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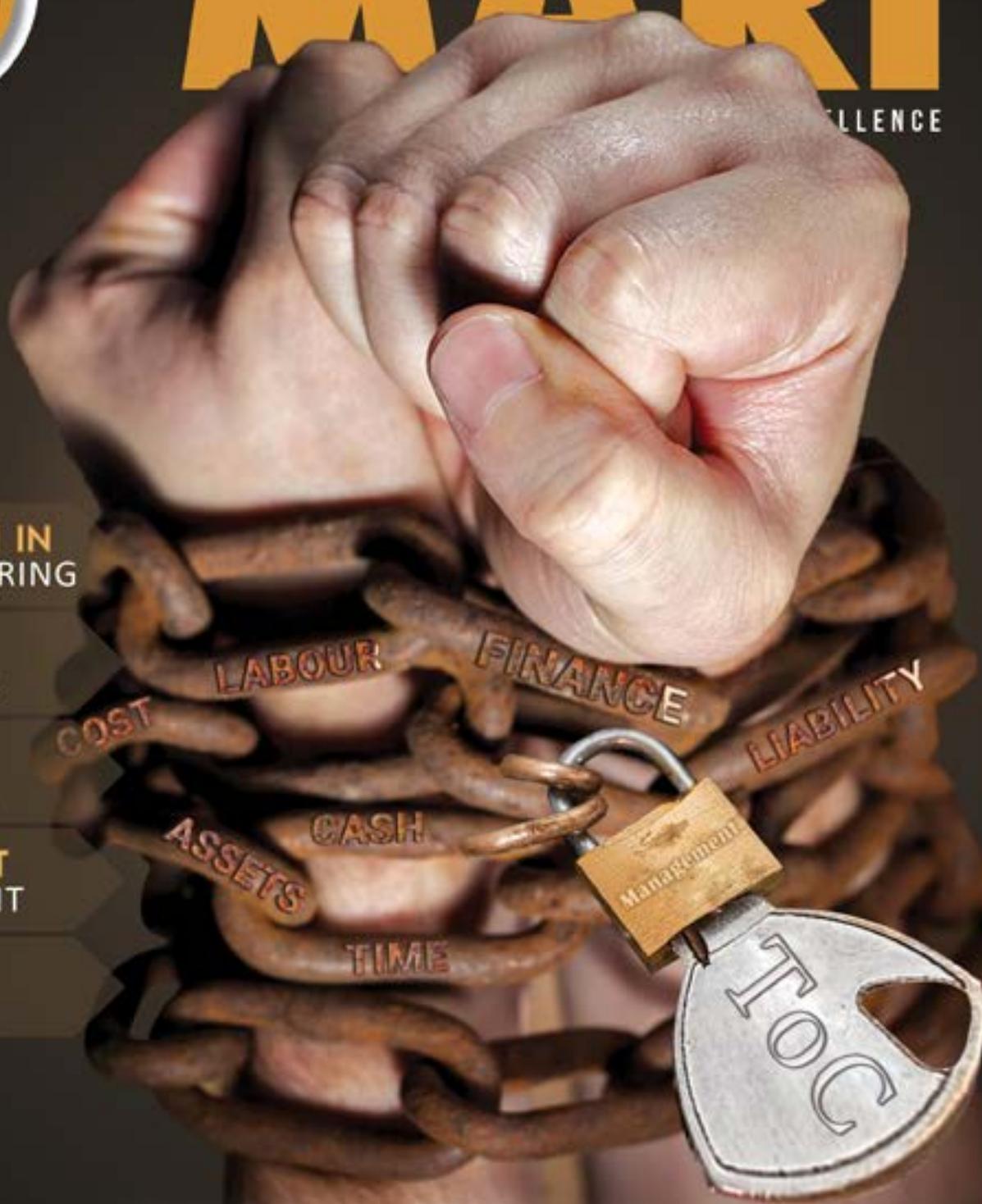
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OVERAMBIITION

A MALICE TO INDIAN MANUFACTURING

AN EXCLUSIVE INTERVIEW WITH RAVI GILANI OF GOLDRATT INDIA

RAVI GILANI

Founder & Managing Consultant
Goldratt India

OVERAMBITION

A MALICE TO INDIAN MANUFACTURING

Indian companies differ from their offshore counterparts in management operating style. Often the poor performance in productivity and sales is attributed to lack of efficiency of employees. However, in more cases than expected it is the policy that is at fault. Most of the companies practise performance measurement in parts (in fact, with wrong parameters and goal) and not a whole performance measurement system. Individual goals are not aligned with goal of the companies. Also, expansion of capacity and increase in sales without improving throughput and assessment of market demand result in cash constraints in the right areas.

