Business901 *Podcast Transcription*

Implementing Lean Marketing Systems

Throughput Accounting making your Operations Numbers Meaningful

Guest was Dr. Charlene Spoede Budd

Related Podcast:

Developing Predictive Measures with Throughput Accounting

Dr. Charlene Spoede Budd was my guest on the Business901 Podcast and as you would expect our discussion was about the Theory of Constraints Through-put Accounting methods and the application of the knowledge that we gain from this information. We discussed the use of accounting throughout the organization for developing predictive measures versus reactive. Dr. Budd was a contributor to the recent Theory of Constraints Handbook on two separate subjects:

Traditional Measures in Finance and Accounting, Problems, Literature Review, and TOC Measures (Chapter 13 of Theory of Constraints Handbook)

A Critical Chain Project Management Primer (Chapter 3 of Theory of Constraints Handbook)

Charlene Spoede Budd is a Professor Emeritus from Baylor University, where she taught management accounting and project management classes for a number of years. She is certified in all areas of the Theory of Constraints and is the Chair of the Finance and Metrics Committee of the Theory of Constraints International Certification Organization. Her research has been published primarily in practitioner journals, and she has been awarded three Certificates of Merit for articles published in Strategic Finance. Dr. Budd has co-authored two accounting textbooks with her most recent book, A Practical Guide to Earned Value Project Management.

Joe Dager: I'm ready to go because I want to learn about accounting?

Charlene Spoede Budd: You're one of the few, but I'm appreciative of that! It's not a mysterious subject. I think a lot of people at some point in their lives get turned off of accounting like they get turned off of math. It's just because it seems so complicated. In reality, neither one is that complicated, but they build on very simple steps.

Joe: Thanks everyone for joining us. This is Joe Dager, the host of the Business901 podcast. Joining me today is Charlene Spoede Budd, who's a Professor Emeritus from Baylor University where she taught management accounting and project management classes. She is an expert in applying Theory of Constraints to these disciplines, and authored several chapters in the "Theory of Constraints" handbook. Charlene, I'm looking forward to this concept or this discussion because I'm just really excited to learn more about accounting and how to apply Theory of Constraints to it. Can you start us off and get started with the discipline of accounting and how you do that?

Charlene: Right. Thank you so much for having me. I really, really like to talk about accounting because it's not everybody's favorite subject. So I'm very appreciative of your enthusiasm for it. It's not that difficult, a very easy concept as long as you follow some ordered steps and taking a look at the entire plateau. What I like to do is kind of keep it very simple. Do what needs to be done to get the information out that you need to make decisions. That's basically what management accounting is about.

Joe: When you talk about Theory of Constraints, you talk about throughput accounting. Can you kind of define that in simple terms for our listeners, what throughput accounting is?

Charlene: Throughput accounting, basically, is all of the accounting metrics and measures that you have to have embedded in your information system in order to support theory of constraints decisions. Now, that's not as ominous as it sounds. Throughput in accounting terminology is contribution margin. Throughput in Great Britain is revenue. So the definitions get a little confusing across the various countries and the world. So I try to make clear what I'm referring to as throughput. Throughput in the sense of throughput accounting TA as we call it, is whatever you have to do to support your system. Throughput, on the other hand, in theory of constraints terminology, is revenue minus totally variable costs. So that's the accounting definition of contribution margin. Unfortunately, Eli developed all of these terminology issues, the labels for things, and he did not study accounting and didn't know that there were already were labels for that. So I try to use both interchangeably so that I can keep people aware of exactly the concept that's trying to be presented.

Joe: How did you get involved with this? I assume you have a strong accounting background.

Charlene: Right. I did the traditional thing. I had an undergraduate accounting degree. I got an MBA. I got a Ph.D. And then I started looking for interesting things, which is why people get PHD's in the first place. They like to study. They like to pick up new knowledge. I ran across, at a seminar at Baylor University, Eli Goldratt speaking to a bunch of professors. He just infuriated me. I got so angry with him because he was telling the professors that we were laying down on the job. We weren't doing what we were supposed to do. We weren't serving the public in terms of educating students the right way and developing new methodologies for industry and critiquing the methodologies that they were using.

