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Podcast Transcription

Implementing Lean Marketing Systems

## Building on the work of Peter Scholtes

Guest was Kelly Allan

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## Implementing Lean Marketing Systems



Kelly L. Allan is Senior Associate of Kelly Allan Associates, Ltd., a company with 24+ Associates who has been in business since 1974. Kelly has published articles, commentary and letters in a variety of journals, including *Business First*, *Fast Company*, *PexNetwork.com*, *Personnel Journal*, *Marketing News, Inc.*, *Business Marketing Association News*, *Nature Conservancy*, *Harvard Business Review*, and *The Wall Street Journal*.

In 1999, poor health forced Peter Scholtes to retire from conducting seminars and consulting. Peter asked Kelly to continue the seminars and consulting practice. Scholtes says, "There is much to appreciate about Kelly. His exceptional ability to combine theory with real-world implementations is perhaps what clients appreciate the most."

In 2004 Kelly was one of only 12 people selected by The W. Edwards Deming Institute to conduct Dr. Deming's famous "Four Day Seminars." In 2010 Kelly accepted the invitation to serve on the Advisory Council of The Deming Institute.



**About:** Peter Scholtes was an internationally known author, lecturer and consultant and the recipient of numerous awards such as the Deming Medal and the Ishikawa Award. From 1987 to 1993, Mr. Scholtes shared the platform with W. Edwards Deming, helping to educate corporations about the new philosophy of the Quality movement. He was one of the first to synthesize the principles of the organizational development field with the teachings of Dr. Deming.

## Transcription of Podcast

**Joe Dager:** Welcome, everyone. This is Joe Dager, the host of the business 901 podcast. With me today is Kelly Allan. Kelly leads an organization made up of over 24 associates grouped together in the Kelly Allan Associates Company. In 2004, Kelly was one of the 12 people selected by the W. Edwards Deming Institute to conduct Dr. Deming's famous four-day seminars. In 2010, Kelly accepted the invitation to serve on the advisory council of the Deming Institute. When Peter Scholtes retired from conducting seminars and consulting, he asked Kelly to continue his work. After five years of doing this, Peter wrote a note of thanks and admiration to Kelly for his efforts, which I highly recommend that you take a look at and read. I would like to welcome you, Kelly, and could you start the conversation and tell us about Kelly Allan Associates.

**Kelly Allan:** Thanks, Joe, I'm glad to be here. Kelly Allan Associates is a collection of experts, and everything we do, whether it is marketing and sales work, whether it is quality and productivity work, whether it is human resource, management consulting work, statistical work, everything comes from the basis that was established by Dr. W. Edwards Deming and by Dr. Peter Scholtes, so I think that makes us fairly unique, in that we really follow those teachings very carefully.

**Joe Dager:** I think it does, and as most others that shared a stage with Dr. Deming, Peter Scholtes' work, was his background in statistics?

**Kelly Allan:** No, Peter's background was actually in theology, but you can tell if you look at his books that he was a very smart guy. Peter had been a Catholic priest at one point in his life, but seemed to take naturally to the Deming philosophy, which is in itself; I think, a very natural approach to management. Peter's

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specialty, and I think, one of the things that Dr. Deming really appreciated about Peter was the great insight about how to lead people. Dr. Deming did; I think, in many cases, prefer to work with statisticians, and Peter was a big exception to that. Obviously, he knew the basics; he learned the basics of control chart thinking and using the quality tools, the technical tools, to get at issues whether they were related to productivity, or quality, or to the management of people. So, he brought a different kind of package to the table for Dr. Deming and it worked out really well for them.

**Joe Dager:** What did Peter do before he became associated with Dr. Deming?

**Kelly Allan:** He worked with a variety of groups in Madison, Wisconsin that was engaged with thinking about and trying to lead differently and to increase productivity and to solve problems in new ways. So, Bill Hunter, if you know John Hunter and CuriousCat.com, Peter worked closely with Bill Hunter. And Madison seemed to have a collection of these folks who really wanted to think differently about things, so that when Dr. Deming came along with a different way of thinking, I think it was just a natural way to collaborate.

**Joe Dager:** Well, Peter, of course, is famous for his work with Dr. Deming, but in his own right, Peter was a great visionary. I mean, his writings seem like the basis for much of what we're talking about in the workplace environment we're discussing today. What parts have you seen the most interest in?

