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## Chapter 9

# Getting Quality the Old-Fashioned Way

## Self-Confirming Attributions in the Dynamics of Process Improvement

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**M**anagers, consultants, and scholars have increasingly recognized the value of considering an organization's activities in terms of processes rather than functions. The current popularity of the process approach stems from its ability to drive improvement within organizations (Garvin, 1995a). Starting with Total Quality Management (TQM) (Deming, 1986) and continuing with business process reengineering (BPR) (Hammer & Champy, 1993), many recent trends in management focus on the process rather than the function as the critical unit of analysis for improvement. The popularity of these approaches is one testament to the benefit of the process view; an-

other is the data. Many firms have made significant improvements in quality and productivity using quality improvement techniques. Easton and Jarrell (1998) find that firms that make a long-term commitment to quality improvement outperform their competitors in both profitability and stock returns. Hendricks and Singhal (1996) also find that firms that win quality awards (an assumed outcome of successful process improvement) outperform their counterparts in terms of share price.

Yet for every successful process improvement effort, there are many more failures (Ernst & Young, 1991, and General Accounting Office, 1991, report on failed quality improvement

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efforts; Hammer & Champy, 1993, and White, 1996, discuss failed reengineering efforts). Even more puzzling, even initially successful programs often fail to take hold. Kaplan (1990a, 1990b) and Sterman, Repenning, and Kofman (1997) describe the case of Analog Devices, a major semiconductor manufacturer, whose quality program led to substantial improvements in quality and productivity but was rewarded with declining profitability and a sharp decline in its share price, forcing a major layoff. Hendricks and Singhal (1996) find that large firms that win quality awards experience abnormally low returns in the 2 years preceding the award, providing some evidence of a "worse before better" dynamic even for successful improvement programs; and a study by the General Accounting Office (GAO, 1991) found that early Baldrige-award finalists did no better than comparable nonfinalists in sales growth or profitability. Scholars and managers alike have long realized the difficulty of making fundamental changes to the technology, processes, and structures of organizations, and the process focus does not appear to mitigate these difficulties. Although suggesting new and valuable improvement opportunities, process-focused improvement techniques still face the barriers that limit other organizational change efforts.

Resolving the improvement paradox is important for both managers and scholars. For managers, the ability to sustain learning and improvement is a source of competitive advantage and improved profitability (de Geus, 1988; Stata, 1989). For management and organizational theorists, process improvement efforts represent significant changes in both the structure and behaviors of the organizations that undertake them. Deeper understanding of successful process improvement initiatives can contribute to knowledge of organizational change more generally.

There is, however, a significant gap in the literature on process improvement. The physical design of manufacturing and service processes traditionally has been the domain of industrial engineering, operations research, and operations management (Chase & Aquilano, 1989). The quality movement grew out of the field of statistics (Deming, 1986; Shewhart, 1939),

whereas reengineering has its roots in information technology and computer science (Hammer & Champy, 1993). These frameworks focus on modifying the physical structure of the firm's processes and systems; less attention is paid to the concomitant organizational and behavioral changes required to improve performance. Michael Hammer, commenting on the technical approach of his best-selling book *Reengineering the Corporation*, said "I was reflecting my engineering background and was insufficiently appreciative of the human dimensions. I've learned that's critical" (White, 1996, p. 1).

In contrast, organizational scholars have focused primarily on the behavioral aspects of change. Successfully implementing change remains an open and important challenge in both the management and study of organizations, and it has generated a huge literature (for overviews, see Huber & Glick, 1993; Kanter, Jick, & Stein, 1992; Van de Ven & Poole, 1995). Dean and Bowen (1994) show that quality improvement research in the management literature stresses leadership, human resource issues, strategic planning, and other traditional foci of organizational research. Likewise, Hackman and Wageman (1995), working from an organizational theory perspective, analyze the conceptual underpinnings of the quality movement and suggest a research agenda to study its effectiveness. However, whereas physical theories largely ignore the behaviors of those working within the organization, organizational theories generally do not account for the physical structure of the organization and its processes. Dean and Bowen (1994) write, "Management theorists may have gone too far in emphasizing socio-behavioral over process and technical factors in explaining variation in performance. . . . Researchers rarely extended their theories to the social and technical aspects of organizational and process design" (p. 408).

There is a clear need for an interdisciplinary theory of process improvement that integrates the physical structure of improvement with an understanding of human decision making in organizations. To that end, in this chapter, we develop a framework to understand process improvement that accounts for both the physical structure of processes and the behaviors that

people working in such systems are likely to display. In developing the physical component, we draw on the basic precepts offered by management science and the founders of the quality movement (Chase & Aquilano, 1989; Deming, 1986; Garvin, 1988; Ishikawa, 1985). On the behavioral side, we rely on experimental studies of human decision making (Hogarth, 1987; Kahneman, Slovic, & Tversky, 1982; Paich & Sterman, 1993; Plous, 1993; Sterman, 1989a, 1989b) and field study. The main tools for theory development are intensive case study research (Eisenhardt, 1989) and the development of dynamic models capturing the rich array of interdependencies and feedback processes in the organization and its environment (Forrester, 1961; Masuch, 1985; Richardson, 1991; Weick, 1979). Like the structuration literature (Giddens, 1984, 1993; Orlikowski, 1992, 1995), we stress the mutual, recursive causal links among technological artifacts (the physical structure), organizational structure, and the mental models of organizational actors that guide their behavior. We go beyond the structuration literature, however, in specifying an explicit feedback theory at the operational level and show how those feedback processes generate organizational dynamics.

The chapter is organized as follows. The next section develops the theory, followed by a section that describes two improvement initiatives we studied (readers requiring more details can consult Repenning, 1996a, 1996b). Then, the next section analyzes the initiatives using the framework, and the final section contains discussion and concluding thoughts.

## The Theory

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### *The Physical Structure of Improvement*

A process is the sequence of activities that converts inputs into the desired outputs (Garvin, 1995b). Inputs can be raw materials, as in a manufacturing process, or information, such as customer requirements in a product development setting. Outputs are then finished products

or completed product designs. The first construct in the model, Net Process Throughput, is the rate at which inputs are converted successfully into outputs (e.g., products manufactured per day or product designs completed per month). Net process throughput is determined by Gross Process Throughput less the rate of Defect Introduction. Work processes sometimes fail to convert inputs into the desired outputs; items produced incorrectly are termed Defects. "Defect" will be used as a generic term for any undesirable outcome of a conversion process (Schneiderman, 1988). For example, a product produced correctly but delivered late is defective if timely delivery is a desired attribute of the conversion process. Figure 9.1 shows the basic physical relationship between gross process throughput, the defect introduction rate, and net process throughput in the form of a causal diagram (Forrester, 1961; Richardson, 1991; Richardson & Pugh, 1981; Weick, 1979). An increase (decrease) in gross throughput causes an increase (decrease) in net throughput (*ceteris paribus*). Similarly, an increase (decrease) in defect introduction, *ceteris paribus*, causes a decrease (increase) in net throughput. Causal diagrams provide a compact and precise representation of interdependencies and are useful in describing the feedback structure of systems.<sup>1</sup>

Defects can often be corrected through rework (represented in Figure 9.2 by the flow Defect Correction). Defect correction increases net process throughput: Defective outputs, once fixed, become usable. The level variable Defects connecting the Defect Introduction rate and the Defect Correction rate represents the stock of defective products yet to be repaired. Sometimes, it is physically impossible or economically unfeasible to repair or rework defective products or services. In these cases, defective products are scrapped or end up in the hands of the customer. In either case, the firm incurs the cost of replacing the defective item or must compensate the customer for the defect. Such compensation may take the form of lower prices, a poor reputation, or lost market share, leading to reduced profitability, market value, revenue, and other costs. We define defect correction to include all remedial measures that a

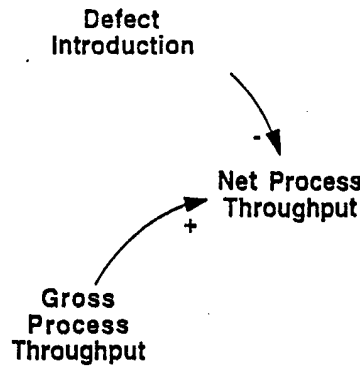


Figure 9.1.

NOTE: Net throughput for any process is gross throughput less the rate of defect introduction. Arrows indicate the direction of causality. Signs (+ or min) at arrow heads indicate the polarity of relationships: a "+" denotes that an increase in the independent variable causes the dependent variable to increase, ceteris paribus (and a decrease causes a decrease); that is,  $X \text{ rias}^+ Y \text{ -- } Y/X > 0$ . Similarly, "min" indicates that an increase in the independent variable causes the dependent variable to decrease; that is,  $X \text{ rias}^{\text{min}} Y \text{ -- } Y/X < 0$ . See Richardson and Pugh (1981).

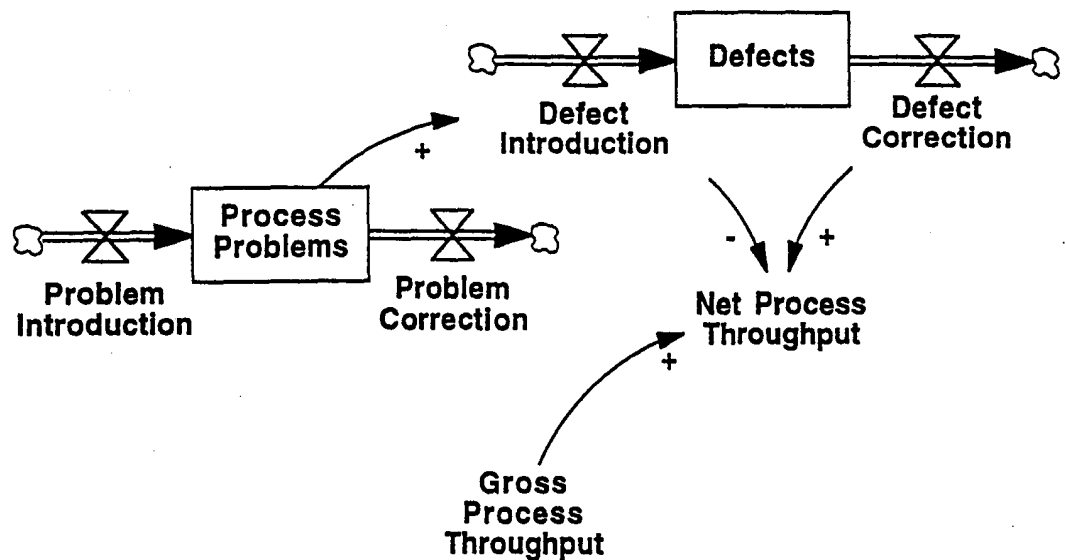


Figure 9.2. The Stock and Flow Structure of Defects and Process Problems

NOTE: This figure represents Defects and Process Problems as stocks (level or state variables) denoted by rectangles (Forrester, 1961). A stock is the integration (accumulation) of its inflows less its outflows, denoted by the straight arrows with valves.

firm can take to address the existence of defects, and thus the theory is general enough to include those cases where rework is impossible.<sup>2</sup>

A fundamental contribution of the founders of the quality movement was to recognize the distinction between correcting defects that have already been produced and preventing them from occurring (Deming, 1986). The causes of defects are Process Problems, also known as

"root causes" in the quality literature (Ishikawa, 1985). Process problems are the features of the process, either physical or behavioral, that generate defects. The stock of process problems determines the Defect Introduction rate. For example, within a paint shop in a manufacturing operation we studied, some products were produced with small scratches. Correcting these defects required repainting. The process prob-



