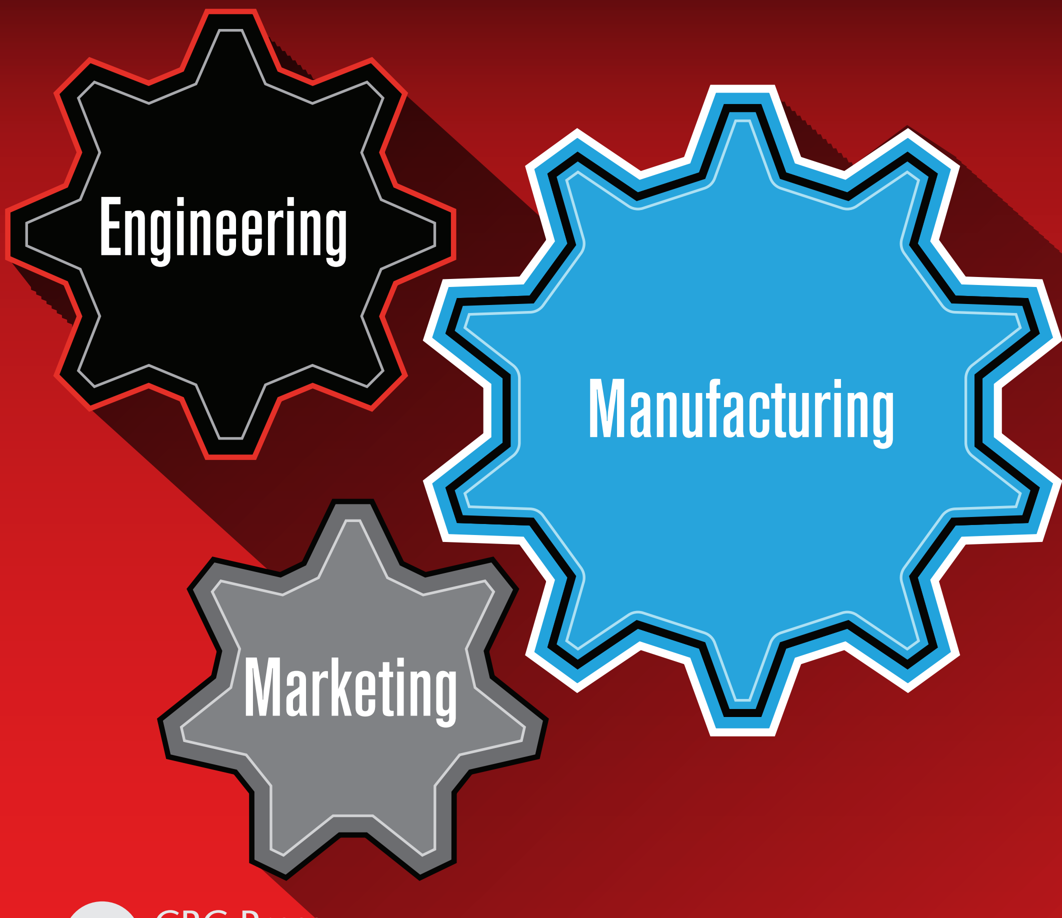
Strategy + Teamwork = Great Products

Management Techniques for Manufacturing Companies



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I dedicate this book to my wife Mary-Anne

who keeps me happy, healthy, and sane.

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Preface

Manufacturing excellence is not centered only on the shop floor. It is more important to develop the right strategy and foster teamwork between manufacturing, engineering, and marketing in order to be competitive.

Managing a manufacturing company in the global economy is more complex than ever before. In order to be competitive today, the company not only needs to excel in production, but also in marketing, engineering, and every aspect of customer service. Long gone are the days when a manufacturing company could coast along on its manufacturing excellence or its monopoly. When Henry Ford said that the customer could have any color car he wanted as long as it was black, he believed that his company could succeed in manufacturing efficiencies alone. When AT&T had a monopoly on telephones, they could coast along by introducing new products at a slow pace and not care much about what customers wanted. Those days are gone! In today's global economy, the most efficient production in a manufacturing company will fail if it cannot compete in products, quality, costs, and service.

