



Deming Can Be Easily Understood: Interview with Kelly Allan

0:00:02.4 Andrew Stotz: My name is Andrew Stotz and I'll be your host as we continue our journey into the teachings of Dr. W. Edwards Deming. Today, I'm here with featured guest, Kelly Allan, who claims we are nearing the tipping point in which Dr. Deming's management methods will more rapidly replace traditional command and control methods. And he has suggestions for organizations that wanna get ahead of competitors to reap the rewards worth millions and billions of dollars depending on company size. Welcome Kelly, and please explain that bold call.

[chuckle]

0:00:40.4 Kelly Allan: Well, it's interesting. When Deming sort of burst on the scenes in the United States in 1980 in a documentary of "Japan Can, Why Can't We?," he was describing, and in his first book, "Out Of The Crisis," he was describing an entirely new way of thinking. A new way of looking into organizations to see how they work, to help them work better, to make them more productive, and so it could be more joy in work. And there was so much, I think, it was such a fresh and new way of thinking that for most folks, it was overwhelming. So, now 40 years have passed, and little by little, so much of what he wrote about in that time and during the next 13 years of his life, have seeped into the way organizations, many organizations, are run, even though the leaders and others in the organizations may not know that those ideas came from Deming, and the combination of ideas came from Deming. And part of the reason that was in my mind is the... In the new... The third edition of... I have a copy here of "The New Economics," the new chapter, chapter 11, there's a dialogue in which Deming makes... This is interesting, kind of a, I thought about this a lot, bold prediction. It's a question to Deming. It says, "Dr. Deming, how many organizations are using your methods 100% today?" And Deming says, "None." "Wow! Dr. Deming, if no organization is using your methods 100% today, how many will be using your methods in 100 years?" And he said, "All that survive."

[laughter]

0:02:39.6 KA: Blows your mind, right? What... Is this hubris? And I thought about this for years. I've known this quote for years and years. And how is that going to happen? Is the Deming Institute, the Deming practitioners, they're suddenly going to be all over the media? And I don't know if that's what he had... I don't know what he had in mind. But, here's what we're seeing is that many of the methods that he was proposing, not just the tools, the technical tools to improve quality of the charts and the graphs and the plots and the lines, et cetera, but the strategic part, the leadership part, we're seeing those become now more and more mainstream. And we're only 30, 40 years away from what he said, and the momentum that we're seeing is getting bigger. So, in another 60, 70 years, I won't be around to see it, but I would not be surprised. And I have a lot of data, not only anecdotal but research studies from universities, et cetera that was showing what's going on with this.

0:03:49.2 AS: It's interesting, as you were talking, I was thinking about, well, what else was going on in kind of the '80s and all that? And I was thinking about one of the things that was just starting was the obesity epidemic in America. And it's like in some ways, if somebody could have seen the

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future, they'd say, "Hey guys, we're gonna be in trouble."

0:04:09.1 KA: Super-Size Me.

0:04:11.0 AS: If this continues on, we're gonna have 30%, 40% of our population in the obese category. But who listened to that? Nobody listened to that, right? [chuckle] And now it's like, okay, so now we're here.

0:04:24.8 KA: Yeah. Well, I think it's... I'm not sure there's a direct analogy, but there is, are some, certainly some similarities that you mentioned. So, for example, with business, if I was one of those earlier adopters of something that Deming was talking about. Just to try something, right? Just not get my arms around everything but just to try something and it worked. And then, I'd try something else and it worked. And I'd try something else and it worked. So, whether we're talking about thinking about control charts instead of spreadsheets. And thinking about having managers be mentors instead of sheriffs. To be thinking about abolishing performance appraisals and focus on processes, and holding processes and systems accountable rather than just focusing on an individual and try to improve only people instead of the system on which they work. At a certain point, those organizations leapt ahead of their competitors.

0:05:26.4 KA: So it becomes... I mean part of human nature is to just, "Hey, it's familiar, it works, let's just keep doing more of that." And many of them never went back to the Deming well to get more tools. To learn more things because what they had, the few things that they tried were so powerful. Well, fast-forward. A lot of those things that were radical, revolutionary at the time Deming was first talking about them have now become more and more common practice, and they are what you need to get a seat at the table. They don't put you ahead anymore. You have to have them because your competitors are doing them. That's more with the sort of technical quality of service, improved service quality, improved product quality. But we're also seeing the things like having managers be mentors and coaches rather than sheriffs and disciplinarians, and holding people accountable for the output of the system.

0:06:31.5 KA: Younger folks, especially, will not migrate to the organizations that are still using those old tactics. Especially, we see it in technology firms, but we're seeing it everywhere. We're seeing it everywhere. So, a number of Deming-based companies during this time when it's impossible, seemingly impossible to hire people, have people waiting in line to go to work for them. And that's part of the Deming magic is you get both. As you focus on his methods, productivity increases as costs go down. Quality increases as costs go down. Joy in work increases as costs go down. Competitiveness increases as costs go down. That is powerful. Imagine having the lowest-cost service, lowest-cost product, and the highest quality with workers who want to stay and work with you and want to continue to learn. How can you not grow your market? How can you not grow your share of the pie, or grow the pie itself?

