

# BREAKTHROUGH

Lean Implementation & Training Resource Publication  
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## NEW DEFINITION OF LABOR PRODUCTIVITY

By Aaron Styles

### TYPICAL RESULTS

As companies begin their Lean journey, they learn early in the process from books, training or consultants that a key component of "Lean" is to build an engaged workforce. We hear about how many improvement ideas are generated by team members at Toyota and the savings that result and we want that kind of "engagement" in our plants. Many countermeasures are tried: Quality Circles, Kaizen Events (which, by the way, is an oxymoron...more on that in a future newsletter), Suggestion Boxes, Self-Directed Work Teams, Surveys (to assess the level of operator engagement) and others, all making the attempt to "engage" the workforce. Typically, the results fall pitifully short of expectations.

This failure is typically caused by several factors: Expecting a change in operator behavior without first changing management expectations and behavior, expecting interdependence (teamwork) without first promoting independence (individual-building), not sufficiently valuing problems (desire to "look good" rather than "be good"), and not understanding the importance of coaching are included in this list. I write today about a symptom of some of those things.

We all learn early in our Lean Journey what a mistake it is to view an individual equipped with a brain as "a pair of hands." Some of the countermeasures listed above are deployed in an attempt to correct this mentality. We also, reluctantly sometimes, adopt a policy that no one will lose their job due to "Lean improvement." Yet the typical measure of productivity, even among companies that are well along their Lean journey, is still:

Labor Productivity = Finished Goods Units Produced / Labor Hours Worked.

### LABOR CONTRIBUTION REDEFINED

This performance measure can often drive directionally incorrect decisions, because it values only the revenue contribution of the operator; but what about the operator's contribution on the cost side? If we truly are a learning organization, if we truly believe that it is wasteful not to leverage the creativity of every human brain in our enterprise, then won't the operator be delivering ideas that result in reduced cost? If so, shouldn't that be taken into account as we calculate Labor Productivity? I would go so far as to say that any organization that claims to want to engage their workforce, yet still measures productivity by the traditional method is self-deceived or not being intellectually honest. Such an organization is still entrenched in the "pair of hands" mentality.

I mentioned before that labor productivity, measured incorrectly, can drive directionally incorrect decisions. What would those be? How about how we deal with cyclical business? I know companies that lay off in the fall and know they are going to be hiring in the spring. Again, if we think of operators as a pair of hands, this makes sense. However, if we think of them as problem-solvers and we have problems to solve (who in manufacturing doesn't?) that would be a potentially foolish decision. Many companies have laid-off workers during the downturn in the market. The same companies will be hiring them back during the recovery which is sure to follow.

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### MEASURING VALUE

I expect the typical argument that will surface is something along the lines of: "Well, how does Toyota measure Labor Productivity? Shouldn't we emulate them?" To that, I would answer with a qualified, "Yes." Yes, if your culture is exactly like Toyota's. Yes if you have the exact same Current Condition and problems as Toyota. I'd say there are few, if any, companies who are in that situation. We must solve the problems and address the Current Condition in our own organizations.

"So," you are probably asking, "How would you suggest we measure labor productivity?" I'm glad you asked! First, start with a definition of Value: **Value = Benefit / Cost**

What we are really striving for is value for our labor dollar. The cost portion is easy. Every company knows what it costs to employ their workers. So ask yourself, "Where do I get benefit?" It is easy to calculate revenue generation. We can easily measure how many units we sell and we know the price for which we sell them. For a company that truly has an "engaged" workforce that has embraced the LMSPI definition of Lean: "Identifying and solving problems utilizing all people," determining how much savings have been generated through the efforts of "all people" becomes a priority. So I propose the following: **Labor Productivity = (Units Produced + Problems Solved per unit produced) / Labor Hours Worked**

When we understand that the Value of labor goes far beyond just what their hands produce and extends to the problems their brains can solve, we will make decisions differently. A cyclical demand becomes an opportunity rather than a problem. Market downturns, machine downtime, material availability problems and anything else that produces a temporary slow-down or stoppage of production becomes an opportunity to shift resources to solving problems and cross-training.

A problem-solving culture is different. It requires management to measure differently, think differently, act differently, and set different expectations. It requires coaching and training all levels of the organization to solve problems systematically. It requires changing how every person in the manufacturing enterprise does their work. The cultural change required is often enormous. It is so daunting that many will shrink from tackling it. Here is where LMSPI can help. Our team of manufacturing veterans is ready and able to help you create a problem-solving culture in your company.

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