Continuous Change – the Destination, Not the Journey
By Darrin Wikoff, CMRP

The era of continuous improvement is behind us – now let us welcome the era of continuous change. Flexibility vs. rigidity, adaptation vs. adherence, and leadership vs. management are the philosophical transitions that many business chiefs – CEO, CFO, COO – now recognize as imperative to future growth and sustainability. No longer are the chiefs of industry thinking in terms of doing things faster, doing things cheaper and doing things better. Why? Because “things” have changed, and the continuous improvement model that most companies practice today is no longer economically viable. Our focus must shift to leading our organizations through continuous change in order to raise awareness around the importance of innovation, thought leadership, and challenging current products and practices (e.g. things) in order to change the pace of competition.

Today’s competitive market place is driven by the consumer who dictates the value of goods and services, dictates acceptable performance levels regarding the delivery of goods and services, and dictates where they want to purchase their goods and services. So how will business compete with their consumers? They can’t, because if they win the competitive battle they effectively eliminate their consumer base. It’s a lose-lose situation. It’s time to redefine the game. It’s time to focus on leading continuous change.

The key to business growth lies within the four ‘C’s:

1. **Customer-based** – Growing your business means gaining new customers while retaining existing customers

2. **Competition-focused** – Mirroring the competition is not enough; sustainability of your business requires innovation that produces a superior product (cost, quality, lead-time)

3. **Capital management** – Minimize the fixed costs within a single location and share the cost of capital throughout the corporation, in effect extending the company’s overall market base

4. **Community support** – Longevity of your operation is contingent on gaining the support of your community through employment, talent management, investments and innovative solutions

Leading continuous change is a model that looks for significant patterns within each of these four areas of business management.

1. **Customer-based**
The customer-based business in today’s economic environment has transitioned from an operational pattern that hinges on rigid conformance to some known consumer expectation to a pattern that thrives on flexibility. Consumerism changes rapidly from generation to generation, but even more important is the rapidly changing lifestyle of the predominant demographic in today’s economy. As the number of layoffs grow and people begin to feel insecure in their personal finances they inevitably will change their spending patterns. This means that
sustaining businesses must change with the times and become more diverse in the products and services they offer. Keeping with the definition of customer-based management, it is implied that we cannot simply shift from one product to the next with the intent of gaining new customers. Instead, sustaining businesses must now focus now on defining their new, future customer in order to reinvent their products and practices, while sustaining their existing customer base until the future customer emerges.

The challenge is how to allocate our resources to achieve both objectives. The model of continuous change would suggest that we redirect those resources currently deployed and focused on continuous improvement towards a focus on innovation and diversification. Look within your operation at the areas which show signs of sustainable performance, be that performance metrics or internal audits that illustrate a mature level of proficiency within routine practices. Instead of continuing the focus on more and more efficiency, pull these resources back to begin a new design phase, one that brings innovative products to the eyes and ears of decision makers. Jack Welch, in a January issue of “Business Week”, said “keep your people riveted on delivering innovative products and services.” Welch was making the point that too often in hard economic times we, as business leaders, obsessively focus on internal cost cutting and forget it’s our customers who have made the largest contribution to our success, and it will be customers who bring us out of recession.

2. Competition-focused
For nearly a decade, competitive businesses within industry could be defined by one word, “Lean”. This is going to be one of the most difficult paradigms to shift in this discussion. As American businesses in every industry have evolved, they have, at some time, been focused on Lean manufacturing in one way or another, mirroring the business management styles described by the Japanese. However, with a new business environment that is being redefined daily based on the fluctuating economy, we cannot be satisfied with mirroring the Japanese. It’s time to recharge our competitive spirits and our patriotic roots and carve out a new model for the world to follow. What's made companies like Toyota successful in Lean is stability in their manufacturing environment. Stability was a critical and cultural component, whether it was achieved through adherence to standards of practice in order to minimize variation, or whether it was achieved through their ability to quickly adopt new practices in order to remain in front of the competition. Stability, in times like these, is what American manufacturing lacks the most.

Continuous change challenges you to manage your business in a competition-focused manner, carefully watching what other leaders in your industry are doing but never being satisfied, and pushing your organization to define the next step so that others will reciprocate and challenge back. The spirit of competition is what will rebuild your business, and our economy the quickest. Let's take a page out of the automotive industry in the 1930’s. Alfred Sloan, the founding President of General Motors Corporation, challenged the undisputed manufacturing practices of Henry Ford, and in turn created competition and product diversity in the automotive industry. Automobile consumers responded, not by trying to weigh the business styles of one company over the other, but by buying more cars. Competition bred consumerism. When American businesses are satisfied with trying to match foreign manufacturing practices in order to compete, even when these practices are very sound the American consumer begins to look overseas, because we led them to believe that “they” were better. Why buy the replica when you can own the original?
3. Capital Management
One issue with Lean practices that I believe has impeded our ability to control the cost of manufacturing in today’s economy is “cell” or one-step manufacturing – the practice of taking a product from raw material to finished goods in a single process, ideally one that is closest to the customer. Before you discard this notion, consider this point. Capital management, dating back to Alfred Sloan and the distribution of labor (management) model, is a familiar business practice whereby each company tries to maximize the value of each dollar spent based on the natural endowments of the geographic region in which it operates. For those corporations that operate in multiple regions, the clear advantage is that you can maximize value by offsetting the inherent costs of the process in regions where each fixed cost is less (labor, energy, raw materials). For example, in the aluminum industry you’ll find alumina refineries located relatively close to the bauxite mines – raw material used to manufacture alumina – in order to reduce the cost of shipping.

