

The 4 Pillars of the Theory Of Constraints

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**BREAKTHROUGH RESULTS FOR
GOVERNMENT AND BUSINESS**

The Four Pillars of TOC – A Mindset

The Four Pillars constitute the TOC mindset. The established set of attitudes held by those who practice TOC.

Each Pillar exemplifies a mental obstacle we need to overcome in our attempts to create breakthrough improvements.

The Four Pillars of TOC – A Mindset

Overcome the perception of reality as complex



Every situation is simple (governed by a few leverage points)



Avoid blaming



There is always a win-win solution;
People are good



Don't accept conflicts as given



Every conflict can be removed



Don't think that you know



Every situation can be substantially improved



1st Pillar: Inherent Simplicity

> Confronting Complexity:

- Our tendency is to try and improve anything that can be improved.
- We tend to deal with symptoms rather than with the core problem.

> Management attention is most often used for the few governing factors which dictate system stability, rather than for achieving more of the Goal.



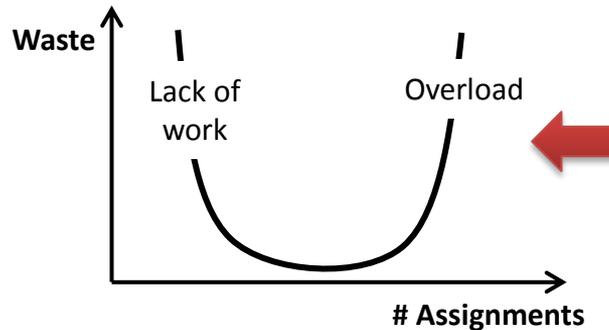
> Focusing on the constraint(s) is not always easy...



1st Pillar: Inherent Simplicity

FOCUS STARTS WITH WHAT NOT TO DO!

- We know that we must focus to better exploit management attention, but... how can we focus when we are so overloaded and distracted with many pressing tasks???



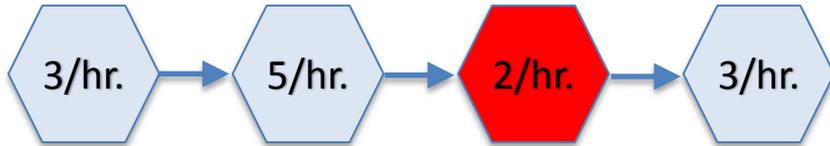
The first step to obtain focus is to have the courage to decide what to stop doing!

1st Pillar: Inherent Simplicity

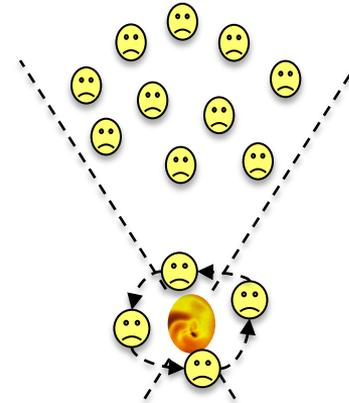
FOCUS STARTS WITH WHAT NOT TO DO!

Ok, I reduced the noise!
How do I find the constraint?