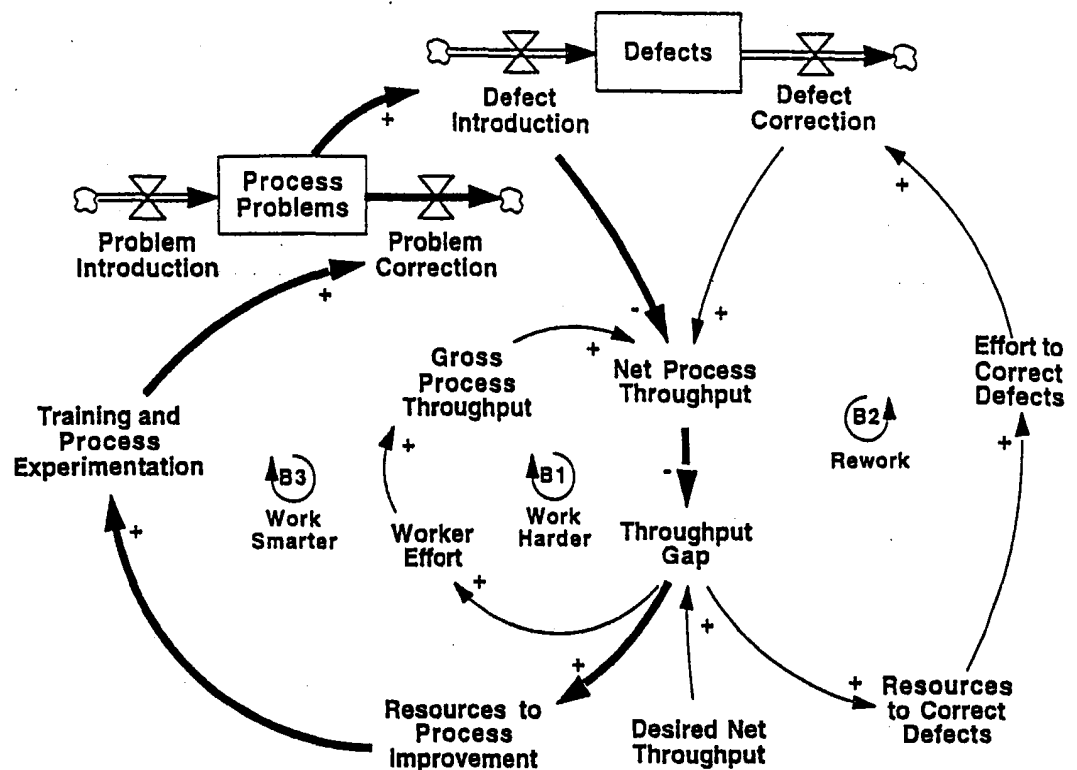


Figure 9.4. Second-Order Improvement

NOTE: Investing in improvement activity creates the negative Work Smarter loop (B3), which enhances net throughput by reducing process problems.

current throughput by comparing it to Desired Throughput, generating the Throughput Gap (Figure 9.3). Desired throughput is determined by the demand for the organization's products or services. For now, desired throughput is assumed to be exogenous; later, we show how throughput goals are actually endogenous, creating important additional dynamics.

#### First-Order Improvement

Faced with a throughput shortfall, workers and managers have three options: expand capacity, use existing capacity more intensely, or repair defective output. Each option forms a negative or balancing feedback loop whose goal is to eliminate the throughput gap by raising net process throughput toward the desired rate (Figure 9.3). First, managers can expand production capacity by hiring more workers and purchasing additional plants and equipment, boosting

gross process throughput through the balancing Capacity Expansion loop B0. However, expanding capacity takes time, is costly, and is generally not an option for managers responsible for day-to-day operations. We treat the capital stock and workforce as exogenous because these decisions are beyond the authority of the participants in the improvement programs we discuss below. For feedback models exploring capacity acquisition dynamics, see Forrester (1961), Mass (1975), and Lyneis (1980). For models of the interactions between process improvement and capacity, see Sterman et al. (1997) and Repenning (1997a, 1997b).

Second, to increase net process throughput, workers can Work Harder (balancing loop B1), increasing the utilization of existing resources. Effort can be increased through greater focus on task, shorter breaks, reduced absenteeism, and overtime. Third, managers can allocate resources to correct existing defects (the balanc-

ing Rework loop B2), for example, by repainting scratched parts or reworking faulty designs. Alternatively, quality standards can be lowered, "correcting" defects by redefining them, as, for example, when software is released with known bugs (often described to customers as "undocumented features").

### *Second-Order Improvement*

Each of the first-order improvement feedbacks can close the throughput gap, but only at significant and recurring cost. A more effective solution is eliminating the process problems that generate defects (Deming, 1986). Such second-order improvements create the negative Work Smarter loop B3 (Figure 9.4), which closes the throughput gap by permanently eliminating the process problems that generate defects. Making such fundamental improvements requires managers to train their workforce in improvement techniques, release those workers from their normal responsibilities so that they may participate in improvement activities, and, most important, give them the freedom to deviate from established routines so that they may experiment with potential solutions. Experimentation and improvisation are fundamental to many quality improvement methods (Deming, 1986; Wruck & Jensen, 1994). Weick (1993) and Orlikowski (1996) go further and argue that improvisation is central to successful organizational change in general.

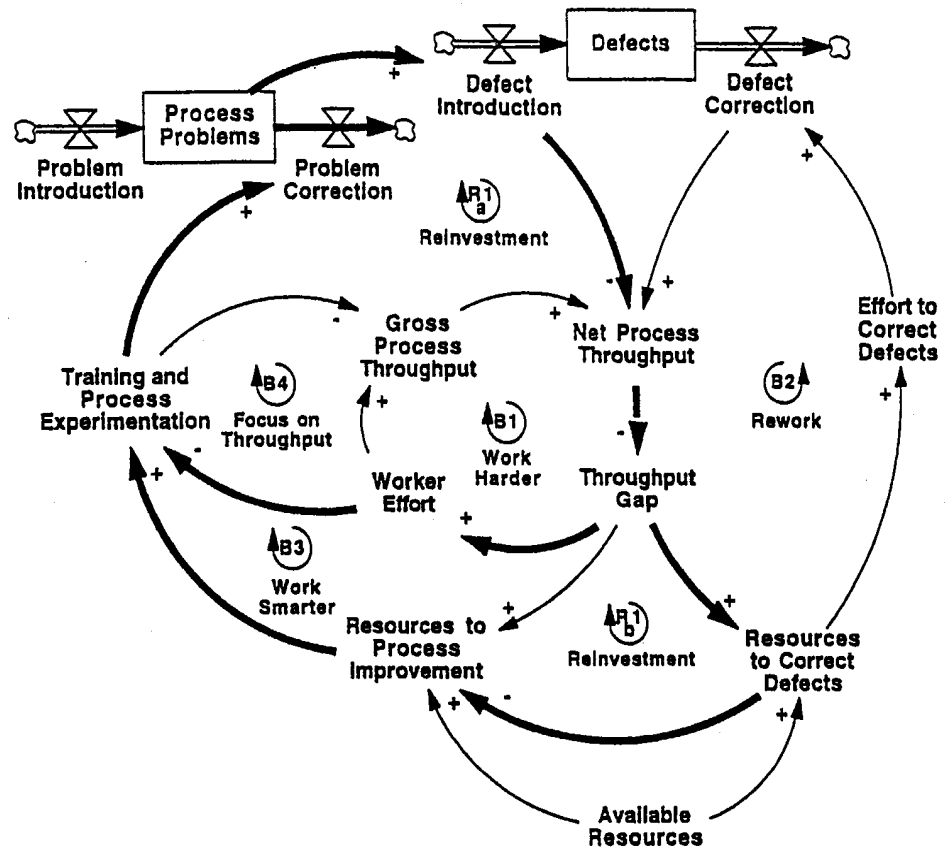
### *The Self-Reinforcing Nature of Improvement*

First- and second-order improvement processes are strongly coupled. The most basic interactions arise because resources are finite. Line workers have limited time, which must be allocated among production, defect correction, and process improvement. Managerial attention is also limited and must be allocated to competing activities (March & Simon, 1958/1993). Process-oriented improvement programs, because they cut across traditional organizational boundaries, intensify demands for senior management attention. Improvement activities require management time to motivate employees, guide training, review results, and mediate con-

flicts. Resource constraints create two negative links: as Worker Effort rises, Training and Process Experimentation suffer. Likewise, Resources to Process Improvement fall when management increases Resources to Defect Correction (Figure 9.5).

The new links close two important feedbacks, the self-reinforcing Reinvestment loops R1a and R1b (Figure 9.5). Unlike the loops described so far, the Reinvestment loops are positive feedbacks that tend to reinforce whichever behavior currently dominates. Successful process improvement increases net throughput by reducing defect generation. As the throughput gap falls, workers have more time to devote to training and experimentation, leading to still more improvement (loop R1a). Similarly, if the organization succeeds in reducing defect generation, less time and effort are needed for correction, freeing resources for fundamental improvement, speeding the elimination of process problems, and driving defects down still further (loop R1b): The loops operate as virtuous cycles. Conversely, if defects increase, worker effort rises and more resources are allocated to defect correction. Improvement effort falls. Process problems accumulate at a faster rate, leading to still more defects: The reinvestment loops operate as vicious cycles. For example, deferring preventive maintenance to repair un expected equipment breakdowns can lead to more breakdowns and still greater pressure to reassign maintenance mechanics from preventive to reactive work (Carroll, Sterman, & Markus, 1997).

Another link between first- and second-order improvement arises because improvement activity can disrupt production. The experimentation and improvisation required to generate and test ideas for improvement take time and often reduce potential throughput. Machines must usually be taken off-line to conduct experiments, and inevitably, many of these experiments will fail, reducing throughput. These short-run costs of process improvement effort are captured by the negative link from Training and Process Experimentation to Gross Process Throughput. The strength of this link depends on the slack available. If experiments can be run when machines are normally idle, then the link is weak and the cost of experimentation is low.



**Figure 9.5.** The Reinforcing Feedback Created by Finite Resources

**NOTE:** As more time is devoted to defect correction, less is available to correct process problems, leading to still more defects and still less time for improvement. Note also the balancing Focus on Throughput loop: Workers can meet throughput goals by cutting back on improvement activity.

In round-the-clock operations where there is little scheduled downtime or where work weeks are already long, the link is strong and the trade-off between improvement and throughput is severe. The link creates another balancing feedback that helps workers reach their production goals. Workers can close the throughput gap not only by Working Harder (B1) and by doing more Rework (B2), but also by Focusing on Throughput (B4) and reducing the time spent on process improvement. The availability of slack determines the importance of these loops and plays a critical role in the dynamics of improvement.

**Interactions of Physical Structure and Behavioral Decision Making**

What determines whether the reinforcing re-investment loops operate as vicious or virtuous

cycles? The answer is determined in large measure by the mental models of the managers about the causes of low process throughput. Managers must choose one of two basic options to close a throughput gap: first-order activities including working harder (B1), reworking defects (B2), and focusing on throughput by neglecting other activities (B4); or working smarter through second-order improvement efforts to reduce process problems (loop B3).

*Behavioral Biases Against Fundamental Improvement*

The high leverage point for improvement is allocating effort to reducing the stock of process problems, not defect correction or capacity expansion. But there are at least four reasons, rooted in basic cognitive processes, why correction often takes precedence over prevention. First, defects are more salient and tangible than



process problems, and people have repeatedly been shown to give too much weight to available and salient features of the environment (Kahneman et al., 1982; Taylor & Fiske, 1975). In a manufacturing setting, for example, the stock of defective products is a pile sitting somewhere on the production floor. It is literally in the way. In contrast, process problems are often invisible. Processes consist of the activities and relationships that create tangible products, and they cannot be discerned easily from the products themselves (Orlikowski, 1995). Indeed, many quality improvement tools are designed to ferret out root causes from observations of the defects they create. In the paint shop example, a defect is a scratched product sent to the "rework hospital" and visible to all, whereas the underlying process problem (a transfer line requiring workers to bend over the work, thus bringing their belt buckles into contact with the parts) is harder to observe and diagnose.

Second, defect correction and process improvement work at different speeds. Process improvement takes time: to document the current process, diagnose root causes, experiment with possible changes, implement solutions, train participants in the new procedures, and so on. The delays between the start of an improvement program and results are long, ranging from months to years, depending on the complexity of the process (Schneiderman, 1988). Defects, however, usually are identified easily and repaired quickly. Choosing to eliminate process problems often entails a short-term reduction in throughput as resources are reallocated from throughput and defect correction to improvement. Faced with this worse-before-better trade-off, managers and workers under pressure to close a throughput gap are likely to choose correction over prevention, even if they understand that doing so suppresses the symptoms without curing the disease.

Third, correction efforts have a more certain outcome than do prevention efforts. A defective product is easily identifiable, and it is usually clear when the defect has been corrected. In contrast, process problems are more complex and their characterization more ambiguous. It is often unclear whether and how a proposed pro-

cess change will, in fact, result in fewer defects. Risk aversion is a basic feature of human decision making, and people have also been shown to be ambiguity averse (Einhorn & Hogarth, 1985). Faced with a throughput gap, most managers will prefer the more certain gain of correction efforts to the ambiguous, uncertain, and delayed yield of an investment in prevention.

Fourth, eliminating process problems, although preventing future defects, does nothing to eliminate the stock of defects already generated. The stock of defective outputs represents a substantial and tangible investment in materials, labor, and capital. Most accounting systems report the value of the inputs to each product, making it easy to assess the benefit of investing in correction: If the value of a repaired product is \$Y and its scrap value is only \$X, it is worth investing anything up to \$Y - \$X to correct the defect. In contrast, assessing the value of defect prevention is more difficult. As one manager in our study said, "Nobody ever gets credit for fixing problems that never happened." The well-known sunk cost fallacy (Arkes & Blumer, 1985; Staw, 1976, 1981; Thaler, 1980) reinforces the bias toward correction. Decision makers often continue a project beyond the economically rational point when they have already made a substantial investment of time, money, and emotion. Here, the sunk cost fallacy means that managers often favor defect correction rather than defect prevention, to, as they see it, recoup past investments in defective outputs, even though these investments are sunk costs.