0:07:48.2 AS: Just thinking about... You were talking about going back to the well and getting other tools to apply. 'Cause I was just thinking, what you were saying, and one of the ideas I was thinking was that, if a typical person went to a typical Deming seminar and they just walked out of it and said, "Why don't I stop being confrontational with my management team and my workers? Why don't I just stop setting them against each other? And why don't I view things as a system where we're all gonna work together?" And that's the only thing they took back. They could get a huge benefit.

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0:08:24.4 KA: Absolutely.

0:08:25.4 AS: There's also a lot of other aspects that can continue and build on that. So, when you're talking about... What you're saying, is that what you mean? Like there's some core principles that you could just pick up and start applying right away without having to understand everything about the technical aspects of Deming?

0:08:43.5 KA: Oh, absolutely. And in fact, a number of firms don't do much with the technical "quality tools." So, some maybe build a control chart or two a year, at the most. Some may have fishbone charts, but not all of them. Because they have focused more on the leadership methods, which are really in "The New Economics," rather than the technical quality. So when you add Professor Shraim, you're talking also about different methodologies, different disciplines to improve quality. Deming didn't make, to my mind, in my reading, it didn't make that distinction between producing a great service experience for a customer or producing a great product, with producing a great strategy in the boardroom or the C-suite, because the thinking is the same. The tools that you would use to improve product or service quality can be applied in the financial CFO's office. Right?

0:09:53.5 KA: You start looking at the numbers differently. You start understanding what the numbers are telling you or not. 'Cause spreadsheets are not really an analytical tool. They're simply a numerical record. Deming's tools provide true analysis. So, in the early days, it was easier for most organizations to grab, not all of them, Gallery Furniture for example, down in Houston, grabbed a lot of the leadership principles. Taking sales people off from commission, sales go up, turnover of employees goes down. Right? So, they did a lot of those things. Most other organizations though grabbed on to the "quality tools," right? They're very concerned about the metrics related to processes, and that's important.

0:10:46.7 KA: The thing is, we're at a point in most organizations now that if you just rely on the "Quality department" to try to improve the service that you're delivering, whether it's a customer service experience, call center experience, or whether it's a product or installing a satellite dish or whatever it is, you're not getting the full benefit of Deming because the improvements and the changes that you want to make to increase productivity and reduce costs run up against that old commanding control, traditional way of management. You mentioned, for example, causing people to compete against one another for rewards and recognition. It's interesting. Stanford did a study several years ago in which they asked, I think 435 CEOs of companies of size, I don't know if they were all public companies, I don't recall. But what was their number one issue that they're worried about? It wasn't competitor's products. It wasn't innovation. It wasn't worldwide issues. It wasn't any of these things. The number one issue was, "My direct reports don't get along, They won't play well together."

0:12:01.7 KA: Well, let's see, you make them compete against one another for your attention, for budgets, for rewards, for recognition, for all those things. Why would they get along? They're not on the same team and it's your management approach that has caused that to happen because you believe, you've been taught to believe, that competition is how you get the most out of people. Deming, of course, saw that people are maybe 3%, 4%, 5% of the results that you get. It's the process, it's the system, it's the culture in which they work that yields those results, and it's much better to have. And it's easy to do, right? That's what's amazing. It's not hard to do to improve. To make your processes and systems, whether they're HR systems, hiring systems, production systems,

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delivery systems, whatever it is, to make those above average, so that you can get more people who can get above-average results. It's magical. It's so simple, but it's not familiar. It's not familiar. They're in that Deming well. They're in buckets there, but most people have not been exposed to it.

0:13:19.0 AS: So, the next question I'm gonna ask you is gonna go back to what you were talking about. How some people just take some of the starting points in Deming's teaching and apply that and get a lot of benefits. And my question to you is, and you're gonna have a chance to think about this question because I'm gonna introduce you to the audience after I ask it.

0:13:37.9 KA: Okay. [chuckle]

0:13:38.6 AS: So you got a chance to think about it. But what I wanna think about is let's take a listener out there who's just very new. They're like, "Oh Deming, interesting. I've downloaded the book, I've read some of it. Some of it's confusing. It's a bit overwhelming." I want you to think about what you can tell people as far as kind of concrete things that they could do to start to bring the Deming philosophy into their work. And while you're thinking about your answer on that, let me introduce you to the audience. Kelly Allan is Chair of the Advisory Council of the W. Edwards Deming Institute, and he wrote the new chapter for the third edition of "The New Economics," Dr. Deming's seminal book on leadership. Kelly has also published in a variety of journals including "Forbes" and "The New York Times." As you might imagine, he also gives a lot of presentations and seminars on the topic. So now, Kelly, for the beginner out there who doesn't know much about Deming, they're learning. What would be the first kind of concrete things that they could implement in their business?

