



# The Centre for TPM (Australasia)

*A membership based organisation specialising in TPM<sup>3</sup>  
providing*

**Training – Navigation - Research – Networking**

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The House of Representatives Standing Committee on  
Employment, Workplace relations and workforce Participation

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## **Submission for the Inquiry into Employment in the Automotive Component Manufacturing Sector**

### **The Centre for TPM (Australasia)**

The Centre for TPM (Australasia) was created as an outcome of the first conference dedicated to TPM in Australasia held in Sydney in 1995. During the conference, which was chaired by Ross Kennedy, there was a call from the delegates to establish a much-needed Institute for TPM to support industry, academia and government similar to those already present in Europe, USA and Japan. Responding to this call, Ross with several colleagues, established The Centre for TPM (Australasia) in January 1996 with its head office located in Wollongong, NSW (a major city some 80 kilometres south of Sydney on the South Coast).

The Centre is a membership-based organisation established to develop, promote and advance the knowledge and practice of TPM<sup>3</sup> (an enhanced and expanded Australasian version of 3rd Generation TPM embracing the Toyota Production System and spanning the entire Supply Chain) throughout Australasia.

***Our Quest is to assist companies to unleash the full potential of their people, equipment and processes so as to achieve World Class Performance by providing the best value and most innovative training, navigation, research and networking in TPM<sup>3</sup>***

The Centre and its membership have grown rapidly. There are now over 35 sites covering some 12 industry groups from Manufacturing, Mining, Processing, Utilities and Service companies that are currently progressing their TPM<sup>3</sup> journey to World Class Performance. Over 20,000 employees are covered by CTPM membership and our research group has links with the University of Wollongong and the Australian National University.

The Centre has progressively developed a team of full-time experienced TPM<sup>3</sup> Navigators who are located throughout Australasia in Adelaide, Melbourne, Sydney, Wollongong, Launceston and the Gold Coast in Australia, and Tauranga in New Zealand.

## **Reason for our Submission**

Following an informal meeting with one of your committee members to discuss manufacturing it was suggested due to our experience with working with both Car manufactures and Auto Competent manufactures we may be in a position to share our experience 'from both sides of the fence'.

## **Essence of our Submission**

Our concern for the industry sector in question is based on our research and observations working with component manufactures in South Australia, Victoria and New South Wales over the past 10 years trying to assist them to understand what World Class Manufacturing is and how to introduce such into their sites.

Unfortunately, in many cases we must sadly admit our success rate has not been as successful as we might all hope (unlike the many other industry sectors we work with) due, not to the inability of the workforce to take up new ideas and practices, but due to management struggling to understand and apply the principles required to be world competitive.

This certainly is not earth shattering news as the Karpin report raised this issue many years ago, however we have seen very little being done to effectively address it.

In February 2004 a book which has gone on to become an international best seller was published by Professor Jeffrey K Liker in the US call The Toyota Way – 14 Management Principles from the World's Greatest Manufacturer. This book follows on in the footsteps of the famous book The Machine that Changed the World, which was based on the Massachusetts Institute of Technology 5-million Dollar 5-year Study on the future of the Automobile, which was published in 1990. The difference between the books is although they both describe Lean Manufacturing however Liker is the first to document that the success lies in the adoption of management principles rather than a series of improvement tools.

Attached at the back of this submission is a brief summary of the learning from The Toyota Way, which we recently prepared for our members.

In reviewing the list of 14 principles, most companies in Australia seem to struggle with number 1 let alone the rest. Many companies have cherry picked the ideas from Toyota however never achieve the synergies from the whole. Other companies try to apply the principles but fail to understand the unique cultural differences we have in Australia compared to Japan, and the need for an Australian methodology.

From our observations it appears a number of companies within the Australian auto component industry (like other industries) have become more reactive over the past 5 years with a very short-term survival focus resulting in lack of development in leadership skills in the new paradigm of Lean Manufacturing.

We believe the main Australian customers of the auto component industry (Ford, Holden, Mitsubishi and Toyota) play a major role in creating the environment the auto component manufacturing must operate in. In 2004 following the release of Liker's book we tested one of his observations regarding who was the best customer to work with from an auto component

manufacturer's perspective. The answer Liker got in America was the same answer we got from a group of auto component manufacturing at one of our network meetings in Adelaide regarding Australian Car companies with 2 being a long way behind.