#### *Biased Attributions About the Causes of Low Throughput*

Differences in information availability, salience, and time delays bias managers against fundamental improvement. But the situation is worse. In choosing whether to pursue first- or second-order improvement, managers must make a judgment about the causes of low process throughput. If managers believe that the cause lies in the physical structure of the process, they will focus their efforts on process improvement. However, if low throughput is thought to result from lack of worker effort or discipline, then managers will increase produc-

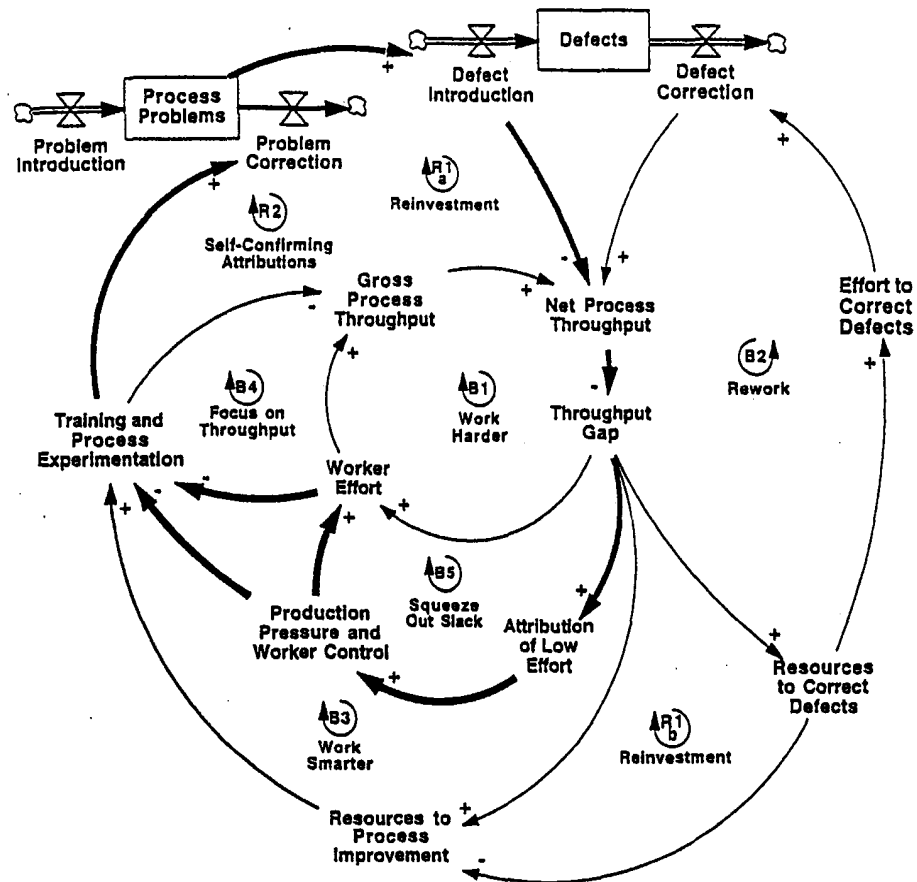


Figure 9.6.

NOTE: Managers who attribute the throughput gap to worker shirking will increase production pressure and monitoring in an attempt to Squeeze out Slack (B5). Throughput rises in the short run, but production pressure pulls resources away from improvement activity, leading to erosion of process capability and still lower throughput (reinforcing loop R2).

tion pressure or the strength of process controls to close the throughput gap. The “cues to causality” that people use to make causal attributions include temporal order, covariation, and contiguity in time and space (Einhorn & Hogarth, 1986). Attributing low throughput to inadequate worker effort is consistent with all of these cues: Worker effort immediately precedes the production of an item, production is highly correlated with worker effort, and workers and the items they produce are highly contiguous in time and space. In contrast, process problems typically precede low throughput with much longer and often unobservable delays, the correlation between process problems and low throughput is frequently unobservable, and process problems can be far removed in time and space from the detection of the defects they create. Thus, managers are likely to attrib-

ute a throughput shortfall to the attitudes and dispositions of the workforce even when the true causes are systemic features of the environment, such as process problems. Many studies show that attributing the cause of a problem or behavior to individuals rather than the systems in which they are embedded is a pervasive and robust phenomenon—the so-called fundamental attribution error (Ross, 1977).

If managers believe that the workforce is underutilized, then the intendedly rational response is to Squeeze Out Slack by increasing Production Pressure and Worker Control (loop B5 in Figure 9.6). Production pressure includes higher throughput objectives, overtime, and faster line speed. Managers can also increase the strength of controls on the workers. Worker control aggregates three ideas: (a) the level of detail with which protocols for employee con-

duct are specified, (b) how closely management monitors adherence to those protocols, and (c) the penalties imposed for departing from procedure. For example, in a product development organization we studied, a project manager whose subsystem was behind schedule was required by his boss to call in every hour with a status report until the prototype met the specifications. A senior manager in a firm we studied calls such behavior "getting quality the old-fashioned way."

But although increasing production pressure has the desired effect in the short run, it also yields a long-run side effect. Workers under greater scrutiny from management and greater pressure to make production goals have less time to attend improvement team meetings and are less willing to undertake experiments that might reduce throughput temporarily. With less effort dedicated to process improvement, fewer process problems are corrected, and the defect introduction rate rises. Process throughput falls, and managers are forced to increase production pressure and controls still further. These links create the Self-Confirming Attribution loop R2, a reinforcing feedback that drives the organization to higher levels of production pressure and fewer resources dedicated to process improvement.

As production pressure and controls increase, they may also begin to conflict. Caught between ever higher throughput goals and the need to comply with stricter controls, workers may cut corners and play games with metrics to appear to meet all of their objectives. Conflicting objectives force workers to make ad hoc, undocumented, or even surreptitious changes to the process so that they can both meet throughput objectives and satisfy the control structure. The organizational literature contains many examples, ranging from simple "workarounds" on the manufacturing floor (Orlikowski & Tyre, 1994) to changing the standards for O-ring tolerance on the space shuttle (Wynne, 1988). Clearly, not all workarounds are harmful. Pressure can sometimes spur a creative solution to vexing problems. But to the extent that they face time pressure and multiple, incompatible objectives, workers will be tempted to erode standards, cut corners, fail to follow up on and resolve problems, and fail to

document their work. Even if creative workarounds solve the initial problem, they can create new ones when downstream processes are not updated to reflect the new upstream process. In a firm we studied, manufacturing engineers facing the imminent launch of a new product made ad hoc changes to parts and tooling to resolve problems, but they were too busy to report the changes to the design engineers. The changes solved the immediate problem, but they also created new ones because design engineers would then develop new parts based on the erroneous drawings, perpetuating problems in the next-generation product (Jones, 1997). As shown in Figure 9.7, such ad hoc changes increase the number of process problems.

Often, workers will keep their workarounds secret from management and manipulate metrics to appear to be in compliance with objectives when, in fact, they are not. In one firm we studied, product development managers improved the reported product development time not by making fundamental improvements in the product development process but by shifting from risky and time-consuming breakthrough products to faster and easier line extensions. The reported product development time fell, but at the cost of reducing the rate of innovation, threatening the competitiveness of the firm. These links create two additional positive feedbacks, the Process Integrity and Double Bind loops R3 and R4, which inadvertently erode production capacity by introducing new process problems as a side effect of management's attempt to boost throughput.

### ***Misperceptions of Feedback and Self-Confirming Attributions***

Thus, managers who attribute low process throughput to insufficient worker effort increase production pressure and worker monitoring. Whereas these actions boost throughput in the short run, they also cause process capability to erode further. An important question arises here: As the long-term consequences of boosting production pressure become apparent, would managers not realize that the true cause of low process throughput was low process



improvement effort (they fail to account for the Focus on Throughput loop), they overestimate the impact of their get-tough policy on productivity—in our example by as much as a factor of three. To the extent that managers are unaware of the process shortcuts that workers take to meet their goals, the throughput gains resulting from production pressure provide powerful evidence confirming the managers' suspicions that workers were not giving their full effort. Managers quickly learn that boosting production pressure works: Throughput rises when they turn up the pressure.

Note that workers may unwittingly conspire in strengthening the managers' attributions. Faced with intense production pressure and the resulting goal conflicts, workers are naturally reluctant to tell supervisors that they cannot meet all of their objectives. The more effectively workers are able to cover up the process shortcuts that they take to meet their throughput targets (loop B6), the less aware managers will be of the long-run costs of production pressure. Unaware that improvement activity, maintenance, and problem solving have been cut back, throughput appears to rise without requiring any sacrifices, reinforcing management's attribution that the workers really were lazy: Squeezing out slack is the right thing to do.

The long-run effects of production pressure also reinforce managers' belief that the workers are the problem. The time required for increased production pressure and worker control to boost throughput via the Work Harder, Focus on Throughput, and Squeeze Out Slack loops is much shorter than the time required to detect the resulting erosion in process capability as the reinforcing Reinvestment, Process Integrity, and Double Bind loops lead to more process problems, lower throughput, more shortcuts, and less improvement effort. The erosion of process capability caused by production pressure is delayed, gradual, and diffuse. It is distant in time and space from its cause. Managers are unlikely to attribute the cause of a throughput gap to the pressure they placed on workers months or even years before. Instead, they are likely to conclude that the workers have once more become lazy, requiring another increase in production pressure. Boosting production pressure to elicit

full effort from the slothful workers generates powerful evidence to reinforce and confirm the managers' initial, but incorrect, attribution that the workers just need a kick in the pants. Recall the project manager who was required to provide hourly status reports on a balky prototype: Soon afterward, the problem was solved, confirming the boss's belief that he had acted appropriately—indeed, had decisively taken charge of the situation—even though the team was already working around the clock and his calls drained precious time from their efforts to solve the problem.

The feedback structure described above explains how managers erroneously learn that increasing production pressure and worker control is a successful strategy: Each time they do it, throughput improves in the short run, even as it erodes in the long run. Such misperceptions of feedback have been observed repeatedly in a wide variety of systems with even modest levels of dynamic complexity. Dynamic complexity arises in systems with multiple feedback processes, time delays, stocks and flows, and nonlinearities (Brehmer, 1992; Funke, 1991; Sterman, 1989a, 1989b). Laboratory experiments show that as the dynamic complexity of a system grows, decision-maker performance deteriorates relative to optimal; indeed, decision makers are often outperformed by simple decision rules (Diehl & Sterman, 1995; Paich & Sterman, 1993). The misperceptions of feedback and dysfunctional dynamics to which they lead arise for two basic reasons (Sterman, 1994): First, our cognitive maps are grossly oversimplified, tending to omit feedbacks and the other elements of dynamic complexity; and second, we are unable to use our cognitive maps to correctly infer the dynamics of the system or its likely response to policies and perturbations. These problems interact: The more complex the cognitive map, the less accurate are our mental simulations of its behavior. In the case of improvement programs, the structure of the system provides information feedback that can lead managers systematically to ever stronger, self-confirming, but erroneous beliefs about the source of low throughput.

But the misperceptions of feedback operating here are even more insidious. As increased

production pressure and ad hoc workarounds inadvertently create new process problems, net throughput falls. Faced with a persistent throughput gap, managers may feel compelled to further increase production pressure and worker control. However, the stress of the constant crisis, extended overtime, ever more aggressive throughput objectives, and conflicting goals eventually causes fatigue and burnout among workers, lowering productivity and quality. Absenteeism and turnover rise, eroding skills and lowering gross throughput still more. Workers may grow to resent the control exerted by management and the lack of trust behind it, leading to an increasingly hostile and adversarial relationship between superiors and subordinates, workers and management. Workers ultimately have no choice but to evade or subvert management's controls, play games with performance metrics, and shirk to relieve an intolerable workload. What begins as a false attribution by management that workers are slothful, undisciplined, and untrustworthy becomes reality. Managers' worst fears are realized as a consequence of their own actions.

Over time, the physical environment adapts to both reflect and perpetuate these self-reinforcing attributions. Managers who have come to believe that production pressure is an effective way to improve throughput will often resort to technology to further increase their control over the workforce. Such technological solutions can take the form of time cards, detailed work reporting systems, video surveillance, or software that measures the key stroke rate of data entry operators. Workers often become increasingly sophisticated in circumventing technological controls, further confirming managers' belief that the controls were necessary and, perhaps, even need to be augmented—another reinforcing feedback.