0:14:37.6 KA: Well, I'll give you several, because different people have different interests and different ways they like to learn and consume. So, starting with that new chapter in the third edition of "The New Economics," that's 45 pages. It's not a huge commitment, and it gives you lots of examples of what organizations have been doing, and why the thinking makes sense. And part of the beauty of what Deming gives is it's very natural, humane, authentic, genuine, intuitive. So, that's one thing. There's a lot of free materials at Deming.org. Just a vast amount of things. There's a new piece that's a new offering that's coming up here. It's called DemingNEXT, which is online learning, so, the self-paced learning or facilitated learning with a facilitator. That's useful.

0:15:34.1 KA: There are also seminars. So, there are one-day seminars. There's a two-and-a-half-day seminar, if you wanna go more deeply. But in one day, it's really more like six hours with breaks and lunch, et cetera, we call it one day, but you can get exposed to some of the key thinking. And it's not really lectures. It's hands-on, fun things that get past the gatekeeper in the brain said, "Well, this will never work." And people have aha moments from that. So, there's experiential, there's reading, there's... And the other nice things about the Deming Institute is a non-profit. So, our aim is about spreading the word, right? Getting people more exposed to this, so we try to make everything as affordable as possible just to cover costs.

0:16:26.0 AS: So, great actionable things. First is download "The New Economics" and read that new chapter as well as what's in the book. I think it's...

0:16:34.1 KA: Well yeah, we say the new chapter first because it's very approachable. And then you can go back and start to read Deming's own words, and it really sort of brings things together, is the theory in any case. That's what we've heard.

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0:16:50.2 AS: Well, you can also see in "New Economics," you can just see that Dr. Deming's thinking and philosophy developed over time. He was continually improving. And I think that there was sometimes in early on stages where it wasn't as clear as his writing later like in "New Economics" where it really started to come together a lot more for me. So, we've got "New Economics." The other thing is to visit DemingNEXT, and I think that that's another great opportunity to do. And as far as... I wanna just talk about the first two points of Dr. Deming's 14 points because I think... I've read these over and over again, I've thought about these over over again, and sometimes I just like, "Wait a minute. I'm not exactly sure what he means." And then sometimes I feel like, I know exactly what he means. So, let's talk about create constancy of purpose towards improvement of product and service. And the final part is with the aim to become competitive and stay in business and provide jobs. So, he illustrates an aim of the business, but it's this constancy of purpose towards improvement of product and service. Can you talk a little bit about that 'cause that's one of the first things that people are gonna hit when they come into Deming's teaching?

0:18:07.3 KA: Yes, and I think at Deming.org, there may even be a video of him talking about that. And that's all free. So yeah, to bring into that, one of the deadly diseases is the job-hopping by managers, right? Because you don't really get to know a job. So, with constancy of purpose, it does two things I think that are key. One is it gives you a long-term view, but it also helps you make short-term... You get short-term results as well. And that's also part of the beauty of Deming is that you can start doing stuff after you learn. You can start making better decisions the very next day. It's very immediate. And you'll still have things that you can learn in 20 years. So, that constancy of purpose helps with employees for example, with associates, team members, who want to come and stay, and who are attracted to the organization because what is true and genuine today will be true and genuine six months from now. Twelve months from now. Years from now, because that purpose, that constancy of purpose is to work to optimize the organization, so everybody wins.

0:19:28.0 KA: That's pretty powerful. So, whether it's customers, suppliers, people who work in the organization, the community, the environment. Deming was really pushing for big picture view with that reliable trust that people can have in the organization. Trust is so important. There's so much garbage written about trust.

0:20:02.0 KA: If you'll pardon me saying so, and it's really quite easy. And that is to do the right things and keep doing the right things. And Deming provides a framework for that versus trying to manipulate people. Versus trying to rate and rank people, in a system that is more in control of their outcomes than any individual. And that's some of the things we do in the seminars is to show the famous Red Bead Experiment and the white bead factory, and it's in DemingNEXT as well. So, that people can actually experience for themselves what they experienced when they were willing workers and forgot about when they became managers. It takes them back, that anxiety of not being able to trust the manager. So, I'll bring up another piece here, which might be useful, and it's also on Deming.org. And you can search my name to find it, if you just go to the home page, and then the search box put in Kelly Allan. There's an article that Professor Schramm and I wrote, based on a bunch of research he'd done through the years with his students engaged in the engineering school at Ohio University. And what it's about, it's called using a Deming lens to investigate and solve managerial challenges.

0:21:35.4 KA: The top things that the managers list that are causing them incredible burnout,

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frustration, job hopping, are all solved by understanding the Deming leadership method. It's just that constancy of purpose of trying to ensure a win-win, not manipulating people, being authentic, working on collaboration rather than internal competition, helping people be successful rather than rating and ranking them. All of these schemes and organizations have, because they think that people have to be manipulated or they won't do their work, in case, and when it just actually just the opposite case.

