

July 2016



"Off With Their Heads!" Lean is Not About Headcount Reduction

Dear Drew,

I have found myself thinking of that oft-stated expression by the Queen of Hearts character in Alice in Wonderland. For the past several months I have been working together with a colleague at a company. He asked me to deliver a Lean Leadership program on-site while he was busy working on various other projects. One day I saw him busy at work and asked him what he was up to. He said that he was pulling together information for the Chief Financial Officer (CFO). She posed a question to him during a recent meeting. "Why haven't we seen a reduction in headcount since we have been implementing Lean? We have the same number of employees as we did a year ago." The organization has been implementing Lean for approximately one year. During that time the organization had increased throughput and revenue by 10%, and was about to make another step increase as it absorbs a recent acquisition into the existing facility. In spite of these facts, the acting CFO's question still needed to be answered. At some point in the past, she developed the belief that there would be an absolute reduction in staffing with the implementation of Lean.

I have heard similar comments over the years, too many to count actually. More than once I have heard the comment that

Lean is an acronym for Less Employees Are Needed. Fortunately, such statements had been occurring less frequently over the years as more and more leaders have come to realize what Lean is really about - maximizing value creation while minimizing waste, and creating a culture for continuous improvement. Certainly a 10% increase in revenue (with no increase in selling price) with basically the same staffing should qualify as a success by most reasonable standards. However, our acting CFO is not alone. I have heard similar beliefs from several people in recent months, which demonstrate that we still have a long way to go. Interestingly, in each recent case the person voicing the misunderstanding was a finance and accounting professional. To be fair, in the past I have heard similar sentiments from operations managers who may have misunderstood Lean or chose to misuse it for some short term gain.

Finance and accounting professionals have for years been the keepers of key business metrics, through which attempts are made to improve performance. The old expression 'measurements drive behavior' is as true as ever. Questionable metrics abound in many organizations in all industries, which often drive dysfunctional behavior and decision making (think 'off-shoring' which more and more manufacturers are beginning to reconsider, and a few have already 're-shored'). Of course, there is an abundance of labor and headcount related metrics. As a result organizations tend to focus its cost control efforts on labor. This continues to be true even as labor as a percentage of selling price continues to decline, reaching single digits in some manufacturing industries. Labor cost is considered something that is easier to control. Overhead expenses and material cost tend to be more difficult to quickly affect. In the pursuit of increased profitability, companies will sometimes reduce staffing even at the expense of sales and customer service.

My colleague was preparing the results of an experiment that was performed in a department that consisted of multiple pieces of

equipment and several operators. The organization had reduced staffing to the point where several machines could not be run, this in spite of the fact that there was a backlog of demand. The experiment showed that a modest increase in staffing could result in a substantial increase in throughput (and revenue), a reduction of inventory, and improved service levels to customers. These results run counter to the aforementioned belief regarding headcount. I performed a similar experiment in an office environment several years ago at a company that showed a 25% productivity improvement, along with a 50% reduction in response time to the customer. The CFO at the time refused to accept the results, even making the argument that they were 'anti-Lean'. He insisted on another round of layoffs to provide short term financial benefit. I chose to no longer work with the company at that point.

The focus on headcount reduction will make it impossible to create a culture for continuous improvement. Team members will not want to be involved in improvement efforts that may result in them losing their jobs. 'Lean is mean' will be the prevailing belief. It is incumbent on all leaders to educate themselves on the true meaning of Lean. Then they will learn that it is not about headcount reduction.

Best Regards

Drew Locher

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Lean Accounting Summit

San Antonio, TX

August 25-26, 2016

The Lean Accounting Summit was started to help the finance and accounting community understand Lean principles and the important role that it can play in

supporting effective and sustainable improvement in their organizations. Now in its second decade, the summit has helped to bridge the gap between accounting and operations for 1000s of past attendees.

'Lean Accounting' covers several important subjects including: 'leaning' accounting processes, accounting practices for the Lean Enterprise, and performance measurement. The summit brings together company practitioners who will share their experiences in all three areas. Keynote speakers and pre-conference workshops are also included in the program.

This year the Lean Accounting Summit will be combined with the Lean Management Summit. 1 location, 1 date, 2 summits! Attendees will have full access to all that both summits offer. [Click here](#) for more information.