So it is that initially erroneous attributions about the capabilities and motives of the workforce can soon become embedded in the routines, culture, and even the physical structure of the organization, perpetuating the cycle. Consistent with technological structuration theory (Orlikowski, 1992), mental models, behavior, and the physical structure of the system mutually reinforce one another to generate or-

ganizational dynamics. As Churchill said, "We shape our buildings; thereafter they shape us."

## The Case Studies

A variety of field studies document the dynamics described above (Carroll et al., 1997; Krahmer & Oliva, 1996; Repenning, 1996a, 1996b). We focus here on two. The field research was performed within one division of a major American manufacturer. The division manufactures electronic components that are then integrated into the final product at the company's main assembly facilities. The division is quite large, with more than 2 billion dollars in annual sales, and it has many major manufacturing facilities. Two process improvement initiatives were studied. The first was targeted at reducing the cycle time of the manufacturing process—the Manufacturing Cycle Time (MCT) initiative—and the second was designed to improve the efficiency, speed, and reliability of the product development process—the Product Development Process (PDP) initiative.

### Methodology

The main tool for theory development was intensive case study research (Eisenhardt, 1989). Both initiatives were completed at the time the research was undertaken. Although the company has undergone numerous change initiatives in the past 15 years, the MCT and PDP initiatives were chosen for several reasons. The MCT initiative was very successful. During the course of the effort, the division cut average cycle time from more than 15 days to approximately 1 day. The division's experience with MCT continues to influence how other improvement efforts are implemented and managed throughout the company. The PDP initiative was selected because it was influenced heavily by the success of MCT. The same senior executive launched both initiatives, viewed PDP as a logical extension of the success of MCT, and tried to use many of the same strategies that had been so successful in the MCT initiative. The two initiatives represent a rare

opportunity to control for the effect of senior leadership.

The primary data collection method was semistructured interviews. More than 60 interviews were conducted with participants in the two initiatives. Most levels within the organization were represented, from the general manager of the division to development and operations engineers who do product engineering or run production lines. The researcher visited two different manufacturing facilities and the product development headquarters. Interviews lasted between 45 and 90 minutes and were all recorded on tape. Each interview began with the subject describing his or her background with the organization and relevant previous experience. Participants were then asked to give a detailed account of their experience with the initiative. Subjects were asked to assess the key successes and failures of the initiative and to offer their personal hypotheses for their causes. Finally, subjects were asked to describe any lessons learned and to speculate on what they would do differently if they were to participate in a similar initiative in the future.

The interviews were supplemented with extensive collection of archival data. We were given access to a wide range of promotional and training material associated with each initiative, such as pamphlets, newsletters, instructional books, and video- and audiotapes. The historical performance data were also reviewed. In the case of the MCT effort, extensive data on actual cycle times, product quality, productivity, and other operational variables were available. Fewer data were available for the PDP effort.

The data were summarized in the form of two detailed case studies (Repenning, 1996a, 1996b). The cases describe the history of the initiatives, drawing on the quantitative data, archival materials, and recollections of participants. Both cases make significant use of quotations taken from the recorded interviews. Participants were given the cases to review their quotations for accuracy but were not allowed to change the content. They were also asked to review the entire case for accuracy. The cases are available from the first author upon request.

The research was also supported by a company team that was formed specifically for this

study. Participants were drawn from multiple levels and played several important roles. They provided access to key players in each of the initiatives, explained and interpreted the organization's unique language, and met with the first author on a regular basis to review the case documents for accuracy and completeness and to assess the relevancy of the theory being developed.

### ***Manufacturing Cycle Time (MCT)***

#### *State of the System Prior to the Initiative*

Prior to MCT, the division's plants were operated like those of other companies whose business requires substantial capital investment and labor expense. Line supervisors were charged with keeping each piece of equipment and each laborer fully utilized. The performance measurement and evaluation system emphasized direct labor performance (roughly defined as the number of units produced per person per day) and gave supervisors a strong incentive to keep high levels of work-in-process (WIP) inventory to ensure that breakdowns and quality problems at upstream machines did not force downstream machines to shut down. A large portion of each plant's floor space was dedicated to holding WIP inventory. As an operations manager recalled, "Before [MCT,] if you were to walk out onto the floor and ask a supervisor how things were going, he would say 'Great, all my machines are running' and you would see tons of WIP sitting around."

High WIP levels hobbled plant performance in several ways. First, carrying WIP was expensive—between 60% and 80% of the division's total costs derived from purchased components. Second, a high level of WIP delayed quality feedback—a machine could produce a large batch of defective parts before the defect was discovered by a downstream operation. Third, it was difficult for the plants to change the production schedule on short notice—high WIP meant a long cycle time. Last-minute changes were accommodated through expediting, which destabilized the production floor by forcing operators to do more machine set-ups and changeovers, reducing lot size, and increasing produc-

tion pressure. High WIP levels and expediting were adaptations through which the system had evolved to be tolerant of quality and reliability problems.

### *Launching the Initiative*

The MCT initiative was launched by a new general manufacturing manager (GM) who had previously worked for a leader in the electronics industry. He recalls his first step:

We analyzed [for a sample product] the time elapsed between when a part came in the back dock until the time it left the shop floor, and asked the questions "How long did it take?" and "What was the value-added?" We found out it took 18 days to make the product, and we were adding value to the product 0.5% of the time.

Based on this analysis, the GM concluded that substantial improvement could be made by focusing on the time that products spent in between operations as opposed to the conventional focus on reducing the time that parts spent on a particular machine. Communicating this idea took some effort:

Many people thought of cycle time as the cycle time of the equipment. They were looking at reducing the time a part spent on a particular piece of equipment from 20 seconds to 10 seconds. My feeling was, when you are at 18 days, big improvements are not going to come from focusing on individual machines.

The GM spent much of his time visiting the division's plants to show how focusing on cycle time and value-added percentage could lead to improvement. He recalls that people in the plants always

wanted to give me presentations in the conference room, and I would say "No, let's go out to the floor." . . . I wanted to show them examples of what I was talking about. I might look at the shipping labels in the warehouse. If it were May, I would usually find parts that had been received the previous August, and I would ask, "If you aren't using this stuff until May, why has it been sitting here since last August?"

These trips stimulated interest in the effort. His senior position enabled the GM to command the attention of the plant managers; his message was sufficiently interesting that, at least in some cases, he was able to keep it. Following these visits, a few plants undertook an intense period of experimentation. Early efforts focused on developing appropriate metrics for cycle time and value-added percentage. Improvement began almost immediately. As one plant manager recalls,

In the first year, we started with simple counts at different times during the day, and we started to plot them and to try and understand what was happening. Very quickly, our creative engineering personnel came up with clever ways to control the buffers that helped make big improvements.

In the first year, cycle time at that plant fell by more than 50%.

### *MCE Analysis*

In the middle of the second year, a four-person group was created at division headquarters to promote the initiative throughout all the plants. The group began by institutionalizing a measurement system based on the experiments performed at the early adopter facilities. Each plant was required to calculate a metric called Manufacturing Cycle Efficiency (MCE), defined as the ratio of value-added time (time in which a function or feature was being added to the product) to total manufacturing cycle time. The early results were not encouraging. As another plant manager recalled, "When we first started to calculate MCE, the numbers were so low [less than 1%] we really wondered how relevant they were." The process, however, proved valuable. A staff member recalled,

You had to walk through the shop floor and ask the question "Is this value added?" for every step in the process. By the time you were finished, you had flow charted the entire process and really highlighted all the value-added stations. . . . After calculating MCE, we really started to understand the process flow of our products. We knew where value was being added, and, more importantly, where value was not being added.



Within a year, the MCE efforts helped cut the average cycle time for the division to less than 5 days, down from the initial 15-day average.

### *Theory of Constraints*

Two years into the initiative, with the MCE analysis well under way in most facilities, the corporate staff focused on shop floor management as the next opportunity for reducing cycle time. The MCE effort had focused on the structure of the process by eliminating non-value-added operations and identifying unneeded buffer inventories. To achieve further reductions in cycle time, the plant staff needed better tools for process design and day-to-day management. Two challenges arose. First, the manufacturing processes were very complex, and scheduling them was difficult. The division used a group of simulation specialists to help with process design and to develop scheduling and coordination strategies. Second, implementing new scheduling routines required the understanding and participation of manufacturing engineers, machine operators, and material handlers. A supervisor recalls,

At the time, people thought, "This is important because it's important to the general manufacturing manager," but they didn't necessarily feel in their gut that it was important because they didn't understand what was behind it. . . . We needed more than just a definition of MCT or MCE. People needed a better understanding of how the shop floor really worked.

The corporate group became interested in the offerings of the Goldratt Institute, which taught the shop floor management philosophy Theory of Constraints (TOC), developed by founder Eli Goldratt (Goldratt & Cox, 1986). The attraction of the Goldratt group was twofold. They offered a scheduling and coordination strategy, and, perhaps more important, they offered a training program focused on developing intuition through hands-on experience with a computer simulator. The supervisor of the manufacturing simulation group recalled,

I called it "Shop Floor Scheduling and Coordination Awareness 101." If you wanted to concentrate in 3 days everything you would want to understand about the dynamics of the shop floor and how to keep the line running, this was it.

The division made a substantial commitment to disseminating the Goldratt training. Within 6 months, almost every manufacturing engineer and supervisor within the division had participated in a 2-day TOC class. In the following year, the division developed a hands-on, board game version of the simulator and used it to train almost every operator and material handler within the division. In addition, line supervisors made TOC training a part of their daily operations. One supervisor who experienced substantial success using TOC recalls,

We started by teaching each of the work teams how to manage their line using TOC. . . . The classes were useful, but I felt the real learning came from working with them on their lines on the floor. I would coach them through making actual decisions. I'd let them make the decisions, and then we would talk about the results.

Over time, TOC was widely accepted in the division and continues to play an important role in managing the plants. Responsibility for managing the production floor also shifted to the machine operators, as another supervisor observed: "Essentially, all the inventory management is now done by the operators themselves. They do all the counting, the majority of the analysis, and contribute to the scheduling."

By almost any measure, the MCT effort was very successful. Between 1988 and 1995, the average manufacturing cycle time fell from approximately 15 days to less than 1 day, product quality improved, and revenue, profit, and cash flow all increased significantly. The manufacturing process became less elaborate and more flexible. Many facilities are now able to change their production schedule on a daily basis, something that was impossible before MCT. Finally, the reduction in WIP created enough extra floor space within existing plants that two of five planned new facilities were not needed,

saving hundreds of millions of dollars in capital expenditures.

### **Product Development Process (PDP)**

#### *Designing a New Development Process*

The second initiative, focused on improving the division's product development process, was initiated in large part due to the success of MCT. The general manufacturing manager who launched MCT was promoted to general manager of the division. He launched the PDP initiative by forming a dedicated task force charged with designing and implementing a new development process: "We need a development process that is fast, is the best in the industry, and it needs to increase throughput by 50% in 2 years. And everyone must adhere to the same process."

The task force was composed of representatives from the major functions within the organization. The team spent nearly 2 years designing the new process, including (a) hiring an outside consultant to provide basic methodology, (b) benchmarking other companies, and (c) documenting the current process and determining how many recurrent problems had come to be part of the process. As a team member summarizes,

We spent a substantial amount of time looking at what other people did, how they structured their processes, and the problems they had. We looked at . . . the current state of our process and tried to net out a process that had all the things we wanted and . . . allowed us to do things much more quickly.

#### *The New Product Development Process*

PDP was not the first attempt to improve the development process. Over the preceding 10 years, many attempts had been made to speed product development, but with mixed results. At the time PDP was launched, two separate improvement initiatives were already in progress. The PDP team consolidated benchmarking results, learning from the earlier efforts, and the input of people throughout the company into a detailed new product development process for

the division. Three key elements distinguished the process from prior practice.

First, PDP was a "one pass" development process. Historically, projects were initiated with ambiguous customer requirements, and as a result, many physical prototypes were created as the requirements for the final product were updated. Developing multiple prototypes was time-consuming and expensive. To combat this "build and bust" cycle, PDP required detailed documentation of customer requirements before the design process began. When the requirements were established, engineers would then do the majority of the design work using computer engineering and design tools. The combination of detailed, up-front documentation of customer requirements and use of computer design would allow new products to be developed with one physical prototype and little rework, saving time and engineering resources.