0:22:22.4 AS: A great way of illustrating that is to think about children. Children, obviously. There are children that are subjected to just brute force by adults, and they don't have that much joy left in them. But the fact is, is that it's like they're born with this abundant energy, a positive and energetic spirit. And when you think about what you see, it's one of the reasons why we love going to kindergarten classes.

[chuckle]

0:22:53.4 AS: And to visit the kids, it's like, "Wow, this is amazing!," 'cause here I am in the corporate world. I gotta fit in this box. I gotta punish all these people, and I gotta reward these. I gotta make the tough decisions and all of that. And it's like the distance between what is natural of just that fun and joy that you have when you went to school when you were a kid, and what you're doing as an adult. Sometimes it just gets painful. Work is painful for many people.

0:23:20.7 KA: Well, and so I think this was Dr. Deming who said this that we were all born with the desire to learn, and then we go to school, and it's beaten out of us. [chuckle] Yeah, yeah, and it's interesting, the number one issue that these managers that were interviewed said was... And it's top three things, it's a Pareto chart distribution. Listen, number one by far, which is, I have to spend so much time trying to motivate people. Why are they so demotivated, right? Most people don't get up in the morning wanting to go to work to do a bad job. We all wanna go to work to make a difference, to improve something, to do something that's a quality. Deming said pride and joy in work. So, we get to the organization, and it's a prison. Deming used that word actually, people in jail because they cannot be all that they can be, that they want to be at work. So, Deming talks about removing the demotivators. Let's get rid of the demotivators of treating people as if they're responsible for the system in which they work. They're not. Treating people for the results they get that are results of a bad process. He said a bad process will beat a good person every time.

0:24:51.7 KA: So, senior leadership is focused, and so many organizations in the past have been focused on making people accountable. The reason I think we're getting to that tipping point is there are more organizations that are realizing it's our role as leaders to provide the system, so that more and more people can be more and more successful. Because that's win-win, optimizing the system for everybody. They treat customers better, they treat each other better. They have a framework of a process they get from analytical thinking, critical thinking skills. Man, it's just fun. It's just fun.

0:25:27.9 AS: Yeah. I wanna go back to this point number one about create constancy of purpose towards improvement of product and service. In some ways what Dr. Deming is saying is ... Wait a minute, as a new listener or new reader of Deming, is that it? Just all we're gonna do is improve and improve and improve? Isn't there... We've gotta focus on quarterly results or we've gotta focus on mergers and acquisitions, or we've gotta produce for the shareholders, or whatever that is. But there's kind of a leap of faith there, and I just wanna talk a little about that. And I also wanna talk about one of the tools like PDSA, and this concept of what do you get if you relentlessly pursue

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improvement of product and service?

0:26:18.7 KA: Well, you end up owning the market in most cases. If you're doing it in the right way. If you're doing it in a command and control away by setting quotas and targets and goals that have no foundation in reality whatsoever in terms of what is the capability of a process or a system. No, you won't ... That's improvement the old way. The improvement with Deming's approach is to a handful of thinking tools, if you will, that you can apply and start to see what's going on with why are we having so much variation?

0:27:02.8 KA: Why aren't we have really a learning organization? Why don't departments get along? Why do we have so many silos? Why isn't it working the way I thought it would work? So, that constancy of purpose provides the framework for an approach, right? And we don't want people to take more than one leap of faith, and it's not an expensive leap of faith at all. It's read a chapter, reach out to us at the Institute, and we'll start to get you connected with resources, et cetera. But you just have to try one experiment. When you referred earlier to PDSA, a Plan-Do-Study-Act. And we always help people design those so they're low cost, low risk and fast. So it's not a big commitment, some of them can be done in an afternoon, to show the power of thinking differently. So, we want people to start small and then they'll take the next step. One of the things I want to really emphasize though, because I think it's so important, is that if you have not started on Deming journey, and you're the business owner or the leader of the organization, and even if you don't own the business, if you've not started on this Deming journey, you'd better hope none of your competitors have.

0:28:35.8 KA: Because if they have, they will gain momentum. First, they'll eat their breakfast then they'll eat your lunch, and then you're done. [laughter] And my organization, the Kelly Allan Associates, has worked on a number of turnarounds through the years. Companies that were going out of business. And it would be... For me, that's the proof of the Deming approach, right? No resources, in fact, negative resources. The company is going to fail. They're not going to make payroll, right? Fairly soon. We've ever walked into organizations where the lights were out. We met in a conference room that had windows. \$250 million top line organization turned the lights out because they didn't know if they're gonna make the electric bill. Money was just bleeding like crazy. That is a crucible. That is a test of the Deming method.

0:29:23.7 KA: To be able to turn that around. Right? So, that if you're not getting started on your Deming journey, you're leaving yourself really vulnerable to a competitor who discovers it. Now, you can catch up if your competitor is not really going quickly, because you can't do three years of work in three months. That's not what I'm suggesting. But you can go fast, and if your competitor's doing a nice steady pace, and that's a good pace to have. But if you need to catch up, then Deming approach allows you to ramp that up pretty quickly, because it's not hard to do. The main barrier to constancy of purpose is our belief system about how things either should be or must be. And that's why when Deming burst on the scenes in 1980 in this country, it was like, people thought he was talking a different language. He was talking a different language. He was thinking differently.

