

Upfront Organizational Buy-in is Key to Implementing Theory of Constraints –

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What or how can an organization gain from the adoption and integration of the Theory of Constraints (TOC)? And, what are the constraints to implementing TOC itself? Given my 15 plus years in manufacturing management, it is evident that TOC as a ‘systems-based’ approach to planning and managing the ‘value-adding’ activities within an organization has tremendous merit. For close to 20 years I have been passionate about sharing my knowledge, insight and guidance with a number of organizations across a variety of industries. During this time, I have seen and am aware of the number of very successful implementations of TOC. The focus here is on the limitations and lessons learned instead of highlighting a variety of successes, since they are much easier to find. I hope the following summary will provide you with some additional clarity and understanding of the tools and paradigm within the field commonly referred to as the Theory of Constraints.

Case I:

Almost before the ink on my dissertation was dry, my work caught the eye of the President of the University of Alabama @ Birmingham. Over the next six months, I coached him and all his direct reports how to see, understand, and communicate with a more logical and concise set of tools and processes (TOC’s Thinking Processes). The easiest way to recognize the impact of using logical and concise language is by the Presidents response. After I had gone over the two-page logic tree outlining the benefits the university would receive by establishing a TOC center he said “Do It”. He was able to make this decision without relying on extensive financial and statistical analysis because he clearly understood the cause and effect linkages that flowed from the initial action to the desired results of improved university performance – academic and financial. Unfortunately, within six months the President and his direct reports were all replaced by a new team.

Case II:

While at the same university I worked with one of the regions’ larger electrical parts supply companies that had offices throughout Alabama and Georgia. They were in the midst of installing a new computer inventory management system and I was brought in by one of their senior managers – an MBA student of mine - to oversee an experiment in using the TOC concept of replenishment, which is a pull system for inventory management. The short story of this experiment was that we developed a spreadsheet-based tool to manage the inventory of

200 parts in five locations. Over the two month period the tool proved to be very successful – 20% less stock outs with 15% less inventory. They now faced the problem that the new software they had selected with guidance from a major consulting firm, was not available with a replenishment approach to inventory management. This meant that, for them to adopt the replenishment-based solution, they would have to assume all the expenses and risks associated with the development and re-coding of the software. Needless to say, this was a risk they were unwilling to embrace and as such, chose not to implement the better solution.

Case III:

Five years ago, we were asked to help a machining division of a company that had been losing approximately \$300,000 a month for close to a year. We explained our process and how TOC decision making is counter intuitive to the traditionally accepted cost accounting practices. The President understood this and was in support of our involvement. Within three months the division was making \$300,000 a month by changing its reliance on piece-part costs and looking more holistically at its planning and scheduling. This continued for about six months until they had an internal quality issue that initially cost them one of their largest customers. The CFO, who had never embraced the change in measures used this internal failure to make his case against TOC and was successful. They went back to their old practices and within a year had filed for bankruptcy and closed the business – eliminating over 300 jobs.

Lesson Learned:

What lessons can be drawn from these cases? In the first, the President left and the change stopped, in the second, the software wasn't available and too risky to build themselves, and in the third, not getting complete buy-in of the corporate officers. In all three cases, a solution that was wanted by some or had been proven to be superior, was not sustained. The key takeaway from these experiences is that bringing change to an organization is very hard, especially when the answer to their problems falls outside of the traditionally accepted solution set. This means that the sell-cycle for bringing anything other than situation-specific change to an organization is burdened with many hurdles that must be overcome. Therefore, before becoming a champion for any non-traditional solution, I recommend developing a deep understanding of the solution and building a strong network of supporters and associates you can call on to aid you in the journey. My best wishes are extended to each and every one of you as you travel your own journey.