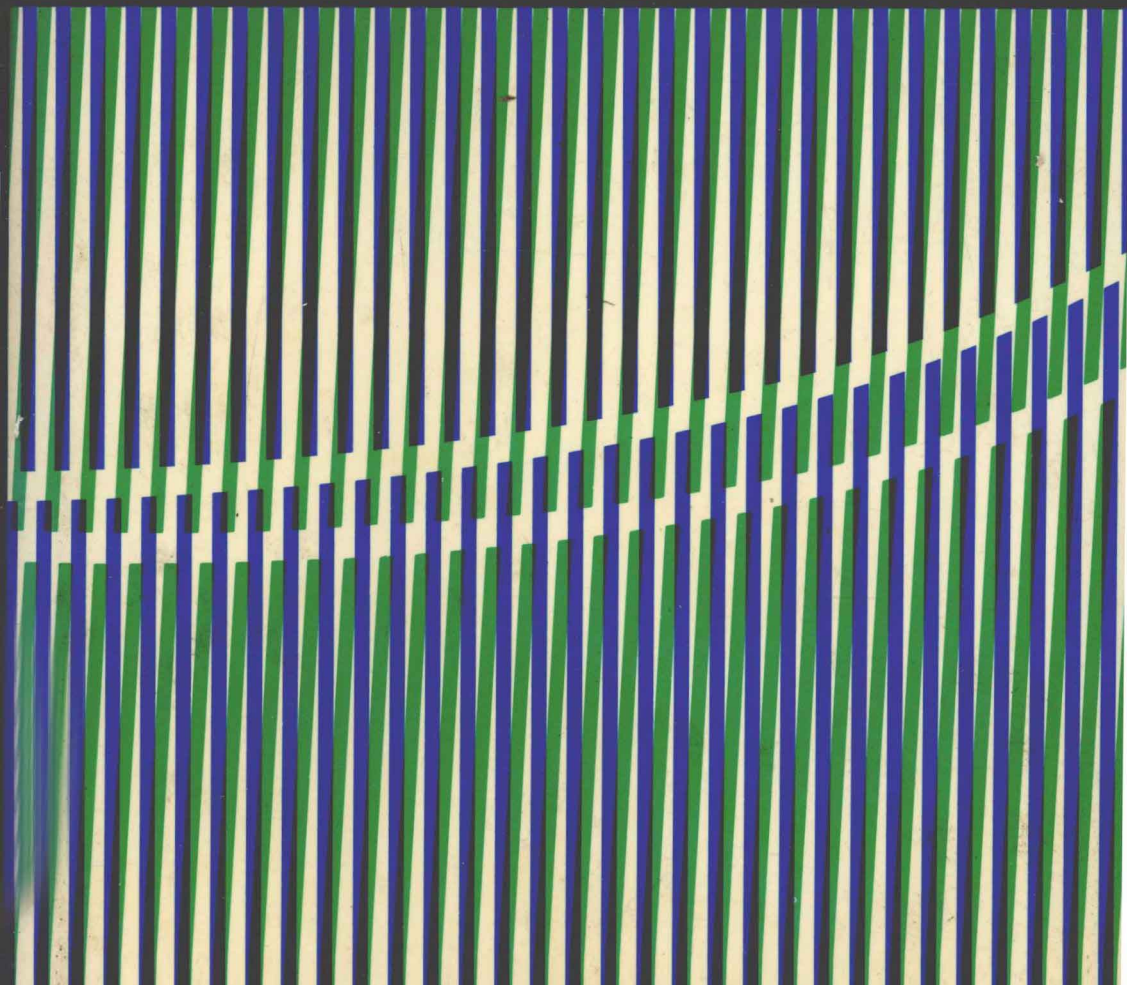


HOW TO DEVELOP, INSTALL, AND MAINTAIN A COST REDUCTION/ PRODUCTIVITY PROGRAM

RAYMOND J. BEHAN



**HOW TO DEVELOP, INSTALL,
AND MAINTAIN A COST
REDUCTION/PRODUCTIVITY
IMPROVEMENT PROGRAM**

Raymond J. Behan



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*To my wife, Ellen, without whose untiring efforts,
this book would never have reached completion*

Preface

Over the past twenty plus years, I have had the opportunity to conduct analyses for profit improvement potential in more than three hundred organizations including manufacturing companies, banks, insurance companies, hospitals, refineries, oil and gas production, utilities, hotel chains, and four universities.

