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If your company is considering the Theory Of Constraints

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**Abstract**

TOC's basic vocabulary emphasizes its philosophy and its three performance measures. Throughput equals sales revenue minus direct materials cost--it measures the speed at which the company makes money. Inventory is the raw materials value tied up in work in process and finished goods. Large amounts of inventory are undesirable because it means that the company has spent money for production that hasn't generated revenue yet. Operating expenses are all of the costs of operations other than direct materials costs. Under the Theory of Constraints, operating expenses are fixed and therefore irrelevant to any TOC decision. Of the three terms, throughput is the most important. It tells the company that it is achieving its goal of making money. Moreover, increases in throughput mean that the rate at which the company is making money is increasing.

So far, we've discussed increasing speed and output and improving quality, but we haven't mentioned any of the conventional management accounting performance measures (i.e., productivity, cost per unit, etc.). TOC won't suggest using any of them, either. Moreover, according to TOC, not only are conventional management accounting performance measures unnecessary, but focusing on them can make things worse.

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## 1. Introduction

Whether your organization manages stand-alone or multiple projects, whether those projects are small or large, whether your customers are internal or external, or whether the nature of the work performed is product development, construction, design, IT, or service; most projects are difficult to manage because of two things:

- 1) They involve uncertainty, and
- 2) They involve three different and opposing commitments: Due date, budget, and content

In organizations that attempt to manage multiple concurrent projects with common, shared resources, the job is even more challenging. Managers can quickly find themselves on “project overload” with continual resource shortages and great difficulty in determining which tasks are truly the most important.

If this is beginning to sound familiar, then you are probably experiencing some of these problems in your organization:

- There are difficulties completing projects on time, within budget and with full content.
- There is too much rework activity.
- Promised lead times are longer than desired.
- Existing project work is not complete before new projects require a shifting in priorities.
- Project Managers and Resource Managers have frequent conflicts about priorities and resource commitments.
- Existing project work is not complete before new projects require a shifting in priorities.
- Problems in one project cascade into problems in other projects.
- Some projects are abandoned or completed without the organization gaining the promised benefit.
- The organization is too slow responding to important opportunities.

This paper provides a brief introduction into the basics of TOC Project Management, showing how the solution addresses the underlying root causes of the problems listed above. It is organized in the context of answering three very important questions:

1. “What To Change?”
2. “To What To Change?”
3. “How To Cause The Change?”

## 2. Literature Review And Hypotheses

In today's competitive global economic marketplace, manufacturers are struggling to squeeze out 5% to 7% operational cost reductions. The reality is startling. If a plant is not consistently improving performance, it is in danger of closing. However, if a company is able to find a way to increase throughput with the same or less resources, it may mean the difference between continuing operations in North America or moving them to lower cost regions around the world.

Twenty years after Eliyahu Goldratt first introduced the Theory of Constraints in his book *The Goal*, the manufacturing world is again experiencing another paradigm shift in thinking. Through the synthesis of the Theory of Constraints and lean manufacturing techniques, continuous improvement efforts and ultimately, performance improvement are no longer measured over periods of years, but weeks.

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