Manufacturing management is about running a business that manufactures, rather than a manufacturing factory. That is why this book starts out at the top, by outlining the duties of the Board of Directors, rather than concerning itself with the factory floor. In my manufacturing career, I became convinced that the "big bucks" were in the right manufacturing strategies and in engineering and marketing, rather than improving the productivity of the workers. That is not to say that the factory efficiency, productivity, and quality should be ignored, but rather that it is not enough to concentrate on only the factory floor in order to become a world-class manufacturer.

This book will show how to best organize a manufacturing company for success. We will get into the nitty-gritty of the manufacturing processes and practices, but only where it has broad application across the majority of manufacturers.

I adopted and embellished a phrase from IBM on the philosophy of management:

Think big
Spend small
Eliminate bureaucracy

Make that your motto also, and you will be successful. In the following pages, you will learn more about how to implement these principles.

The term "supervisor" is used in the generic sense of direct reporting, whether the supervisor is the CEO supervising general managers or a vice president supervising directors or a foreperson supervising lead operators. Thus, the term "supervisor" refers to the relationship of direct reports in the chain of command in a line organization.

1

Role of the Board of Directors

Major duties and responsibilities for the Board of Directors are:

- Serves as trustees for all stockholders
- Develops direction of the company
- Oversees corporate performance
- Selects a CEO
- Approves the Business Plan, including the budget
- Approves any financial proposals that materially affect the business
- Sets up and oversees at least three committees—Audit, Compensation, and Governance

Here are the three committees that are required for the smooth operation and decision making of the Board.

1. Audit committee—Oversees all financial reporting, is responsible for risk and liabilities management, and audits the books.
2. Compensation committee—Sets the compensation for the CEO and officers of the company, including salaries, bonuses, stock options, and any other compensation for key employees. The compensation should reward long-term success and performance, with a sprinkling of bonuses for short-term successes, but very seldom should it be tied to performance of short-term movement of the stock.
3. Governance committee—Draws up and enforces corporate ethical standards, outlines directors' qualifications, outlines their responsibilities, and evaluates the independence and performance of each director. In case of vacancies on the Board, it identifies candidates for the Board.

The CEO should seldom have the dual function of also being Chairman of the Board. The Board must be made up of people who either represent a large investor in the company or can help in some way by using their business connections, skills, or experience in making important decisions for the company. There should be a mechanism for replacing board members when they are no longer useful in these areas. There should be no conflict of interest between board members and their other activities, or friendship with the CEO. (That is easier said than done.) Board members should act in the interest of the shareholders and not in the interest of people in the corporation.

It is not healthy to appoint people to the Board who have so many other responsibilities that they do not have enough time to devote to this particular Board and only serve as a figurehead. Directors should be able to devote sufficient time to carry out duties of the Board. Most importantly, directors should be independent thinkers with no conflict of interest.

It is desirable to have directors serve long terms on the Board because it takes time to become familiar with the business and to have long enough tenure to develop wisdom about the company. However, there should be some limits set up to make sure that directors do not outlive their usefulness. Each company is different, but one possible way to ensure that board members are carrying out their duties is to have age limits (say, 80 years) and to ask directors to resign if they attend less than 75% of board meetings during two years. I specify two years because some directors may have a difficult year and it would not be right to dismiss them if they can usefully serve the rest of the time. As to term limits for directors, I do not believe in that; as long as they perform their duties well, they should remain on the Board.

The Board is responsible for selecting a CEO and for holding him/her responsible for running the company, supplying the vision for the business plan, and being the driving force to implement that plan.

The company must have a strategy outlined in a business plan. The Board cannot do this because not all board members are familiar with the day-to-day operations or the intricacies of the industry. They must delegate that to the CEO. It is the duty of the CEO to have a plan, which he communicates to the Board, and after approval of the plan to communicate that to other employees. The role of the CEO is very important because while he/she will seek input from others, the CEO alone has the responsibility to formulate the plan and execute it.