I spent about three months trying to prove that his little basic simple concepts were just all wrong. The longer I worked at it, the more convinced I became that he was right. A lot of the things that I had been taught and had learned in college were based on another environment. Basically, it was that we did not live in a mass production environment at the time which was about 1991 or '92. For sure, it's just gotten worse since then; things are just changing so fast.

One of the issues I think I had with lean accounting because they have to set up flows, value chains, where they have a family of products going through the same thing, that is not a short-term endeavor. Setting up a separate value chain is a pretty intensive investment in both time and dollars.

Joe: Segmenting your value stream in that, when you're talking about lean accounting, that pops out to me because I do a lot of lean things and value stream and handle... Yet you're saying its wrong!

Charlene: No, I'm not saying it's wrong. In fact, there are some excellent things about lean. I read all the lean books from Toyota, starting with "The Machine That Changed the World", then "The Toyota Way", and "The Toyota Talent" and "The Toyota Fieldbook", and all of that. The big problem with it is that companies have trouble copying Toyota. Toyota does manage to pull off the value stream, but Toyota has never published anything about their accounting system. So, when lean became popular in the US, it ran smack up against traditional accounting. And so people had to come up with a way to deal with lean and not violate or get the accounting people all upset and telling them that they couldn't do it. So we sort of developed our own system of accounting for lean. And part of that is fine. Some of it just really doesn't make any sense.

Joe: You said the key thing is that we'll try to adapt to the Toyota culture, the Toyota way of doing things. It's nice to have a model to follow. But if you're trying to develop a methodology without really developing your own culture, your own way of doing things, I think it is wrong. I think it's a nice model to have, but you certainly have to take something and make it your own.

Charlene: Right, you're absolutely correct. That is true. Part of the problem, one of the things I mentioned in the accounting chapter in the TOC handbook, is that typically accounting people are not trained in the new operating methodologies. So, if they're not trained, they don't know about it. They don't know how to modify their metrics. They don't know which reports need to come out when and to whom and that sort of thing. And so, naturally, you're really just asking for it if you don't include the accounting people from day one.

Joe: I agree with that we always struggle with making what I call meaningful dashboards with leading indicators. Accounting doesn't seem to be included in a lot of that.

Charlene: No, no, it's really not. Jean Cunningham, who wrote, "Real Numbers" and written a chapter in the latest lean book that I'm reading, was fortunate enough that, in her company where she was CFO, she was included from day one. Their implementation was a success because she supported it. Instead of a constant battling against the accounting people, she knew what was needed and where and made sure that they got the capital investments that they needed. And also that some of the reports that they had been issuing, like efficiencies, were very much controlled and downplayed.

Joe: Getting back to the throughput accounting, is that a fair term to use instead of TOC accounting or anything? Should we call it throughput accounting?

Charlene: Yes, it's kind of filtered down now. Throughput accounting is referring to a specific set of things. And so now that's the official name.

Joe: In your chapter, in the TOC handbook, you talk about all the different types of accounting or you touch upon a lot of them, the activity based, lean accounting, direct costing, then you talk about the balanced scoreboard. You listed the advantages and disadvantages of each. Of all these, is there one that aligns itself with throughput accounting better than the others?

Charlene: Yes. That's the direct costing. In fact, the throughput accounting statement is based on the direct or variable costing or contribution margin income statement, which is also described in the book. The reason is that in the 1960s accounting people discovered the behavior of costs in a meaningful way, meaning that they decided that you needed variable costs for certain decisions and fixed costs for other decisions. But you did not want to turn a fixed cost into what appeared to be a variable cost driving it all the down to the cost per unit.

So, since the 1960s we have known that if you're going to do a decision on accepting a special order, if you're going to add or draw up a product. If you're going to decide on make or buy, you've got to have your cost divvied up into a variable bucket and a fixed bucket.

This also goes for lots of other decisions that you have to make. They're typically called short term decisions because, in the long term, you're expected to be able to change everything including fixed cost.

What ABC does is really carry this idea over the long run, everything is variable to the extent that they assume that everything is variable including whatever direct or traceable fixed cost you have.

Technically, you're never supposed to allocate organization cost like security for the company or maybe grounds keeping for the headquarters or corporate headquarters' costs period. But, every implementation I have seen included all of those costs on the ABC allocation.

Lean is trying to avoid that. Every book on lean says that if you have overall organization costs that benefit everybody, every stream, every product family, then just don't allocate those. I mean; you can't do it anyway except arbitrarily anyway, and then that makes people make some stupid decisions.