0:30:33.9 AS: Yeah.

0:30:34.3 KA: And that's the leap, and that's what we try to do in the seminars and the book, is to help people make that... See that there's a different universe there that is better, faster, cheaper, smarter and more fun.

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0:30:47.0 AS: Yeah, there's two things that I was thinking about too as you were talking and that is Dr. Deming, he constantly refined his thinking in his work. And I just... I'm going back to the constancy of purpose 'cause I think that I've had my own challenges thinking about it, and I think you're clarifying a lot of it. One of the things that I wanna highlight is that he talked about create constancy of purpose for improvement of products and services.

0:31:16.9 AS: Now, it's interesting. Here is a guy that was so committed to quality and all of that, wouldn't you think that he would have said to improvement of quality of products and services? [laughter] But in fact, he was saying you've gotta improve your products and services, and then how do you know if you're improving your products and services? Well, if your customers are buying more, they're feeling satisfied. It's just interesting, as I think about what you're talking about and I'm looking at it, I'm realizing it's interesting that he said improvement of product and services, not the quality of products and services. Why do you think he didn't say the quality of products and services? Instead he said improve them.

0:31:56.6 KA: Well, of course, I don't know, and I don't want to try to channel him. But my sense from exposure to him and to his readings and seminars, et cetera, is that it's the Deming chain reaction that is what gets you to do to a better space. And if you're working on improvement in the ways he suggested, ways that make sense that are not commanding control, but collaborative and insightful, et cetera, there's a methodology there that's again, easy to learn.

0:32:36.7 KA: It doesn't matter whether you are the CFO, the COO, the chief legal officer or anyone else in the organization. Because what your focus is on is trying to figure stuff out. That's the fun of it. That's when you talk about children earlier, they're trying to figure stuff out. And when they get a methodology to figure stuff out, they grab it. And that's what happened in the '80s and '90s with Deming. I think what we were all exposed to was Deming was dubbed the quality guru because so much of the name of the NBC documentary was, "If Japan Can, Why Can't We?" Because the Japanese were producing high quality products, right? From they used to produce junk. Radios, right, that didn't work very well. And then once they got into Deming, quality went way up and cost went way down. So, he was dubbed the quality guru, and that's fine. But it puts him in a box, so people miss the strategic part. The original title of his first book, "Out of the Crisis," had to do with competitive advantage. He saw that. He understood that.

0:33:57.8 KA: So, that competitive advantage comes from thinking about figuring stuff out in ways that are not command control. That are not toxic.

0:34:10.4 AS: I want to talk about what you could argue is the end of an era. And I wanna go back in time to the post-World War II period when Dr. Deming was working with the Japanese and coming back to America and trying to get people's attention. And then we had about a decade of prosperity in America. Why pay attention to quality? It's just all about quantity. Last night, I was giving a lecture in economics and finance, and I was talking about this flow after World War II, and what happened. And I'm gonna share my screen for the people that are watching; and for the people that are listening, I'll read it out as we go through. So, I'm just gonna share one slide, and then let's think about this and discuss it a bit. So, let me do that right now. And this is the slide, and basically, it's a picture of Dr. Deming and a quote with his, what he said. But at the top of it, I wrote down that America was great because every other country was destroyed. And the quote goes like this. "In the decade after the war," meaning World War I or II, sorry, "the rest of the world was devastated. North America was the only source of manufactured products that the rest of the world needed.

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Almost any system of management will do well in a seller's market." What does that mean to you, Kelly? At that time as he was saying it, probably at that point in the '70s or the '80s, and then where we are right now.

0:35:57.6 KA: Yeah, it is now a worldwide economy, and many different countries are able to produce in volume products that people want to buy. So, that kinda takes me back to what I mentioned earlier is that that is a baseline now, right? Deming was pointing out that there was a period of time where the quality didn't really matter as much as quantity. But, as you say it, that era I think is long gone, and we expect now quality at a lower cost. And indeed, if you start to think about it, so many things that we have are remarkably inexpensive for what they do. And not just technology, but certainly technology is an example of that. So, it ratchets up my point about that is now just a seat at the table. Not only is quality able to produce quantity just a given. You have to be able to produce quantity in a way that produces quality without raising your cost inordinately, or in fact, if you can reduce your costs. And that's probably gonna be the way it is going forward. I talk in some presentations, I talk about the arc of quality being a long one but bending towards Deming. Reverend Dr. Martin Luther King Junior talked about the arc bending towards justice. Well, in terms of production, productivity, service delivery, excellence, if you will, it bends towards Deming. And I see that arc coming much faster now, both anecdotally and in the research studies that I see.