There are many factors that affect the business—market forces, technology, products, etc. The list is endless. The CEO is the most important factor that can make the difference between success, mediocrity, or failure. If the CEO makes the right decisions, then he/she can overcome the many factors listed above because he/she is better than the average CEO at competitor companies. Teamwork is necessary in a company, but when it comes to the CEO's job, there is no teamwork there. The CEO alone is responsible to the Board. He/she provides the vision for the business plan and is in charge of implementing it.

If the CEO is so important, how much is he/she worth? How should the CEO be compensated?

There has been a lot of press lately about CEOs being over-compensated. It must be recognized that the CEO is different from other managers in the company. All other managers are asked to follow a set of plans, but the CEO must devise the plan. It has been proven that the CEO can make a huge difference in the performance of the company. His/her compensation must be tailored to the size of the company, the type of company, and the difference that a CEO can make to the bottom line of the company.

I don't think benchmarking a CEO compensation package is very useful. It may be better to look for the best person that fits the requirements of the company, and depending upon his/her qualifications see if the Board can afford to hire him/her. During this process, there may be several candidates with different sets of skills and different requirements. There is no set formula for hiring or promoting a CEO. Ideally, there is someone inside the company who can be promoted.

An important consideration is to attract a "long distance runner" rather than a "sprinter." The compensation package should reward long-term performance and not be dependent on short-term stock movements.

There can be special one-time bonuses awarded for reaching some short-term goals, but the overall package should reward performance for the longer term.

While the benefit package can be very generous, no CEO should be hired with a "golden parachute" or exit strategy. If the CEO does not have enough confidence in his/her ability to add value to the business and to be successful in the long run, then the Board should not want that person.

Whether you select a CEO from inside the company or from the outside, your new CEO should hit the road running. He/she should have a track record of upward mobility and demonstrated ability to successfully run a manufacturing company. When you give the specifications to a recruiter or a selection committee, do not fall into the trap of a long list of criteria for Superman. List only four or five of the most important factors. If you select a smart person who knows the industry and has what it takes, you don't need Superman. If the person is smart, he/she will be able to judge the situation and will be able to do the right thing. Do not try to select a CEO for a certain existing situation. Your company at any given time may need a fast turn-around, fiscal discipline, more investments in gaining market share, more new products, or any one of a dozen strategies at the time of your CEO selection. What you are looking for in a CEO is knowledge of the industry and smarts, not special situation skill sets. If he/she is the right person, he/she will listen to the short-term problems and the direction the Board wants to take the company, assess the situation, and make the right choices.

To summarize, your selection criteria should focus on the most important characteristics only.

That is tricky because there have been many studies made as to what are the habits of successful CEOs and the result was inconclusive. Some are quiet, some are shouters, and there are several who have opposite traits yet become very successful, so don't look there for answers.

Most companies choose a marketing executive as the CEO. The reason is that usually they have the best communications skills and as we shall see, communication skills are the most important qualities for a CEO. Marketing executives should have the vision required to create a successful business plan and the necessary communications skills to be successful CEOs. Nonetheless, a manufacturing or engineering executive may be the ideal candidate if he/she possesses the previously mentioned skills. A broad-minded manufacturing executive can make a very good CEO if he/she has a right-hand VP Marketing person to supplement his/her shortcomings in the marketing area. Beware of successful sales executives because often they are better suited for short-term goals rather than longer-term strategies, but this is a generalization and as such does not apply to everyone.

No matter what discipline the CEO comes from, he/she cannot have all the skills necessary to run the business. Don't specify every little skill set needed to run the business and ask for it. The weaknesses can be supplemented by the strength of the CEO's direct reports. The most important strengths needed for the CEO are **vision, knowledge of the marketplace, leadership ability, and communications skills.**

The Board of Directors should set the goals, and a newly hired CEO must agree with them. The goals should be realistic enough so that the CEO—if he/she is that good—can meet or exceed them. No compensation package should give bonuses unless goals are exceeded. That is why goals should be realistic because then there is great leverage in exceeding goals. If goals are set too high and during the time frame it becomes obvious that they cannot be met, there is no incentive for management to work harder as all is lost anyhow.