So, they've got the right idea. The problem is, and some of the lean accounting books that I've seen, they go right ahead, they make a statement, well, you're not supposed to allocate these costs, and then they go right ahead and do it.

The people looking at the data may not have that understanding, and then they look at a cost per unit number and think it's the variable cost when it may not be.

Joe: What makes throughput accounting special though? What's the advantage I would have to investigate the time in learning it?

Charlene: It supports Theory of Constraints. I've done a lot of studying over the years on various improvement initiatives. I started with Deming. I even went back and picked up Mary Foster Follet. She was a writer in the 1920s that Deming took a lot of his ideas. Deming ensured in all of the quality guides all the way through everything that has come down the pipe since then. I even wrote what they call a portfolio or Bureau of National Affairs called Internal Reporting and Improvement Initiatives. I looked at every one of the improvement initiatives. By the time I got through looking at all of them, it wasn't just Quality, Just in Time, Lean, ABC, ABC management; I also looked at Demand Flow and Theory of Constraints.

When I got through looking at all of them, the one that had something that the others didn't, they're all blending together now, by the way. I mean, everybody is stealing the best of what everybody else has to offer. In looking at the whole thing, I became confirmed in my belief that Theory of Constraints offered one thing that they did not and that is focus.

Theory of constraints tells you what to do first, what to do second, what to do third. The others say do this, make these changes, but they don't tell you where. They just say do it everywhere. Put all your production operations in the value stream.

Well that takes time. The latest book I looked at said, just like they used to say with quality initiatives, you can't get results immediately. Lean transformations take about two years. Well, two years is a long time. Some companies, you know, if they had to wait two years, might not be around for the two years when the time was up.

Theory of constraints tells you, OK, it's not going to be perfect but this is what you do first and you can get some results in two or three months. I think that's a tremendous advantage.

You still use quality concepts. You still use the idea of just in time and Lean. The Lean part worries me just a little bit. The one thing I worry about with Lean is that they are so focused on cutting non-value added costs that I fear that they will cut into protective capacity or surge capacity. If they do that, then their delivery to customers will suffer. I mean, they will not be able to deliver on time if they get even a slight increase in orders.

So, there has to be some protective capacity at all times everywhere you can. You can't do that everywhere. That's where the Theory of Constraints says where you have the least capacity; it may not be a true constraint because the market may be your constraint. But it allows you a focus point to schedule all of your operations depending on the performance of that one department or piece of equipment or area or product or whatever you've chosen to actually coordinate everything.

Coordination is a big thing in manufacturing and in service. I mean; you want things to flow. Lean is talking about flow. Deming talked about flow.

Joe: I think flow and cadence are very important in today's world because things do change so quickly. But really, when I'm listening to you talk here about the throughput accounting is that you really can't institute Theory of Constraints because you have to have data supporting it, and your accounting supplies the data.

Charlene: Absolutely. It provides the metrics that tell people whether they're doing a good job, whether they're improving, whether they're getting worse. Hopefully that doesn't happen, but if it does, you sure need to know about it right away. We're talking, in some cases, real time information. It is not unusual at all to have terminals spread across a factory floor where things can get analyzed very quickly and pushed back out, and people know where they stand at all times.

Joe: What I really like is the fact that this kind of takes the accounting from coming up with the month end reports and saying this is what happened, this is what happened, to a more dynamic participation in the company management, doesn't it?

Charlene: Absolutely. In fact, the monthly or quarterly or annual reports that the company comes out with, their GAP statements, their generally accepted accounting principles statements that they have to file publicly with the SEC if they're a public company. Those are fine for people who are not inside the business who can't see what's going on until they get these reports. Inside the business, they need daily, weekly updates, sometimes, even hourly updates, as to how they're doing, whether the orders are going out on time, every day. If they're late, why are they late? We can collect all that information, and that's the way things get improved.

If you find that you're constantly waiting for one operation to get everything shipped, or you're waiting for one part or one component or one something, you can go find out what's wrong. Why isn't it here? If it's a quality issue, you pull in all of the quality techniques to solve the quality problem. If it's a flow issue, you might have to go to lean and say, "OK, how can we smooth out the flow here? We've have a disconnect, and we can fix it with that."

