

## **GA 19 Jean Cunningham**

**Announcer:** You're listening to Episode 19 with Jean Cunningham.

Welcome to the Gemba Academy podcast, the show that's focused on helping individuals and companies achieve breakthrough results using the same continuous improvement principles leveraged by companies such as Toyota, Del Monte, and the US Department of Defense.

Now, here's your host Ron Pereira.

**Ron Pereira:** Hey, there. This is Ron Pereira with Gemba Academy. I'd like to welcome you to another episode of the Gemba Academy podcast.

Now, if this is the first time that you've listened to this show I'd like to welcome and thank you for checking the show out. And for our long-time listeners I would also like to thank you for your continued support. We definitely appreciate it. Now, I do have one quick Gemba Academy update. We've recently released an incredible Gemba live episode where we featured Menlo Innovations, a software development company in Ann Arbor, Michigan. While I'm obviously a little biased, I do think the episode turned out great.

If you're not a Gemba Academy customer and want to take a sneak peek at this episode, while also exploring the more than 600 other Lean and Six Sigma training videos we have, all you have to do is visit [GembaAcademy.com](http://GembaAcademy.com) and sign up for a three-day full access trial subscription.

Today's guest is Jean Cunningham. Jean is one of the original Lean Accounting thought leaders of the world. In fact, the first accounting book that I read on Lean Accounting called "Real Numbers" was written by Jean.

While we do touch on Lean Accounting during this show, Jean and I spend most of our time talking about how Lean is actually a business strategy and not simply an initiative.

Show notes, which will include links to everything Jean and I talk about, can be found over at [GembaPodcast.com/19](http://GembaPodcast.com/19), which is "19." Again, that's [GembaPodcast.com/19](http://GembaPodcast.com/19).

Enough from me, let's get to the show.

[music]

**Ron:** Jean, thanks so much for coming onto the show. Where are you calling in from today?

**Jean Cunningham:** I live in Evanston, Illinois, one of the best suburbs of Chicago.

**Ron:** Home of the Wildcats, right?

**Jean:** That's right. That's right, yeah.

**Ron:** Mark Graban's old stomping grounds, right?

[laughs]

Most people listening to the podcast will know of your background, but for those that don't; why don't you tell a little about yourself, your background, Jean?

**Jean:** Sure, I'd be glad to. I have been a CFO for two manufacturing companies that adopted Lean and I was exposed to the Toyota production system in the early 1990s at a company called Lantech. Lantech went on to be featured in the book "Lean Thinking" that Womack and Jones wrote.

I was there 13 years. While I was there we deployed the concepts of Lean in every part of our company, including, of course, the accounting and finance areas, and ended up changing a lot of how we used cost information and used financial information in the company so that we eliminated it as a barrier to our improvement efforts.

That got a lot of interest. Along with Orest Fiume who was the CEO at Wiremold Corporation, we together wrote a book called "Real Numbers: Management Accounting For a Lean Organization."

Later I went one and wrote second book, "Easier, Simpler, Faster: Systems Strategy for Lean IT," which was about the role of IT in our Lean organization, sharing our stories in both books. Both books did go on to be recognized with a Shingo Prize.

Now, after a corporate career, I help companies with applying Lean beyond manufacturing.

**Ron:** Yes, and I'm a big, big fan of your work. I think your Lean Accounting work is the first stuff that I had ever read on the topic. It's fascinating, so it's an honor to speak with you, by the way.

**Jean:** Thank you.

[laughter]

**Ron:** The way that that I like to start all of our shows, Jean, is with our guest sharing a quotation, maybe it's leadership or continuous improvement slanted, that inspires them. What quotation inspires you?

**Jean:** There's one by Nelson Mandela that I'm particularly excited by. It was in an article that he did for "Harvard Business Review" years ago about leadership.

He said, "A leader is like a shepherd letting the nimble run out ahead, knowing that others will follow, all along leading from behind." I think that it really speaks to how important it is as a leader to create the opportunity for all of the people in the organization to contribute to the improvement, and the strength, and the success of an organization.

Even though different people might have different skills, some may be more nimble, running forward, and seeing, and advancing the cause, and pulling the rest of the people who have a common interest into that future.

**Ron:** Just to level-set everyone that's listening to this, Jean and I have been collaborating a little bit on what questions we were going to kind of go over the meat of this interview. Jean sent a bunch of questions in and what I've done is I've kind of mixed them all up and she has no idea what I'm about to ask and in what order. Let's see how it turns out here.