The ultimate result of the great majority of these analyses is the revelation that each organization has failed to fully utilize their available resources. For the most part, the reason is very simple: they do not know how to optimize these resources, including human, and as a result have large, open, unused capacity. This holds true in organizations of all sizes and types regardless of the sophistication of their operations.

For example, in the engineering department of a large New England manufacturer, which was using a very sophisticated computerized scheduling system, the analysis revealed that they were losing 8 man weeks per week of the engineers' time. This represented about 18% of the engineering work force. They were expending overtime hours to make up their deficit. Yet, the fact was not recognized—very commonplace situation.

Even in many organizations where the problem has been recognized, at least in broad terms, the ability to take effective corrective action is often nullified by the day-by-day activity of just keeping the business going. The head nurse of a large hospital once commented on how much of the busy work of the ancillary personnel, to her amazement, was being done by the nursing staff. This, after an analysis that revealed the amount of open capacity among the ancillary group.

During this same period of time, I was privileged to direct the efforts of several hundred companies and, within those companies, many more hundreds of departments in the development of pro-

grams that increased resource utilization many times over. The cost reduction/profit improvement techniques described in this book were maturing rapidly. The state of the art continuously improves. Many consulting firms, as well as the consulting arms of a number of the larger accounting firms in the country have utilized some of these techniques, and do so today, contributing to the growth and profitability of numerous organizations. I continue to develop and manage programs to accomplish such results.

Out of these experiences came the realization of the need for a book that could *instruct* companies on how to *develop, install and maintain* a program that would accomplish the improvements which appear to be so essential for their health and well-being. Why the need? Certainly, if in my own experience, the need is overwhelmingly evident, then how many more companies would benefit?

Many firms, over the years, have employed the services of consultants such as myself, and will continue to do so, for we do have a catalytic value and the ability to pursue this type of goal within the company without the responsibility of running the daily affairs of the business. However, there are not enough consultants in the world to reach all of the firms that could benefit from such techniques. Additionally, many firms may not be of a size or financial position to afford consulting services of this kind. *Yet, they all have a need.*

What better way to give these firms, through their own people, the ability to accomplish profit improvements than to produce a book that contains step by step instructions on how to enhance their profitability through instituting a program designed specifically for that purpose? It is believed that this has been accomplished.

Who should read this book? The executive? . . . Yes, because executive decision making will be enhanced by the information contained in the book. Middle managers? . . . Yes, because they are in a position to contribute to profit improvement in the most direct manner. Supervisors? . . . Yes, since it is their areas of responsibility that the impact of any profit improvement program will be most felt.

A strong readership should develop among students of management. The principles, methods and techniques in this book would certainly enhance their management education. Developing the ability to analyze operations for improvement potential, in itself, increases the value of a promotional candidate a hundredfold.

But this book is not written merely for reading; it is written for *applying*. There is no greater satisfaction for an author than to see his thoughts in print and I've been looking forward to that. However, to come across a firm that has completely installed and is maintaining such a program as the result of this book—that will be the ultimate feeling of *MISSION ACCOMPLISHED*.

RAYMOND J. BEHAN

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1

Introduction

This book is designed to provide the basis for developing a cost reduction/productivity improvement program in most types of companies. It will help channel an organization's efforts in a constructive fashion toward recognizing the existing opportunities for cost reduction/productivity improvement and toward approaching these opportunities in a planned manner.

Drastic inflation, lack of productivity improvements, and the declining value of the dollar led to a great deal of emphasis on developing new technologies to cope with these problems. Technological development made and continues to make dramatic impact on the way we manufacture, communicate, ship and receive, process information, use our labor and other resources, and dispose of our waste products. This book is not concerned with technology, however. It is a compilation of common-sense principles of sound management practice.

The terms *cost reduction* and *profit improvement* will be used interchangeably throughout the book. Though there are differences in actual meaning, the result being sought is an improved bottom line. Unless the results can be measured in real dollars, they become academic. Another term that could be applied is *cost avoidance*, but it refers to the future and has a bearing on long-range results. We, on the other hand, are dealing with the here and now.