A second goal of PDP was to propagate learning through the use of the "bookshelf." The division did not share technological learning well, causing substantial effort to be duplicated. The bookshelf was to be an engineering library of technologies, modules, and subsystems. Every time a new technology was used, it was the designer's responsibility to bookshelf that technology by fully documenting its uses, capabilities, and limitations, and then placing it in the library. To complement the bookshelf, PDP also specified a "wall of innovation." Projects using new and unproven technologies often fell behind schedule or suffered from quality problems. The wall of innovation was the point in the development project beyond which every project had to be based on technologies that had already been placed on the bookshelf, and it was designed to prevent projects from proceeding too far in the development cycle with technologies that had not been tested appropriately.

Third, the PDP process was designed to increase discipline. The process was divided into six major phases, and at the end of each phase, development teams were required to undergo a "phase exit quality review" before proceeding to the next step. The reviews, conducted by senior managers, required development teams to assemble detailed documentation on the state of the project. One important role of the phase exit

quality reviews was to enforce the wall of innovation: Managers were supposed to prevent teams from proceeding to the next phase until each of the technologies they planned to use was documented and placed on the bookshelf. Between reviews, projects were to be run using standard project management techniques such as work plans, Gantt charts, and project management software. By using project management tools, engineers would be more accountable, more efficient, and better able to meet critical milestones.

#### *Pilot Development Projects*

The design team tested the new process on a number of pilot projects. The pilots were chosen to serve two purposes: (a) They provided an opportunity for the team to identify and correct problems in the process, and (b) if they were successful, the pilot projects could be used as examples to drive the process through the organization. The first pilot project chosen was a high-profile product critical to the corporation's image and financial success.

But the first pilot suffered because much of the support infrastructure required for the new tools was not in place. Engineers did not have computers powerful enough to use the new CAD/CAE/CAM software, and once the computers were obtained, the rest of the organization was not able to accept their output because of software incompatibility. In addition, learning how to use the tools imposed a substantial burden on the already overworked engineers. One engineer recalled,

I had some background in CAD/CAE from my master's program, and I still stayed at work until midnight every night for a month learning how to use the tools and trying to figure out how to get my work done. . . . Some of the older engineers, even with training, they just have a [computer] sitting on their desks gathering dust.

Another engineer said,

The value of the tools was way overestimated. . . . We never had time to take the courses and get the equipment we needed to really make this stuff work. . . . It was really exhausting trying to learn

how to use the tools and do the design at the same time.

The project also required the use of new and unproven technologies. As the first test of the new process, the bookshelf of documented designs was nearly bare. As a consequence, engineers were not able to achieve the one-pass design dictated by the PDP process. Instead, much of the design was reworked substantially late in the development cycle, increasing work pressure and stress on members of the pilot project team.

To meet the project schedule and specifications, many of the engineers working on the pilots abandoned much of the methodology. One recalled, "We crashed through the wall of innovation and never looked back." The effect of these problems on the morale of the engineers was significant. Every interviewee reported being frustrated with the process. Many felt that management had defined a development process and then immediately gave the engineering staff a project and time line that could not be accomplished using it. A common sentiment was expressed by an engineer who said, "I believe PDP is a good process. Some day, I'd really like to work on a project that actually follows it."

#### *Results*

Evaluating the success of the PDP initiative is difficult. The time delays are sufficiently long that by the fall of 1995, only the first pilots had reached the launch phase. There are little quantitative data with which to evaluate the success of the initiative. The lack of data caused by the long cycle times for development projects is a key feature of the feedback structure governing the success of the program and not just a problem for researchers. Without rapid feedback on results, people formed judgments about the effectiveness of PDP through anecdote, rumor, and personal experience. Indeed, despite the lack of hard data, many people developed strong feelings as to the successes and failures of the effort. Everyone believed that the process as designed was good but that the division as a whole did not follow it. The GM rated the effort as a 50% success. The executive in charge of the

initiative believes that they achieved 80% to 90% of their objective for the use of new tools, and less than 20% of their objectives for documenting customer requirements, using project management, and developing a more rigorous and repeatable process. Members of the design team also believe that the effort failed to achieve its objectives, but they hoped it would provide a catalyst for future improvements. Among the engineers interviewed, not one believed that the initiative had influenced his or her job materially.

### Analysis

PDP and MCT provide good examples of the paradoxical nature of process improvement efforts. PDP was launched by a senior executive, had substantial funding, and was designed and implemented by a cross-functional, co-located team. World-class development processes were used as models, and a substantial investment was made in roll-out and training. Yet it was, at best, a partial success. In contrast, the MCT initiative was extremely successful even though it was launched by a lower-level executive, had only a four-person staff and a modest training budget, involved no benchmarking, and spent little money on promotion or internal marketing. In this section, the framework developed in the theory section is used to diagnose and explain the differing results of the two initiatives.

#### **Manufacturing**

##### *The Reinforcing Nature of Improvement*

Prior to the MCT effort, manufacturing suffered from many of the dynamics outlined in the theory section. A supervisor at one plant discussed the difficulty of finding time for preventive maintenance:

Supervisors never had time to make improvements or do preventive maintenance on their lines. . . . They had to spend all their time just trying to keep the line going, but this meant it was always in a state of flux, which, in turn, caused them to want to hold lots of protective inventory,

because everything was so unpredictable. It was a kind of snowball effect that just kept getting worse.

A manager at a different plant also reflected on the difficulty of finding time for improvement:

In the minds of the [operations team leaders,] they had to hit their pack counts. This meant if you were having a bad day and your yield had fallen . . . you had to run like crazy to hit your target. You could say, "You are making 20% garbage—stop the line and fix the problem," and they would say, "I can't hit my pack count without running like crazy." They could never get ahead of the game.

Both examples can be mapped into the framework (Figure 9.8). Process throughput is determined by the number of machines currently broken (not operative or producing defective product). There are several corrective actions available to improve throughput. Broken machines can be repaired (the Rework loop B2). Alternatively, operators can run their remaining machines longer or faster via the Work Harder loop B1, and they can refuse to stop their machines for maintenance or problem solving to Focus on Throughput (loop B4). In either case, the time allocated to corrective efforts directly reduces the time available for prevention. When workers spend more time repairing broken machines, they have less time for preventive maintenance. In addition, because preventive maintenance usually requires stopping working machines, time spent running machines to compensate for those that are broken also reduces preventive maintenance. These links create the reinforcing Reinvestment loops R1a and R1b, which drove the system until machines were so unreliable that they had to be run constantly to hit throughput objectives, eliminating time for preventive maintenance and making the machines even less reliable.

##### *The Attribution Error and Work Pressure*

Why did the manufacturing system tend toward low performance rather than high performance? The answer lies in the high level of work pressure. Prior to the MCT effort, manufacturing managers reported being under con-

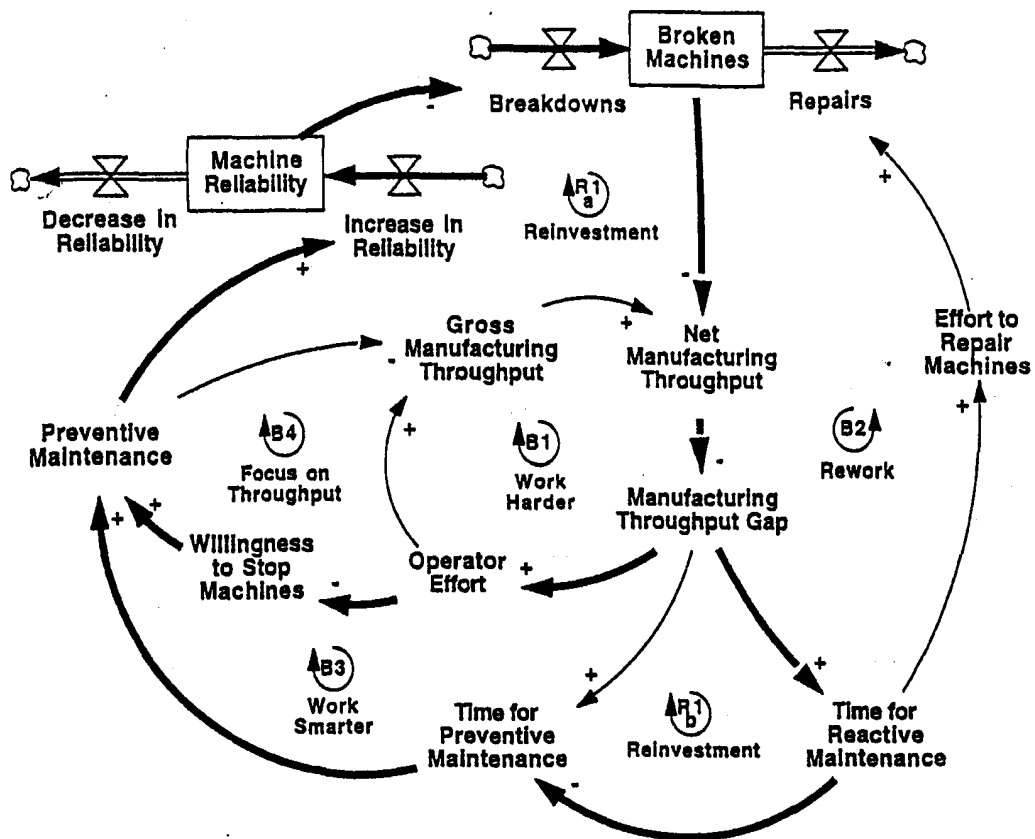


Figure 9.8.

NOTE: As breakdowns reduce throughput, more time is spent in reactive maintenance at the expense of preventive maintenance, leading to still more breakdowns.

stant pressure to hit throughput objectives. One recalled, "Supervisors who missed their targets knew they were going to get beat up by their managers." The aggressive throughput objectives were designed to increase the plant's efficiency and squeeze slack from the manufacturing system. Implicit in these objectives was the assessment that such slack existed, and that if people simply worked harder, process capability would improve. The addition of these decision rules closes the balancing Squeeze Out Slack feedback B5 (Figure 9.9). Increasing throughput pressure appeared to work—in the short run, the situation did improve. However, such actions were self-defeating. Additional production pressure reduced the willingness of operators to shut down machines for preventive maintenance and continuous improvement, leading to more machine breakdowns and product defects. The self-reinforcing feedbacks dominated the dynamics, and the operation spi-

raled down to a state of low uptime, throughput, and quality.

### Ad Hoc Process Changes

During the pre-MCT period, manufacturing supervisors and operators also worked under an increasingly constraining measurement system. For example, the finance organization required plants to report equipment and labor utilization rates on a daily basis. As one manager recalled, plant staff reacted by "making sure everybody was busy all the time to make labor efficiency." Previous programs to reduce WIP inventory created a direct conflict with the objectives of high machine and labor utilization. Operators and supervisors reacted by making ad hoc changes to the manufacturing process that allowed them to appear to satisfy both objectives. Many surreptitiously accumulated secret WIP inventories so that they could keep their

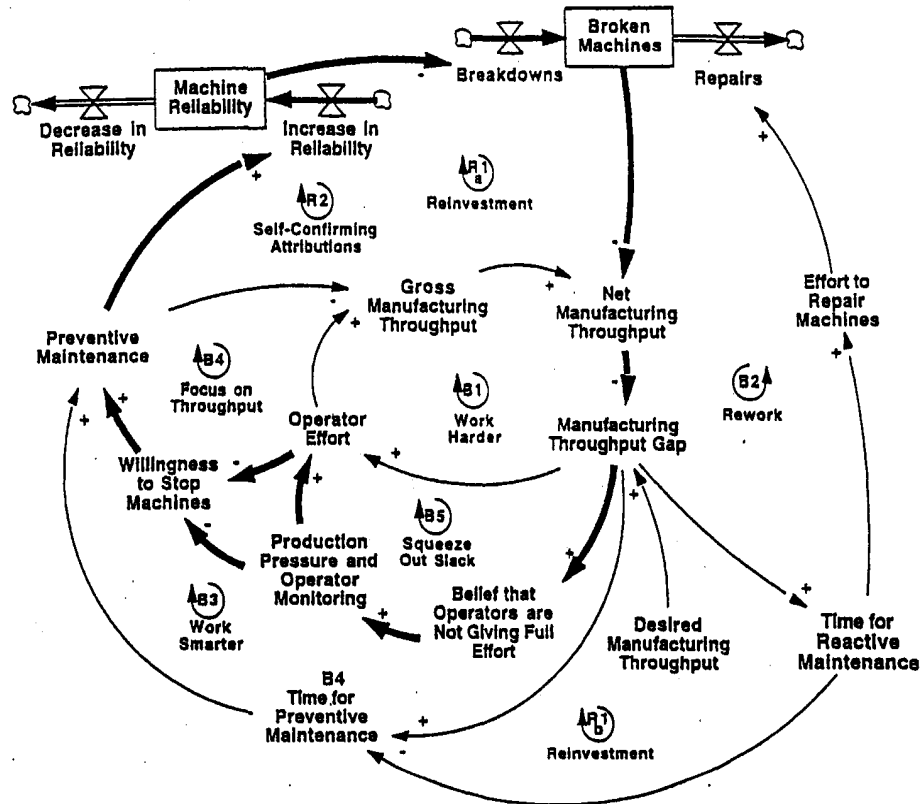


Figure 9.9.

