



The Throughput Operating Strategy



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One of the greatest challenges facing companies today is the need to quickly and effectively translate strategy into action. The hyper-speed of business today dictates that companies must continually re-invent themselves. The days of lengthy product life-cycles, and business as usual are long gone. By all indications, top-management has gotten the message loud and clear. Judging by the extensive efforts put into strategy development, and the pervasiveness of increasingly powerful strategic improvement initiatives, the need to accelerate change is well understood. Companies today have recognized and responded to the competitive challenge. They are launching more creative, market-driven strategies and more sweeping improvement initiatives than ever before.

What has received much less attention and discussion is the issue of how to make these strategic initiatives a reality in our companies. As two recent Towers Perrin workplace studies indicate: employers tend to do a better job of communicating the macro view of their organizations than the micro view. In other words, at the strategic level what is needed is generally well understood and articulated, but when it comes to converting that strategy into action at the local levels of the company, things are more muddled. Obviously if it is not clear to local areas how their actions contribute and impact the corporate strategy, global objectives will not be achieved. According to Towers Perrin, the critical step of business alignment is, “translating strategy into well defined responsibilities and objectives for every individual in the organization and keeping those connections alive day-to-day.”

The failure to fully connect between local actions and their global impact can be debilitating to a strategy and the company as a whole. Consider the enormous effort that goes into the strategy creation and the process of communicating it around the company. But when local areas are not properly connected to the strategy by clear detailing of their role in terms they can enact, the strategy will have little or no meaning in the company. The result is inevitable and all too common in reality—the enthusiasm for the strategy, even if once high, will soon wane.

Unfortunately while the energy wanes the negative impact does not. The most frequent outcome of such a situation is that the organization loses faith in management’s ability to lead. And it is quite a natural result. The enthusiasm created establishes a high expectation for change and that “things will be different.” But the inability to translate the strategy into something real and living for the people in the company leads to disappointment—a promise unfulfilled.

At the other end management experiences a similar situation. It is not uncommon for them to feel that they “have done their job.” They have articulated a strategy, perhaps a very good one that, if enacted, would lead to terrific results for the company. But, feeling they have done their

part, they too experience the disappointment and frustration of unmet potential. The most common situation we encounter in companies is a management team that feels almost powerless to bring about change. And when you ask people in the organization why, they all agree—the other side didn't do their part. It's a bitter irony, everyone wants the same thing and feels motivated to make the strategy work, but it all ends in frustration or worse and no one knows what to do about it.

In spite of this frustration and genuine desire to change, the resulting failure raises the worst trait in organizations—blaming. When confronted with unmet expectations everyone in the company naturally feels threatened—we know that something has gone wrong and we don't understand how to correct it. In the face of such a situation almost everyone feels the need to defend his position by pointing out that they have done all they can under the circumstances. The resulting finger-pointing only increases the barriers between groups in the company and stymies any legitimate attempts to resolve the problem.

To understand what can be done to prevent such a downward spiral that appears all too common in companies, let us consider the nature of the changes and what they imply for a company. First of all today's strategies require quantum leaps in performance. Small incremental gains in a local area are no longer sufficient to sustain competitive advantage in today's marketplace. Secondly, these strategic initiatives demand a high degree of synchronization to be effective. For instance, the Just-in-time system used in the automotive industry and in many retail businesses mandates that sales, planning, scheduling, production, and distribution work seamlessly. A blip in any one of these areas means shutting down a plant, or creating a stock-out that threatens the company's competitive position in the market.

Thirdly, the ability to connect local actions to their global business impact is essential in motivating today's workforce. The Towers Perrin studies found that 91% of the employees who said they understood their role in the big picture also said they were motivated to create that success. By the same token only 23% of those who didn't see the connection between their work and results claimed to be motivated. Fourthly, as we all know any change is by its nature a threat to our security, it means moving from something we know and understand to something new and unknown.

The first two facts about change in today's business environment are closely related. We need quantum leaps, and we must integrate all the parts of the system. Quantum leaps do not come from making small gains across each area of the business, they come from fundamentally re-thinking how the system operates. Unfortunately the thinking that drives organizations is not system thinking, it is local thinking. Each area of the business typically works towards achieving its own local objectives—maximum utilization of resources, minimum cost, budget control, etc. Such objectives do not consider the wider, system level impact of actions, but only their consequences in terms of the local objectives. Theory of Constraints (TOC) and numerous other approaches have shown over and over that local optimization does not maximize system performance. Any attempts to create quantum gains and to synchronize across systems demand a very different management strategy. Unfortunately, as long as the old localized methods are employed, results will fall well short of expectations.

The third and fourth demands of today's change initiatives—connecting local actions to their global impact and overcoming the threatening nature of change—present an even larger obstacle to success. In fact, it highlights a fundamental fact in today's business environment—knowledge is cheap and readily available, but the ability to apply that knowledge is far from easy or straightforward. The ability to connect local actions to their global impact is one of the most important contributions of TOC, but it is not something widely available in the public domain. Organizations have long been able to quantify how an individual area (a manufacturing department, for instance) effects the companies costs. What has been much less clear is how it contributes to Throughput—the ability to generate profits. Should this department be producing more units? Less? Different ones? Should it produce faster? Slower? In a different sequence? And more importantly what criteria should be used to judge performance? Obviously the answer comes in understanding how the department impacts the business as a whole, not whether it can produce more unneeded widgets in larger batches.