THE REQUIREMENT OF COMPLETE INVOLVEMENT

What most companies *can* do and *should* do, if they are to fully succeed in reducing costs, slowing cost increases, and improving

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profitability, is to develop a complete internal program that will involve the entire organization in the effort. The program must be permanent and ongoing. It must have structure and substance, goals to achieve, and a plan to achieve those goals. It must deal with improving the productive effort of all facets of the operation.

Several years ago, one of the larger motel chains in the United States found itself in deep trouble. Increased costs were driving them out of their budget-luxury status. They employed a consultant to help them reduce costs. Within a year, the bottom line was considerably improved, but more important, they realized that a permanent program would be required if they were to maintain and improve their gains. The job of organizing and leading the program was given to a corporate vice president as his sole responsibility. Through his continued effort, the chain is now one of the most profitable in the country and a leader in providing good, clean accommodations at a most reasonable cost to the traveling public. They still use consultants as the need arises to give them a particular direction but under the control of the program vice president.

ACTIVE PARTICIPATION BUT NOT INTERFERENCE

To be successful, the program, from day one of its planning, must be regarded as a permanent part of the company's philosophy of doing business. One-shot, hard-hitting efforts can have immediate (if sometimes painful) results. The program must be developed in detail, properly structured throughout the organization, and have its own lines of responsibility and communication. It must *not* interfere with, nor be designed to replace, legitimate functions of industrial or product engineering, accounting or methods departments, though it may draw upon the expertise of any of these.

The program must be designed to have *active participation* throughout the organization. To accomplish this, it will be necessary to have all levels of management, as well as labor, involved in it. Throughout the book you will see how this can be accomplished.

The full backing of top management will be essential. In some companies, it will be better to have top management actually run the program. In others, the delegation of the operation of the program to a lower echelon may be desirable but the lines of communication to the top must be open.

An example of the problems that can occur when the program is not universal in scope can be found in the experience of a south-western manufacturing plant. The technical laboratory manager developed a productivity improvement program for his lab. The improvement brought about was very impressive, but the adverse effects on the engineering department were profound. After the lab manager and chief engineer got together, the program was extended to engineering. Again, excellent results were achieved but production and marketing felt adverse repercussions. When the plant manager got into the act, he recognized the benefits, appointed a coordinator, and expanded the program throughout the plant. Full success was achieved, and the program is ongoing. A sense of accomplishment permeated the entire plant. Not only was morale improved, but the total plant cost, as related to units of production, was considerably reduced.

THE NEED TO INCORPORATE *EFFORTS* WITHIN A PROGRAM

A program is more than an effort. Many companies have cost control, cost reduction, or profit improvement *efforts* on an ongoing or spot basis. Many either sporadically or regularly employ specialists to attack specific cost areas. Though these *efforts* can be very productive, they should be incorporated into a program, not considered as a program unto themselves.

WORK SCHEDULING AS A KEY ELEMENT

A key element in a meaningful productivity improvement program is the scheduling of work on a short-interval basis. Most companies have some means of scheduling work. Having determined the needs of the marketplace, companies gear up to provide for them. Manufacturing companies have their production planning functions that, on a broad basis, match the requirements of product to the facility. However, many unnecessary costs get built in because planners, looking at the broad picture, miss necessary ingredients of good work scheduling. Capacities are mismatched. In-process inventories build up. Imbalances and shortages of parts and raw materials occur, and often finished-goods inventories have no relationship to the needs of the marketplace. These factors often go unrecognized and

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are very costly. A continuous cost reduction/productivity improvement program can bring them under control.

Many years ago, a single-panel cartoon appeared in a newspaper or magazine depicting a cigar-smoking manufacturing manager standing in the middle of a factory floor, holding an order sheet in one hand. With the other hand he was scratching his head as he complained in plaintive tones to a second character: "I just wish the sales department would stop selling the items that I'm out of the parts for!" His dilemma is all too typical of the kind of problems that companies learn to accept as a norm of doing business. Work-scheduling techniques incorporated into a productivity improvement program can continuously monitor and correct this type of situation to minimize production delays, reduce in-process time, and the storage of material and labor in unnecessary inventories.