**Kelly Allan:** Well, first I would agree with your statement, and Dr. Deming encouraged Peter to write because Peter had a way with words, and he really was an effective communicator, whether in public speaking, in conversation, or in print. As you look through the two main books, *The Team Handbook* and *The*

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Leader's Handbook, in both cases, let's start with The Team Handbook. The Team Handbook, I think, is about two key things. One, it makes teams more effective because it introduces the discipline of the quality tools to teamwork. The second thing, then, is kind of the reverse of that in that it introduces people to the quality tools in a way that makes them come alive and useful, not only in a team context, but in an individual context. And since most strategic and important challenges, opportunities, problems, are more complex, they typically require more brains.

The initial work on teams were benchmarked from Japan with quality circles, and of course neither Deming nor Scholtes supported thoughtless or maybe even thoughtful benchmarking because it misses the systems part, the interconnections, so just taking a best practice and trying to bring it into your organization, such as is the case with quality circles, it is doomed to failure. So, when The Team Handbook was published, it changed everything about teams, so you see a lot of that discipline of project management and group team management, project team management, today, whether it is agile software development or something related to marketing and sales, those basic approaches and some of the advanced approaches that Peter outlined in The Team Handbook, are in use today in successful teams, even though many of the team members and the team leaders do not know that the tools and techniques they are using came from Peter Scholtes or, before that, from Dr. Deming, because those teachings, those tools, have been so integrated into the core curriculum, of how we do things these days, they have just been absorbed. And, people don't necessarily know where they came from, they are just considered to be the way you operate.

**Joe Dager:** One of the things I noticed in, let's say in The Leader's Handbook, is that Peter chose not to use the term "Lean" in his body of work.

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**Kelly Allan:** When Peter was writing *The Leader's Handbook*, the phenomenon of "Lean" was in its infancy in the U.S., and it's kind of a complicated issue in that Taiichi Ohno, who is the father of the Toyota Production System, which we would call "Lean" did not like labels, as Deming did not like labels. He didn't care for TQM, for example. When Peter wrote *The Leader's Handbook*, he was very careful about any of those kinds of words and phrases that tend to pigeonhole things and limit their effectiveness.

**Joe Dager:** Well, I think what's interesting about *The Handbook*, is that it has always served as my bridge, kind of, directly to applying Dr. Deming's principles, and it's untainted, as I mentioned, with Japanese terms and the Toyota validation that occurs in practically every "Lean" book anymore, that, it needs to be validated if Toyota did it or not, but if you really want true Deming, I open up Peter's book.

**Kelly Allan:** You are not alone in that. Peter was an excellent student of Deming's, certainly, and a thinker in his own right. *The Leader's Handbook* is bigger in scope than "Lean" quality productivity. It links those elements into a management approach, so *The Leader's Handbook* is about creating an organization that really has win-win-win for everyone involved rather than experiencing the unintended negative consequences of trying to lead an organization through silo thinking or by pitting departments against one another for budgets and recognition and rewards. Peter knew, as Deming knew, only at the visible numbers, where we look at the KPIs, and when we try to set targets without understanding ability of people, and processes, and teams, etc., what we are doing is creating tomorrow's failures. We are creating unintended consequences that people try to optimize their own area, achieve their own goals within their own departments at the detriment of the entire organization. And that's something that is still not well

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understood.

**Joe Dager:** Well, I think one of the things I noticed, because I play in the sales and marketing world a little bit, is it has been very difficult to take "Lean" into sales and marketing because it is centered on internal structure and the first thing they talk about is leveling sales and making it better for the production. Well, when I read Peter's work and Deming's work, it is systems thinking where we are trying to make both the supply and the demand-side work together, and just as you alluded to there in your description is that type of systems thinking is what Dr. Deming and Peter Scholtes and others were about.