The first question, though, Jean is we talk about Lean as perhaps a business strategy or perhaps it's an initiative. What's your opinion? Is Lean a business strategy initiative, and maybe what's the difference between those two approaches?

**Jean:** Right. I definitely believe that Lean is a strategy, meaning it is a strategy of leadership and management. However, I think that to get interest in this strategy in this different way of managing, you usually have to start with getting people interested.

As an initiative, it would not at all be uncommon and perhaps not a bad way, in my opinion, to introduce the concepts of Lean to the organization, where you can do some things, have some improvement events, improve a particular process that's troublesome and begin to let people see, oh, there's a different way that we could improve the work that we do, there's a different way that we could look at the work that we do and get interest.

But eventually, the real success with Lean concepts is when it really becomes the way that you do everything. You may have an initiative to introduce a new product. You want to use Lean concepts to do that as quickly and as effectively and with voice of customer as possible.

You may have an initiative to improve capacity within a particular part of the organization that is constrained. Well, using Lean thinking and problem solving and engagement of people and the different tools that we have with Lean bring it to that problem.

Your initiative might be to implement a new ERP system. In other words, the initiatives are things you want to get done, and the strategy is the methods and methodologies that you use to achieve the initiatives that you have selected that are the most meaningful to take your company into the future.

**Ron:** I got it. What about the financial impact of Lean? Maybe some organizations are very bottom line driven, ROI driven, whatever it might be. What can folks expect to see in terms of financial impact?

**Jean:** I base my opinion based on my experience. I'm sure different people have different experiences, but to me, when I first was in my very first improvement activity that we had at our company and I saw how, in four days, that we could transform how we made -- in this case, it was conveyors -- from a long drawn-out process to a very constrained, concise process that we could make conveyors one at a time, that's when I knew as a finance professional that this was completely different than anything we had done before.

My experience was that there was no other activity, strategy, point of view that I had ever been exposed to that could result and improve business performance than what I saw in this one week period of time.

Say that is that if you fundamentally change how you do things and you do them more quickly with less resource and at a higher quality, you cannot help but have better financial results.

Now, the financial reports themselves might make it hard to see because of the traditional of general accepted accounting principles, things of how we deal with cost and inventory. But taking that aside, there's no question in my mind at all whether you're a manufacturer or you're not a manufacturer, that if you are in fact making things more quickly with less resources at a higher quality, there's no way that your company's financial results cannot be improved.

And in fact, I'll go a step further and say that if you're applying Lean principles and you're doing Lean activities and you are not seeing financial improvement, there's something wrong with your strategy and how you're applying it.

**Ron:** Yes. You've a finance professional background. What's your opinion on tracking financial benefits when it comes to continuous improvement activities? Should people be trying to quantify the benefits of their kaizen event from the previous week? What are your thoughts there?

**Jean:** Trying to track on an event by event basis financial impact is a complete and utter waste of time. In fact, it should be the ninth waste. It's just not. The benefit does not come at one point in time. It's a cumulative effect.

There are corporate realities, however. Many corporations are not yet to the point that they've truly adopted Lean as a strategy. They still look at it as an initiative. In order to keep that initiative alive long enough for the real benefits to be released, many organizations do have to do some tracking on events.

We should see it for really what it is. It is a stop-gap measure for organizations to use because they're not yet fully experiencing the dynamic power of Lean thinking within the organization. Once they see it and feel it, the need to track it is dramatically diminished.

The other part of tracking, though, I do think is important, but not from a financial point of view, the tracking of what's happening with the improvements that we've made. We can't just make an improvement and walk away. That is not a Lean strategy, that's just hit-and-run activity.

You really do have to incorporate into your management practices that, as you make improvements, you're constantly monitoring, doing PDCA to say what's happened, what we need to do next, what we learned from this last experiment. That kind of tracking I do think is particularly important.

**Ron:** I remember back when I worked in industry, I won't name names of the guilty, but I remember being a young practitioner of continuous improvement and spending as much time quantifying the benefits of our project work as we did the actual project.

It was just a pity that we had to waste so much time when we could have been out making other things better. Instead, we were using multiple regressions to demonstrate [laughs] how to save as much money over the next five years...it was a mess! Your words resonate with me.

**Jean:** You really bring up a point that is also relevant when we think about Lean and the role of the finance function. Like your example of where you are being

really pushed to evaluate the financial impact, you may or may not have had the financial skills, the knowledge of how the accounting system works.