PHYSICAL CONSTRAINT



POLICY CONSTRAINT



1st Pillar: Inherent Simplicity

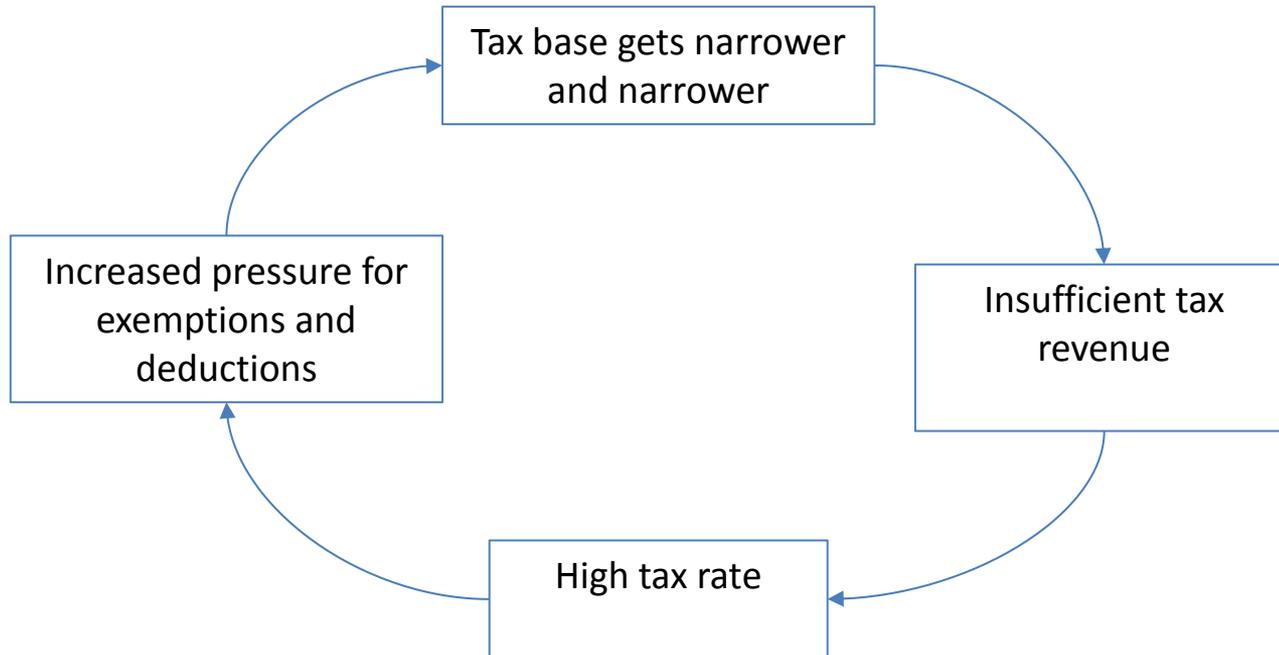
Example – Taxation

Current Reality:

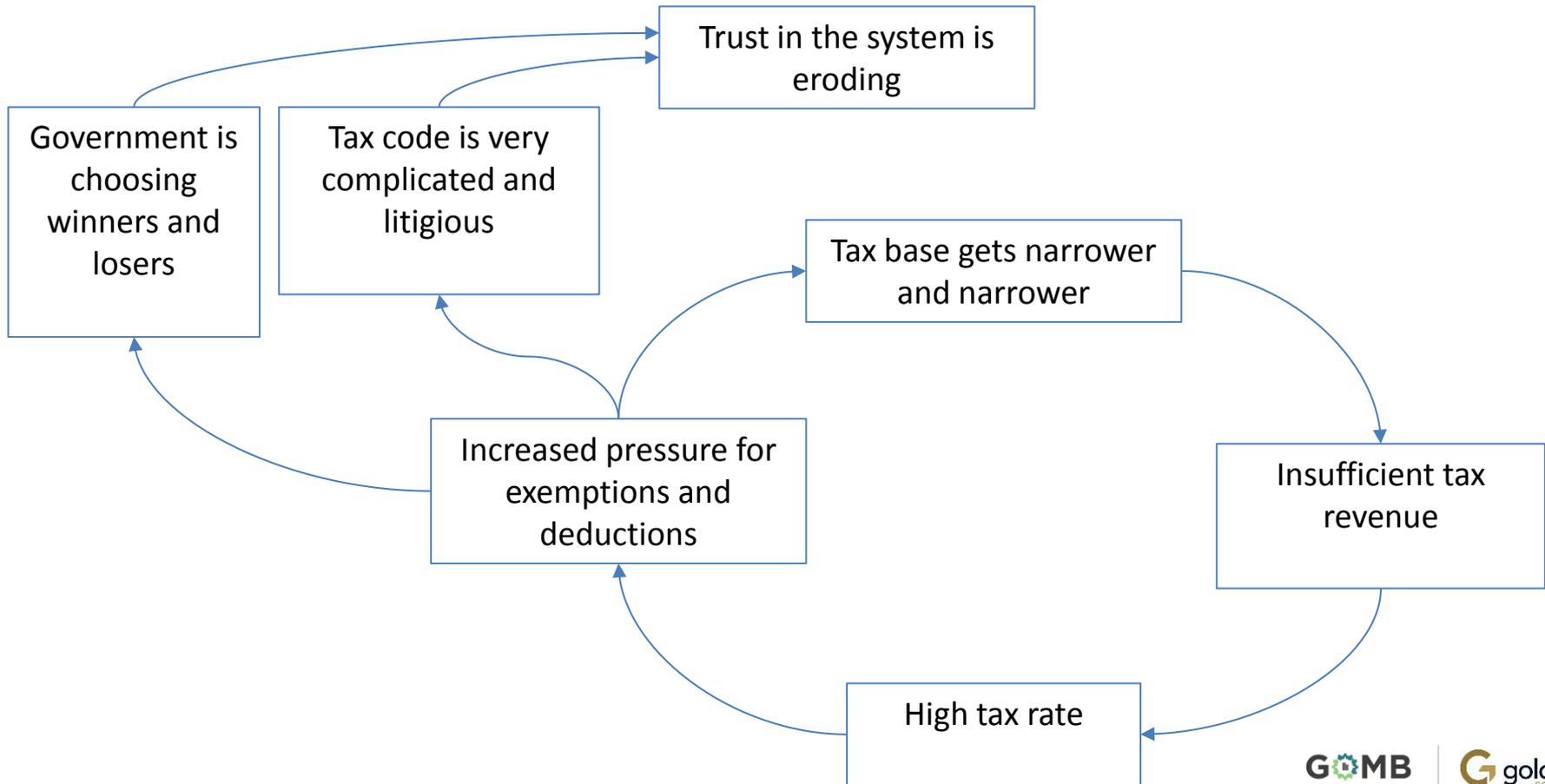
- High Tax rate (and pressure to increase it further)
- Tax base gets narrower and narrower
- Insufficient tax revenue
- High administrative cost for government, businesses and individuals
- Tax code is very complicated and litigious
- Government is choosing winners and losers
- Trust in the system is eroding