You're trying for just in time everywhere but just in time practically have to result from all the other initiatives that you're engaging in. You can't just do just in time isolated from everything else; it just doesn't work. We tried that, lots of firms tried that in the 1980s and had initial success cutting work in process and then they were so encouraged they cut some more and then they found they couldn't deliver. So, just in time had a horrible reputation with businesses for about a decade because they had tried it and thought it didn't work.

Well, it does work; it's just that it's another issue of copying somebody else's process. The Japanese had developed it, and so - they were very proud of it, so they showed us how they were doing it. So, we come back, and we tried to do it like that. But we had quality issues; we had all kinds of problems that they had already fixed. If we had done quality first, then Just in Time, it would have had a much better success ratio.

Joe: We always called it "jet it in time." That was our terminology about it? You can see I tried to institute it.

Charlene: By the way, your whole supply chain has to be developed that way. You can't do it just one little company by itself.

Joe: It does take some time, and you've got to have buffer stock somewhere. It has to be there. When looking at throughput accounting, it really intrigues me because if forces you to be active. We need to be so proactive and so agile today. Accounting seems to be in the Dark Ages about this stuff.

Charlene: Well, because they haven't had any of the training, so they're falling back on their education and their experience. And, here's the thing that I don't think a lot of people appreciate about accountants. They have a lot of responsibility; they have professional responsibility, and they have the responsibility to the firm. That's why accounting people have the name controllers; they control the fiscal aspects; they think, of the organization. This was a hard thing for me to understand and give up. I was always taught in school that the accounting people truly do control the company; they're in charge. So, you can't let people go wild and you have to watch the budget and you have to tell people when they're being efficient and effective and when they're not. So, you build up students like this and I wasn't that young when I went through college, but I bought into it. I thought, "Oh, yeah, seems great. Accounting may not be too sexy but, at least, you have power."

I kept that attitude, basically, until I started learning about TOC and going through intensive training. I can't tell you how many weeks I have spent in classes learning about the theory of constraints, when I had no manufacturing background whatsoever. Most of the earlier pieces of Theory of Constraints were all in operations. I had to learn operations and then learn the theory of constraints. It was a long process for me.

But, the day I discovered that you really don't need total cost per unit for any decision, it was dismal. I mean I was so depressed; I went into a weekend slump just because once that becomes apparent, all the work you do to come up with that number is worthless. Most of the problems in coming up with a cost per unit is figuring out all the allocations of the fixed costs. Well, if you don't allocate them, the accounting is nothing. I mean you don't even have to have an accounting degree to do throughput accounting.

Now, to do gap accounting, absolutely and here's the trick. You have to - this is my personal opinion - I think if you can't show how your internal reporting system ties in with your gap reporting system, you're going to have a credibility problem. Suppose throughput accounting says that you earn so many dollars net income this quarter or year or whatever. If you can't show how that number - you can reconcile that number with your gap number, nobody's going to believe it.

You can reconcile it; it's very easy - well; it's not very easy; it's very straightforward how to reconcile throughput accounting income to gap income. Once you do that, it's easy to reconcile a throughput balance sheet to a gap balance sheet.

Because it's fairly complex, I did a spreadsheet on this, and it accompanies this chapter and it takes a four-year look at a company that does nothing but reduce its inventory. I hold everything else constant for the four years; sales remain the same; everything remains the same for the four years. But, you get different incomes on the gap and the throughput but then, I reconcile.

Here was the throughput income, here is the gap, here is the difference and here is why that difference exists. But it took about, I think, four spreadsheets in one file to actually show all of this. I tried to keep it really, really simple but when you start talking about accounting and allocations and the standards; it tends to get more complicated than I would have liked. But, it was just impossible to put it in the chapter, so I had to do a spread sheet. McGraw Hill has some problems getting all these additional spreadsheets and things up on their website, but it's supposed to be available very shortly.

Joe: I'm a manager, when I look at my income statement, what am I going to see in throughput income statement that I am not going to see any different in a traditional income statement?