One of the things that I do think has a very valuable role for finance professionals and Lean organizations is, actually for the finance folks, to be part of the Lean efforts in other parts of the company so that they can have a firsthand understanding of the benefits and figure out how to help the organization with understanding what's going on, where they see it in their financial statements so that they can get some feedback.

I consider improvements really experiments. You think you know what's going to happen by making this change, but you don't really know until you actually have made the change and lived with it. I consider that an experiment, a scientific method.

The finance professionals, I really feel, can play a very active and valuable role to partnering with the people who are making changes in the organization to get that reflection back of what's going on.

**Ron:** The next question I want to transition into, Jean, is...Gemba Academy customers know that and maybe have seen Jean with my business partner Kevin. They did a great interview, and Jean was waxing poetic about all of the things of Lean Accounting.

What I want to do now is just transition into accounting a little bit, in more particular, and talk about Lean Accounting. Maybe some folks at a high level have heard of it, but they're not exactly sure what it's all about. Give us an elevator speech on what this whole thing called Lean Accounting is really all about and maybe what role it plays in an organization's Lean Journey.

**Jean:** Excellent. I'd love to. I'm passionate on this topic. I always love to talk about this. Trying to keep it at the right level, the first thing to know about Lean Accounting...there are really in my view two parts of Lean Accounting.

One is applying the Lean principles and concepts, two the accounting function itself, how to take waste out of the operational work that accounts to things like paying bills, collecting money, closing the books, et cetera.

That's very valuable work. Really, just like every part, every other function within a lean company should be learning about and applying Lean principles, accounting should, too.

The other part of Lean Accounting is what I would call accounting for Lean, which is basically how we can ensure that the financial information that you provide in an organization is simple to understand and supports the Lean behaviors that we're really driving for, in the factory.

If we're driving for producing at the rate of customer demand, we certainly don't want financial information that is rewarding building as much as you can. Where this gets complex and where people are interested in really learning about it is really the cost methodologies, in most manufacturing companies.

Many manufacturing companies use standard cost accounting, and they think they have to or they're not sure why they do. Really, Lean Accounting is an alternative way of thinking about how we present cost information while continuing to comply with generally accepted accounting principles.

**Ron:** If you're interested, Gemba Academy covers it, and again we've interviewed Jean. At a minimum, I want to really recommend your book, "Real Numbers." It's a fantastic book. If you're a leader of people in a business and you've not read that book, you really need to get it. We will link to it in the show notes of this episode.

The last question of this section, Jean, that I have for you. I know that you spend a lot of time in your consulting work, talking about how Lean can be leveraged as a method of organizational development. Is this like an HR thing? What's it all about when we talk about organizational development in Lean?

**Jean:** Good question. My view on organizational development in Lean really aggregates a variety of different things that we might attribute to a particular function within an organization. I see it as really holistic.



Here's how I put this in context. People of course, human relations departments, are responsible, in larger companies, for making sure they have the right people in the right seats at the right time. People are also one of the largest costs of most organizations. It's what we spend a lot of money on -- maybe material more -- but people certainly a lot.

Lean is about uncovering capacity within the organization. This capacity could be in the form of something as straightforward and traditional as production capability and capacity. It also is about capacity of people, that we're not having people do things that our customers don't care about, which is what we call waste in Lean terms.

Now if you take those three concepts together and you say, "We want to create capacity in people so that the real important work that customers want done that we can use our people on those things and not things that are waste." If you do that, what happens?

One, you don't have to hire as many people because you have people whose freed-up capacity exists. You don't have to train them. You don't have to hire them. You don't have to re-teach them about this crazy thing called Lean. You have people.

**Ron:** No turnover.

**Jean:** Pardon me?

**Ron:** There's no turnover? Things like that are very little.

**Jean:** Far less turnover. If you're really engaging your workforce, why would they want to go somewhere else? If you're really elevating. The next thing that happens from that, of course, you don't have to hire as many people and you can do more. Guess what? You make more money. This is a really good idea if you're a business.

Last of all, you create the capacity to focus on the key initiatives that you have as an organization. If you have done a strategic deployment plan and you've identified

the key initiatives, who do you want to have do those things? You want your key people to do that.

You want people to be able to dedicate time, not just do it along with everything else that they do every day, but actually be able to pull people out of the organization, give them extremely meaningful developmental activities as well as pushing your company forward with the most important initiatives that you have. In my experience, the companies that do that are going to see tremendous improvement in profitability. They're going to see tremendous improvement in capacity creation. Business growth is going to be better. It all completely fits together. It's fully institutional organizational development thinking.

