

# PEOPLE, PERFORMANCE, PROFITS

*Background briefing for presentation by*

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The Hypothetical Manufacturing Company is listed on the Australian Stock Exchange. It is a highly diversified manufacturing and marketing group which operates a number of divisions in several different industries. Some of these are closely related and some of the company's products complement each other in the same market. Increasing attention is being paid to the development of overseas markets particularly those in the Asian region.

Hypothetical employs around 2,000 people who are located on several different sites around Australia. The major manufacturing plants are based in Melbourne, although some minor manufacturing operations are carried out in Sydney, Brisbane, Adelaide, Perth and Hobart.

There are three small specialised manufacturing or assembly operations located in Australian regional centres and one expanding plant in the Middle East. A further major manufacturing operation is to be established in Asia, probably as a joint venture, and another wholly owned production plant in New Zealand.

The company has an annual sales turnover in excess of \$250,000,000. The company's major expense relates to the purchase of materials and this represents around 60% of total expenditure. Wages and salary costs are in the vicinity of 20% of total costs.

Although each operating division enjoys a degree of autonomy, strong financial and managerial control is exercised by the senior executive group and the company's board of directors. There is regular weekly reporting to the company's head office and formal monthly review meetings. These involve the divisional management team and key members of the head office executive team.

The general internal working relationships are amicable. Apart from the usual head office/operating division differences in perception, which are very common where there is the need for an operational focus on short term production output, sales and profits and the longer term business development and strategic direction inherent in the head office function, there is high level of positive co-operation evident.

Historically the company has held a dominant position in a number of the markets in which it operates, but there are indications that some major product lines are progressively losing market share.

There is increasing market intelligence that a major global corporation plans to establish operations in Australia with a longer term strategy of using this base as the hub of their Asian expansion.

The company manufactures and markets a range of different products and the workforce is fully unionised. The prospect of one operating division being played off against the other in terms of industrial negotiations with the major unions, which have members holding key positions of power throughout the company, is another factor that encourages the management team to work in close co-operation.

An informal review of the various monthly reports, and some selective analysis of the personnel records, both at a company and at a divisional level, indicated that some managerial action was necessary to prevent an erosion of profit levels and the loss of some key middle level managers who were becoming a little anxious about the longer term prospects.

While each individual activity reviewed did not cause a great deal of concern, an analysis of the collective data most certainly highlighted the need for action to arrest the general trend before it became really serious.

There were a number of seemingly unrelated negative trends including extended delivery times, increased levels of rejects and scrap in the manufacturing processes, manufacturing cycle times were being slowly extended, productivity appeared to be falling, staff turnover (both at the operating and managerial level) was increasing, absenteeism was up, compensation claims and lost time injuries were increasing and the number of minor lost-time industrial disputes was also increasing.

A further investigation confirmed a general feeling that there is a serious lack of people who had been trained in management. Promotion had been based on performance in the job and most people holding senior positions have risen through the ranks of the workforce, primarily through the factory operations.

There has been little training, other than the on-job variety, and where this had occurred it has been very internally focused. The significant majority of managers have developed through their own specific job function and tend to reflect somewhat of a specialist bias when considering strategic management issues.

Although there is a high level of participation in each of the specific industry groups in which the company operates, it is in each of the operating divisions of the company that there is little external focus in terms of people development, supervisory and more senior level management training.

Two further challenges are the highly diversified workforce with over forty nationalities and an ageing team of senior managers and professional staff. There has been no succession planning or career management.

Following a preliminary review of the action required to address the various problems that had been identified, an executive project team was formed with the clear objectives of determining plans for the future development of the company and to integrate the formal planning with the current and projected future activities of the company's various divisions, units, departments and sections.

During this presentation the action taken by the management team and company employees that resulted in an increase in operating profit before tax of nearly two hundred and fifty percent with an increase in return on shareholders' funds of sixteen percent over a period of two years will be discussed.

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