NOTE: Boosting throughput objectives reduces the willingness of workers to stop machines for maintenance or to correct problems, leading to still more breakdowns and production pressure.

machine running, even if its output was not needed. A manager explains,

Supervisors at that time were evaluated on labor performance on a daily basis. It didn't take long for them to develop a buffer in front of their line so that if the schedule called for 700 and their line was fully utilized at 800, they could still run 800 units every day and still make their labor performance.

The feedback structure is shown in Figure 9.10.

Managers react to a throughput gap by scrutinizing machine utilization more often and increasing the pressure to hit pack counts to Squeeze Out Slack (loop B5). Those working on the production line then experience a conflict between the higher throughput objective and the imperative to reduce cycle time and improve quality. Workers react to the conflict by taking Process Shortcuts, such as holding secret caches of WIP, which allow them to satisfy their

utilization objectives and still appear to meet their inventory reduction goals (loop B6). However, increasing WIP lengthens the manufacturing cycle time, delaying the detection of defective product and reducing the capability of the manufacturing process. Management responds by further tightening controls and increasing production pressure. These links cause the self-reinforcing Process Integrity feedback to drive the manufacturing system to higher levels of WIP and production pressure.

### Breaking the Cycle

The feedback structure described above explains why the manufacturing organization suffered from excessive WIP inventory, low equipment reliability, low product quality, and high levels of work pressure. A critical feature of the MCT initiative was the radical reconceptualization of the underlying cause of these problems. First, the general manufactur-

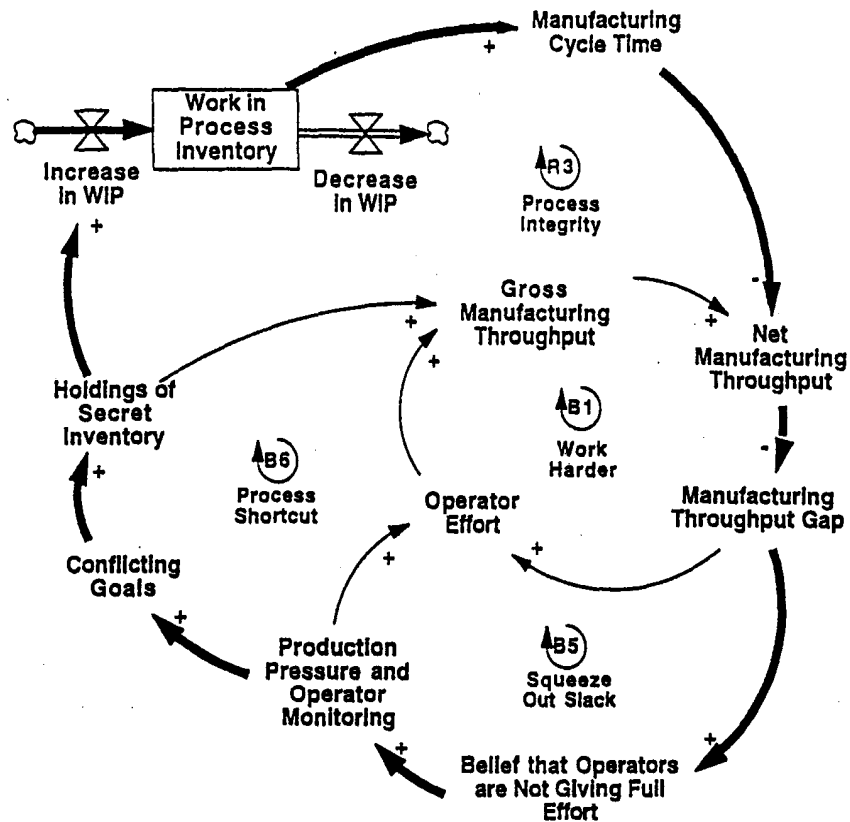


Figure 9.10.

NOTE: As throughput objectives conflict with cycle time reduction goals, workers began to hold secret caches of inventory, lengthening cycle time and reducing process capability.

ing manager challenged the conventional wisdom with his simple analysis of cycle time and value-added percentage. He recalls, "When I laid this [the cycle time analysis] out for everybody . . . they were astonished." The new analysis called into question people's basic understanding of the manufacturing process. A plant manager recalls,

We had a gut feel that our cycle times were going to be pretty long . . . but what really got us was that even with the very crude definitions of value-added time we were using—they are much stricter now—we had astoundingly low cycle efficiencies [the ratio of value-added to total production time].

Faced with the fact that value was being added to the products less than 0.5% of the time, managers could no longer attribute the low capability of the manufacturing process to the substandard efforts of supervisors and operators.

The development of new understanding of poor performance that was focused on the manufacturing system rather than on those working within it continued through the TOC phase. By working with the TOC computer simulators, managers realized that their actions were as much a cause of low performance as the efforts of employees on the line. One area manager recalled,

It [TOC] allowed you to step back and understand the shop floor as a system rather than as a bunch of process areas, particularly if you worked inside of one. Even though your training would lead you to make decisions one way, it led you to a new intuition that helped you make decisions differently.

These reframings were critical to the success of MCT because they provided managers with a new conception of the cause of low process

capability, thus breaking the self-confirming attribution cycle. The initial data analysis and the TOC training pointed to physical attributes and managerial behaviors as the cause of low capability rather than the attitudes and skills of the workforce. One manager summed up his explanation of the success of the MCT effort by saying,

There are two theories. One says, "There's a problem, let's fix it." The other says, "We have a problem, someone is screwing up, let's go beat them up." To make improvement, we could no longer embrace the second theory, we had to use the first.

The general manufacturing manager also believed that finding systemic rather than attitudinal causes for problems was critical to success. When asked what skills and talents he possessed that allowed him to make improvements where others had failed, he recalled the following experience:

At [a previous employer,] I was a plant manager. One of the things I'll never forget as long as I live . . . the guy I took over from blamed his people for everything [and] . . . there was really one guy in particular who he thought was the whole reason for the poor performance of the plant. So I didn't say anything or do anything for about 2 or 3 months. Finally, I gave the guy more responsibility . . . as much responsibility as he'd take. He ended up being one of the best people in the plant. I guess that was probably the turning point for my thinking.

Active experimentation is a critical part of many improvement methodologies. However, a prerequisite for experiment-based methodologies is accepting that significant process problems exist and can be corrected by solutions that are as yet unknown. Prior to the MCT initiative, supervisors and operators were forced to make ad hoc departures from standard operating procedures to satisfy conflicting objectives, but once the reinforcing attribution cycle had been broken, open experimentation could become part of the MCT effort. Experiments add a higher level of rigor to the improvement process and increase the chances of making favorable

process changes. Openness means that harmful side effects are more likely to be anticipated. By making the results public and observable, rather than hiding them, the organization is able to adopt the benefits of any new learning more rapidly.

Experimentation was the fundamental mechanism of improvement. Increasing the level of experimentation meant a decrease in the level of control that managers exerted over the process. The plant manager from a facility that was an early adopter of many of the MCT techniques described the new environment:

If somebody had a better idea about how to manage the buffer, they could try it. . . . Everything we tried, we picked up from our own people . . . everything from the Toyota Production System's kanban to doing statistical process control on buffer sizes.

In addition to allowing the experiments to take place, the penalty for trying something that did not work was reduced, a further reduction in the control that managers exerted over the process. The same plant manager continued,

The best thing we did was that we didn't kill anybody when they shut down the line, and that happened a lot during this period of time as we experimented with new buffer management systems. We certainly shut it down more than we would have otherwise, but we were willing to do this in order to make more improvements.

### **Product Development**

Despite large apparent differences between manufacturing and product development, the feedback structures governing improvement in both are strikingly similar (Figure 9.11).

Similar to the experience in the manufacturing area before MCT, product development managers had come to believe that the cause of low process capability was the "undisciplined" nature of the development engineers. A senior manager on the PDP design team recalls,

We found . . . [the existing development process] was . . . poorly documented and poorly disci-



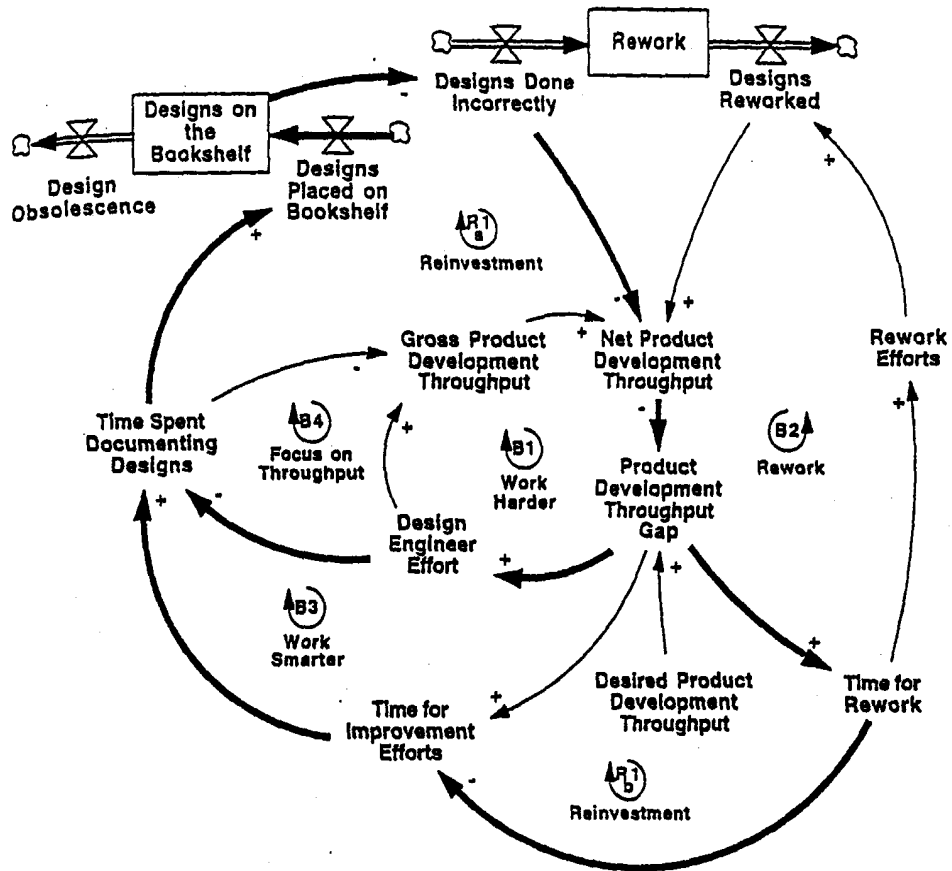


Figure 9.11.

NOTE: Development engineers under pressure to meet deadlines failed to document and share their designs. Without this learning, design error rates remained high, reinforcing schedule pressure and limiting time for future improvement.

plined. . . . Engineers, by trade, definition, and training, want to forever tweak things. . . . It's a Wild West culture. . . . [With PDP,] we were trying to instill some rigor, repeatability, and discipline into the process.

A chief engineer explains his diagnosis:

We went through a period where we had so little discipline that we really had the "process du jour." Get the job done, and how you did it was up to you. . . . It allowed many of the engineering activities to go off on their own, and as long as they hit the key milestones, how they got there wasn't that important.