0:38:07.3 AS: It's interesting also because what we saw was a transformation that happened in Japan. And if people my age, your age and others, we knew that when we were young, if it said Made in Japan it was low quality. It was just a low quality item, and Japan really went up this quality scale into a complete transformation. And now something made in Japan is known as a very high quality product in most cases. Now, what's also interesting is China. For many people, younger generation, Made In China may have meant low quality items and possibly low price and low quality. But the quality of the cars that they're making, the manufacturing that they're doing, that the parts and the supplies that they're doing into iPhone as an example, these are very high levels of quality. And what I can imagine is that the Deming philosophy of continually improving could really be applied well in any country, whether that's Africa, countries in Africa, or whether that's in China. To say how do we keep moving up that quality scale. And as you say, if your competitor gets a hold of this, and before you, they're gonna move much faster than you. What are your thoughts about that globalization of it all?

0:39:30.0 KA: Yes, absolutely, so it's not just a competitor in any given country. It's the international. And so as you talk about they're improving quality of the products that they're manufacturing, if they don't adopt to the next one, if they don't adopt the new philosophy of management, Deming's philosophy of management, they will hit a wall. Because the commanding control approach of management by spreadsheets, management by quotas, management by the numbers, management by objectives as it's typically practiced hits a wall in a variety of ways. People don't wanna work for you. They start to sabotage you. You start to break things in the rest of the organization because you're managing through fear, right? That's why with the system of profound knowledge that Deming outlines, and the four elements of that in "The New Economics," that is the future. That is, to my mind from what I've seen in terms of impact, leverage, power, if people think the quality tools, right? And they're important and we have to have them. The charts, the graphs, the plots, et cetera. But if people thought they were powerful... And they were because if you're not doing that in your organization of any size at all, you can't... You're done. It's just... You won't be able to continue.

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0:41:16.0 KA: So, almost any organization of any size that's left is doing that and they got great results from that. The system of profound knowledge, I would say, is at least four times more powerful than just using quality tools.

0:41:30.8 AS: You've touched on two things. You've started to talk about point number two: adopting a new philosophy. But you've also talked about the system of profound knowledge. So maybe you could just expound on that for a beginner who may not know anything about that and even for experts who wanna keep thinking and refining their thinking on it. Can you explain what that means to you?

0:41:53.0 KA: Well, it's such a rich area, and I like to think of it in this way. I don't wanna have to learn 400 things. I don't wanna have to learn 40 things. As a business owner, I want to do the least that I need to do to get the best results. The greater results. The system of profound knowledge is four things. I can do four things. I can figure out four things. Deming helps me figure out four things. Now, obviously, I'm over simplifying a bit because when he talks about knowledge of variation, there are some important things in there that we have to understand. What type of variation do we have? That's easy to figure out. You don't even have to do the statistics in most cases to figure out whether you have common cause type variation or special cause type variation. Because reducing variation increases productivity, joy in work, profits, customer satisfaction, et cetera.

0:42:55.9 KA: So, reducing variation is important. I'm not talking about innovation, more innovation. Deming is all about innovation. What we're talking about, variation in terms of how we can rely on output whether it's a service output or a product output. So, understanding what type of variation we have tells us what to do if we get a bad result. It tells us how to fix that, how to investigate that, or to improve the system. So, the next one has to do with appreciation for the organization as a system. People have been taught to optimize every department, which is a natural outcome of that sub-optimizes the organization. So, let me say it this way. Every organization is perfectly designed intentionally or unintentionally to get the results that it does. To produce the results that it does.

0:43:55.4 KA: I don't care if you're a financial institution, a technology organization, or a manufacturer, or a seller, or a distributor, or service organization, or whatever it is you happen to do. Whatever symptoms you're seeing that you don't like and that frustrate you are built-in, designed into your organization, and they sub-optimize it. So, we have to purposely look at the various departments and workflows to say what needs to be optimized to optimize the overall organization? What needs to be sub-optimized? We don't want everybody... And I think Deming gave the example of the symphony orchestra. You don't want everybody coming in playing loudly all the time. That's trying to optimize every person. It sub-optimizes the orchestra, right? So, that's the... So, there are some guidelines on how you optimize and have appreciation for a system, which goes beyond just systems thinking, by the way.

0:45:00.9 AS: So, we have a system, the system of profound knowledge now as you've gone through for the listeners out there that aren't familiar with it. What you've talked about is the knowledge about variation. Now, you've talked about the appreciation for a system, and then we have two other elements.

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0:45:17.1 KA: Two. We have two more. Right. One has to do with theory of knowledge, which is, how do we know what we think we know is really so? [chuckle] Right? Deming's first questions was always, how are we doing and how do we know? So, how do we know what we think we know is really so? The numbers on the spreadsheet are not a proxy for reality. We have to have numbers, but let's make sure we don't imbue them with more importance than they should have. And then, how do we take that, and what we learn from that and spread it through the organization? And that's where the Plan Do Study Act experimentation comes in. That's where things like operational definitions come in. What does good mean? What does on time mean? Right? What does clean mean?

