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New strategy needed to halt decline in manufacturing

Trainer and consultant Bryan Logan is becoming increasingly frustrated by the complacency with which Northern Ireland appears to be accepting the demise of manufacturing - and he insists the decline can be reversed by adopting a new way of management thinking.

11 September 2006

There has been a slow but steady decline in manufacturing jobs throughout Northern Ireland over the past two decades, which has been depressing to witness and, should it continue, would not augur well for the future.

An attitude of resigned acceptance prevails among the authorities in the province that traditional industries cannot compete with their counterparts in the so-called low cost economies.

It is accepted that companies within these traditional industries will disappear and only firms in the high-tech sector can survive.

Unless something really significant is done to address this negative attitude then it is likely that it will become a self-fulfilling prophecy.

The whole question of competing on costs is further compounded by a stubborn 10% to 20% productivity gap that continues to exist between Northern Ireland and the rest of the United Kingdom, and indeed a similar gap exists between the UK and the rest of Europe.

In addition there is a productivity gap between larger and smaller firms that continues to widen, exacerbating an already difficult situation.

Professor Michael H Best, of the University of Massachusetts Lowell, in his report to the Northern Ireland Economic Council entitled The Capabilities and Innovation Perspective: The Way Ahead in Northern Ireland (2001), stated: "The challenge for economic policy in Northern Ireland is to assist the transition to a higher performance economy."

Prof Best went on to say: "The challenge is considerable: a low growth, low productivity, low innovation economy has powerful self-reinforcing barriers to change."

The Northern Ireland Growth Challenge in its Strategy 2010 identified that subsidies to industry masked the competitiveness problem and "fed an insular, risk-averse culture".

This counter-productive effect is captured in the group's sentence: "The system that has emerged in Northern Ireland was potentially dangerous in that it preserved a fairly stable economy whilst effectively concealing the reality of eroding competitiveness."

The Economic Development Forum under its chairman, Sir Reg Empey, drawing on the Strategy 2010 report and Professor Best's report, identified seven key priority areas.

These seven priority areas were then linked to a series of key performance indicators. A target for the year 2010 was set against each performance indicator.

Despite the best efforts of Government and its agencies, the unsatisfactory situation persists.

All kinds of improvement initiatives are promoted and firms are exhorted to innovate and are supported in the application of everything from Six Sigma and 'balanced scorecards' to 'best practice' and the 'transfer of technology'.

The best that has been achieved to date is a slowing down in the decline. What is needed is to reverse the decline and provide the province with the means of regenerating the economy with increased competitiveness, not only in the area of manufacturing but also increasing effectiveness in every organisation and institution.

To quote Ernst C Glauser of the Swiss Deming Institute, the methods for improved productivity are known and are such that everybody can learn them - and they must be learned if Europe is to have a desirable future. Sustainable competitiveness will only be achieved when old-fashioned management practices are put behind us. A fundamentally new way of management thinking is necessary if we are to achieve competitiveness of products and services.

How much more so is this true of Northern Ireland?

It is clear that the existing methods of managing organisations is not producing the levels of performance needed to generate sufficient private sector wealth, such that it would be possible to reduce the heavy dependence in Northern Ireland on the public sector for job creation and shoring up the economy.

Prof Best in his report states: "Even plants that are supplying multinational companies rely upon out-dated quality programmes and plants that have not been reorganised according to processes instead of functions."

A footnote accompanying these comments states: "This is changing. In 1998 the IDB commissioned a pilot project using the Theory of Constraints approach to management (process integration and bottleneck analysis)."

Nearly all attempts at business improvement take place within "old-fashioned management practices", and herein lies the crux of the problem.

Dr Eli Goldratt, the originator of TOC, the Theory of Constraints, refers to this old-fashioned approach as the 'cost world'.

The cost world concentrates on local optimisation, cutting costs and basing decisions on the allocation of costs. It makes the assumption that if each component part of an organisation is efficient then this will add up to an efficient whole. This is not the case, as can be demonstrated.

The traditional cost world approach, however, is so ingrained in managers that many cannot bring themselves to abandon it in favour of the 'throughput world' approach, required to implement the Theory of Constraints.

The throughput world is based on maximising the 'contribution per unit of limiting factor' (or constraint) and encouraging the parts to do what is best for the organisation as a whole (global optimum is not equal to the sum of local optima).

Very different thinking is required in the throughput world as opposed to the cost world, and this is reflected in the measurements used.

Peter Drucker recognised this when he said: "Enterprises are paid to create wealth, not control costs. But that obvious fact is not reflected in traditional measurements."

Business improvement initiatives are almost exclusively implemented into cost world environments. The results are nearly always disappointing and less than was anticipated. Many initiatives end up eliciting lip service with the effort spread so thinly it is largely dissipated.

Current popular techniques like Six Sigma and lean manufacturing have much to commend them; unfortunately, they lack focus and leverage in a cost world setting. When introduced into a throughput environment, improvements from these and other initiatives can be an order of magnitude better. Productivity gains well in excess of 20% are commonplace.

It is far from easy to persuade chief executives to let go of the cost world and make the leap to the throughput world required to fully implement the Theory of Constraints, despite the scale of the potential benefits. They should all at least be aware of the throughput world concept.

Chief executives who manage their organisations operationally according to the throughput world will enjoy ongoing improvement, whether or not they implement the complete philosophy and practical applications associated with the Theory of Constraints.

The Theory of Constraints allows executives the flexibility to shape and adapt their organisations to meet unfolding circumstances in a way that will allow them to survive and prosper on their own terms.

Developing an operational measurement system based on the throughput world will enable management to focus effort on where it is much more likely to achieve the maximum effect.

Also such a measurement system will enable staff to better judge the impact of local decisions on the organisation as a whole, resulting in better decision-making in the future.

As Ernst Glauser stated, a fundamentally new way of management thinking is necessary if we are to achieve competitiveness of products and services.

Bryan Logan is a professional trainer and consultant with over 35 years' experience in project management, production and the management of systems. He is currently supervising a business improvement programme at Queen's University, Belfast, and teaching management on a part-time basis at the University of Ulster.