To increase discipline, engineers were directed to follow PDP, including learning how to use the new CAD/CAM system, doing failure mode and effects analysis (FMEA), and docu-

menting their work for the bookshelf (the Work Smarter loop B3). However, the large costs of delivering a new design late created incentives to meet deadlines—incentives succinctly described by a development engineer, who said, "The only thing they shoot you for is missing product launch . . . everything else is negotiable." Correction efforts—reworking flawed designs, loop B2—took precedence over preventing problems in subsequent projects. Resources were limited because engineers were responsible for completing both existing designs and process improvement activities, such as learning how to use the computer tools and placing designs on the bookshelf. Increasing the strength and number of product development throughput objectives, for example, via the phase exit quality reviews, imposed additional work pressure on engineers (the Squeeze Out Slack loop B5 in Figure 9.12). Because the

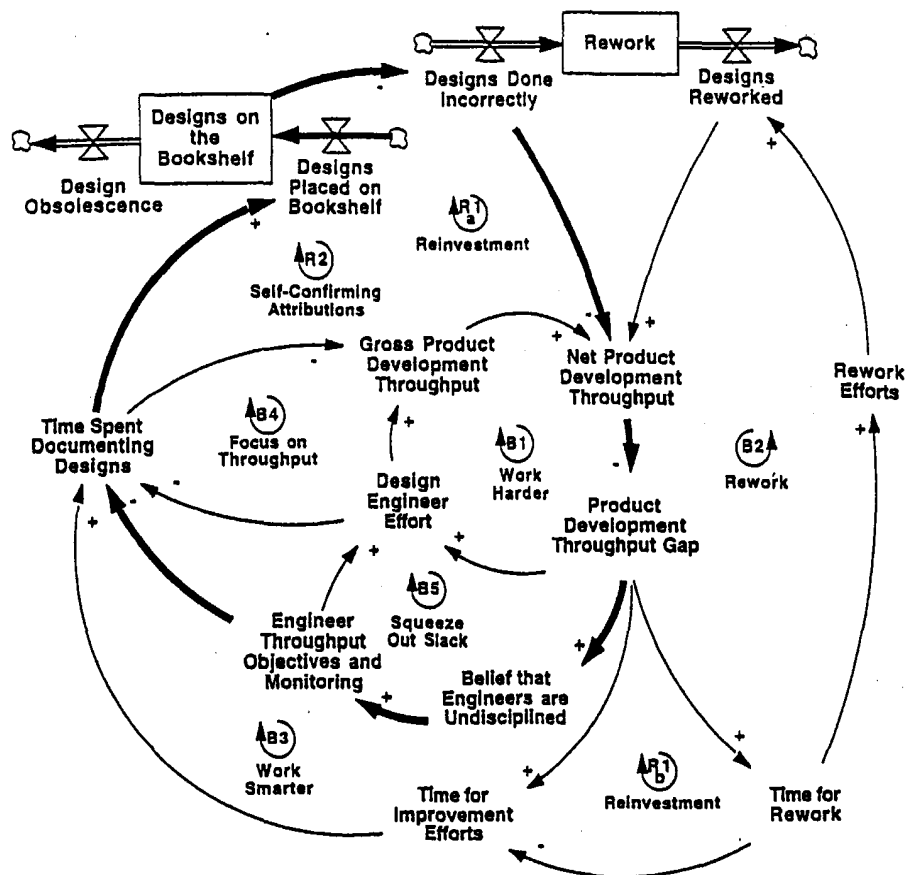


Figure 9.12.

NOTE: The belief that engineers simply needed to work harder led to aggressive throughput goals that could be met only if the engineers failed to document and share their designs, perpetuating low design productivity.

engineers were already working as many hours per week as they could, the time required for rework came directly at the expense of time for improvement, causing the Reinvestment loops to work as vicious cycles and dominate the dynamics.

To meet project deadlines and still comply with reporting requirements, engineers cut back the time spent documenting their designs to prepare for their design review meetings (the negative link from Throughput Objectives and Monitoring to Time Spent Documenting Designs was strong). But because fewer designs could be properly documented and posted to the bookshelf, the cumulative stock of knowledge available to help avoid error did not grow, perpetuating low design productivity. As the PD organization continued to fall behind, managers imposed still more control, unintentionally limiting the ability of the organization to imple-

ment the bookshelf and other key elements of the PDP initiative. The lack of long-term results only reinforced managers' belief that the engineers were undisciplined (via the Self-Confirming Attributions loop R2).

#### *PDP Did Not Break the Cycle*

Whereas MCT was successful in changing managers' assessment of low process capability, PDP was not. PDP's focus on discipline and project management did not represent a fundamental change in the core beliefs of senior managers. The result was a further increase in control, which gave engineers even less freedom to experiment and improve the process. The conflict between the attributions of the managers and the experience of the engineers is most obvious in their comments concerning project management, a key component of the PDP ini-

tiative that failed to achieve widespread use. Engineers reported that they had no problem with project management techniques per se, but the combination of their assigned engineering tasks and all of the project management and documentation work was more than they could possibly accomplish. One engineer said, "People had to do their normal work as well as keep track of the work plan. There just weren't enough hours in the day, and the work wasn't going to wait." Another expressed a similar sentiment:

Under this system, . . . the new workload was all increase. . . . In some cases, your workload could have doubled. . . . Many times, you were forced to choose between doing the physical design and doing the project and administrative work. To be successful, you had to do the design work first, but the system still required all this extra stuff.

How did engineers accommodate the substantial increase in workload imposed by the new process? An engineer from a PDP pilot project explains: "How do we catch up? We stayed late. Most of the team was working from 7:00 a.m. to 8:00 p.m. and on weekends. A lot of people worked right through the Christmas vacation." One chief engineer suggested that managers were actually creating the situation they were trying to prevent:

I believe that P[rogram] M[anagement] is not an issue in and of itself. The problem with PM is that sometimes management chooses to adhere to it, and sometimes it chooses not to adhere to it. . . . When we set out the disciplines of PDP, we said, "There it is, it's a very disciplined, rigid program, go follow it." Then, in the very next breath, we would say, "I want you to ignore all that and bring this project home in half the time." That just didn't go down very well.

In stark contrast, many managers attributed the failure to the basic attitudes and culture of the engineering staff. The executive in charge of PDP said, "A lot of the engineers felt that it was no value add[ed] and that they should have spent all their time doing engineering and not filling out project worksheets. It's brushed off

as bureaucratic." When pressed further for an explanation of the engineers' resistance to project management, he continued,

Program management and the disciplines associated with it continue to be a problem, in my opinion, in most Western cultures. The people that are particularly rigorous and disciplined, the Japanese and the Germans, tend to be so by cultural norms. I can't tell you if it's hereditary or society or where it is they get it, but the best engineers are those that tend to be the most disciplined, not as individual contributors but as team-based engineers. So, there's a strong push back from the Western type of engineers for much of this.

Such attributions, here generalized to entire nations and ethnic groups, are typical of the fundamental attribution error. As these attributions are shared and repeated, they become institutionalized. They become part of corporate culture and, as suggested by the quote above, can strengthen widely held stereotypes and prejudices in society at large.

#### *Ad Hoc Process Changes*

The conflict between trying to get work done and following PDP was pronounced. Almost every engineer expressed feelings similar to the one who said, "I believe PDP is a good process. Some day, I'd really like to work on a project that actually follows it." As in manufacturing prior to MCT, the conflict between the throughput goals and process adherence goals forced participants to work around the process. These departures took the form of neglecting documentation, not placing technologies on the bookshelf, or not filling out a detailed work plan. Another chief engineer gives an example:

Writing [computer] code on the back of an envelope is a lot faster than documenting it. Of course, the quality of code went up if you documented it and fixed things that might require rework later, but that only shows up in speed after the fact.

Another manager observed, "In the long run, [inadequate documentation] prevented us from being able to deploy the reusability concepts that we were looking for." These behaviors

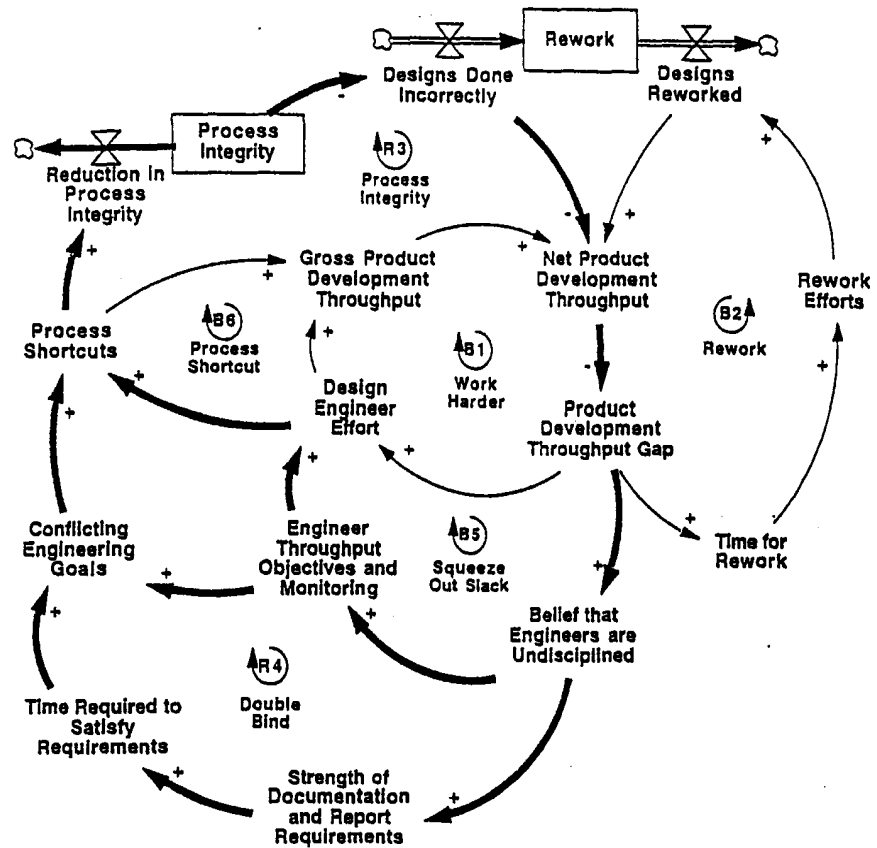


Figure 9.13.

NOTE: Managers, believing that engineers were undisciplined, increased throughput objectives and specified additional reporting and documentation requirements. To resolve the conflict, engineers cut corners, reducing the integrity of the process, leading to still more defects and still lower productivity. Management's belief that engineers were undisciplined was reinforced.

create a structure very similar to that found in the pre-MCT manufacturing environment (see Figure 9.13). Upon observing low process capability, managers' belief that engineers are undisciplined is confirmed. They react by increasing pressure to hit product launch dates while simultaneously stiffening documentation and reporting requirements. The increase in production pressure and process control leads to a conflict in the objectives of the engineers. They react to the conflict by taking shortcuts and working around the process, causing the self-reinforcing Double Bind and Process Integrity loops to operate as vicious cycles. Another engineer summed up the effect that work pressure had on the success of PDP:

To be perfectly honest, I really don't think PDP changed the way engineers did their jobs. In many ways, we worked around the system. Good, bad,

or indifferent, that's what happened. We had a due date, and we did whatever it took to hit it.

## Discussion

The framework presented provides some insight into the differing levels of success of MCT and PDP, and it also identifies some key differences between the two initiatives that led to the different outcomes. However, a basic question remains unanswered: Why were the strategies that were used in MCT not used in PDP? If the successful MCT effort was predicated on developing a better understanding of the system among the frontline managers and encouraging their experiments to improve it, why was this approach abandoned in the PDP effort? If the same senior-level executive kicked off both initiatives, and the MCT effort preceded PDP, why

was the MCT strategy not replicated in the PDP effort? The answers to these questions lie in the different physical structure of the two processes and the resulting unanticipated interactions between them.

### ***Differential Time Delays***

Manufacturing and product development work at different speeds. In both functions, the short-term positive effects of increasing control and work pressure can be observed quickly—people work harder, they spend more time at their jobs, or they follow the process more closely. However, there is a significant difference in the times required to observe the negative, long-term effects. At its worst, the average cycle time in manufacturing was less than a month, whereas product development projects typically took more than 3 years. These differential delays affected the ability of management to break the vicious cycle of self-confirming attributions.

In the MCT program, only a few months passed before the reinforcing loops R1-R3 began producing observable improvement. In addition to quickly confirming the value of the new strategy—a behavioral effect—early results also increased potential throughput—a physical change. Extra manufacturing capacity played an important role in the continued success of MCT for at least three reasons. As capacity grew, production pressure fell, and the plants could devote an increasing level of resources to improvement and still hit their production targets. Second, additional capacity makes operations more robust to the variability and disruptions caused by experiments. Third, slack resources also mitigate the “worse before better” trade-off associated with improvement initiatives. For example, preventive maintenance requires shutting down operable machines. With excess capacity, this can be done without missing the production schedule.

In contrast to the short time delays in manufacturing, a year or more was required to observe and reap the potential benefits of PDP. In the meantime, managers were under continual pressure to improve throughput. Under such

production pressure, it was difficult to undertake experiments and make investments with long-term payoffs such as the bookshelf. Furthermore, even if these dynamics were fully understood by engineers and project supervisors, it would have been difficult to convince senior leadership to be patient, as the executive in charge of PDP remarked:

Imagine at the end of the year, the general manager going up in front of the president and saying, “We missed our profitability numbers because we spent extra money developing our new design process that won’t be fully deployed and rolled out till 5 years from now, but wasn’t that a good move?”

The long cycle time for improvement in product development lengthened and deepened the short-run throughput sacrifice caused by reallocating resources to process improvement, and, as a consequence, product development was more likely to suffer from self-confirming attribution errors.