Obviously, some companies have chosen to operate some manual aspects of their business in regions of the world where labor is relatively cheap, such as call centers in India and assembly plants in Mexico. Here’s my theory on cell manufacturing and why I think it’s an issue in today’s American manufacturing business. I’ll use a tire manufacturer as an example. Five or six years ago, in one of the country’s most predominant tire manufacturing companies, a single facility in the southeast was amongst the top five tire producers in the entire corporation, and some data suggests that they were in the top 2% in the world, capable of making more tires consistently at the lowest cost. As part of the corporation’s Lean initiative, the decision was made to switch this top producing plant from a 15-20 model (models of tires) manufacturer to a 200-220 model manufacturer in order to make more OEM tires in a single process, and closer to the customer. The tire manufacturing business is very labor intensive, with little automation. At 20 models this southeastern facility was capable of processing the raw material, molding the tire, reinforcing the tire, testing the tire and shipping the final product off to the customer on time. However, at 220 models the plant quickly became one of the most costly facilities in the entire corporation. In less than three years the plant had tarnished its reputation with existing customers and new OEM customers alike due to its inability to meet demand.

Why did this happen? Not because cell manufacturing was wrong. In fact it’s a very efficient way to operate, but in this situation the corporation forgot why they had diversified their product mix in the first place – to offset the cost of capital using natural advantages (endowments) of each region in which they operated. Yes, in the short term they were able to capitalize on closing a few plants, but in the long term their blind ambition to adhere to Lean practices cost them market share. It’s not a broad brush stroke, everyone! We have to hold on to those same fundamentals that got and kept American businesses in the ball game for more than 70 years. The continuous change model, in this instance, says we should continue to look for ways to adopt Lean practices while continuing to diversify our business in order to capitalize on the natural benefits within different regions of the world. Cutting and consolidating in an effort to improve the short-term bottom line will only perpetuate the problem for years to come. If you’re struggling to cost effectively maintain plant assets on a broad scale then find a better way, as many companies like Eastman Chemicals, General Electric and Bosch Corporation have. If you’re overcome by labor costs in one particular region, then find creative ways to offset these costs by reducing other fixed costs through natural endowments, such as renewable or alternative energy resources that the U.S. government has commissioned and is advocating. Don’t sell off your competitive advantages.
4. Community Support

Finally, leadership in continuous change starts with leadership in the community. Managing the process and protecting the bottom line is what has helped us to achieve the level of success that we’ve enjoyed until now. To move beyond today’s status quo, managers will need to become leaders of employees and leaders within the community.

There’s a bit of supply chain management to this connotation. People are a competitive resource for American businesses. I’ve had the fortunate opportunity to work all over the world and I’m proud to say that Americans are a very skilled body of people, one that brings considerable advantages. The down side of manufacturing in countries where labor is cheaper is that it takes more people to do the same job effectively, because the skill sets just aren’t equivalent. Yes, there’s some immediate financial gain because wages are lower. But consider this example: using the metals industry as an example, in a third world country a plant of 2000 people is comparable to a plant of less than 1200 in the U.S., which illustrates that it takes 60% more resources to make the same volume of product outside the U.S. If we, as business leaders, can lead our communities in areas of talent management, innovation and investments in alternative resources in order to offset our fixed costs, then we can regain the competitive advantage that our people bring to work every day.

Let me add something here – labor is not the only fixed cost that needs compensating. For example, costs due to government-imposed regulations are also higher in the U.S. than anywhere else in the world, and the cost of fuel, natural gas and power is also amongst the highest. Continuous change doesn’t just imply that manufacturing must change; instead our communities around manufacturing must change as well. Local government officials must be challenged with being innovative in how they will support manufacturers in their pursuit of alternative energy sources. State educational institutions must be challenged to develop curriculum that meets the needs of local manufacturers so that businesses don’t have to pay to educate their own employees in the fundamental skills required for their business. In Australia I saw a government and community-sponsored curriculum that taught and certified people in the skills required for employment as operators and maintainers within local aluminum, oil refining and automotive manufacturing businesses.

Additionally, leaders should be reaching out to the community through “innovation fairs” where people can come and present their ideas on how American businesses can grow, cut costs and conserve natural resources. Although most of us have realized our obligation to create a safe and eco-friendly manufacturing environment and to provide job security as part of the economic-chain, seldom do we reach out for support from that community in which we offer security, purpose and belonging. Business leaders have always had a voice in the community. It’s time we leverage that voice and begin asking for their help. Together we will rebuild our economy.

My intent for this article is to spawn discussion regarding a new, more adaptive business model for American businesses to begin rebuilding our economy. The concepts of “continuous change” are focused on the future, and led through innovation and thought leadership rather than mimicking others who have been successful in a different economic environment. There’s nothing familiar about these waters in which we tread and struggle to remain afloat. The economy is different, our consumers and their spending patterns are different, and the industrial world that surrounds us is different. It’s time we adjust our horizons and lead through continuous change.
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