NONMANUFACTURING ORGANIZATIONS CAN BENEFIT

Service organizations and institutions are not immune to problems of work-flow interruptions, duplication of effort, and failure to control the performance factors required to provide good service. They often lack awareness of basic scheduling techniques to control productivity. As a result, excess costs are built in to compensate for the absence of good management control.

In a Brooklyn, New York, hospital, a study revealed that the nurses were spending up to 40% of their time doing menial tasks that non-professional personnel could perform. As part of the total productivity improvement program, the methods of work assignment were revised. Ancillary personnel were assigned on a scheduled basis and about 75% of the nurses' time devoted to busy work was recaptured and returned to patient care. The hospital was able to roll back its employment program, hire fewer nurses than were previously considered necessary, and provide excellent service at a considerably reduced cost. The same possibilities exist in many institutions and organizations. The growth that takes place—the additional services to customers, the increase in the number of customers to be served, the ever-expanding paper work—occurs at a pace that leaves only minimal opportunity to take a long hard look at the possibilities for developing better, more efficient and less costly procedures. Even the ever-increasing use of computer technology leaves vast oppor-

tunity for in-depth examination of the total effort itself and all of the intricate details and activities that comprise the effort. As you will see, the room for reducing costs and improving productivity in the growth areas mentioned is never-ending.

THE NECESSITY OF TRAINING FIRST-LINE SUPERVISORS

Supervisory training in many organizations consists of taking a technically competent person and giving him or her the basics of the philosophy of management and an introduction to the administrative functions of supervision. The program to reduce costs and improve productivity will include the training of supervisors in the management of the resources, both human and material, that are at their disposal. It will make them fully conscious of their role as managers and will provide them with the tools of management.

THE HUMAN RELATIONS ASPECT

In the development of the program, the basic mission, that of improving productivity and reducing costs, is paramount. However, those charged with the conduct of the program must also be fully aware of the human relations aspect of their function. The overall program must fit into the company philosophy of how to deal with the human factor. People must not feel threatened by the program. If a bargaining agreement exists, care must be taken that it is not violated. People are least fearful when they understand the company's goals and the reasons for them.

In embarking on a program to improve productivity, a major northeastern bank held a series of meetings, first for its officers, then for the officers and their supervisors, and finally for the supervisors and their people. The program explanation included the fact that a reduction in the number of personnel was expected to result. It was clearly, and without equivocation, pointed out that no one in the organization would lose his or her job. Personnel reductions would take place only through attrition or promotion. The overall result was, from an employee relations viewpoint, very positive. People became involved in the program and contributed (and continue to contribute) to its success. From a financial point of view, in the sev-

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eral years that the program has been in operation, the hours used per unit of work produced has declined by as much as 31%.

FULL AND DETERMINED COMMITMENT

This book will provide the principles of developing, implementing, and maintaining a cost reduction, productivity improvement program. It will give the reader general fundamentals, specific instructions, anticipated results, and examples of how many companies have successfully used all or some of the principles involved.

The undertaking of a program, be it in total as recommended, or in part to meet a specific situation, should be done with full and determined commitment. It should be approached in a positive, aggressive, and enthusiastic manner. Only in this way can it be expected to produce lasting benefits. To do less would be an injustice that could damage the well being of the organization and the morale of its people.

2

Organizing for the Cost Reduction/ Productivity Improvement Program

The purpose of this chapter is to provide the necessary ingredients of organizational structure to assure a successful program. Inherent in the development of the organizational structure is recognition of responsibility, expectations and limitations, participation and cooperation, and lines of communication. The organization is primary before a program is actually activated. The alternatives in the structuring process will be discussed.

VARIABLES TO CONSIDER

The decision-making process, having concluded that a program will be developed, installed, and maintained on an ongoing basis, must then proceed to the organizing stage. The structure will be dependent on a variety of factors

- The size of the company
- Numbers of departments
- Numbers of people
- Present line of authority
- Degree of autonomy

The best way to proceed is to examine the organization chart of the company in some depth. Look at its breadth as well as its depth. Where, in this structure, is it best to place the responsibility for the development of the program? At this point, we are not considering