**Ron:** Nice. Love it. All right Jean. Let's go ahead and transition now into my favorite part of the show which we're calling the Quick fire section. This is where you get to share your personal thoughts and wisdom, which you've been doing, but now we're going to focus in on Jean a little bit. OK? [laughs]

**Jean:** [laughs]

**Ron:** In the Lean community, we spend a lot of time talking about the importance of respect for people and how it's equally important to really anything out there, if not more important. Really defining what respect for people is can be difficult. What does respect for people mean to you?

**Jean:** Respect for people to me is not about being kind and nice. Respect for people is about realizing that every single person in your company has something to offer. You have to create space for people to offer something other than just having their head down, doing what they did the last 10, 20, 30 years.

Creating a space for them to work on where your company is going, whether that's managing for daily improvement, daily huddle boards, whether that's Kaizen events, whether that's training, cross-training opportunities, switching up jobs with other people. It doesn't really matter which things you do. The ultimate respect for people is realizing that every single person has something to offer to your company that you have not yet figured out what it is.

**Ron:** The most common question we get, again, by the academy, is where do we start? In our case, what video should we watch first or whatever it might be. The question that we try to ask back as much as possible is, "I don't know. What kind of problems are you trying to solve"? A question that we like to ask our guests is, "What problems are you trying to solve right now maybe in your work or with a client or anything like that"?

**Jean:** I have another book I want to write, and I'm trying to get it written.

[laughs]

**Ron:** That's a problem, capacity management maybe.

[laughs]

**Jean:** I'm very fortunate. I have lots of folks that I get to help. The time to stop and write down interesting learnings, things are challenging for me, to be honest. I get done with a client, an event during a week, or I've done a speech, or we've done some coaching. Quite honestly, I'm tired at the end. It takes a lot of work. You're on your feet all day, airplanes, and you're traveling.

It's not always the best time to go, "OK. What was this real insight that I got this week that I could leverage over to other people"? My husband is very involved with our business together. He does the back office. He's always saying to me, "Jean, you've got to write that down. What a great story." I get home. We take a walk a lot. We have this wonderful neighborhood we live in in Evanston. We do a lot of walking. I'll be telling him all about what's happened. He'll say, "Oh, Jean. You have to write that down." I think that's my personal challenge right now, just writing this down. We do learn from each other. As much as I knew when I left the corporate world, I know so much more now. By interacting with other people is how we learn from each other.

Having cross-functional activities within your company where you can really learn from each other, it's far more powerful than we could ever first think that it would be.

**Ron:** I'm trying to find on my iPhone here, I use this from time to time, the little recorder, the voice recorder. Next time your husband says you need to do it, the voice recorder, turn it on your smartphone and talk into it. That way, at least you'll have it in audio format.

[laughs]

**Jean:** [laughs] Thanks for that suggestion.

**Ron:** Potential counter measure.

[laughs]

**Jean:** There you go.

[laughs]

**Ron:** Jean, what's the best advice that you've ever received?

**Jean:** Don't always feel like you have to talk first. I'm a high energy, type A person. I got some really good guidance one that said, "Vary your style a little bit. Sit back sometimes, let other people go to the forefront at different times." That Nelson Mandela quote that I started with really touches me in that way. We do have different times. Sometimes we need to be nimble and going out ahead.

Sometimes we need to follow. Sometimes we just need to be creating in the environment for others to do that. I learned a lot when my eyes were opened to that feedback.

**Ron:** I actually just interviewed a gentleman names Mike Grogan. I don't know if you've heard of Mike, but he's in Tanzania, Africa, right now working in the hospitals over there. When I asked him a similar question, he said, "Talk less, listen more." That's what he wanted to do. Talk less, listen more, and empathize more, he said.

I really like that. Very similar answer. Do you have maybe a personal productivity habit that other might have before from?

**Jean:** I have a Macbook Air, and I love the sticky feature. I use the sticky feature a lot. I have different sticky notes for different things. I have one in particular which is what I have to do this weekend once I get home. What are the business things I need to do? I keep on another sticky the books that I want to read next so that I can get them onto my Kindle.

If I have my Kindle with me, I'll just put the books that I want to read in samples, right away, right from the newspaper. That way, I can do a little sample read before I decide. I had to put it on another piece of paper and put it on a sticky. I get it directly into my Kindle is another good one. Just having a really consistent place where you put the things that you really don't want to forget about, I find that helps a lot.