0:46:02.1 KA: And then the fourth one, the fourth element of the system of profound knowledge, has to do with psychology. How do we react and interact with one another? What causes us to collaborate? What causes us to compete against one another in our organizations? And let's leave the competition to the sports arena or against perhaps other companies. Deming also gave a lot of examples of how competitors can cooperate and get to win-win as well. Now, I should probably point out that there's one other thing that's really important to me and that is Deming called it the system of profound knowledge not because he thought he had come up with something profound. What he said is if you'll use these four elements: Understanding variation, appreciation for a system, human psychology and how we think we know what we know is really so, use them as a lens. A diagnostic lens to see what's really going on. You will... If you do that by asking just four questions: What's going on with variation? What's going on with psychology? What's going on with the system?, et cetera. You will get profound insight. You will have profound knowledge, and that's what you need to be able to reduce costs as you increase joy in work. To reduce costs that in the causes of costs as you produce things, whether it's a service or a product or whatever. So, productivity goes up, everything good that you want goes up, but the frustrations go down and the causes of cost goes away. Start to go away, get reduced.

0:47:43.0 AS: So for those that are listening or viewing this and you wanna really capture what Kelly is saying, I would challenge you to just write down four words: system, variation, knowledge and psychology. System, variation, knowledge and psychology. And what Kelly is telling us is that if we walk into a situation, and we're able to see things as a system. It's like we can back up and look at all the inputs and outputs and everything that's happening with different departments here rather than focusing in very narrowly. Number two, if we can understand variation and not freak out because something has variation in it knowing that, hey, we have to understand a little bit more about this variation before we react. And then if you think of... If your third part is the knowledge where you think, what do we know and how do we know that, and how are we building knowledge in this? Or are we are just coming at this cold every time? And then finally, what are people's psychology? What do people want? What do people feel? And if you think about system, variation, knowledge and psychology, what Kelly is telling us is that what Dr. Deming is saying is that you will have profound knowledge. Would that summarize it?

0:48:58.4 KA: Yeah, I think that's correct. Now, I think another place where the managers in the research study that I talked about, they've been taught at some seminar or something, that they're supposed... Not in Deming one, that they're supposed to manage every person as in a very special way. How can you scale doing that? I mean there are some Deming-based organizations, and there are no perfect ones, but there are some Deming-based organizations that have hundreds of thousands of employees coming through their doors every day. It makes no sense to try to have 300,000 different approaches to leadership. But because the Deming approach is so humane, it

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makes so much sense and it engages people. It just is so much easier than the typical things that managers have been taught about how to motivate people and how to give people bad news. And you know with Deming it's working on the work together to figure stuff out. Wow! That's a job I'd work, right?

0:50:09.7 AS: Yeah. You know, Kelly, I had an experience where I was consulting with two different companies, and I was teaching and advising them. And what I was so fascinated about was that both of the CEOs were kind of charismatic, smart, energetic, good guys. And then they had these management teams that if you talk to each of the individual managers--impressive. Cause I was reviewing LinkedIn profiles of the different managers as I was going in to get to know them and all that. Individually they were all impressive. And so, we had a great time. We did two days together, going through a bunch of stuff. And then at the end of it, I left those two different consulting jobs that I did in one week, and at the end of the week, I thought to myself, interesting. They're almost identical in so many ways, but one of them is losing money and crashing their business. And the other one is going from win to win. What's the difference?

0:51:08.9 AS: And what I came up with my conclusion was, there's really... It's intangible, which is very different from what I learned as a financial guy is that look at the numbers and that sort of things, but I learned that numbers are just tools. But it's intangibles. So, I've come to the conclusion that first, you need a good CEO that sets the right direction, that she or he knows where they're going, and they're taking in good input, and they're setting the right direction. If they're setting the wrong direction, you're in trouble. The second thing is it's not about the quality of each individual manager on a team, it's about how the CEO helps coordination of those managers, so that you do optimize that system. And I felt like it's CEO leadership, and it's the CEO's helping the management team to coordinate their activities. How does that fit in with what you've observed as a consultant over the years?

0:52:08.0 KA: Yes. So, one of the things is the gift of a CEO, and Deming writes about this in "The New Economics," and where the power of the CEO comes from the three places... I wish I was going through it right now. But it's basically if that CEO is able to adopt the new philosophy and understand it, you build a culture from that. The way we do things around here, the way we treat one another, the way we work on problems, the way we address issues is who we are. It's a part of the design of the system, and the design of the system produces the results, right? So, it's all linked together. So, charismatic CEOs can get a lot done, but a lot of not charismatic CEOs also can get a lot done with Deming. So, whether you're charismatic or not doesn't really matter. And, the thing is you can get insight about that in a day, and I'm not talking about spend a year to really dig into Deming. No, no. Give us a day at a seminar to get your feet wet, so you can go back and do some things in your organization. As an executive, you get to make some of those choices. A day is gonna pass whether you learn about Deming or not. A week's gonna pass. A year's gonna pass whether you learn anything about Deming or not. And as we interview CEOs say, "I wish I had done this years ago. I wish I had done this years ago."

