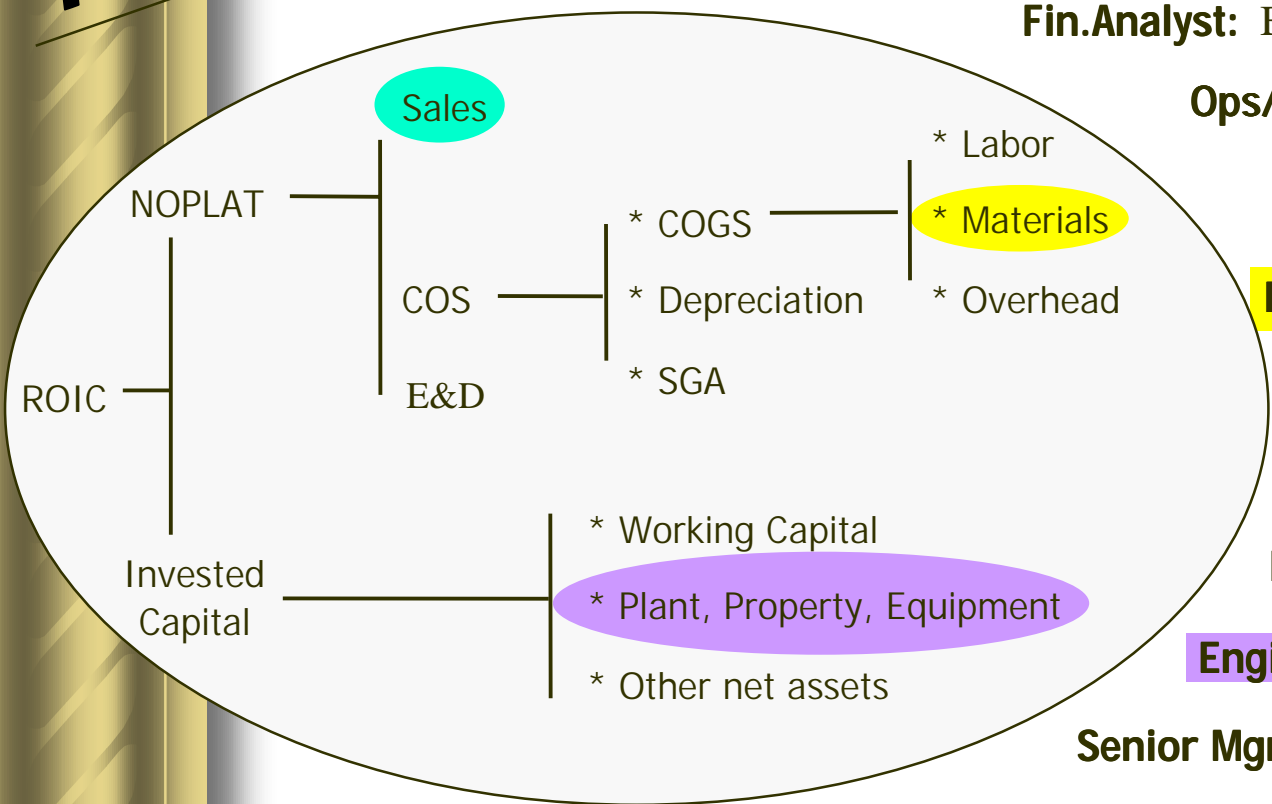
Facil./Maint: TPM & Utilization

Engineering: Defining infrastructure

Senior Mgmt: Targeting & implications

Financial Planning: Detailing long-term performance

Order-to-Cash: Optimizing an enterprise flow





Grand Finale
Leadership Exercise

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 Wheel)_ 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	
Consign-ment Mtrl.	
P.O.U.	
Labeling	
Red-tag	
Andons	
Lineage	
5-Whys	
6-Sigma	
SPC	
Process Cert.	
High Perf. Concept	
Disciplined Thinking	
Distributed Decisions	
Fluid Employees	
Teaming	
Shared Understanding	

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**Drive on to
Excellence**

Organizational Performance

Lean Standard of Excellence
Organizational Performance

- Consistent

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Human Will

Lean Standard of Excellence

Human Will (making choices)

- Understanding customer requirements drives my choices

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Work Processes

Lean Standard of Excellence

Work Processes

- Work done right the first time

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