**Kelly Allan:** You are absolutely correct, and I think it's a good insight that you mentioned that one of the, and it's true not just of "Lean," I mean "Lean" has really excellent things to offer, but when we try to apply anything without seeing the larger context, we typically get those unintended consequences. The example you gave about sales, trying to level set sales with production, it's not that's a bad thing, and it certainly can reduce some of the upsets that come from those two areas being out of balance, but that's still kind of a black-and-white world, and with Dr. Deming's work and with Peter Scholtes' work, we are no longer in a black-and-white world, we are in a color, 3-D world instead of a two-dimensional, black-and-white world. We have to bring in other things, and it's not just about, then, whether we are trying to look at the numbers of what production is, or service delivery is capable of providing, so that sales can sell that. We also want to have feedback loops that include market research, and include the customer, include new innovation, and we want to be using sales, not just as a sales function, but as in part a research function, to hear the voice of the customer, and to test things the customer might not have thought about. It becomes multi-dimensional, and that's where I think the example you gave was really excellent, because we see so many companies trying to

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force-fit "Lean" methodologies without seeing the larger ramifications of that. Things will get better in some ways if you force-fit "Lean" into sales, but they won't necessarily stay there.

**Joe Dager:** Peter Scholtes' work, and Dr. Deming's, is a discussion of merit pay. That hasn't seemed really to take hold, and maybe many people have said merit pay is bad, or sales commissions are bad. These two, most specifically were writing about it 15 or 20 years ago, and why is this? Were they wrong?

**Kelly Allan:** We have to look at what's most useful, and if we're going to look at the organization as a system, pay for performance, merit pay, pay for results, those kinds of 2-D, black-and-white tools start to have unintended consequences, and they pit people against one another, and they cause all kinds of wasted time and wasted effort and turnover of staff, but they are very difficult for the human brain to unhook from, because on the surface, it seems so logical. When we get a call from an organization that says, "Well, we think we want to unhook from pay for performance and merit pay. Help us do that." Our response is "Are you really sure you want to start there, first of all. If you do, you need to know why." So both Dr. Deming and Peter Scholtes make it clear that the "why" comes from the math. Both those men were humanitarians, both very much appreciated the destruction of people that comes from merit pay and pay for performance and those approaches. But the reasons for unhooking come from the math. And just as a preview, the math has to do with the control chart, and what is the capability of the system and the people within the system to be successful. There are a couple of hands-on exercises that we take people through to help them unhook so they understand the science behind the methodology. Once they understand the science behind the methodology, otherwise guaranteed arguments about merit pay and pay for performance don't go away, because our whole culture, and many cultures around the world, from the time



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we started school, are based on individual merit, so our brains are programmed to defend that.

**Joe Dager:** Why do you think, Dr. Deming's work most particularly, but Peter Scholtes' work, is really applying all of these principles and kind of the how to do it within an organization. That work seems to me more relevant today than what it was 15 years ago. Can you kind of expand on that a little?

**Kelly Allan:** Yes, I think you are correct. We see more, every year, of organizations wanting to move more toward what Dr. Deming and Peter Scholtes describe as the New Leadership Approach - the New Philosophy of Management. There are several reasons for that. One is most organizations that have been diligent about applying the prevailing methods of management we talked about with merit pay and pay for performance and performance appraisals and those tools and techniques that are sort of just accepted without thoughtfulness today, that approach to management is hitting a wall, especially with the new people entering the workforce who do not want to tolerate, will not tolerate, that old command and control structure. So, they don't stay long in these organizations, or they find different ways to achieve and go about their life's work. A lot of organizations are finding that productivity is going down, costs are going up related to employee recruitment, retention, and they are starting to sense that what they are doing does not provide a competitive advantage and is not fostering and is not bringing out intrinsic motivation in people. So, even though The Leader's Handbook was published about 15 years ago, 14 years ago, it's still being read, it's still being purchased, and it's still being handed around as people say "we need to find something new."

There is also a resurging interest in the Deming Institute and the work that the Deming Institute does. So, you're correct. There is

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definitely a trend. And another reason that trend is moving forward is once an organization moves to the Scholtes/Deming way of managing; they tend to soar and to become much more highly competitive. They can attract people more cheaply, they can retain people more cheaply, and they get work done more cheaply, at a higher quality level. It is the virtuous cycle. The only way they would go back to the old management approach is if the senior leadership changes and the new senior leadership coming in doesn't understand it, does not want to understand it, in which case they go back to command and control, and then they start to see the same patterns again, with higher turnover rates, etc.

**Joe Dager:** Is there a particular area of Peter's work that you concentrate on with Kelly Allan Associates? I just wondered if there was a particular area, such as merit pay.

