

How can you prevent local sub-optimisations within your organisation?

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In almost all organisations, stories circulate about absurd circumstances under which employees, under the pressure of their own goals, take actions that have a negative impact on the concern. These actions range from artificially boosting numbers to the unintentional obstruction of colleagues. We will offer you some possible solutions and show you how an company-wide focus on lead time reduction offers a way out.

As an example, consider the buyer who places orders with suppliers with poor delivery performance, but at greatly reduced prices. The fact that the subsequent production will be inconvenienced by late deliveries is not his concern since his evaluation depends primarily on the negotiated discounts.

Such problems start from misunderstandings in the translation of the company goals – typically growth of sales and profits – to department goals. For example, to increase profits, sales must be increased while reducing the production costs. Since profit is the difference between sales and costs, this breakdown looks logical at first. However, in this case the side effects are ignored. The sales group will often be inclined to give discounts in order to increase sales volume, since experience shows that discounts have a considerable impact on the sales volume. The greater work volume then requires the production group to use additional amounts of expensive and less

efficient temporary work. Ultimately, this results in lower profits due to the combination of lower prices and higher costs.

Solutions

The root cause of these problems lies in the breakdown of the overarching company goals into department goals that do not agree with each other. This creates the opportunity for one department to flourish at the expense of the other, resulting in conflicts between departments or even apathy among the staff. This finding results in some important solution approaches:

- Chose clearer, objectively measurable goals which do not allow for one department to succeed at the expense of the other. An excellent goal for this purpose is **lead time reduction**. The lead time comprises both the actual processing time and the wait time between successive steps. While processing time is determined by the work itself, the wait time between steps is primarily determined by the degree of collaboration. For example, if one colleague passes along incomplete information to a following colleague, the lead time will increase because of the wait for missing information. Similarly, the choice of a cheaper but less dependable supplier also often results in longer lead times.

- **Limit the number of goals**. The more goals there are, the more difficult it becomes to align the organisation. Ideally, there will be only one goal, since experience has shown that the more goals, the more difficult it becomes to align the organisation. Ideally, there should be only one goal that everyone supports.

- Avoid the unnecessary splitting of an organisation into stand-alone departments, but instead bring people together in **cross-functional teams**. This usually means dividing the organisation on the basis of product groups or market segments. For example, a team consisting of a salesperson, a purchaser, calculator, planner and developers, jointly managing the office processes for a specific product family. Also give the employees on these teams partial goals (such as reducing the lead time) and avoid individual goals. When people must choose between individual and mutual goals, they invariably choose individual goals, which undermines collaboration.

Impact of lead time reduction

Striving for lead time reduction not only takes care of a faster delivery time, but also has a very favourable effect on many other indicators:

- Short lead times result in higher stock rotation and reduction of the working capital.
- The reliability of delivery improves because short lead times make on-time delivery easier.
- The quality improves since problems are discovered more quickly.
- Fast delivery times are an important competitive advantage and make it possible to boost both sales and profits.
- Costs can decrease by avoiding waste. Think more about all kind of follow-up meetings, handling questions about late orders, rush shipments, …

Since lead time reduction has a positive impact on many other indicators, it is excellently suited as a primary, overarching goal for the entire company. Thus focusing on lead time reduction helps to reduce the number of conflicting goals and indicators, improve cooperation and avoid local sub-optimisation.

Want to know more?

Do you want to know more about lead time reduction? Quick response manufacturing (QRM) is the strategy for growing your company by reducing lead times. Discover this strategy during our upcoming **QRM Silver training courses**, which start in Ghent (from 27 October) and in Diepenbeek (from 17 November).

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