1st Pillar: Inherent Simplicity

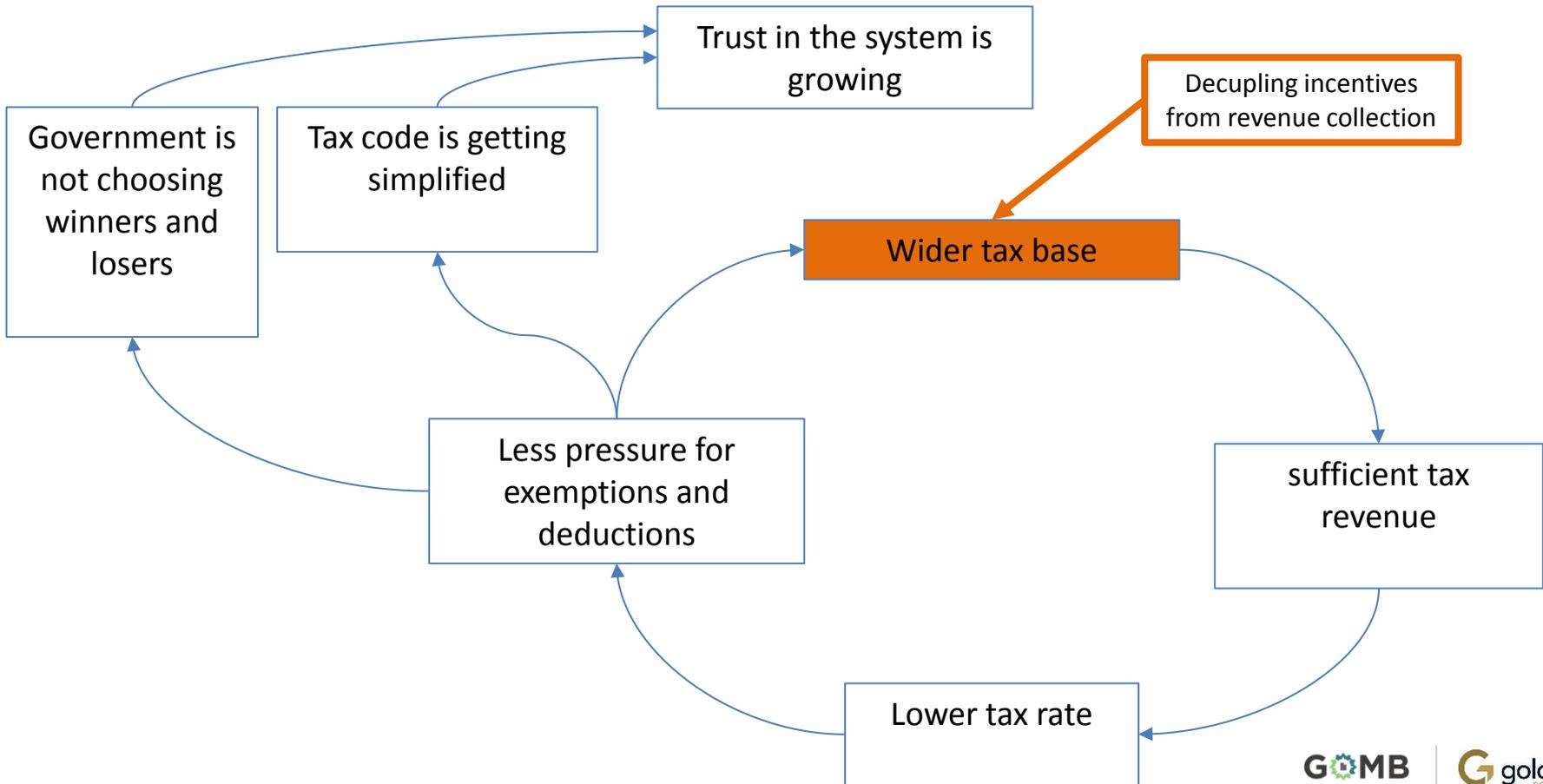
Vicious cycle



1st Pillar: Inherent Simplicity



1st Pillar: Inherent Simplicity



1st Pillar: Inherent Simplicity

Yes, **But.....**

- How are we going to compete with other states?
- How do we get pressure groups to give up their special deals?
- We will have to increase our budget with all the checks we will have to write.

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2nd Pillar: Avoid Blaming – People are good

- > Taxation example:
 - There is no shortage of who to blame: special interest groups, politicians, lobbyists, corporates, the wealthy, the subsidized...
- > Blaming does not solve the problem (although it is a great relief of frustration).
- > Blaming blocks solutions. It prevents collaboration, it raises defense mechanisms which mask gaps and mistakes.
