IMPROVEMENTS ≠ RESULTS?

Several Manufacturing and Service firms continue to suffer from the problem of very low or even negative growth despite some efforts to improve situation in the workplace. This is a major cause of worry not only to those who own these organizations but also to the investors, the employees, the government and the general public. Why is this phenomenon happening and what factors could be attributed to this?

Several manufacturing and service organizations world-over have been making concerted efforts to improve their competitive positioning.

EXAMPLE: The South India based TVS group of automobile component manufacturing firms have between them several coveted awards including the Deming Prize and the PM prize. Automobile majors have been making investments in technology and product design capabilities. Despite these efforts over nearly a decade, Indian manufacturing firms have not yet dented International competition significantly. The notion of productivity paradox helps us understand the problem pertaining to this.

Productivity Paradox

Productivity paradox is defined as the state in which firms have rich perceptions of productivity improvements but gain very little from such improvements. Much of the problem lies in these “rich perceptions” that executives experience. For example, firms make visible improvements in their plant layout and cut inventory by half. In several service firms, they rationalize work force and capacity investments and significantly invest in new technology. Despite all these, they do not see either bottom line or top line improvements. From our experience, we should be able to see a pattern in the problem, which can be attributed to productivity paradox. Productivity paradox occurs when one or more of the following exist in an organization:

- Getting stuck with an inappropriate understanding of the term productivity
- Incompatibility between performance reports and ground realities
- Excellent performance in some parameters but not in “order winning”.

In several cases we may notice that while an organization has been very productive (by producing more output from a given input), they may not reap proportional gains from the market. What happens if an organization has a very efficient production system churning out products that the market does not need? Consider the following scenarios:
An organization has a very efficient manufacturing system but a poor supply chain.

An organization has a well-orchestrated supply chain to manufacture and deliver product to customers but is unable to sense what the market wants.

An organization has pockets of excellence in manufacturing but produces products that are either too expensive or taking a longer time to deliver to the customer.

Clearly, in each of the above scenarios, mere output does not contribute to productivity. On the other hand, it may represent a vast amount of wasteful resources lying unutilized in the inventory. Alternatively, if we define productivity in a period as the ratio of the fraction of the actual output that resulted in “Revenue generation or Sales” to the ratio of the input, then the whole perspective will change. Organizations will realize that having excessive Finished Goods (FG) and Work-In-Progress (WIP) inventory may result in a poor productivity measure. Traditional accounting convention of classifying WIP and FG as value added will become questionable. WIP and FG will have to be treated as cost and risk added until they could be sold to a customer. Designing inappropriate products and inability to meet customer expectations in terms of cost and lead-time will also result in poor productivity. Further, consider the effect of market dynamics. Often, in a liberalized economy, more players enter into a sector of industry and build excess capacity.

For instance, when passenger car manufacturing was liberalized, several players entered the market and created capacities much in excess of demand.

This alters the competitive dynamics and forces organizations to reposition their value offerings to preserve their market share. When markets are overcrowded, organizations will experience pricing pressures.

Similarly, when delivery quotes shrink, organizations will be able to maintain and improve their sales performance only by undertaking lead-time reduction initiatives.
Productivity improvements in such situations will happen only on account of cost reduction initiatives.

Managers relentlessly pursue improvements in performance and report it through periodic reports. Performance reports are meant for the top management to comprehend the financial and operational well-being of an organization. However, they also play a useful role in detecting the productivity paradox that an organization is going through. In several organizations performance reports often project “better than the previous quarter” results because that is how incentive mechanisms tune the psychology of the executives in organizations. Detecting productivity paradox requires a macro-level treatment of these reports and corroborating them with ground realities in the organization.

Improvements are always good as they beget some change in the organization. However, improvements that do not result in enhancing “order winning” attributes represent half-hearted effort in jumping across the “well” of productivity. In some extreme cases, it represents wasteful expenditure accruing out of a lack of vision of the senior management in an organization. A single improvement does not always result in enhancing the order winning attributes of an organization. But a series of such efforts carefully planned and executed will. However, each improvement project will demand considerable time and effort to address change management issues, employee retraining, capital budgeting and executing the change programme as per schedule. Consequently, several organizations do not have the stamina to go through such a long haul of improvements to realize the benefits. On the other hand, they tend to brand these improvement efforts as either ineffective or wasteful and abandon them mid-way in favour of a newer one.

Consider one division of an organization manufacturing industrial motors. The management and the employees were enthusiastic about the changes taking place in the organization. These changes promised to usher in a new era of productivity. They witnessed reduction in the WIP inventory levels. Lead time for manufacturing fell sharply. The shop floor wore a new look with well laid out machines and clearly marked places for tools and inventory. However, after three years of major manufacturing restructuring exercises, their enthusiasm level had dipped the lowest. The division continued to have poor order winning performance.

Performance Measures for Operations

Operations Managers need to develop a greater understanding that yesterday’s “order winners” are in fact today’s “order qualifiers”. Order-qualifying attributes are the set of attributes that customers expect in the product or service they consider for purchase. The absence of any of these attributes will result in the customer removing the product or service.
from his or her list of items under consideration. The mere presence of these attributes, however, does not guarantee that the customer will buy the product. It only indicates the minimum or threshold level of requirements for considering the product.

*There are other attributes that have the potential to sufficiently motivate the customer to buy the product. Such attributes are known as order-winning attributes.* The presence of order-winning attributes in a product/service helps the customer differentiate it from the competitors’ offerings. It also favourably influences the customers’ buying decision with respect to the product/service. The more the number of such attributes that a customer perceives in a product/service, the greater is the chance that the customer may buy the product/service.

Consider the nature of competition in global markets over the last twenty years. In the early eighties, much of the battle was won on the basis of “quality”. Japanese corporations snatched away valuable market share from US competitors on the basis of value offerings constituting mainly of high quality – low cost. After a few years, there were several firms offering consistent quality and order winning required newer dimensions.

The competitive advantage shifted to “delivery and flexibility” and firms successful in offering these value propositions were productive. We have witnessed a steady set of alternative value offerings ever since then.

This will have a bearing on how we choose appropriate performance measures for managing the operations. Furthermore, it will drive the choice for order qualifying and order winning attributes that need relevant performance measures.