**Kelly Allan:** We like to think that we cover the full range. Certainly, if we were to do a Pareto chart of requests, what you just mentioned with the merit pay and how do you pay people, how do you go about promoting people, how do you make those judgments, about who should be promoted, and how you set pay, and how you determine raises, all of those things would be the highest bar on the Pareto chart because, everything else is fairly straightforward once you move into the 3-D, color world that Deming and Scholtes describe from the 2-D, black-and-white world of command and control, once you move into that much richer world and understand some of the basic tenets of how to be successful as a leader in that, everything tends to fall into place. You know how to look at numbers differently. You know how to look at spreadsheets with a new set of eyes. You know the importance of driving out fear. You know the importance of asking, "why?" five times or seven times. You know the importance of not looking for someone to blame, but to look for a

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root issue, and is that root issue a special-cause issue that just happened, or is it a common-cause issue that's really a systems piece we need to diagnose and tease out and understand. The piece that's remaining, the one that seems, still, to most people, counterintuitive, is how you unhook from those black-and-white ways of managing people. It does all fit together with everything else that Deming and Scholtes did, but, as I mentioned, it sometimes takes a little more unhooking and some hands-on experiences and some discussion of some very simple math for that last bit to drop into place.

**Joe Dager:** What was the opinion of Peter and maybe Dr. Deming on certifications?

**Kelly Allan:** I never had a discussion about that with Dr. Deming. Peter and I talked about it some. The sense is that approach is probably here to stay, in terms of certification provides, at least at the beginning, some kind of indication, if I have a certification, that I know what I'm doing with those approaches. The reason they were less than enthusiastic about certifications is because of the danger that comes, from how do you control and manage the quality of the certifying body itself. There are abuses that start to enter the marketplace, and at a certain point, having a certification doesn't mean much because some people have achieved those certifications in ways that were not robust. And so, that has tainted the entire certification, so that us back to "OK, do you really know how to do X, Y, and Z? And do you know how to do it within the context of the system?" That was one of the things that Dr. Deming complained about with TQM, that all of us are sort of wondering in terms of some of the certifications for Lean and six-sigma. It's not that they are without value, but they can be tarnished by some of the abuses of the marketplace.

**Joe Dager:** What is upcoming to the Kelly Allan Associates?

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What's your plan for the future and the near future?

**Kelly Allan:** I think we'll continue to do what we're doing. We like working with organizations; for-profit and non-profit, local, small organizations are exciting to work with, because they are smaller ships to turn, so you can see the impact of a management's moves to the 3-D, color management approach. You can see that impact much more quickly than you can in a larger organization, which is just a big ship to turn. We do a fair amount of international work, as well. I just recently returned from and Malaysia, and we will be doing more work over there with a variety of organizations, and the Deming Institute is very involved with those activities, as well.

**Joe Dager:** How can someone contact you?

**Kelly Allan:** KellyAllan.com is probably the best way. There are a lot of articles, everything is, free on the site. I would also like to mention [www.pexnetwork.com](http://www.pexnetwork.com), which has a series of about 25 short articles in their collection of what's called "The Deming Files." Those cover everything from Peter Scholtes' work to Dr. Deming's work, The System Of Profound Knowledge, The New Philosophy of Management, as well as differences between an approach that goes beyond Six-Sigma to incorporate more of Deming's thinking and more of Peter Scholtes' thinking. There are some examples there of how that extra robustness of going further into the Deming approach gets you even better outcomes.

**Joe Dager:** How do you think Peter Scholtes would like to be remembered? What do you think was the most important thing to him?

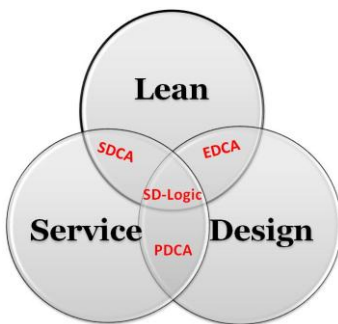
**Kelly Allan:** Certainly, joy. Pride and joy in work would be right up there for Peter. Trying to create a humane work environment that also made logical sense, I think, would be important to

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Peter, and to be serious about work, but also have fun at the same time. I mean, it's our life. Peter was very much about "This is your life. Be sure you are living your life. And, work is an important part of life, and make sure you are giving and getting from the work."



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Joe Dager is president of Business901, a firm specializing in bringing the continuous improvement process to the sales and marketing arena. He takes his process thinking of over thirty years in marketing within a wide variety of industries and applies it through Lean Marketing and Lean Service Design.

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