- > People want to have a better life and improve their environment. Most oppositions stem from conflicts driven by legitimate needs.

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3rd Pillar: Every Conflict Can Be Removed

- > There must be a reason why a problem exists for a long time. There is likely a long lasting conflict.

Increase tax rate



Reduce tax rate

Centralize



Decentralize

Increase budget



Control budget

Increase load



Delay

- > We often keep optimizing on a fundamental conflict rather than solving it in a win-win manner.
- > Oscillating between the conflicting extremes erodes the system's stability and enhances disharmony.

3rd Pillar: Every Conflict Can Be Removed

Example:

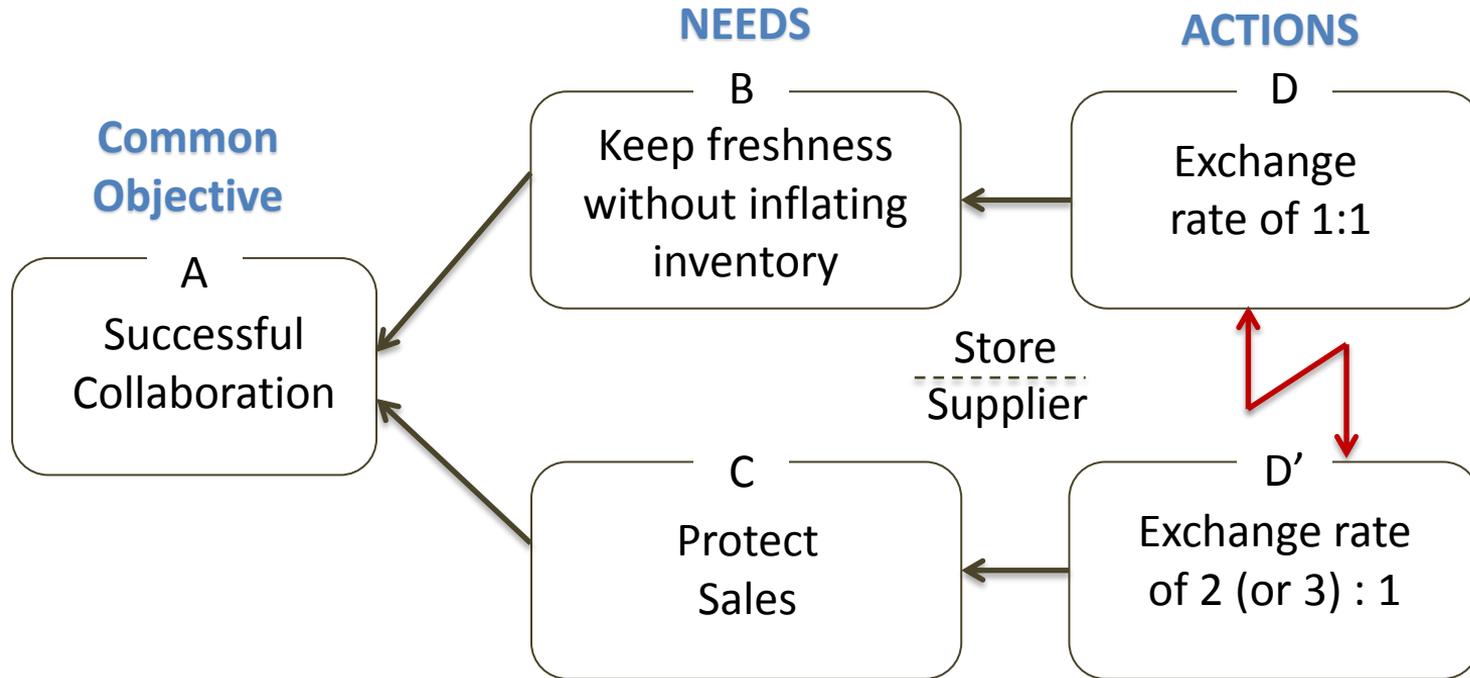
Branded Jewelry Company selling through “mom and pop” stores

