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articles

ECONOMIC CRISIS, RECESSION AND LEAN THINKING

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ECONOMIC CRISIS, RECESSION AND LEAN THINKING

By Carlo Scodanibbio

Recession. Crisis. Financial turmoil. Doom. Gloom. Unemployment. Stagnation. Property Market down. Stock Market disaster. Worries. Worries.

The bad news is still occupying newspaper headlines and being the main topic of television commentaries.

Confidence indices are at the lowest levels. Car Industry is in deepest troubles. Politicians are busier than ever at calming down masses.

The list could be endless.

Surprising? Astonishing? Unexpected?

I don't believe that. I am not surprised at all. I am not astonished at all.

Unexpected? Sooner or later the "bubble" had to burst.

Worried? Yes, I am worried. Not by the crisis itself. Not by the bad news.

I am worried by analysis made every second day by financial gurus and finance ministers - and by the reactions of governments, public bodies and semi-public institutions (such as Federations of Industry, Employers Federations, Unions, and the like). Those are really worrying.

Why?

Because the real problem is not being addressed. Because I hear no one saying "...we deserve all this rubbish!". Because no one seems to be learning from what happens. Because reactions are always the same, the same mince meat we have been served in our hamburgers for decades: "we need to create employment" - "we must help troubled financial institutions" - "we must save the car industry" - "we must resuscitate economies by lowering interest rates" - and so on, and so on...

BUT: have you heard anyone saying "maybe it's time we start deploying **lean principles** at all levels of the economy"? Have you heard anyone saying "If we just had cut **waste** in industry and public affairs by only 5% a year for the past 10 years there would be no crisis and no recession now"? Have you heard anyone saying "...we have forgotten completely what generating **real value** and creating **real wealth** means - that's why we are in such deep troubles.... maybe, instead of making things more complex by regulating all that needs to be regulated, it's time to start simplifying complexity and land again on solid earth, remembering that our primary target is to produce **value** and **wealth**, **real wealth**, not **fake wealth** -

so, let's roll up our sleeves, let's start again from scratch, and let's start, finally, to **'work'**???

I have heard no one talking along these lines. Have you?

Let's make a few considerations.

About **work**, **value** and **wealth**. Do this simple experiment. Ask some of (or all) the persons you know in industry, or commerce, or in the public sector - never mind at what level, higher or lower makes no difference - this simple question: "*when you are going to work in the morning, does it happen to you to think about what you are going to do today to produce **value** and generate **wealth**?*" 99,9% of the interviewed will stare at you as you were a big gorilla just landed from Jupiter.... "...value? what value? what wealth? ... I am a machine operator (a welder, a mason, a supervisor, a store employee, a truck driver, a teller, a project manager.....) - *all I have to do is to operate the machine by pushing its button...* (I weld, I lay bricks or stone, I supervise my team.....) - *my job has got nothing to do with value or wealth - that's the job of the Financial Manager* (the MD, the Banks, Government, Politicians, God.....). Strange, isn't it? Most people around there do not correlate **working** with creating **value** and **wealth**. But that's exactly what work is supposed to produce, isn't it? Something has gone very funny in industry, if this basic concept is not well diffused at all levels, world-wide. Even worse, most people believe that *working* is equal to *doing my job*. The confusion between **work** and **job** seems astronomical.

Relationship between **waste** and **wealth**. Waste does not contribute to real wealth, does it? How much waste is there in this entire world? When I talk of waste, I refer to wasted manpower, wasted materials, wasted energy, wasted plant & machinery, wasted and unproductive management, wasted resources, wasted time, wasted talents and wasted opportunities - and bureaucracy (still there!) - and more.

If lean gurus are right (I am sure they are even too optimistic), waste amounts to about 50% of the overall economy worth. **50%! Fifty percent!** It could be more than that. How many zillions of dollars is that?

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Many - too many. Surely, infinitely more than all billions of dollars "burnt" in stock markets since the beginning of the "crisis".

How would we be today if, as I was saying earlier, we would have cut that waste on a regular basis - say at a conservative rate of 5% per year for the past 10 years?

We would be infinitely "wealthier".

And let's consider the tragic way in which the cult of **waste** has been institutionalised and even brought to idolatry levels: through the VAT (Value Added Tax) "system", so popular in most Countries around the world.

The principle is that all revenues generated in "value-adding" industrial and commercial business activities should somehow be "shared" with the local Revenue Services Authority, so that governments can obtain additional funding for their spending, in a manner proportionate to the value that has been added.

The inadequacy is in the name: *Value Added Tax*. Since most industrial/commercial activities are primarily **waste**, as opposed to **value-adding** or **value-added**, the net conclusion is that the consumer (finally it is always the consumer who pays) pays a tax on wasteful activities, which do not add any value to anybody nor generate any wealth. Isn't this tragic? Or is it comic? Shouldn't this tax be called **WRT** (Waste Reshuffling Tax) instead of VAT?

Does this VAT concept contribute in any way to the primary target of *real wealth* generation?

No, it does not. To the contrary, it perpetuates and reinforces a waste-cultivating mentality well spread world-wide.

What kind of money are we talking of, with regard to the entity of collected VAT? Zillions.

50% (at least) of which is *fake* revenue, *fake* value, and total deception.....

And let's consider **real wealth** and **fake wealth**.

I am referring not only to the *fake financial wealth* that has made the bubble explode. That's the top of the tops of trick and forgery.....

I am referring to any human, industrial, commercial, governmental and organisational activity that does not produce *real wealth*.

How much *fake wealth* is around there? Zillions - again.