Charlene: What you're primarily going to see is that your income, after everything, is going to track directly with sales, with revenues. With a gap, it does not. With gap accounting, your net income is a function of both sales and production. You can produce a lot this period and make your gap income higher than it would otherwise be just because you deferred a bunch of costs that you already had to pay for this period. I mean; there are costs that you incurred, and you're going to incur the same costs next period. But they don't show up on your income statement for gap purposes until you sell that production. So, it's not a well understood concept. In fact, I developed the first of this inventory reduction example many years ago when I was doing workshops for accounting people. I made the statement that, if you reduce inventory, your net income is going to go down. I had people argue with me. I had CPAs arguing with me, "No, we can reduce inventory and our income goes up." I thought, "Well, it might if you sell more. But you tell your salespeople you're going to reduce your inventory by half, and you want them to increase sales, in spite of that fact, you're going to have a hard time selling it."

So, I just took it to the logical extreme. Here's what happens and, if you're ready for it, you can explain it to your creditors, to your employees, to your investors, you explain in advance, "Hey, we're going to reduce inventory and, if everything stays the same, it's going to make our income look worse. So, be prepared, we hope that doesn't happen. We think we can increase sales enough to offset that. But, if it does happen, that's why."

People are smart. I mean; you don't have to explain what's going to happen when you reduce your inventory. If they're ready for it, fine, no big problem.

Joe: I think it has to be explained to them because people operate in sound bites anymore. It's not like they're going to read four pages of spreadsheets to determine that you're telling the truth. They want to get it with four post-it notes pinned on the wall. Can it be explained that easy?

Charlene: With throughput accounting all fixed costs are expensed in the period. That is; you don't defer any fixed costs. You only defer variable costs that are tied up in inventory that you haven't sold. So, that's why that throughput accounting net income tracks directly with sales. Your fixed costs are not inventoried and then charged off later. They're charged off exactly when you incur them.

GAP, on the other hand, says oh no, no, no, no, no. And, this is right. When you show that you are matching up your revenue with the cost of those revenues, the cost of the product or the cost of services, you have to include every cost that you incurred in producing that product or that service.

It's not usually a problem in the service industry because when you incur it, I mean, you incur it. I mean, you can't usually inventory service work. So, all of it appears on the statement at the same time. Which is basically the same result you get with throughput accounting? Now because of that, because the only difference, the only difference in the two statements is the fixed costs that were inventoried with GAP that were expensed with Theory of Constraints.

Joe: What you're saying is, are we already doing throughput accounting then basically in service industries?

Charlene: We're getting the same result. They're not calling it throughput accounting, but they're getting the same net income that they would.

Joe: Inventory and that allocation of fixed cost to inventory is really what that's all about?

Charlene: Right. So, if you take the fixed costs in your beginning inventory and take the fixed costs in your ending inventory and take the difference there, that's going to explain the difference in your net incomes between throughput accounting and GAP accounting.

Joe: How can I leverage that to my advantage? Is that where I really want to concentrate on? When I look at that and see that fixed cost being allocated to inventory, is there a deeper meaning in that to me?

Charlene: The income would be a measure of how well the organization did. What I think you're referring to is perhaps maybe a manager inside an organization. Who is trying to see maybe their contribution to that overall income statement, or their performance or their progress? There are some other ways of doing that. You don't want to wait until the end of the period to get a financial statement of any sort before you make some decisions because they come up every day. You need other things to help guide you to make those decisions.

One of things you need is you need to know the total variable cost of whatever it is that you're selling. The variable cost meaning if you have one more unit of product, you're going to incur another unit of cost. Materials are the best example of this. If you want to make one more unit, you've got to have one more unit of raw materials. So, raw materials are a perfect variable cost.

Sales commission based on the percentage of sales is the perfect variable cost. After that it gets iffy. There are few totally variable costs. Maybe if you're shipping is by weight or product or something like that, you're shipping costs might be variable. But, that's debatable today because of full truck loads and all kinds of other things and geography. It's a questionable issue as to whether shipping costs are variable.

I've had people arguing with me lately that there's no such thing as a variable manufacturing overhead cost. That the only possible truly variable manufacturing costs, other than materials, might be outsourced work, and then you could treat that like materials. It's just more highly advanced form of raw material.

If you have a consultant come in and tells you how to rearrange your flow through your factory, that's an overhead cost, but is it variable? Well, you know, it's not going to vary with the number of units you produce. I'd probably treat it as fixed.

It's not a critical issue. There are so few that are on the borderline between variable and fixed. You can toss them one side or the other and no big deal. I usually just throw everything into the fixed bucket unless I know for sure it's variable.