The Throughput Operating Strategy (TOS) provides the link between a local area's actions and the overall business performance—before TOC such a link was vague at best. Like an orchestra or a football team the roles of each part of the organization is different. Not everyone should play loudly at the same time, not everyone should try to carry the football. Each part of the organization plays a different, but highly important, role in achieving the overall success. The TOS is the mechanism that companies can use to articulate this role for every part of the business, so everyone knows their part in maximizing performance. An illustration will help.

A Supply Chain Application

A manufacturer of consumer goods has a resource that limits its output—a constraint. This resource processes large batches of liquid product and the transfers the product to holding tanks which in turn feed a packaging operation. When a certain product mix is being run the holding tanks empty very slowly which means that the constraint must wait to pipe its next batch until the holding tanks have been emptied. By striving to optimize each operation's local performance the company has minimized the investment made in holding tanks and they seek to maintain high utilization of equipment everywhere in the system. As the product mix varies this means that the constraint in the system moves from place to place—no resource is fully utilized. Inherently there is excess capacity in the system which cannot be utilized due to the shifting product mix—not uncommon at all.

The strategy employed treats all resources as having the same role—maximum utilization—believing that maximizing local areas will maximize the system. But it isn't true. By crafting a global operating strategy—a TOS—the company was able to re-design the roles of individual operations. The strategy included adding some investment in storage tanks, very inexpensive in relative terms, which enabled the constraint resource to run at very high utilization levels because it was never blocked by the availability of storage tanks. The additional capacity exposed—more than 25%--enabled the company to dramatically cut its inventories and improve its delivery performance to 100%. The additional investment was trivial compared to the increased Throughput and lower overall operating costs it now enjoys. Under conventional thinking the solution would never have been implemented as the added storage tanks only increased the excess capacity of an already underutilized resource.

The change was even more dramatic in terms of the roles of the individual operations. The TOS meant a fundamental shift in behavior. Striving for maximum utilization was no longer the goal for everyone except the constraint. In fact the new measure of performance for people had little to do with their own department, and everything to do with how their department impacted the constraint. The TOS effectively showed everyone how they impacted the overall system performance. And since it was now readily apparent to everyone in the business, management had to spend far less time trying to “coordinate” between functions and departments. The financial and business impact of the TOS vaulted the company into a whole new position and set a remarkable new standard in the marketplace.

Examples of the impact of a TOS abound and the results are universal. But the fourth and most daunting obstacle still remains—how to cause the organization to embrace the change. Anyone who has been intimately involved in trying to make significant change in organizations knows first-hand how difficult a challenge this is. It is far from sufficient to have a sound strategy and even to link that strategy to each individual area’s role. What is needed is a way to not just overcome the resistance to change, but to make the change highly desirable to everyone—in other words how to put the knowledge into application.

Fundamental change on the scale required today means shifting practices that have driven the organization for a long time—perhaps for years. These are the very same practices that in other environments have been the reason for a company’s success, now they must be discarded to insure future success. We all know that any habit is hard to change, but one that has proven successful is the most difficult of all.

Unfortunately some of the most highly-touted “solutions” to this problem actually actively prevent the change from occurring. Team building, participative management, open-book management, and a strong emphasis on corporate communication are all efforts to bridge the gap and better align strategy with actions. Companies embark on these “people-oriented” improvement efforts with the assumption that the better communication, dialogue and involvement of people at all levels in the decision process will create better alignment. While communication is essential, the message we communicate is even more important. Talking about profits, costs, and decisions without providing people with the understanding of their role in the overall business strategy only accentuates the gulf between top-management and the rest of the organization. Many of the companies taking this route have found it long, arduous, and not very fruitful in producing real improvement.

The Way Forward

For companies that are serious about creating real returns for themselves and their shareholders, it is time to re-visit the fundamental assumptions about how the business is run. Trying to measure and manage individual functions in isolation does not work. It produces sub-optimized behavior and fails to synchronize efforts around Throughput. Our research suggests that companies today understand how they want their operations to function. The ideal picture includes:

- A highly synchronized team, with all functions working together seamlessly in support of the company's market strategy
- Information and understanding that enables all levels of the organization to make correct decisions (for global performance) in real time
- Focused improvement with high financial leverage so that every effort undertaken creates significant bottom line results
- Close linkage between the business and the market so that internal actions reinforce the company's overall market strategy
- A motivated and empowered team capable of carrying out these actions with minimal management intervention

These requirements reflect the need to blend synchronized operating policies and principles, the human elements of motivation and communication, and the need for systems to support daily operations. The only way to promote the achieve these requirements is to create a seamless organization where each component has a clearly defined and well-understood role in the overall success of the company. Orchestras don't really play off the same sheet of music. They play off a collection of different sheets with different notes and melody that have been woven together to create an appealing whole. The same is true for our organizations. Yet we continue to drive each area as if it were performing a solo.

To make the entire organization perform together requires synchronization from the top. But the process of achieving this high level of coordination can begin with smaller parts of the organization, stringing together individual departments, plants, functions, and divisions through their own Throughput Operating Strategies. To begin the journey does not require the CEO's permission or participation. Rather it demands that individual managers stand up and begin to create the local versions of the TOS in their own areas. If these managers are very high in the organization, then the results will be greater. If they are lower down in the organization, they will not be as comprehensive but they will both increase the bottom line, and improve the life of the people in those areas. Such a solution requires education and understanding to promote its adoption. But we have seen that it is far easier for people to accept something new that makes sense to them, then to continue with the old inherently conflicting directives they currently work under.

In the end, the problem is not technology or systems based. Nor is it in the way people interact with each other. The source of the problem, and the solution, lie in the rules and logic we use to motivate and drive behavior. The TOS provides the tangible mechanism for managers to seize this insight and change their organization for the better.