As the last minute saviour, you worked and interacted with some of the major industries and businessmen in India. According to you, where India lacks its fundamental in doing business?

Frankly speaking, I do not find any basic fundamental difference in business management be it in India or abroad. Yes there are some differences between the operating styles but not fundamental. Everywhere we find many top managers unwilling to 'let go'; working on wrong parameters-volume (number of cars sold), market share, worker productivity, cost cutting specifically with regard to lower levels, spreading too thin etc.

How would you define the Indian organizations- risk takers or micro planners?

Once again we have both types of managers. Excellent risk takers as well as micro managers. I will not like to generalise. In fact, a top manager must have both the skills. The top manager must have the ability to view from

30,000 feet as well as the ability to roll out sleeves and dirty hands when required.

Top level management blames the workforce for lack of productivity and non-performance. How Theory Of Constraints (TOC) can bring change to this scenario?

I have totally contrarian views on this. In almost every case I find that it is the policies as manifested in measurements as the prime cause of low productivity at the whole system level. First of all, most organisations do not have any whole system productivity measurement. Many times when I am asked to help improve worker productivity, I refuse point blank. How about improving the productivity of leadership? But how shall we measure the productivity of CEO / MD / owner & their direct reports?

The practice of performance measurement through Key Result Areas (KRAs) is totally ineffective. There is a fundamental flaw in this. The common assumption is that the

system performance is the sum total of parts performance. This is absolutely WRONG. System performance is controlled by the performance of its weakest link-the constraint. And in 100% cases the constraint is a policy of the top management as reflected in its measurements. Ask the top managers of any company that has declared a loss after making profits. "How have you done in your KRAs in the last year as compared to the previous period?". Every manager claims that he / she has done better than before. If all managers have improved their individual performances, how come the whole system (company) performance deteriorated? The root cause-the individual KRAs are not aligned with the overall goal measurement of the company.

TOC advocates increase in sales revenue and growth. Still it is not a preferred mode for many manufactures especially SMEs. Is it because of lack of awareness or ignorance?

First of all, TOC does not focus on

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increasing sales. It focuses on increasing throughput. Throughput is net sales less totally variable cost. Totally variable cost is that cost that the company will save if it produces and sells one unit less. In most cases increase in sales does increase throughput though not necessarily. One of my clients in consumer durable business, it was selling some products below its totally variable cost i.e. negative contribution! Ostensibly this was being done to protect market share! Once TOC concepts were implemented, it doubled its profits with 6 months without adding any capital equipment or manpower. I was asked by one of the top decision maker-“We have not done anything new. Then why our profits have doubled? My response was- Madam, there are two ways to become healthy. One is to eat the right food, do some exercises, meditation etc. The other one is stop eating junk food! Stopping wrong things are far more important than doing right things! We had stopped selling negative throughput products. Sales actually went down but throughput and profits increased. Selling more could be a means to increase profits but sales growth by itself must NOT become the goal of the organisation.

In manufacturing industry what are the most common constraints that the organizations face and what are the reasons behind it?

First I would like to clarify the word ‘Constraint’. In the normal usage constraint is used for any obstacle that impedes the progress. In TOC constraint is used for the leverage point. This is

that parameter that when it is improved even slightly, the whole system improves immediately. It is akin to the weakest link in a chain where the goal of the chain is to increase strength.

A slight increase in strength of the weakest link will increase the strength of the whole chain immediately. In this context I find that most organisations do not have a common identified goal and its measurement. It is imperative the organisational goal and its measurement must be owned and not just agreed, and clearly articulated by the senior leadership team. Here I do find one cultural difference between organisation in India and outside India. In India we are rather shy of stating in unambiguous words that the goal of company is to make more and more money.

Somewhere our society looks down upon people and by corollary organisations that declare that they are in existence of making more and more money. Of course it is impossible for any organisation to make more and more money in the long term unless the organisation also takes care of all its stake holders-employees, customers, & suppliers.

There are two other areas that need attention. One is alignment of KRAs of all top managers with the Goal of organisation, and the second one is inadequate understanding of cause effect of action in one part of the organisation on an other part of the organisation. For example, how many companies can claim to have high On Time In Full (OTIF) delivery performance? Though most companies will claim that their own delivery performance is very good, but it is their supplier’s performance is rather poor.