Now, there's just so few other than materials that are variable. But, I always put variable costs in my exercises because most companies claim that they do have other variable costs besides materials. And I don't want them to get hung up over it because it doesn't change anything, it just makes the example a wee bit more complicated. But, that's the only thing.

Joe: Throughput accounting is what you would say is the true way to operate a company by?

Charlene: Absolutely. You must know the behavior of your costs, which costs are going to go up, stay the same or go down if you do one thing versus another.

Joe: Can throughput accounting be driven, I mean, let's say you're only really talking a few figures, right, because you lump all the costs together. I mean, so when we're making description of the supersize, it's an easy decision without really complicating a lot of things that we're doing or that we can do on a daily basis.

Charlene: Right. Was that a question?

Joe: I'm looking at, because it sounds very simple, and it sounds very easily done, but I've never talked to an accountant that made anything simple.

Charlene: Well, you know, it's to our advantage to protect our turf so that, you know, we have to explain it to you. You can't just pick it up and get it yourself. That's not true. I'm really ragging on accountants, but I am one, so I know how we are. But, part of it is that accountants are so well trained in the subject, and they understand exactly what they're doing. Believe it or not, accountants understand where the holes are in their logic. They just don't know what to do about it.

It comes so easy to them, once they explain it one time to somebody on the factory floor; they think they should know it. They should get it. And by the time they do the same explanation three times and the other person is not being terribly cooperative about it. Then, you know, it's just like well, you know, you don't want to understand or I can't help you anymore.

It turns people off when there's not an effort made on both sides to communicate. And, we accountants have until fairly recently, did not have to have communications courses. Oral communication, written communication, they are both just critical to not only delivering information, but interpreting it and making it easy for people to use.

Joe: I can see how operationally you could grasp throughput accounting very easily between managers because it makes it simpler to understand and makes their numbers and things that are much more relative to them in understanding it. Do accountants resist this? Or, what's the stumbling block getting them to adhere to these principals?

Charlene: The only stumbling block, well there is probably a couple. One is that, in most accounting programs, students are prepped to be professional accountants and take the CPA exam or the CMA exam. And, the CPA exam used to have only about 10 percent of its material on the test dealing with management accounting concepts. Students could effectively blow off management accounting and still pass the CPA exam. Recently, I understand that universities are now requiring two or three management accounting-type courses for an accounting degree, but that wasn't always true. So, the people who are in charge now of accounting departments are not trained in management accounting for the most part.

Even though they may have had a course back there somewhere, they don't recall the details unless they can hear terminology they understand. For example, there's a big thing in theory of constraints about finding the throughput per constraint unit. We have had this in every accounting textbook since the 1960s, but it's not called throughput per constraint unit, its called contribution margin per constraint unit.

It's the same concept, and they know it and they know how to handle it once they understand that that's what it is. But, it's the terminology issue again, it's confusing, to say the least. But, what can you do? You deal with it.

Joe: Where is this all going? I mean, is throughput accounting becoming more widely accepted or is it in kind of in a point that is just sitting there and not going away? Where is throughput accounting going right now?

Charlene: OK, on the latest content specification outline for the CPA exam, under one of their headings, under the operations piece, they now have a requirement that candidates understand or at least have some familiarity with quality, with Lean, with Theory of Constraints and a couple of other things. So, it's not throughput accounting yet, but it's making its place on the CPA exam. Now, the CPA new exam content becomes effective on January 1, 2011, so that's about six or eight months from now. The Institute of Management Accountants, who controls and awards the CMA exam, that's a certified management accountant exam, now has both Theory of Constraints and Throughput Accounting on their content specification outline. And that's happening now.

So, the professional bodies are recognizing Theory of Constraints for sure, and the Institute of Management Accountants has recognized Throughput Accounting. So, yeah, it's becoming much more well-known, and I hope it becomes much more practiced because it's the only thing that's going to help our operations people know what to do.

Joe: You talk about operations, how did this parlay into your background in project management because you wrote two chapters in the TOC Handbook, one on finance and accounting, but the other was on project management, which I thought was a pretty big step apart. How did these two flows together?