Building and then running a factory that produces (hopefully, in a lean fashion) canned tomatoes or energy-saving bulbs (or pasta, or galvanised iron sheets, or recyclable packaging products.....) should indeed generate real wealth.

Building and then running a factory that produces (in whichever fashion) arms and ammunitions or toxic/polluting detergents or health-hazardous cosmetics or..... : *does it produce real wealth?*

Building a bridge or a road that contributes to make traffic flow better should contribute to generate *wealth* (in terms of overall motorists' time saved by the new road works).

But building a bridge and not completing it (for whatever reason - there are many examples around) : *does it contribute to produce wealth?* And breaking roads and pavements again, and again, and again, year after year, to fix underground problems in buried pipelines or ducts : *does it contribute to produce wealth?*

And building a dam that most likely will ruin an entire echo-system : *will it contribute to produce real wealth?*

And enforcing a "toll-gate" road-fee collection system that costs a fortune to build - and disrupts the flow of traffic (as motorists have to queue to pay fees, while burning precious petrol) : *does it create real wealth?*

And employing personnel for the sake of *creating employment* : *will it contribute to produce real wealth?*

Examples: inflating a public structure with redundant or un-necessary ministries, departments, commissions, bodies, institutes, committees, and the like..... and staffing them with personnel (possibly politically- or electorally-motivated) busy most of their time at reshuffling waste, or making simple things complex, or doing absolutely nothing..... or inserting in industry, commerce, and business practices personnel without any basic business and customer-care education and without training them..... or employing "parking marshals" to collect parking fees - each one to cover 50 m. of street - instead of any other parking-fees collecting method.... or allowing personnel to make mistakes (even silly mistakes) because of a fake empowerment principle not associated with assumption of responsibilities and accountability..... or... (the list could carry on forever) : *will this contribute to produce real wealth?*

Or creating a system that not only supports, but even enforces "single-specialised-skill" for any trade (painter, mason, carpenter, clerk, etc) - as it happens nowadays in South Africa and many developing Countries, and not only - as opposed to developing multi-skill/multi-function personnel (preached by Lean Thinking) : *does it contribute to generate real wealth?* Or, rather, does it perpetuate the very dated "division of labour" principles, so prone to creation of waste?

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And perpetuating, decade after decade, an educational system that does not cater enough (or at all) for making students *think* as opposed to *learn by heart* (formulas, dates, concepts....) : *does it contribute to produce real wealth?*

This list could carry on forever.

In a nutshell: we have 2 major problems in this troubled world of ours:

- # The one is neglecting or totally ignoring the impact of **waste** on any attempt to generate wealth
- # The other is camouflaged: believing of creating wealth, whilst only creating **fake wealth**

These 2 problems are strictly interlinked and present a common denominator: an inadequate type of **thinking**.

Thinking is the crucial issue. Something has gone wrong - very wrong - during one century (the last century) of industrialisation.

We have somehow lost 2 core concepts: the concept of **value** and the concept of **real wealth**, with the net conclusion that our very basic existential principles have been "deviated". Into roads that lead nowhere.

So, now we wonder what is causing this recession, this financial crisis, this worrying turmoil.

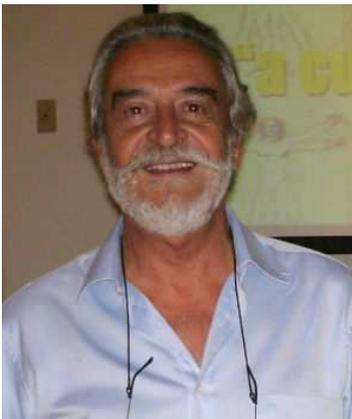
It's so simple: we have forgotten basic, core values and principles.

The principles practiced by honest mid-20th-century craftsmen in their workshop while 'working', generating wealth, and being happy and satisfied with their hard efforts of the day - replaced by principles of mass production, mass thinking, mass answering (call centres!), mass financing, mass building, mass polluting, mass cheating and mass exploiting.

Are we happy with this? I am not.

I believe that if we practice a bit more intensively "**lean**", 2nd Industrial Revolution principles on a world-wide basis, we won't have to worry anymore for this kind of "crisis" to happen.

Simply, there won't be any space for them.



Carlo Scodanibbio, born in Macerata (Italy) in 1944, holds an Italian doctor degree in Electrical Engineering (Politecnico di Milano - 1970).

He has over 49 years of experience in Plant Engineering, Project Engineering and Project Management, as well as Industrial Engineering and Operations Management.

Free-lance Consultant since 1979, he has worked in a wide spectrum of companies and industries in many countries (Southern Africa - Italy - Cape Verde - Romania - Malta - Cyprus - Lebanon - Mauritius - Malaysia - Kenya - India - Saudi Arabia), and operates as an Independent Professional Consultant and Human Resources Trainer to industry.

His area of intervention is: World Class Performance for Small and Medium Enterprises in the Project, Manufacturing, and Service sectors.

His favourite area of action is: the "lean" area.

He has co-operated, inter-alia, with the Cyprus Chamber of Commerce, the Cyprus Productivity Centre, the Malta Federation of Industry, the Mauritius Employers' Federation, the Romanian Paper Industry Association, the United Nations Industrial Development Organisation and the University of Cape Town.

His courses and seminars, conducted in English, Italian and French, have been attended by well over 20.000 Entrepreneurs, Managers, Supervisors and Workers. They feature a very high level of interaction, and are rich in simulations, exercising and real case studies. The approach is invariably "hands-on" and addressed to immediate, practical application.

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