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The Relevance of Skinner's Focused Factory in the Era of Global Competition

Gilbert Chang

During the 1970s, the American manufacturing system that was deeply rooted in the paradigm of mass markets, standard designs and high volume began to flounder in face with the more cost competitive rivals. The Tayloristic approach to manufacturing that has helped the Americans gain its industrial might in the 1920s was ineffective against the low cost onslaught of the Japanese. In the 1969, Wickham Skinner challenged Taylor's assertion of "one best way" to manufacture with his now classic article "Manufacturing - Missing Link in Corporate Strategy" and subsequently introduced the concept of the "Focused Factory". By the late 1980s, many US companies have rediscovered the power of superior manufacturing and today a number of common practices trace their roots to it. This construct has served the industries well in the last two decades. However, the emergence of a totally different world order in industrial competition questions the adequacy of the focused factory in the era of global

competition. Is “being focused” alone enough to ensure the competitive success of the Malaysian industry ?

Fundamentally, Skinner’s approach to focused factory is to prioritize a set of objectives for each product line. The primary aim is to create “plants-within-a-plant” for product lines when the ranking of these priorities are at odds with one another. This simple prescription challenged the American manager’s myopia that manufacturing is a production problem, while emphasizing the strategic dimensions of the issue at hand.

This may be sound advice for a time where a world class company used to be the one that defended its position through distinctive competency. However, being “focused” alone today is no longer a guarantee for success. Why ? The competitive environment has changed ! The level of competitiveness has risen so much so that factories of today have to do *everything* well to be considered world class. In other words, the global competitive environment is challenging the boundaries of Skinner’s approach that is :

1. Introspective in nature, where it focuses solely on the manufacturing function and related decisions concerning facilities, process technology, materials planning and control systems.
2. Based on the notion of trade offs and confines its objectives to cost, quality, delivery and flexibility, and consider these objectives to be mutually exclusive goals.

These assumptions imply having a list of competitive priorities and concentrate exclusively on top of the list while forgoing or completely ignoring the rest. It follows the company should also limit its product range in order to remain focused.

However, with today's competitors, the view that factories are structurally unable to be "all things to all people" is obsolete and should be abandoned. World class competitors have repeatedly demonstrated their mastery of quality, delivery, cost and flexibility all at once ² ! Furthermore, researchers like Collins et al,¹ have found that best performing plants are not single purpose; they share a variety of competitive priorities e.g. the Japanese products are not only low cost, but also come with low incidence of defects, are reliable and durable. According to Hayes ⁵ et al, in addition to having a consistent set of policies prescribed by Skinner, Japanese manufacturers posses :

- At the industry level, more outward looking orientation towards end user markets, customer requirements, even the suppliers, that highlights the need for responsiveness e.g. establishing strong supplier relationships and networks (the Zaibatsu) and lean manufacturing.
- At the plant level, complementing highly customizable product range with flexible manufacturing equipment and processes.
- At the management level, the change of mind set in favor of complements instead trade offs i.e. "low cost or flexibility" versus "low cost and flexibility"

There is plenty of evidence, Sony has introduced more than 300 versions of the basic Walkman whereas Seiko was known to have introduced a new product everyday. The technology of flexible manufacturing systems has made it possible to produce a broad range of products with little loss in efficiency seemed to have refuted the need to be “focused”. Does this spell the demise of the “focused factory” ? Quite the opposite actually, a recent census by Industry Week magazine¹¹ shows that 64.1% of the American manufacturing are based on factory focus systems. The difference is that the world class competitors are taking the concept of focus to a new level. They choose to focus on speed and flexibility, constant adaptation and learning to differentiate themselves rather than focusing on processes or products alone. These capabilities are the ones that customers value and difficult for competitors to duplicate, the capabilities that Malaysian manufacturers must not only emulate but innovate further.

Malaysia need to re-engineer her labour intensive industries to one that is technology based with high value added manufacturing in order to attain the status of a developed nation by 2020. Therefore the terms of competition will shift from low cost to high quality, flexibility and innovativeness. It is this environment that companies find their competitive and manufacturing strategies quickly become outdated. There is much to catch up on and somewhat disappointing to discover that recent media and economic reports has highlighted that “*production is not growing in tangent with the increase in cost of labour*” therefore is a pressing need to “*achieve economies of scale to have a lower cost of production*”⁹. This myopic approach to manufacturing echoes that of the American managers of the 80s who think

that it as a problem of productivity rather than a problem of international competitiveness.