0:53:48.9 AS: There's also documentation of what you were saying, Andrew. A university study that a couple of universities collaborated on over the course of 30 years, several studies that show that the results of adopting a new philosophy, the Deming approach, has incredible results. So, these are organizations that are long-lived, first of all, makes them very special, because organizations don't last that long these days. So, this is looking at organizations over 30 years who grew prosperous. They had a whole host of criteria that were needed, that they looked at, whether it's

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turnover rates, and pay rates, and all kinds of things. And in business, if something... If a way of leading or managing gets a 55% correlation to good results, that's pretty darn good, right? That's really very good. That's worth spending some money on, because most don't get anywhere near that. Right? Their research, if people wanna reach out it's a work that Cassandra Elrod and some of her colleagues did at the university, shows in some cases almost a 90% correlation. Unheard of. So, if you're doing things that work about 55% of the time but you're up against the Deming company that's doing things that are getting results 90% of the time. Do the math. Do the math. It's pretty easy.

0:55:35.3 AS: Right. Interesting. Well, let's get that... We'll get that link to that and put it into the show notes. So people can go in and...

0:55:40.4 KA: Yeah, I'll give it to you.

0:55:42.4 AS: I think that's a good one. In the spirit of wrapping up now, what I wanna do is ask you this question. Why Deming? Why now?

0:55:56.5 KA: Well, I think for all the things that I said, but if it's not fun, it's not done. I want to have fun. I mean, most of us want to. Not that we aren't serious about work. That's not what I'm saying, but Deming talked about it as joy in work. It is to create meaning, right? Viktor Frankl's book, "Man's Search For Meaning." It is very meaningful. At the end of the day, you don't leave work feeling like you have to go home and take a shower to wash off the toxicity. You walk out of your job knowing that your best efforts made a difference because you were working with profound knowledge. You are working with people who want to collaborate, want to figure stuff out. So, at a more... The name of Deming's second big book on leadership is "The New Economics." So, it's also about the money and the money being used to create more jobs because... And a friend of his, Peter Drucker, also an economist, recognized as many other have, of course, recognize that democracy rests in part on good jobs. Social unrest and a lot of bad things come from not having good jobs. So, at the end of the Deming chain reaction, it's being able to grow and create job, as he said create jobs, jobs and more good jobs.

0:57:35.1 AS: Beautiful. Now...

0:57:36.4 KA: It makes a...

0:57:38.3 AS: Yeah, it's a great one. And for the listeners out there and the viewers, are you bringing joy to work? Are you helping that process? Or are you causing competition at work? Think about it honestly, and start to work on bringing more joy to work. Kelly, as we wrap up, I wanna ask you a final question about your involvement with the Deming Institute. I think it's important for people to understand what's going on at the Deming Institute? And how people can understand what's going on the Deming institute, what's the direction? And also how can they support the Deming Institute in any way possible?

0:58:21.6 KA: Well, there's a lot more going on at Deming Institute than I can certainly elaborate on because it's a very robust organization these days. And the Institute attracts people who also wanna make a difference, because of the nature of their aim and Deming's principles. So, and the fact that I think it happens to be a non-profit is also a useful thing. So, it's a goodwill, right? It's about really affecting change for the better. And that's... I volunteer as do many, many people

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volunteer, including the executive director volunteer, Dr. Deming's grandson, volunteer time. He volunteers full-time. I would say the way to get involved is to start on a Deming journey. Deming talked about the transformation in two ways. One was it starts with the individual. Know thyself. Read Deming and think about yourself. Feel about yourself, and what is authentic about you, and how that matches Deming. But he also says that the change of recognizing improvement in quality starts in the boardroom. So, it's a combination, but you don't have to be the leader to affect change, right? And certainly for yourself as well. It applies to families, certainly also. And then once you start on that Deming journey, reach out because we'd love to hear from you and try to engage. We try to engage people, and the Institute offers some scholarships to some of the seminars for folks. It's pretty cool.

1:00:20.7 AS: Yeah, so just go to the... Just type in Deming Institute right now on your browser and you'll go straight there.

1:00:28.5 KA: Or even deming.org. It's easy for me to read. D-E-M-I... Yeah.

1:00:35.0 AS: Thinking about reaching out, I originally met you in 2014 when I saw that Deming Institute was offering a seminar in Hong Kong. And not only did I reach out and go to the event, but I also kept in touch. And you're a testament to the willingness of people within the community to help each other. And so, I really encourage everybody to reach out to Deming Institute and also Kelly and others there. So, Kelly, on behalf of everyone at the Deming Institute and in the Deming community, I want to thank you again for coming on this show. Do you have any parting words for the audience?

1:01:15.5 KA: My pleasure. Start now. Start now. It's so much fun. It's so interesting.

1:01:23.5 AS: It's an endless journey. And that concludes another great story from the worldwide Deming community. Remember to go to deming.org to continue your journey. This is your host, Andrew Stotz, and I will leave you with one of my favorite Dr. Deming quotes. "Innovation comes from people who take joy in their work."