Show and tell

*Manufacturing businesses get into trouble when they lose sight of where they make - and lose - money. Company doctor **Peter Callaghan**, a client of Oliver Scott, explains how making the management process visible can transform the dimmest prospects.*

Manufacturing conjures up all sorts of images: hot and dusty steel mills; high-tech clean room assembly operations; high-volume automotive plants; hand-working in China. Over the past 30 years I have worked in and been associated with managing change in all these situations, on every continent except South America.

In every case, the business in trouble had no clear sense of where it was, and thus no basis on which to choose where to go. As the Cheshire Cat explains to Alice with impeccable logic: 'If you don't know where you want to go, it doesn't matter which path you take.'

Making the management process visible - so that everyone can see how the business is really doing - has been a key tool for removing the blinkers and the paralysis, and turning the business around.

At bottom, the idea - which formed part of the Japanese manufacturing revolution of the 1970s and 1980s - is simple enough. It involves establishing clear unequivocal mechanisms for reporting a business's key drivers. Typically the drivers are not just productions outputs, but also other issues impacting on costs, such as customer returns, quality concerns, rejects and operating safety.

In that way, everyone in the business - from the shopfloor to the Boardroom - can see day by day the connections between their activity and the business's health. The results tend to be dramatic. Delivering the turnaround usually involves six steps.

1. Chart the process
Construct a simple flowchart of what happens in the business: from raw materials and labour, through production, to selling, distributing and invoicing. For each stage in the manufacturing process, plot its inputs and outputs.

Within a few days, aim to set up workplace reports on site to show the actual outputs and inputs achieved *versus* the budgeted standard; make the figures available to all staff. Use any variances to trigger a PIP, or Profit Improvement Plan; the plan should involve people on the ground analysing the reasons for the variance and coming up with practical solutions to be tried out on the spot in a matter of days.

2. Report workplace progress in the workplace
One major assignment in the UK involved taking over an automotive component business employing 2700 people on 11 sites, with 47 major production lines working 2-3 shifts a day. There was no central monitoring of either delivery performance or product profitability.

Within days, simple whiteboards went up beside each line, showing the actual output per shift versus the standard targets. The line supervisors kept the boards up to date on a seven-day rolling basis. During regular visits to each plant, the boards were reviewed, giving a rapid insight into the issues being faced in each area and illuminating the quality of the local management team. Within five months, output per employee had risen by 23 per cent.

A similar approach transformed a 700-employee, lead-acid battery factory working three shifts a day, seven days a week. In the previous two years, the business's poor supply performance had defeated two general managers.

Although the company had a superb cost-accounting system, which updated every day the costs of every component made, the system was not helping to reduce the massive operating losses. Whiteboards did help. They were set up near each part of the production line to show the equivalent number of batteries processed in the previous 24 hours. The initial target was 2300. A daily two-hour walkthrough past all the boards was enough to show which sections of the line were falling behind or improving or holding up the rest. And that generated the management agenda for the day.

Within three months, the business was breaking even. Within a year, it was the most profitable plant of its kind in the country.

3. Track the cash

Making the management process visible is also about the financial aspects of a business. In 1981 I joined a large Australian engineering and mining house, in a grand office next to the Sydney Opera House. I thought my career was made. But within six weeks of my joining, the prices of the company's commodities had fallen 50 percent and it was in default on its US$400million-plus debt facilities with an international consortium of 14 banks.

Over the next two years I was intimately involved with restructuring the business, including disposals and strategic acquisitions. During this period I also had to monitor the cash position of the group's subsidiaries, including operations in the US, Canada and Europe.

We established a very simple system for measuring the year-to-date cash movement in each individual company's bank account after allowing for inter-group transfers. In other words, we kept a weather eye on the actual cash generation and usage. From this experience, I have always kept in my mind that cash never lies. So, to this day, my first priority in any new situation is to set up a cash-monitoring system that allows me to know exactly what is happening and to ask questions until I understand the patterns in full.

4. Make connections simple

While some measures such as cash and customer service are common in all companies, some measures are peculiar to a specific business. In one recent manufacturing assignment, the key issue was the extent to which product was delivered on-time and on-quantity.

The company was measuring both factors, and it knew both were running at about 50 percent of the required level. But it didn't know why.

Conversations with production and other staff quickly revealed the main blocks: nobody in production knew the shape or scale of forward demand; nobody in sales or distribution knew how to let production know details of product failures; and missing components meant that production runs were being constantly disrupted.

Four initiatives in parallel made the blocks highly visible - and solved the problem:

- A simple spreadsheet model was set up to convert expected forward demand into a basic production loading formula. Labour availability could then be matched to likely need.
- A 'customer concern' form was created. It was used bv each account

manager to record each individual fault, and circulated back to production. Supervisors could then spot and fix clusters of faults.

- A returns area was set up to hold all faulty goods. The area could be emptied only on the authority of the Production Director. Senior managers could then check that faults were being reported and resolved.
- A kitting area was marked out in front of each line to hold parts. Each production run started only when all parts were available. Missing components then meant delay or rescheduling, not disruption.

Within six weeks, service levels had risen from 50 to 85 per cent of target. Within a further two months, they were approaching 97 per cent. The changes not only helped profits by cutting costs. They also allowed the company to win back business lost through poor service.

5. Match the people to the need Establishing and monitoring changes works only as well as the people who have to make the changes happen.

So once the manufacturing process is clear, it's vital to see that you have the right staff to run it. That means not only selecting and promoting appropriately. It also means balancing the various functions, so that for instance leads generated by marketing don't overwhelm the sales force, or that you have enough distribution trucks to keep up with production.

It may also mean helping people to move into different jobs, so that they spend more time doing what matters to the business and what they're best at, and less time doing things of only peripheral importance.

Experience suggests that here too, clarity, simplicity and visibility all help. People who can see easily why a change matters tend to be less likely to waste time arguing about it or resisting it.

6. Check it daily
It's easy for a change process to get bogged down in acres of reports and mountains of details. But it's also quite easy to keep it on track. The keys, as ever, are simplicity and visibility.

The tool I've found most reliably useful is a short daily report of the key indicators. The report - typically only a page or so - goes to all those who have a role in managing the business's inputs to achieve its outputs.

In these email-cluttered days, it seems to help that the report stands out by being in physical form - on paper, not on a screen. That ensures that managers confront the issues each day, and stay focused on them. It ensures that everyone is dealing with the same numbers. And it allows directors to monitor performance, guide strategy and correct problems from anywhere in the world.

SUMMARY

Making the management process visible is the first priority in turning round any business, especially one that involves technical complexity and numerous inter-related activities. Establishing the items to be monitored and creating a simple system to track them also makes it possible to build relationships with a management team quickly.

The approach allows highly focused Profit Improvement Plans to be formulated to address specific problems to do with balance sheet, costs and service - and those plans lead quickly to bottom-line improvements.

The six essential steps are: chart the process; report workplace progress in the workplace; track the cash; make connections simple; match the people to the need; and check it daily.

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