How to create a fresh display at the retailer in a highly slow-turn industry? To address the challenge some brands agree to take back, after some time, non moving products. The entire discussions between the retailer and the brand is on the exchange terms.



3rd Pillar: Every Conflict Can Be Removed

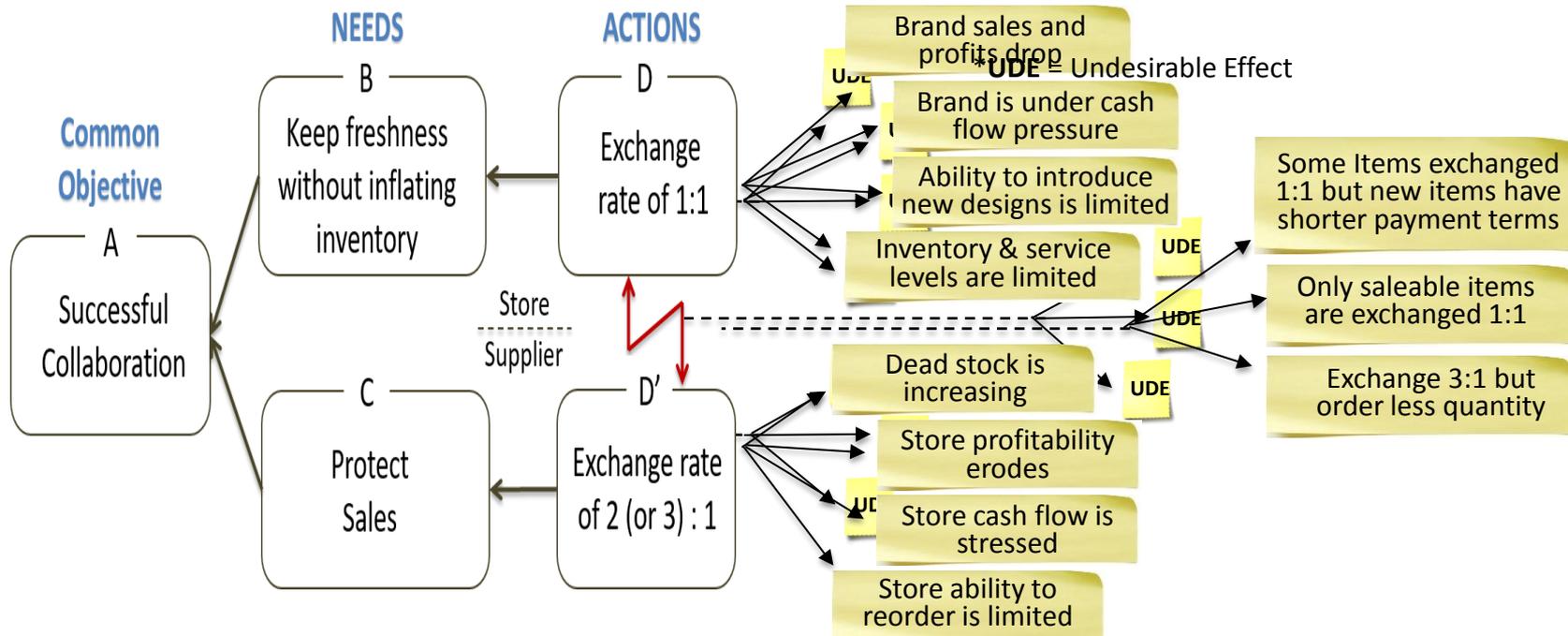
Underlying Conflict in 'slow-turn fashion business'



