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Competing with Low Cost Producers

If you think you have reduced your costs as far as possible, think again. Total Alignment offers a unique perspective for reducing your main cost element -- the cost of human capital.

By Riaz Khadem, President of Infotrac, Inc.

March 5, 2008 -- The pressure to reduce costs through improved productivity has been continuous over the last few decades, and the movement of manufacturing to Mexico, China and India has pushed the frontiers of operational efficiencies to new levels for companies in the U.S. The redesign, control and improvement of processes and improvement of quality are now norms in most manufacturing facilities. Now, how can you get to the next level in reducing costs? One answer we have found while working with manufacturing companies is Total Alignment.

Total Alignment is a comprehensive approach to getting results in a unified and integrated fashion. It consists of a set of concepts that challenge traditional thinking, and work together to greatly reduce waste of human resources -- a major cost component of any manufacturing industry.

Individual Accountability Across Levels

Manufacturing companies are good at measuring every step of their process. Hundreds of performance indicators are watched on a daily and even hourly basis. The responsibility for many of these process indicators rests with the front line operators who are busy at their machines. This is fine, but the waste of human energy occurs at the next management levels. Often, if a shift operator is accountable for the efficiency of his or her shift, the shift supervisor is accountable for the efficiency of all shifts, the production manager is accountable for the efficiency of all lines, and the plant manager is accountable for the efficiency of the plant. Here, we see four levels of management all accountable for basically the same thing -- results which are impacted by the operator. When the efficiency is low, the plant manager asks the production manager to do something, who in turn asks the supervisor who asks the shift operator to do something. Assuming the shift supervisor is empowered to act, he will already have done something about the problem and all the energy spent in watching and asking has been wasted.

Each of the hundreds of manufacturing indicators should be assigned to the lowest appropriate level of influence in the plant. Once that is done, the accountability should *not be repeated* up the line if you are serious about becoming a low cost producer. Does that mean upper levels should not be concerned or informed about something that happens several levels below? No, it doesn't. They can and should be informed, but with the mindset that their real added value does not consist in totaling and averaging the performance of people below. Their real added value consists in unique indicators *they can impact* at their levels. For example, the supervisor of the shift should be accountable for % of shifts with 99.9% efficiency, or % of shifts with no lost time due to accidents. This is clearly a different focus from the average efficiency of all the shifts, or total lost time in the shift. It prompts the supervisor to pursue different lines of action.

When we applied this concept to a manufacturing company that produced aluminum cans for Coca Cola, the plant management was amazed to see how the hundreds of indicators they were tracking in numerous reports and at all levels reduced to customized one-page scorecards for each position with a few unique indicators. This brought about great relief, as the right people were identified to look after the right indicator. Further, the managers in this plant realized that there were important indicators they had never tracked before and that these indicators held the key to their productivity.

Competency Development for Results

It is obvious that competent people should operate the manufacturing processes, and most companies have a good training program to develop the skills needed for the job. But, as you go up the levels of management, this correlation between results and required skills unravels. Take for example, a supervisor, a production manager, human resource manager, production scheduler, and even a plant manager. What are the exact skills each needs to produce the unique results at their levels? It depends on the person's precise accountability. If the precise and unique accountability has not been clarified, then the skills requirement also remains vague.



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NAFTA in the next 6 months, and withdraw if more favorable terms are not met.

Keep NAFTA as it is.

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In this case, training dollars are often spent to increase knowledge that may not translate into results. An employee could be good at many things, but what he needs to be good at are the precise skills needed to deliver on the specific results he is accountable for. Following this argument, the investment in developing competency should go towards specific skills and nothing else if you are serious about wanting to become a low cost producer.