As these attributions are repeatedly confirmed, they become embedded in the organization’s norms and culture. Management, more firmly convinced that engineers as a group lack discipline and fail to understand the realities of business, increasingly focuses new improvement efforts on compliance with ever more detailed procedures and ever more stringent reporting requirements. Engineers become cynical about the value of new improvement programs and suspicious of management’s motives. Dilbert cartoons appear on cubicles (Adams, 1996). The vicious cycles of self-confirming attributions dominate the dynamics. New improvement efforts are more and more likely to fail.

### ***The Relationship Between Manufacturing and Product Development***

As in most large firms, the improvement initiatives in manufacturing and product development were undertaken independently. Such decomposition is almost inevitable: Both manu-

facturing and product development are large organizations in their own right with facilities located around the world and multiple, semiautonomous departments. However, manufacturing and product development are intimately intertwined with one another. These linkages were not appreciated or attended to in the improvement strategy.

Because of the inherently shorter time delays for improvement in manufacturing, the MCT effort progressed faster than PDP. In addition, PDP was started 2 years after MCT, and largely in reaction to MCT's success. The excess capacity created by MCT's success could be used only if the development organization could generate new products to bring in additional business. The general manager said,

When I started out, I was only the manufacturing manager, so I did everything I could to fix the manufacturing side. When I became the general manager [in 1991], I realized that, in part because of what we had done in manufacturing, our plants were half empty. If we couldn't [generate new business], we were going to have empty plants, which meant unaffordable plants.

The demand facing the manufacturing plants was constrained by the slow rate of product introduction, so early improvements in manufacturing generated slack, allowing the plants to hit their production targets using less than 100% of their available resources. Excess capacity meant that manufacturing managers could both satisfy their production objectives and achieve their improvement targets. No difficult choices had to be made. In contrast, when PDP started, product development was the bottleneck on the demand for the division's products—demand could grow only to the extent that new products could be designed and launched. Product developers faced an acute trade-off between improvement and throughput: Investing in improvement activity directly reduced the time available to bring new products to market. Under intense pressure to use the excess capacity created by MCT, the development organization aggressively sought new business, increasing production pressure on the developers and weakening the reinforcing reinvestment loops

that are fundamental to sustained improvement. As one manager said,

There was tremendous pressure to grow, and there was tremendous pressure for new products, new technology, and new customers. We were trying to sell very, very aggressively to the outside. So, we would get ourselves in situations where we would have a success with an outside customer which translated into a resource problem for the engineers. We typically never said no.

Thus, the very success of MCT intensified the problems faced by PDP.

The feedback structure linking manufacturing and product development is shown in Figure 9.14.

The Reinvestment in Manufacturing loop R-M is a high-level representation of the self-reinforcing feedbacks driving improvement in manufacturing. Given product demand, initial improvement boosts potential manufacturing throughput. Fewer resources are needed to meet production schedules. The extra resources can be reinvested in experimentation and process improvement, decreasing the level of process problems, further enhancing production capacity, and freeing up even more resources for improvement. An identical structure exists in product development, shown as loop R-PD. Manufacturing and product development are linked because excess capacity depends on the potential throughput of the manufacturing operation relative to product demand. In turn, product demand is augmented as new products are developed and introduced to the market. The two loops differ in that the delays between improvement effort and results are much longer in product development than in manufacturing.

In the case of MCT and PDP, rapid progress in manufacturing, coupled with slow improvements in product development, enabled the manufacturing organization to reinvest its initial productivity gains in further improvement, strengthening loop R-M. As plant utilization fell, management urgently sought ways to use the excess capacity created by successful improvement to prevent morale-shattering layoffs that would undercut the gains of MCT. The development organization faced enormous pres-

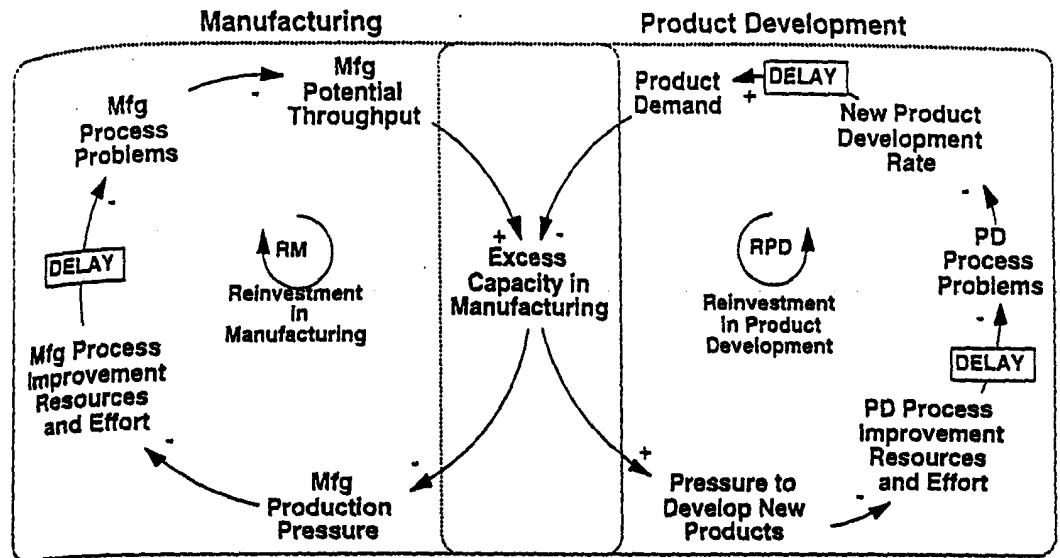


Figure 9.14. Linkages Between Manufacturing and Product Development

sure to get new products to market. Development engineers did not have time to experiment and improve the process, perversely slowing the rate of new product introduction and leading to still more pressure. The initial success in manufacturing led to still more success while simultaneously choking off gains in product development. Ultimately, the self-reinforcing imbalance between production capacity and the ability to generate demand did lead to layoffs in manufacturing.

The positive feedbacks coupling manufacturing and product development arise to some degree in most firms. Manufacturing, with its shorter cycle times and comparatively low complexity, generally has a shorter improvement half-life than does product development (Schneiderman, 1988). In most firms, the quality revolution came first to manufacturing and only later spread to product development (Cole, Chapter 4, this volume), and improvement techniques continue to be more highly developed in manufacturing. Thus, quality improvement in most firms is likely to come earlier and more rapidly in manufacturing. But the more successfully a firm improves manufacturing, the faster capacity will grow. Unless demand grows rapidly as well, improvement will create excess capacity, leading to pressure for layoffs and destroying commitment to further improve-

ment—few people want to work themselves into the unemployment line (Repenning, 1997a, 1997b, and Sterman et al., 1997, provide theory and examples). However, the linkages between manufacturing and product development virtually ensure that excess capacity will arise: The more successfully manufacturing improves, the faster excess capacity builds up. At the same time, excess capacity creates powerful pressure to develop new products. The time available to redesign the product development process shrinks further, limiting process improvement and slowing the growth of demand. Excess capacity grows further. The more effectively these reinforcing feedbacks spin the virtuous cycle of process improvement in manufacturing, the more likely the same loops will operate as vicious cycles in product development.

### **Robust Strategies for Improvement**

Although the PDP initiative had many of the ingredients for success, unanticipated interactions between manufacturing and product development prevented the effort from breaking the self-confirming attribution error dynamics that had thwarted previous programs. The interaction between the manufacturing and product development processes is subtle and could not

have been easily anticipated by management given the organization's structure and the tools available to design improvement programs. Prior to the dramatic changes in productivity created by the MCT effort, the organization had been able to bring development and manufacturing capacity into rough balance through hiring and capital expansion. Manufacturing and product development were effectively decoupled because each was operating at full capacity with high work pressure. There was little evidence to indicate the existence of the strong, latent couplings between functions. Furthermore, improvement initiatives had always been undertaken and managed separately. Independent management of the programs seemed a wise strategy given two apparently loosely coupled organizations, each with its own needs, staff, training organization, culture, and history.

Decomposition is a time-honored strategy for solving complex problems (Simon, 1969). The structure of large organizations is predicated on such a strategy as different functions are defined and compartmentalized. And decomposition often works. It led to the undeniably successful MCT effort, and although it did not accomplish all of its objectives, PDP was also responsible for at least one important change within the development organization—the widespread use of CAD/CAM/CAE tools. However, functionally based organizations often optimize the pieces at the expense of the organization's objectives.

The process view underlying many improvement techniques derives much of its power by cutting across traditional functional boundaries (Garvin, 1995b). But the very ability of improvement techniques to make dramatic improvements means that they can destabilize relationships between processes upon which other organizational structures and routines are predicated. Structures and routines that slowly co-evolved to high effectiveness can become dysfunctional as other processes upon which they depend change faster than they can adapt. Organizational routines far from the locus of improvement efforts can be invalidated even when they appear to be unrelated to the process being reengineered. Successfully improving a process can alter the strength of critical feed-

back loops created by the couplings among processes. Feedbacks that previously stabilized the organization can be weakened, whereas previously dormant loops can become dominant, pushing the organization into new dynamic regimes for which existing structures, mental models, and experience are ineffective or even harmful.

Despite the advantages of the process view, in practice, process-oriented improvement techniques are not capable of identifying the multiple, delayed, and nonlinear consequences of their use. Many are predicated on a static view of the world in which different process problems are assumed to be separable and, as result, can be attacked independently. They are good at identifying unneeded activities but weak at identifying latent feedback processes that may become dominant only when the reengineered process is deployed. There is a clear need to develop robust process improvement and change strategies that enable managers to understand these complex dynamics and design policies to prevent harmful side effects of improvement. Such strategies would account for both the physical and behavioral aspects of improvement efforts and the interrelationships of the different processes involved.

Elements of such robust strategies can be found. McPherson (1995) and Kraemer and Oliva (1996) describe the case of the Network Systems Division of Lucent Technologies, documented as a part of our research, which successfully improved both product development and manufacturing using strategies very different from those promoted in the PDP effort. Sitkin, Sutcliffe, and Schroeder (1994) propose a contingency theory of improvement that also may help account for the different physical and organizational structure of manufacturing and development processes. Repenning (1997a, 1997b) develops the beginnings of such strategies through the analysis of game theoretic and behavioral simulation models. Carroll et al. (1997) discuss a successful effort at the Du Pont Corporation to boost maintenance productivity and equipment reliability using a management flight simulator as the key tool to communicate insights and develop shared mental models.



### Implications for Research and Practice

Process improvement programs have both physical and behavioral dimensions, but past scholarly work has focused on one at the expense of the other. In contrast, practitioners of quality improvement offer both technical and organizational tools, but they provide no explicit theoretical framework to support their suggestions.

Our work suggests that the work of designing better processes cannot be disentangled from the work of implementing them. A complete theory of process improvement requires the integration of both operations research and organizational theory. Models and tools to develop real-world intuition behind these systems proved critical in the successful initiative, and operations research and management science have much more to contribute in this area. Early efforts, including the development of simulation games and management flight simulators, are promising. Participatory simulations were critical in the MCT effort, and such management flight simulators have proved successful in many applications (Morecroft & Sterman, 1994). For organizational scientists, the analysis suggests that future studies of organizational change need to consider explicitly the physical environment in which the change is taking place. Time delays, feedback processes, and interdependencies all play an important role in determining the outcome of a change effort.

The ideas presented here also offer a complementary perspective to many of the ideas advocated by practitioners. In many ways, the PDP effort was more consistent with much of the current thinking on organizational change and process improvement than was MCT. However, the MCT effort was substantially more successful. Two key differences account for the different outcomes. First, whereas PDP focused on laying out a specific process and creating structures to make participants adhere to that process, the MCT effort focused on improving managers' and operators' understanding of the dynamics of the manufacturing system. PDP drew on many of the currently popular change strategies, but none of these was sufficient to

overcome managers' flawed understanding of the dynamics of the development system. Second, the interaction of the behavioral processes with the physical structure of product development and with other activities in the organization created feedback processes that counteracted the intended effects of the program. Whereas managers often focus on the *detail* complexity of their organization, it is often the *dynamic* complexity that is more daunting. Future change efforts need to be focused on improving managers' understanding of the feedbacks between the structure and behavior of the processes they are trying to improve.

### Notes

1. Causal loop diagrams are not intended to provide mathematical specification of the relationships, which may be linear or nonlinear, or of any time delays between cause and effect. Specifying a formal mathematical model is often the next step in testing the theories embodied in causal diagrams. For examples of formal feedback models of quality improvement programs, see Repenning (1997a, 1997b) and Sterman et al. (1997).

2. Of course, inspection processes are imperfect and subject to both Type I and Type II errors. Defective outputs can inadvertently end up in the hands of the customer, and good products are sometimes mistakenly rejected as defective.

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