One needs to remember that we are also suppliers for our customers. Which CEO does not want to deliver on time? However most do not. Why? Raw material shortages, workmen absenteeism, inadequate capacity are the justifications given for poor delivery performance. Of course one does not have to be genius to find counter measures for overcoming these obstacles. Increased raw material inventories, additional manpower induction and adding more equipment should be able to do the job. All these cost money. Every owner/ CEO know

this. Often what they do not know, however, what will be the approximate increase in their sales volume, profits, and cash. In my experience improving OTIF significantly have resulted in sales increase of 30-35% in one year. For most manufacturing companies increasing sales by 30% doubles their profits. It is also another matter that in almost all cases, no additional increase in inventory / manpower / equipment is required for improving OTIF, Sales, Profits, and Cash.

Most of the Indians are fond of Jugaad works starting from education. Who should be held responsible for this?

The prime cause of this behavior is that one does not know how will our life be in high reliable performance environment. Assume that every one delivers what he / she promises. Everything works the way it is supposed to work. I am not assuming uncertainty elimination altogether, just significant reduction in unreliability. Some where we have short changed ourselves by not demanding more from self and others. For me one second late is too late. It is not that I was never late. Yes, I have been late 4 times for my meetings in the last 19 years as my assessment of traffic was way of the mark.

Cash crunch and the untimely delivery are what make Indian SMEs unreliable. What is your advice on it to overcome these constraints?

Cash constraint and unreliable delivery performance are not same. Most SMEs do not deliver on time even though

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they have sufficient cash in hand, but organisations with cash constraint cannot deliver on time consistently. First let me share my analysis of the prime reasons as to how organisations get into cash constraint in the first place. The decision makers of successful SMEs become overambitious and start expanding their business without taking into account that market demand need not always grow. More over they invest in new facilities, new products, new markets etc. without taking into account cash requirement and availability. This typically results in shrinking of working capital. In turn sales drop. Reduction in sales impacts profit and cash, and the vicious cycle starts. My recipe for overcoming cash constraint is first for the decision makers to accept that they are facing cash constraint. The next step is to start monitoring cash flow instead of sales, market share, profit etc. All actions must be decided keeping in mind the cash flow in the immediate short term.

What according to you, are the measures, which an SME could adopt in order to increase its sales turnover?

As shared earlier, sales increase is a means to increase the goal of the organisation – to make more and more money rather than the goal itself. Profit is gross contribution (throughput) less

operating expenses. TOC recommends increasing throughput and controlling operating expenses. Throughput is controlled by the constraint of the organisation. Most organisations that follow TOC are typically able to increase their throughput by about 30-35% in one year with no or minimal increase in operating expenses. I do recommend measuring throughput, OTIF, and free cash flow weekly for quantum increase in making more money.

Doing a survey at top engineering institutes in India, we found TOC is not given its due importance in the curriculum. Being the advocate of TOC in India, do you believe the need of implementing it at the educational level?

Of course this is a must. Current way of managing systems is by breaking systems into subsystems, and then optimising sub systems whereas the fundamental belief of TOC is that optimising subsystems sub optimises whole system. TOC will become the main way of managing systems only when a certain number of organisations start acknowledging the contribution of TOC in their growth. Yes, it will take time. Max Planck, the father of quantum concept and noble prize winner in physics ruled that any new scientific paradigm gets accepted only after 30-40 years because by then the old scientists are dead! I am more optimist than him. I do believe that TOC will be taught in all major Indian engineering and business schools in my life time itself.

Since 1998, how has Goldratt India contributed to the success of organisations in India?

Though India was late starter in taking to TOC, today the largest number of TOC implementations are in India! Goldratt India (earlier Time n Cash) has focussed in improving cash, profit, and sales for the manufacturing sector. It has collaborated with all sizes of organisations be it a very small organisation with a turnover of less than Rs. 10 crores as well as a very large organisation having sales of over Rs. 10,000 crores. In India TOC has been implemented across various sectors- steel, power, engineering, pharmaceuticals, consumer durables, packaging, electrical equipment, garments, textile, cement, retail, etc.



Ravi Gilani, Founder & Managing Consultant at Goldratt India possesses an extensive experience of 24 years in the consulting business. He is a Theory of Constraints International Certification Organization (TOCICO) certified expert and has also served as a member on the board of TOCICO from 2005-2008 and 2013-2016.

He is one of the most sought after consultant and has provided with his innovative ideas to Indian and transnational organisations such as L&T, Godrej & Boyce, Jindal Steel and Power, Alstom India, Dalmia Cement, OCL India, Eicher, Ringplus Aqua and many more to overcome the impediments in their growth.

Also an alumnus of IIT Delhi, Mr. Ravi Gilani holds a critical yet constructive view on grave issues like Indian economy, the initiative ‘Make in India’ and his core area of expertise, Organisational Management. His ideologies serve as a road map to the organisations that face pitfalls in their course of management.