Charlene: The more I got into management accounting and management, the more I kept running across project management. My personal history was that I learned Theory of Constraints Project Management first; that's critical chain project management. As a professor then I started trying to tell people about it, and they say "That's not your field; you're not certified in anything dealing with project management." I had to get some certification so that I would at least indicate to people that I knew something about which I was speaking; I then studied the Project Management Institute qualifications and criteria for their project management professional and got that designation. I started lobbying my university to let me teach project management. That took about two years to convince them that I really had material here that students needed it, and we needed to be teaching it.

My dean allowed me to teach graduate project management. I taught that, for the last two years, I was at the university and learned a lot. You really learn things when you're teaching somebody else, and they start asking you all these questions that you hadn't even thought about. My students helped become proficient in project management.

My husband that I'm currently married to, actually was a project manager and he was also the CFO of a couple of companies, and he knew all about project management. So he wanted to write a book, and we have co-authored now two editions, of earned value project management. It's accounting for project management. It has a lot of just plain project management concepts in it as well, including in the latest edition a chapter on critical chain project management. So that was my transition.

Joe: Is there anything I left out of the conversation you'd like to add, Charlene?

Charlene: Oh, gosh, you've been pretty comprehensive about everything. The one thing I want to make sure that listeners hear if they're not accounting people or even if they are accounting people, is that accountants are very smart people, and they catch on really quickly, but you can't expect them to catch on when they don't know the rules of the game. My big push now is to get every accounting person into training classes for all these improvement initiatives, whether it's lien, or quality or theory of constraints or whatever. They will figure it out, and they will develop the metrics that are needed to let people know how they're doing real time.

We didn't even talk about this, but there's a whole issue of performance evaluation. I'm reading actually, a new book. It says, throw out the performance review, because it did nothing but set people up for failure, and bad feelings and everything else and it doesn't help improve anything. He is absolutely correct. In the U.S., we have such an emphasis on individual performance, the hero effect I call it. You want somebody to dash in and save the day, and they get lots of kudos from the company and bonuses and whatnot, but that doesn't help the organization. It promotes a few individuals which are then treated with spitballs behind their back by everybody else.

When, in reality, you want a team working together, and if you want a team working together as you do in project management, you better figure out a way to evaluate the performance of the team as well as the individual. I would put much more emphasis on evaluating the team results and a little on the individual performance.

In fact, in my world, if I controlled the world sort of thing I would only evaluate a team and then let the team evaluate the members. The team also then would have the power and responsibility to get rid of underperforming team members and find some new ones. Everybody's performance goes down on a team if you have some slackers.

Joe: What's next for you, Charlene? I mean, what's the direction that you're taking?

Charlene: Well, I'm looking now at the whole process of change. My husband and I, who co-author nearly everything, this chapter on Critical Chain and the Theory of Constraints handbook was an exception to that. But we're both looking at change, how you make the change happen, how you make it stick, how to make it less painful for everybody and how to get the best information in terms of what you need to do to make the change. So, that's my next biggie.

Joe: I appreciate hearing about that and keep me abreast of that. I want to thank you very much for being on the podcast.

This podcast will be available on the Business901 website and also the Business901 iTunes store. So, thank you, Charlene.

Charlene: Well, you know I forgot we were doing an interview; I thought we were just talking, so you did a great job.

Joe: Well, thanks a lot. I appreciate...

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Implementing Lean Marketing Systems

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What others say: *In the past 20 years, Joe and I have collaborated on many difficult issues. Joe's ability to combine his expertise with "out of the box" thinking is unsurpassed. He has always delivered quickly, cost effectively and with ingenuity. A brilliant mind that is always a pleasure to work with." James R.*

Joe Dager is President of Business901, a progressive company providing direction in areas **such as Lean Marketing, Product Marketing, Product Launches and Re-Launches. As a Lean** Six Sigma Black Belt, Business901 provides and implements marketing, project and performance planning methodologies in small businesses. The simplicity of a single flexible model will create clarity for your staff and, as a result, better execution. My goal is to allow you spend your time on the **need versus the plan**.

An example of how we may work: Business901 could start with a consulting style utilizing an individual from your organization or virtual assistance that is well versed in our principles. We have **capabilities to plug virtually any marketing function** into your process immediately. As proficiencies develop, Business901 moves into a coach's role supporting the process as needed. The goal of implementing a system is that the processes will become a habit and not an event.

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