3rd Pillar: Every Conflict Can Be Removed

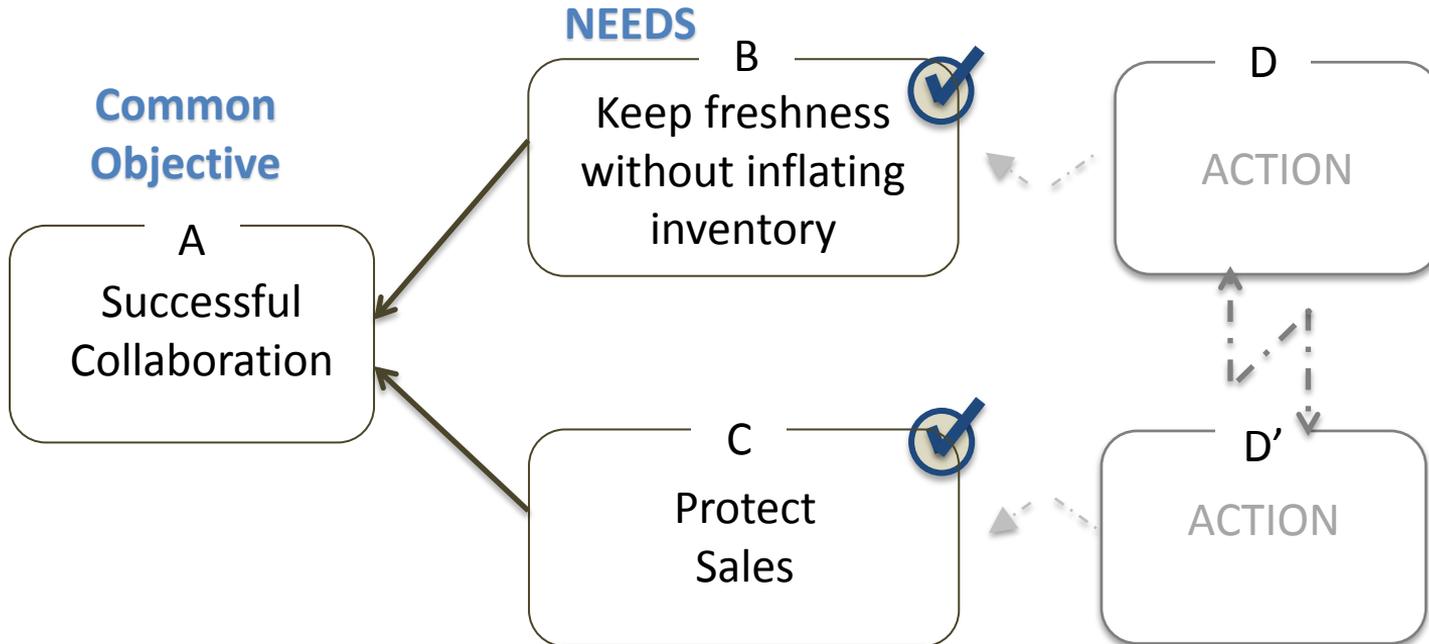
An unacceptable compromise is not a solution.

We keep oscillating between the conflicting requirements dealing with fires caused by the compromise.