A word of caution about succession plans. Unless the CEO is getting close to retirement, it is counterproductive to have a succession plan for him/her. A succession plan means an "understudy," someone who is groomed to take the place of the CEO. I just described how broad the responsibilities of the CEO are, and the fact that he/she must be a person of vision. If there is an official "understudy" for this job, it can create a lot of friction within the organization. If the "understudy" is that good that he/she can be thought of as the CEO of the company, he/she can be recruited or can leave if it looks like the current CEO is not close to retirement.

If a "successor" for the CEO were announced, he/she almost certainly would be a member of the CEO's team. That will be the end of the team. Every direct report to the CEO will be afraid to contradict or argue with the "successor" and this can go on for years. If the "successor" is not announced and not told that he/she is the anointed one, it becomes impossible for the CEO to groom the person for the job.

There have been situations where the CEO is close to retirement and some "genius" on the Board decides to set up a few officers within the company to compete for the CEO's job. This is very destructive because it sets up key people and their direct reports against each other, to the point where there are two or three "camps" within the company that try to destroy each other. It is like cancer within the organization. The two or three "successors" will try to undermine each other and the rest of the company will take sides or stand by and watch to see who wins.

2

Role of the CEO

The major difference between managers and the CEO is that the CEO is responsible for the business plan and therefore his/her role requires vision and leadership. While managers work toward goals outlined by guidelines, the CEO sets the guidelines and decides among conflicting strategies what the best course is to follow. He/she then sets these ideas down in the business plan. The direction will sometimes be unpopular and may even conflict with the self-interest of some managers who have to implement them, but that should not stop the CEO to set the right path.

A leader cannot be popular at all times and cannot always please the majority. Great leaders have often broken new ground based on their convictions, rather than listening to consensus. There is an old saying, "If you have your ears to the ground, you cannot stand up and lead." The CEO must assume the leadership role and follow his/her own convictions rather than look for popularity. All successful CEOs have followed this formula. The plodding, reasonable manager, who works on participating principles and consensus, cannot become a successful CEO. Leaders must act on their convictions and be forceful in their methods.

The CEO gives direction. In addition to being a good manager, he/she must also be a competent leader. While the CEO does not take direction, he/she must be open to advice.

Most businesses want to grow sales and profits. That becomes the goal of the CEO. He/she must forge a strategy on how to do that, and then execute this strategy. The CEO's first priority is to create a business plan, get the Board and his/her management team to sign up to that plan, and then execute it. Because every business is different, it is not possible or useful to speculate here what that business plan should look like, but it should show the path to grow sales and profits for the company, and explain why this is the right strategy to do that.

The CEO must create a team to execute the plan. Usually he/she will inherit an executive team of managers. The CEO should limit his/her span of control in order to focus on his/her duties and still spend enough time supervising his/her direct reports, because the CEO must realize that he/she will only be able to execute a plan if his/her direct reports get enough guidance. The CEO must ensure that his/her direct reports, that is, the key management team, are up to the CEO's standards of excellence, and have the competence and drive to make the plan come true. This is no easy task because tough decisions have to be made in marginal situations when a management team is inherited. A good CEO will spend a lot of time training, evaluating, and—if necessary—changing managers directly reporting to him/her.

Span of control of any manager should be limited in order to allow that manager enough time spent with his/her direct reports and to understand what they are doing. This principle applies to the CEO as well. A good span of control limits the number of direct reports to seven and no less than four. That does not include staff, which should not be counted in span of control. If the CEO has too many direct reports, it is time to subdivide the organization into "mini-CEOs" or divisions that have their own organization.