At the beginning of last year we observed first hand a lot of far reaching disruption to several components manufactures because the customer reacted to their internal problems by ruthlessly cutting and changing demand schedules with little regard to their suppliers viability.

We trust our brief insights may be of help to your committee.

Yours sincerely  
The Centre for TPM (Australasia)

A handwritten signature in cursive script that reads "Ross Kennedy".

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# The Toyota Way

## 4 Basic Rules and 14 Management Principles from the World's Greatest Manufacturer

### Why is Toyota rated as the World's Greatest Manufacturer

Toyota is the third-largest auto manufacturer in the world, behind General Motors and Ford, with global vehicle sales of over six million per year in 170 countries. However Toyota is far more profitable than any other auto manufacturer. Auto industry analysts estimate that Toyota will pass Ford in global vehicle sales in 2005, and if current trends continue, it will eventually pass GM to become the largest automaker in the world.

Toyota's annual profit at the end of its fiscal year in March 2003, was \$8.13 billion – larger than the combined earnings of GM, Chrysler, and Ford, and the biggest annual profit for any automaker in at least a decade. Its net profit margin is 8.3 times higher than the industry average.

Toyota is benchmarked as the best in class by all its peers and competitors throughout the world for high quality, high productivity, manufacturing speed, and flexibility.

In Jeffrey Liker's<sup>1</sup> recent publication "The Toyota Way," he describes the ultimate role of leadership as "building a learning organization" for the long-term success and sustainability of the organization. Before Toyota build cars, they build people to be strong contributors. They do this by engaging the workforce, ensuring they understand the company's vision, and develop people so they can do their job excellently.

A key learning from Toyota is that its success is based on four basic rules<sup>2</sup> supported by sound management principles rather than just a set of tools. Many companies have tried to implement the tools of Lean Production only to find after much effort the results do not sustain. Liker has discovered that unless The 14 Management Principles of Toyota are embraced by a company attempts at introducing Lean Production are doomed to failure.

### The Four Rules from Toyota

The tacit knowledge that underlies the Toyota Production System can be captured in four basic rules. These rules guide the design, operation, and improvement of every activity, connection and pathway for every product and service. The rules are as follows:

- Rule 1: All work shall be highly specified as to content, sequence, timing, and outcome
- Rule 2: Every customer-supplier connection must be direct, and there must be an unambiguous yes-or-no way to send requests and receive responses
- Rule 3: The pathway for every product and service must be simple and direct
- Rule 4: Any improvement must be made in accordance with the scientific method, under the guidance of a teacher, at the lowest possible level in the organisation

All the rules require that activities, connections, and flow paths have built-in checks, to signal problems automatically. It is the continual response to problems that makes this seemingly rigid system so flexible and adaptable to changing circumstances.

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<sup>1</sup> LIKER, Jeffrey K. "The Toyota Way - 14 Management Principles," New York, McGraw-Hill, 2004

<sup>2</sup> Decoding the DNA of the Toyota Production System, HARVARD BUSINESS REVIEW Sep-Oct 99

## **The 14 Management Principles, which create the ‘Toyota Way’:**

### **Long Term Philosophy**

1. Base your management decisions on a long-term philosophy, even at the expense of short-term financial goals

### **The Right Process will Produce the Right Results**

2. Create continuous process flow to bring problems to the surface
3. Use ‘pull’ systems to avoid over production
4. Level out the workload (*Heijunka*)
5. Build a culture of stopping to fix the problems, to get quality right the first time
6. Standardised tasks are the foundation for continuous improvement and employee empowerment
7. Use visual controls so no problems are hidden
8. Use only reliable, thoroughly tested technology that serves your people and processes

### **Add Value to the Organisation by Developing your People and Partners**

9. Grow leaders who thoroughly understand the work, live the philosophy, and teach it to others
10. Develop exceptional people and teams who follow your company’s philosophy
11. Respect your extended network of partners and suppliers by challenging them and helping them improve

### **Continuously Solving Root Problems Drives Organisational Learning**

12. Go and see for yourself to thoroughly understand the situation (*Genchi Genbutsu*)
13. Make decisions slowly by consensus, thoroughly considering all options; implement decisions rapidly (*Nemawashi*)
14. Become a learning organisation through relentless reflection (*Hansei*) and continuous improvement (*Kaizen*)