3rd Pillar: Every Conflict Can Be Removed

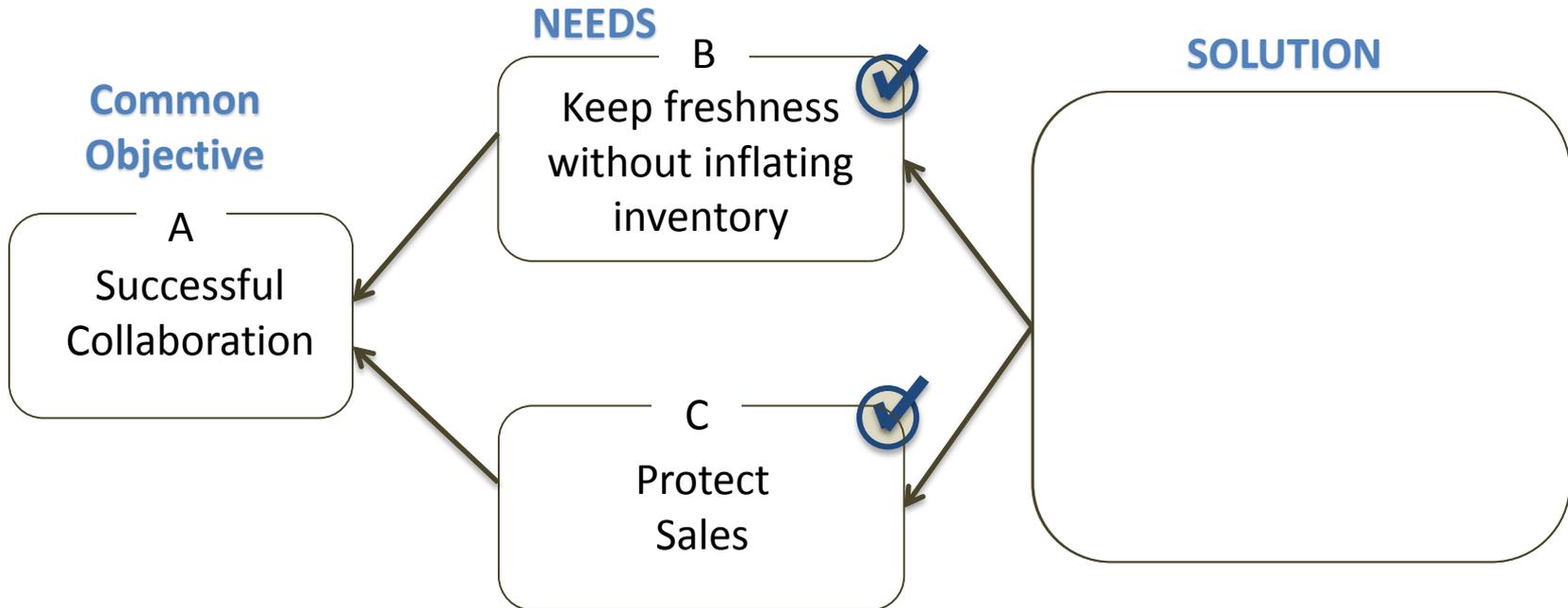
A real solution addresses the legitimate needs of both sides of the conflict



3rd Pillar: Every Conflict Can Be Removed

Direction for Solution

How to increase sales and maintain freshness without inflating inventory?



3rd Pillar: Every Conflict Can Be Removed

A New Approach for Collaboration

1. Store gains access to the whole Brand's multi million dollar inventory.
2. The store can replace any item any day from the entire Brand's inventory.
3. The store holds a constant amount of inventory throughout the year
4. The Brand will accommodate payment terms for the initial inventory to the store's specific need
5. Reorder items are "On the Brand", the store doesn't pay till it sells or at the end of the year!!!



3rd Pillar: Every Conflict Can Be Removed

Current Practice	New Practice
To sell more you need more inventory	Sell more with constant amount of inventory
At best, dead stock items are removed after a year of blocking sales	Slow moving items are replaced as early as identified, enabling more sales
Dead stock creates pressure on cash flow	No dead stock
Showcase has fragmented look	Whole , new, and fresh look
1 inventory cycle	2-3 inventory cycles

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4th Pillar: Never say I know.

- > Continuing to behave in the same manner even when there is a need to change is inertia.
- > Inertia is the enemy of innovation.
- > Even the best professionals fall prey to inertia. We stop pushing the boundaries. We treat our assumptions as facts of life and do not challenge them.
- > Inertia bring us to face problems when it is almost too late (“crisis is the mother of innovation”).
- > Every situation can be substantially improved – raise the bar.

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EFRAT GOLDRATT-ASHLAG



THE CHOICE
Revised Edition

Chapter 18