The CEO is the most important person in the organization. After the CEO in importance comes the management team. The level under the management team is next in importance and must be manned by competent managers. I believe that a good CEO must use his/her leverage to influence the selection and retention not only of his/her direct reports, but also those one level below that. For instance, a CEO has a VP Operations reporting to him/her and under the VP Operations is the Materials Manager. The CEO should make sure that the Materials Manager is a good choice and is competent to carry forward the success of the business. The CEO ideally would like to see people two levels down in the organization to be excellent choices in their field of expertise. This is what makes a winning team of people that have the most influence in the success of the business. If the CEO has six direct reports and they all have six lower-level direct reports, the CEO must influence the selection of 42 people, who then constitute the top two tiers of management. This team provides the CEO with the leverage he/she needs to implement his/her vision.

That said, it is often necessary to demote, promote, or hire new people in key positions of the organization. Following are a few techniques of doing this.

ART OF PROMOTION

Promotion is easy and it is fun, but it should come with a price. The promoted employee should be asked to perform at a high level immediately. Objectives reflecting the expectations set for this employee should be outlined at the time of the promotion. The promoted employee should be given full authority showing trust in him/her. This is important because people in the organization will “test the waters” to see how far the authority is given, whether the promotion has the full support of everyone higher in the organization, or whether it is only a stop-gap measure. The right signals must be given to allow the newly promoted employee every chance to succeed. This same principle (of authority given) should also apply to key managers who are new hires.

Sometimes a key position will be vacant and the CEO will allow two or three people to “compete” for that position, while it is filled with someone “acting” in that position. While at times this cannot be avoided, it should not be used as a tactic for motivating people competing for the position. If they are good, they are already working as hard as they can. Competition here does not serve any useful purpose. During this kind of competition, everyone suffers, politics become rampant, and it only serves to the detriment of the organization. Competing for key positions is bad policy.

ART OF DEMOTION OR FIRING

Demotion or firing is the most distasteful part of management. However, if someone does not want to demote or fire people, he/she should never hire or promote anyone. If someone fails in a key position, he/she should be replaced. **No one in a key position should be allowed to fail twice.** Sometimes the incumbent is no longer able to do justice to the position. The choices are to fire, demote, or move the person to another position. Demotion is very seldom a good option because the demoted person will often be bitter and only perform his/her duties grudgingly. Worse than that, he/she may try to undermine the newly selected boss. Demotion may work for someone near retirement who is enlightened enough to dedicate himself of doing a lesser job, but that is very rare.

Moving key people sideways or putting them "on the shelf" (which often happens to useless executives in large organizations) is a bad idea. It sets the wrong example from the CEO, and it creates friction within the organization. The executive who is shoved aside may want to plan his/her "comeback" and undermine decisions at every occasion. At best, it is a waste of money.

Firing a key executive or manager who is no longer able to perform at the highest level should be done with dignity. That means that there should be a mutual understanding on how it will be done, rather than escorting the individual out the door on short notice. Once the decision is made, however, there should not be a long period of lingering death. It is a bad idea to have the fired executive still on the premises when the newly hired person or the promoted individual takes his/her place. When the company decides that an employee is no longer fulfilling his/her function, it is standard practice to "write up" that person a few times and go through the disciplinary measures before firing that individual. This is required to protect the company from lawsuits and possibly to give the employee a chance to fix the problem. This procedure is a lengthy one, and should not be applied to key managers because it is not in the best interest of the company to have someone in a key position being under fire. Too much is at stake! No matter how painful or difficult, once a decision is made to let a key manager go, it should be done swiftly.

HOW TO SURVIVE AS A CEO

The CEO cannot be competent in every aspect of the business. In order to exercise proper management, he/she must recognize his/her limitations, and shore up those areas where he/she is weakest with people who are strong in those disciplines.

The CEO must create an environment conducive to teamwork. This is best done with a line organization with a clear-cut chain of command. There can be no turf fights among key managers. The authority should be with the line organization. Corporate staff should not be competing for authority with line managers. **Corporate staff should mainly be used for auditing duties, not for second guessing line managers.**