Competency for Empowerment

Nobody would disagree that empowerment is a good thing. But, should there be a condition for empowerment? Absolutely. Empowerment is a good thing only if the person being empowered is competent. Otherwise, it would be foolish to empower. You lose time having to put out the fire that gets started from incompetence, and you will end up doing the job yourself. Imagine the waste of human energy that results from this situation! A simple and practical scheme for competency evaluation has two variables -- *extent of effort and extent of supervision*. When the result produced from the application of a skill comes with minimum effort and minimum supervision, competency in that skill can be evaluated as high, or level 4 on the scale for 1 to 4. Conversely, when the effort is high and supervision is constant, competency will be evaluated as low, or level 1.

There is opportunity for significant cost reduction by eliminating the competency gap -- the difference between the existing levels of competency and level 4 competency in the core skills of all job holders. While this difference is small for the front line operators, it could be huge for lower, middle and upper management.

Paying for Performance

Many manufacturing companies pay their front line workers based on their contribution to production. Yet, when it comes to management levels, the salary and bonus are usually based on what was negotiated and the annual performance review. Here again, there is a huge opportunity for cost reduction. Why not pay everyone based on contribution and forget the annual performance review? This way each manager would be paid for tangible results. How are the tangible results measured? They are measured by performance on the individual scorecard -- on the few unique performance indicators for which that person is accountable. What about gains? There is a formula that can be customized for any facility. Whatever the formula and however large or small the bonus pie, the point is that the bonus is distributed proportionally to the actual contribution of the person.

Upward-Focused Teams

Most companies have invested time and effort in improving teamwork within functions and across functions. Many teams have achieved great results. Yet, a tremendous potential for cost reduction exists from the application of the concept of upward-focused teams. What does this mean? Assuming each person in the organization has a customized scorecard, the concept of upward-focused teams means focusing team meetings on the scorecard of the team leader instead of the team members. For example, in a natural team consisting of a manager and several direct reports, team meetings would discuss how the performance indicators of their manager could be improved to achieve outstanding levels. This is a major shift from the traditional approach of reporting what happened in the past by each of the direct reports. Upward-focused orientation also saves time by shortening the meetings. It makes team meetings more productive, takes cross-functional collaboration to new levels, and makes the team more future oriented and strategic. These are all potential benefits that combine to reduce the cost of production.

Downward-Focused Coaching

What do managers really do? A typical answer is that they get things done through other people. How do they do that? The style varies from manager to manager and industry to industry. Some managers feel that getting things done requires for them to hover around their direct reports and watch them complete their work. Others empower the direct report and only check the results on a frequent basis. There are volumes of books written about the right style to use and how to vary the approach to fit the situation. Whatever the approach, the direct report often receives inconsistent and distracted attention from his or her boss. Consequently, fires that have happened in the past recur, and handling the boss becomes one additional task the direct report has to do. All this can change by implementing the concept of downward focused coaching or vertical review.

What does vertical review mean? It means that each direct report receives regular one-on-one review sessions with his or her boss. The sessions are systematic and focused on the direct report's success. It is the opposite of team review in the sense that the manager is helping the direct report improve his scorecard. Additionally, the manager spends quality time to help the direct report improve competency in required skills to the L4 level, and to align behaviors with the core values of the organization. How does this save time? It saves time by focusing the direct report on his scorecard, by helping him avoid lines of actions that would not be productive, by helping the direct report sharpen skills, and by being fully present to address the needs of the direct report in becoming more effective.

Combined Effect

Each of the concepts we have described has the potential to lower your manufacturing costs. The combined effect of implementing them in an integrated fashion presents an added opportunity for cost reduction. Yet there are other benefits that derive from the implementation of these concepts. With Total Alignment you will have a management system that alerts leaders and managers to problems long before they become difficult to solve. It allows all employees, from top to bottom, to fully understand what they are accountable for and gives them tools to do the best job possible. It aligns vision, strategy, and execution so seamlessly that it reduces confusion and stress, creating a culture of teamwork and high productivity.







Riaz Khadem is the President of Infotrac, Inc., a company that specializes in management processes to focus, align and unify organizations. He has advised companies around the world, including Kodak, Coca-Cola, Avery Dennison, Bellsouth, and GE Capital Mortgage. He is the co-author with Linda Khadem of Total Alignment. www.infotrac.com

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