



Delivering Performance Improvement through Effective Interim Leadership

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In a text-book example of Alvarez & Marsal's (A&M) hands-on approach to help companies improve their performance, the firm recently assisted a division of a US\$1.5-billion MNC with significant operational issues at its manufacturing plant in China. The company had been hit by an employee strike along with rising concerns around fraud allegations, rapid declines in operational and financial performance, and a series of issues related to customs compliance.

A&M's dedicated performance improvement team partnered with the company to drive transformation through effective leadership under an interim team and Chief Operating Officer (COO). The strike was ended within three days and numerous initiatives and systems were implemented, which enabled the company not only to restore its business but embark on a new and sustained period of growth.

Client Situation

With mounting concerns over operational performance - inventory had surged, past due orders were piling up, cost fluctuations were illogical and customers were angry. Low morale among a discontent labor force and high attrition rates in the factory contributed to scheduling and operational issues. There were even rising concerns that fraudulent activities might be involved. Efforts to reverse the situation after installing new leaders, including external experts in manufacturing, did not yield the desired results.

At the same time, China's customs department conducted an unexpected audit, which uncovered key concerns around customs compliance, potentially jeopardizing its vital export license. It was against this backdrop that a series of major employee strikes also hit the company in a short span of time.

A&M Approach

Drawing on years of providing interim leadership solutions to companies around the world, A&M worked hand in hand with the client's steering committee team and implemented numerous initiatives to address the issues at their roots.

A&M provided immediate on the ground leadership gravitas that the company required, driving effective dialogues to gain trust with key stakeholders, while quickly taking control of the situation to restore effective daily management. A team of six A&M consultants, including the interim COO, was formed to implement the multi-phased transformation plan. In typical A&M fashion of hands-on leadership, the team worked with various stakeholders, from driving daily change with the labor force on the ground to developing strategic direction with board of directors. A&M brought alignment among the union, employees, middle management, and governmental authorities, including the China customs department and labor bureau.

A&M focused the company's effort on the recovery of the current year's business plan and long term bottom line results in keys

areas related to (1) sales and customer recovery plan with a focus to recover on time delivery and reduction of past due orders, (2) recovery of trust and alignment of interest with employees, and (3) manage key compliance risk areas. The A&M team utilized its deep understanding of the local culture and rich experience in global operations to streamline the company's initiatives.

The team immediately focused on initiatives to align operational efforts and knock down toxic organization silos. A&M deployed focused sets of operational KPIs and a daily visual management system to enhance the effort of the cross functional teams.

A&M's operational initiatives were also complimented with improvements to data management. A&M was able to advise the client in improving processes and procedures around data management, while also implementing automation tools and techniques to reduce errors in data flow and manual data entry.

As part of a critical building block to position the company for growth, A&M transformed the company's human resource practice and established a performance-driven compensation structure that highlighted a pay by performance mentality rather than a pay by overtime mentality. As part of the transformation, a new structure was established to provide a clear career path from direct labor to the management team. Through this transformation effort, A&M also helped the company achieve compliance with local labor laws.

While driving focus on immediate transformation, A&M utilized a data driven approach to develop a strategic end-to-end operating system transformation to drive the next phase of improvement to the company's performance. A&M developed a detailed transformation plan to help the company transform from a long lead-time make-to-order system to a short lead-time assemble-to-order system. The transformation included a sourcing and commodity strategy that identified inventory and cost reduction opportunities.

Results

Under the management of the A&M's interim leadership team and the execution of the new transformation strategies, the company's operational performance improved very rapidly. The factory returned to work in three days with no further labor strikes despite some failed attempts. A&M helped the company to establish key leadership top grades within three month and successfully transitioned daily operations to new management leadership within five months. The direct labor attrition rate improved drastically, falling from 50% to 15% monthly.

Within two months, overall past due orders were reduced by 80%, while past due orders from the top five customers were reduced by 97%. On-time delivery improved from 68% to 90% and productivity improved from 76% to 90%. A detailed plan was formulated to transform the company's end-to-end operating strategy from a make-to-order system to an assemble-to-stock system with min-max inventory, which will reduce inventory by 50%, quote-to-order confirmation by 70% and end-to-end internal lead time by 57%. A&M identified sourcing and commodity opportunities that could systemically ensure material availability and double inventory turns while improving EBITDA by 3.9%.

Issues over compliance were addressed, averting hefty fines, and the loss of a critical export license was avoided, where 80% of the company's goods are exported.

With effective management and systems in place, the company rapidly returned to health with positive employee engagement and resumed its strong growth path.

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