NPI's Productivity Improvement Charter

By Gideon Skhosana, General Manager, Productivity Awareness, NPI

South Africans at various levels of society have accepted that productivity improvement is the only means by which the ideal of more wealth for all can be achieved. But while the notion may be supported, it is not commonly pursued. A commitment to increasing productivity should become part of the national mind set. The best place to start is individual organisations. This, after all, is where productivity is generated.

Values

Which basic rules should apply ? The NPI proposes four key values to drive productivity improvement in organisations:

- Every employee (management and labour) should ensure that his/her output is orientated towards the market. This involves full attention to customer needs, including world class products and excellent delivery performance. Measurement drives behaviour. Causes of non-performance must be established Individuals should be given the knowledge and skills to rectify the cause of the problem and, more importantly, be empowered to do so.
- Employees must be committed to maximising the efficiency (work rate) of themselves and the resources they control while avoiding all forms of waste. Standards must be set at every level of the organisation. Employees must be involved in the development of these standards.
- Management and workers must accept that ongoing productivity improvement is systemic in nature, ie the total organisation must be reviewed Quick fixes of parts of the organisation are not effective.
- Trust and the sharing of relevant information are essential prerequisites for instilling the required values.

Principles

Values alone are not enough. A number of other principles must also be in place.

The first principle hinges on the way in which productivity can be improved. If it is accepted that productivity is measured as the quotient of output divided by input, it follows that productivity improvement can be achieved in five different ways, as follows:

$$\frac{\text{Output}}{\text{Input}}\uparrow : \quad \overset{1}{\frac{\rightarrow}{\downarrow}} \quad \overset{2}{\frac{\downarrow}{\downarrow\downarrow}} \quad \overset{3}{\frac{\uparrow}{\downarrow}} \quad \overset{4}{\frac{\uparrow}{\rightarrow}} \quad \overset{5}{\frac{\uparrow\uparrow}{\uparrow}}$$

The first three possibilities imply a reduction in inputs. These alternatives are usually associated with cost-cutting exercises, and the only vulnerable resource in this regard is labour. No wonder labour is not a willing participant in any productivity improvement drive based on these approaches!

The NPI's experience is that alternative four and particularly alternative five are the most effective ways to productivity improvement on a sustainable basis. There are three ways in which output can be increased:

- increasing the number of units produced

and sold;

- enriching the product mix so that more value is produced with the same resources;
- *increasing the perception of value which* customers have for the products of the organisations.

Labour is usually the least costly resource. It is much more meaningful to measure the utilisation of the capital and material resources which are controlled by labour. Such an approach gives management and workers insight into the strategic and logistical bottlenecks in the organisation.

Enriching the product mix is often the most powerful option to be followed to increase output, but it is also the most difficult. The obvious thing to do is to determine which mix of products would give the highest value of throughput (T) with the given constrains in the production facility, where T is equal to the selling price of a product minus its totally variable expenses.

In this throughput approach (throughput accounting) overhead costs and other non-totally variable expenses are not allocated to products. The relative preferability of products is based entirely on their 'consumption rate' of one or a few constraints in manufacturing and on the relative throughput rates per unit of the limited resources. Simulations and practical applications have shown that the throughput emphasis yields far superior results in terms of optimising the total profitability of an organisation compared to any 'traditional approach'.

Once the mind set of 'profit per product' is broken, it is necessary to explore the market opportunities for the higher value product mix. The borders of South Africa should not contain the thinking of management. Exports offer huge benefits. At the same time, management must have *the courage to discontinue products that do* not contribute significantly to the total value produced by the organisation, but only if these products can be substituted by more preferred products, or volumes of existing preferred products could be increased.

Jobs

The possibility that people can lose their jobs as a result of productivity improvement is the single most powerful factor preventing workers from participating in productivity exercises. It is essential that workers be made aware that jobs might be endangered, but employment should be guaranteed. If the correct methods are pursued, there will be more throughput, more products, and greater focus on customer care. Workers can and should be retrained to make a contribution in this regard.

We are aware of the fact that in some instances the first three alternatives of productivity improvement (reducing inputs) must be followed to ensure the survival of the organisation. In these cases we recommend that material and capital inputs be focussed on first and if it is still necessary to reduce labour inputs, displaced workers be given every opportunity to be retrained.

All stakeholders must share in the additional wealth. Employees of the firm must benefit through better working conditions, shorter working hours and better remuneration. By linking remuneration to productivity the firm secures its own future and makes a meaningful contribution to solving a destructive national enemy, inflation.

Everybody should know what to expect when certain improvements are achieved.

Workers should have a say about how that part of the additional wealth that goes to them should be distributed. For some it is more important to be compensated on a group, rather than an individual, basis. Reward and recognition are important, but it is vitally important to realise that employees who do not share the value system of managers react differently to reward and recognition given to individuals.