Dominated by SMEs (Small and Medium size Enterprises), the local manufacturing concerns faces many basic and structural challenges. They not only lack the industrial infrastructures within companies, but also financing to help them grow and expand. Lack of skilled management was also cited as one of its shortcomings⁶, this indicates that the practice of focused and flexible manufacturing in SMEs may be limited. Advanced manufacturing techniques such as JIT are limited¹² to those with access to capital resources, usually electronics factories operated by MNCs (multinational corporations) and locally owned global competitors such as the national car producer, Proton.

Despite having established itself in the global market, Proton continues to face stiff competition and is gradually losing its edge as a low cost producer. In addition, Proton's dominance of the local market has seen increasing threats from foreign cars making in roads to an already protected market. Further reduction of trade barriers from the AFTA (ASEAN Free Trade Area) and WTO (World Trade Organization) commitments will intensify an already saturated car market. Global companies need to focus on developing strategic flexibility such as rapid product development and manufacturing to capture new markets in order to remain competitive. That means determining type of flexibility required, how to develop these capabilities i.e. designing the right mix of machines, computer systems and more importantly, the people and their skills.

Additionally, Proton must extend this flexibility to its SME suppliers, by providing the necessary skills and technology that help them help Proton compete effectively. This focus that extends beyond the Proton plant to encompass the entire industry thereby making it more competitive. It is critical that both the world class competitor and its supporting SMEs focus on long term flexibility and speed rather than being preoccupied with quality versus low cost¹³.

Thus, Malaysian manufacturers who wish to compete internationally has to be flexible, highly adaptable in an environment where nothing is predictable. This calls for manufacturing management's continued focus, not just on the product or process as initially proposed by Skinner, but more importantly, on speed and agility in adapting to new changes as a strategic competency for international competitiveness.

Malaysian and American Manufacturing

US (1970s)	Malaysia (1990s)
<p>Preceding Market Conditions</p> <ul style="list-style-type: none"> • Competing domestically with US competitors. • Diversified industry with great industrial might - a result of industrialization during and after World War II • Emphasis on mass markets, standard designs and high volume production, contributing to economies of scale and lower unit costs. 	<p>Preceding Market Conditions</p> <ul style="list-style-type: none"> • Competing in the protected domestic markets e.g. Proton cars have more than 70% domestic market share. • Focus on the assembly of manufactured products since 1970s that led to high growth in the Malaysian economy, especially in semiconductors, electronics and electrical manufacturing (See note 1). Also, 80% of manufacturing companies (a total of 300,000) are in the SMI category accounting for 37% of manufacturing output. (See note 2) • Favored as a good source of low cost and hard working labor.
<p>Challenges</p> <ul style="list-style-type: none"> • Faced with cheaper imports manufactured with cheap foreign labor whereas US labor is one of the most expensive in the world • Productivity rate is growing slower than most competitors. • Management misconception that being competitive means low cost. 	<p>Challenges</p> <ul style="list-style-type: none"> • Global economy has entered into an era of total competition, barriers to competition will fall, more intense rivalry and the success of a company will be measured globally. • Highly segmented markets with increasingly shorter product life cycles, customized products and lower volumes. • Rising income is nullifying low cost position. Productivity growth rate is at a decline in manufacturing sector (See note 3 below). • Need to reduce cost of inputs especially imported raw materials. • Growth rate of total sales value of manufacturing sector is declining. (See Note 4 below) • Acknowledge that there is need to remain competitive but still associate competitiveness to low cost and the need to achieve economies of scale. (See note 5 below)

Notes :

1. *Malaysian Economic Report 1996-1997* (Ministry of Finance, Malaysia) , page 69.
2. SMIs or Small and Medium Industries as defined by Anon (1996) with shareholders funds of RM2.5 million or less from “*The Roles of Small and Medium Enterprises to support large industries in the context of Malaysian Economy*”, Smith D.J., Abu Bakar A.H., Sapuan S.M., Volume 32 No. 4, Malaysian Management Review, December 1997.
3. Labour productivity or output per worker in the manufacturing sector increased by 10.8% (Jan-Jul 1997) but the real average wage has increased by 20% in the same period. **Source** : Malaysian Economic Report 1996-1997.
4. Growth of sales value of manufacturing increased by 5.3% in first half of 1997 compared to 23.5% in 1996. MIDA cited the lower selling prices due to intense global competition as the reason for the decline. **Source** : *Malaysian Economic Report 1996-1997*, p 71.
5. From the article “*The need for entrepreneurship in management : Lessons for Malaysia managers*”, Tan Sri Datuk Clifford F. Herbert, Vol. 32 No. 2, Malaysian Management Review.

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