**Ron:** I'm a big Mac user as well, but I'm more old school, I'm like, these are my stickies [laughs] opposed to notes.

**Jean:** They used to be. I'm on the road all the time. My office is my laptop now. In fact, when we bought this house, I had to have an office and all this sort of stuff. To be quite honest, now with the Macbook Air, I sit in an easy chair a lot of the time and do my writing. I do write every month.

I have a newsletter, and so I write for my newsletter. That is one of the ways I try to capture my experiences. That's a little bit of a counter measure as well. It forces me to write something every month.

**Ron:** I love your newsletter, too. I get it.

[laughs]

**Jean:** Thank you.

[laughs]

**Ron:** Jean, if you could recommend one book related to continuous improvement or leadership, and it can't be your own book, we've already plugged that one, what would it be and why?

**Jean:** I don't want to offend any of my author friends.

[laughs]

**Ron:** [laughs]

**Jean:** I have a lot. I will say that I'm particularly entranced right now with Art Byrne's, "The Lean Turnaround." I read it right after it came out. I really feel that Art's voice as a CEO and repetitive CEO is very straightforward. It's a great book for CEOs.

In fact, I've told my clients that if the CEO and the CFO read it, they get a little discount. [laughs] If you're a CEO and you read Art's book and you don't do this, you're not paying attention.

**Ron:** Give the name of the book again.

**Jean:** "The Lean Turnaround."

**Ron:** "The Lean Turnaround." We'll link to that in the show notes as well.

**Jean:** That would be great.

**Ron:** The last question. Speaking of CEOs, imagine that you've sold your consulting business for a billion dollars and now you're bored. You go back into industry, and you've been hired as the general manager of a company who was unfortunately struggling with quality, productivity, morale. Really, they're just a mess. You were hired because of your continuous improvement background, your experiences and success.

As it turns out, the CEO has given you complete operational and PNL control, so you are totally in charge. With this said, what would you do on your first week on the job?

**Jean:** I would be looking for a good pilot. I would be looking for a part of the business that's important, not something off to the side, not something trivial, a very important part of the business. I would create a pilot that would go all the way from the whole order generation side all the way through to after-market.

I would begin a pilot that would include not only the application, training people what to do in the application, but it would be a full pilot that would include the non-manufacturing components as well. We'd probably start out with a very high level value stream map of that pilot area.

The first week is to find that pilot area and to find a couple of pals, people that can come together. They'll be there in shadow and really start to see and to begin, right from the beginning, leveraging the knowledge and the way of looking at things.

**Ron:** Love it. Thank you so much for coming onto this show, Jean. I know you're super busy, and so we really appreciate your time. Why don't we wrap up the show with you sharing some final words of wisdom? Tell people how they can connect with you on social media.

**Jean:** Sure. I'll be glad to. Words of wisdom. The Toyota production system has really changed my life, not just my business life, which it certainly has. When I was in the corporate world, it completely changed from struggling to being way out ahead and that, but it also has changed my life in the ability to really touch people.

When I have the opportunity to work with clients, it's great when I see results, but there's nothing like someone who comes up to you afterwards and says, "I had just about given up, and I'm ready to come back and work at this some more," or "I never thought it would be possible," or "I never thought that person would listen to me."

When I hear that people have been touched by and renewed by thinking about this kind of strategy and how it can work within their company. I feel like I get the opportunity to touch people, and it's incredibly rewarding. It's very personal. I have a lot of passion for this work, and I get to work with so many other people who do. That's really beautiful.

In terms of connecting on social media, I have a website, [jeancunninghamconsulting.com](http://jeancunninghamconsulting.com). I post different things up there but also can get to my newsletter that I publish through the website. Anybody can sign up for it, and I'd love for you to do that. There are some links to other videos. I'm on LinkedIn. I don't use LinkedIn a lot, but I am on LinkedIn. My website and the newsletter are my predominant way of communicating with people. You can send me an email through the website as well, with a question. I'm more than happy to get them.

**Ron:** Fantastic. We'll link everything up in the show notes.

[background music]

**Ron:** Thanks again, Jean, for coming on. I need to interview you in person. We'll do some more videos and all that kind of stuff. Kevin can't take all the credit for all the great videos with you.

[laughter]

**Ron:** I'll get on there as well.

**Jean:** Good.

**Ron:** All right. Thanks again, and take care.

**Jean:** Thank you.

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