

Comalco – innovation involving the entire workforce

Highlights

- Savings of \$200 million per year were achieved by involving all staff in a systematic search for better ways of working.
- Staff involvement in identifying innovations also meant that they have ownership of the implementation, creating a seamless process of change.
- Successful implementation of innovations depends to a significant degree to the leadership of managers. At Comalco, managers are accountable for developing and maintaining effective teamwork, and are expected to provide the inspiration for team members to achieve the desired outputs and to further develop their potential.
- The structured approach was based on a McKinsey methodology and a willingness to shamelessly steal the world's best ideas.
- Senior management leadership involved a delicate balance between the need for focus and discipline and allowing everyone's ideas to be heard.

Comalco's great innovation was to create a structured program which involves the company's entire workforce in innovation.

Called the Performance Enhancement Program – better known by its acronym PEP – the results have been dramatic: savings of around \$200 million a year, or almost 20 per cent of the cost base of the plants in which the program operates.

The program has considerably helped the company maintain its position as one of the world's most efficient producer of aluminium. A publicly listed company and a part of the global giant Rio Tinto group, Comalco produces about 22 per cent of Australia's total output of bauxite, 8% of its alumina and 24% of its primary aluminium. It is the world's eighth largest aluminium company.

In 1998, Comalco's total sales revenue was A\$2.1 billion, including Australasian export sales worth more than A\$1.5 billion.

The efficiencies have been achieved by getting the workforce – organised into workplace units – to focus on the challenges of cutting costs and improving productivity. This allows staff at all levels to agree on the targets and involve themselves in working out new practices. Equally important, this 'collective ownership' of the ideas enables everyone involved to commit to successfully implementing them.

Despite the spectacular results PEP has achieved, Matt Coulter, Comalco's General Manager Business Improvement, is quick to acknowledge that Comalco did not invent the

idea. It was a McKinsey program originally developed to address poor performance in the European steel industry. Indeed, he believes it is to Comalco's credit that it resisted the temptation to tamper with a program that had proved itself internationally

This willingness to 'shamelessly steal' the world's best ideas is part of the Comalco philosophy, he says.

The company has world-renowned R&D program, making it a world leader in many areas of aluminium smelting technology. Despite this, it is not so arrogant that it believes it can, and must invent, everything it uses, Coulter says.

Comalco will acquire or adapt any technology, product or practice that improves performance, focussing its own R&D effort on things that promise the greatest benefit.

"We do not waste time replicating other people's effort when there is a perfectly acceptable solution available," he says. "We concentrate our research on areas that give us a competitive edge."

The decision to introduce PEP, he says, came from CEO Terry Palmer and was driven by two factors:

- With commodity prices declining, the company needed to dramatically reassess its cost structure. This was vital.
- Despite the company having moved its entire workforce from an award to staff contract basis over recent years, the workplace culture in some centres had not changed accordingly. "Though there had been some improvement, the CEO felt that we had not necessarily harnessed the additional involvement and commitment that should have flowed from the change," says Coulter.

Terry Palmer rightly saw that these two goals were interlinked. Achieving the radical productivity improvements that were needed for Comalco to stay viable in the face of falling prices would require the involvement and commitment of everyone.

Palmer had examined various approaches for this and proposed the McKinsey model which was introduced as PEP.

PEP was introduced first in 1997 at Comalco's operations in Invercargill in New Zealand, then extended to Bell Bay in Tasmania and to the Gladstone and Weipa operations in Queensland. By the end of 1999 some 3,700 employees in Australia and New Zealand had been introduced to the basic elements of the program and given the opportunity to contribute.

How it works

PEP is a 15-week program which invites and encourages all staff to join in tackling the company's challenges. Coulter describes it as a 'structured brainstorming session.'

Depending on the size of the operation, it may require splitting the program in each workplace into two or even four sequential ‘waves’ so that numbers are kept to manageable levels.

“We spend three weeks setting targets. Once we have agreement on these targets, we spend nine weeks exploring and developing ways in which they can be met.

“We spend the next three weeks getting group commitment to the most effective course of action, and finally we present the proposals to the CEO himself.”

Coulter believes the commitment of the CEO to the program is a big factor in its success.

“In how many organisations as large as Comalco do the workplace operatives at individual plants get to present their ideas to the CEO? The time commitment he makes in visiting plants to be part of this process, and the very evident interest and energy he imparts to it, tells everyone that the company is committed to implementing their proposals.

Lessons

“One thing we have learned,” says Coulter, “is that in a process of total, grassroots involvement, your targets can be more ambitious than under other management-run approaches.

“Traditionally cost cutting targets try to hold expenditure in dollar terms to current or recent levels.

“Through PEP, we identified a 20 per cent reduction as the target needed to succeed in the emerging global price environment. We also recognised, very quickly, that you aren’t going to achieve that by cutting down on paper clips or similar incremental gestures. It was going to take a radical review of every element in the production process.

“In this current series of programs we have essentially focussed on cost cutting, but we have also improved throughputs.

“Now we are turning our focus to other areas of the company like R&D where the emphasis is not so much on cost cutting. We are not trying to cut R&D expenditure. We only want to ensure that we get greater commercial benefit for that expenditure.”

Research, he says, poses special challenges because of the nature of the work, but he believes the PEP process still allows considerable input into improving effectiveness of outcomes.

Keys to success

Coulter believes there are two keys to the effective running of the program:

- Getting the right people to run it, and
- Rigorously applying the process.

The right people are necessary because while you want to draw out all ideas and suggestions, you need to keep the program focussed and on track. You must keep a structure to it. While you want to encourage people to throw up ideas and options, you need to ensure that you don't get sidetracked from the core goal of meeting the agreed targets.

This requires a delicate balance, and the leadership team for the project is critical to its success. Coulter says selection of people is based on a broad assessment of their personality and approaches rather than on a formal set of criteria. He notes that they can come from a broad range of backgrounds, not necessarily from Human Resources (HR). The current team includes a doctor, two with engineering backgrounds, one from accounting and one from HR.

Comalco's PEP has become so successful that it is now being applied to Rio Tinto's other businesses around the world.

"We have people from these other arms of the company coming to Australia and New Zealand to see how it has worked for us. Likewise, some people from Comalco have been invited to go abroad and help implement it elsewhere.

Although he describes managing PEP as a multidisciplinary function – one that encompasses engineering, finance and people management – Coulter's own background is as a metallurgist. He himself arrived at his present leadership role through a Master in Business Administration and a stint with Rio Tinto's Business Evaluation Unit in London.

Coulter believes that operating in an unprotected global market forces, Comalco and other resource companies need to be continually innovative.

"You sell into a global market at a global price; if you cannot produce at that price then you have no future. That keeps you forever on edge. You simply have to be among the world's best to survive. And that requires constant innovation and improvement to stay there."

Given the necessity for constant innovation, how do you create a culture which fosters this? Coulter believes that one of the keys is to have a structured and very visible process for assessing staff inputs.

"You don't just need a suggestion box. You need a system whereby every suggestion is logged and evaluated and reported on. For people to commit their ideas, they need to know that the company will take them seriously."

“Not every suggestion can be implemented, but it is important that people know that it was properly evaluated and that they will be told of the outcome.”

“PEP has shown that an involved workforce can make a major contribution to the effective functioning of an organisation, tapping into the innovative abilities of people at all levels.

It has also shown that there needs to be a structure to harness this: it is not something that will just happen: You have to create a framework to foster and manage the process.

“If you do that, the rewards can be enormous, as PEP has demonstrated.”