

How Lean Can Be Used To Reduce Credit Days

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Executive Summary

The main objective is to look at 'Lean', the Principles of Lean and how 'Lean' can be used to reduce the credit days to clients of Star Property Maintenance Services Wales.

"Train people well enough so they can leave, treat them well enough they don't want to. If you look after your staff, they'll look after your customers. It's that simple."

-Richard Branson

This ethos should lead to happy customers, who are more likely to pay their bills on time and if they are experiencing tight cash flow, they are more likely to pay the company that they have a good rapport with.

The style of management and leadership employed in a company is the style that it finds suitable to achieve the best results. Leadership can exist without 'lean,' but 'lean' cannot work without leadership. SPMS is increasingly spending time on clients and identifying the type of customer who pays invoices quickly and noticing if there is any discerning pattern to these customers hoping that it can encourage other customers to be more like the prompt-paying customers.

The present paper examines the use of credit checking agencies and how best to use these to reduce the amount of credit days. Having a better understanding of the financial position of our customers should enable us to better set credit limits. The technique of factoring and how that can offer additional support in maintaining cash flow, especially with selected clients who are taking added credit days. "The implementation of Lean Principles into the credit process will hopefully achieve our target of reducing credit days to our clients by 15%." Says SPMS.

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Introduction

“Lean is something more than just cost reduction. It’s reducing time-to-market, improving service quality, reducing risk exposure, its increasing employees’ quality of life. It’s also cost reduction, but the point is to obtain all these other benefits simultaneously”.

–Jorge Ramirez Del Villar

Services companies from the industries of travel and retail. Government, healthcare and financial services are increasingly importing concepts from lean manufacturing. Financial services institutions such as banks, insurance companies, and credit card companies have come up with success stories of implementing lean management (Roggenhofer et al., 2011)

“We’ve taken some of our best people out of line management roles, trained them to become lean leaders, and put them with local change agents to work in multiple businesses so that they can build up their skills while delivering impact.”

–Richard Hamsley

Conceptualizing Lean System

The term “lean” is very much a buzzword in the world of business today. It can be traced back to the Ford era but was hardly recognized widely until the publication of “Lean Thinking” by Womack and Jones in 1996. This business philosophy was first implemented successfully by Toyota Motors, giving it a rapport and win in the market.

Lean Construction has been defined as: “A way to design production systems to minimize waste of materials, time and effort in order to generate the maximum possible amount of value.” (Koskela et al., 2002)

In “Lean Thinking: Banish Waste and Create Wealth in your Corporation” by Womack and Jones in 2003, the authors look at the changes in manufacturing after the Second World War and how corporations such as Toyota moved from mass production to what has been labeled the “Lean System.” Five principles have been identified in the “Lean System”: Value, Value Stream, Flow, Pull and Perfection. If these principles are utilised in the correct manner it enables companies to specify value and identify ‘value creating’ actions in the best sequence. It also highlights how to carry out these actions continuously without interruption whenever an order (pull) is received in a far more efficient way (Womack and Jones, 2003).

Value Stream encompasses all activities required from design, order, raw materials, production and

delivery of that product to the customer at the right time and right place to the customers' requirements. This Value Stream should be executed with as little 'Muda' as possible (Muda being the Japanese word for waste). To create a Value Stream, each step of production must be understood, from design to delivery, and these steps, once identified, can be categorized into three types of activity:

- Value-Added: Activities that create value.
- Type one Muda: Activities that create no value but are unavoidable.
- Type Two Muda: Activities that create no value and can be avoided.

Other examples of 'Muda' are mistakes made during the manufacturing process, which require rectification. For example, operatives waiting for materials, downtime, and customers getting a product that does not meet their needs all lead to added costs and lost production.

The concepts and implementations of lean systems in business from works such as George Santayana's *Reasons in Common Sense*, and David and William's *Harvard Business Review* will also be incorporated in the paper, and how Nelson Mandela showed excellent leadership skills. The paper will discuss how these skills can be brought to bear to introduce a 'lean' credit control system into business.

'Pull', with regards to 'Lean thinking', is a "system of cascading production and delivery instructions from downstream to upstream in which nothing is produced by the upstream supplier until the downstream customer signals a need." (Womack and Jones, 2003).

This involves moving away from a batch-and-queue method of working. To enable 'flow,' materials, including correct tools, must be in the right place at the right time and be of assistance to that job. This will ensure 'Flow' as each stage is completed in the correct manner without stoppages. Teamwork is also fundamental to the lean method of working, as it is a huge part of ensuring all stages follow the sequential steps (Tapping and Shuker, 2003).

The paper will look at 'Lean' to get a better understanding of how 'Lean' works and how this can be introduced into SPMS' credit control and examine Koskela and his colleagues' work on *Production Systems to Minimise Waste* and the arguments put forward by James P Womack and Daniel T Jones in *Banish Waste and Create Wealth*. They highlight the changes in manufacturing after the Second World War and assess how corporations such as Toyota moved from mass production to batch and queue methods and how Stewart and Spencer consider the construction industry and the introduction of 'lean'. (Koskela et al., 2002).

The study will also analyze Aat Van Den Bos's paper "Look at Lean Six Sigma," which was published in 2003. De Koning and De Mast, in 2007, looked at measures for the critical-to-quality to consider the theory that looking after employees results in employees looking after the customer, engendering good leadership and management of the company. (De Koning and De mast, 2007).

Aims And Objectives Of The Study

The following are the major aims and objectives of the study;

- The aim of this study is to investigate “how” and “why” the lean system is implemented in organizations to reduce credit days.
- Contributing to the existing knowledge on the subject.
- Developing a case study of an organization experiencing a “Lean System” practically throughout the business operations.
- Analyzing the competitive edge of the business obtained through the implementation of a lean system.
- Analyzing the benefits of employing a lean system in various departments of the company

Primary Objective

To reduce credit days to SPMS customers by 15%

Objectives

- To understand ‘Lean’
- To maintain good leadership to best introduce ‘Lean.’
- To analyze the customer base of SPMS
- To introduce ‘Lean’ to the credit control function of SPMS.
- Analyzing the underpinnings of employing a lean system in an organization.
- Describing the implementation of a lean system within an organization

Literature Review

Womack and Jones perceive Value as ‘being able to provide the customer with the right product, at the right time, at an appropriate price, as defined by the customer.’ Value can only be defined by the end customer. However, there are several interim customers, such as sales, marketing, distribution, suppliers etc., which contribute to value. It is also product-specific and can only be articulated in terms of a specific product (Womack and Jones, 2003).

The researchers further identified ‘Flow’ as a ‘progressive achievement of tasks along the value stream so that a product proceeds from design to launch, order to delivery, and raw materials into the hands of the customer with no stoppages or backflow’ (Womack and Jones, 2003).

This system ensures that all products are made to order to the client’s specifications. Thus reducing

waste as companies are not subscribing to a 'push' method. They are not producing a product and then selling it without customer consultation, which would result in an unresponsive method that does not put the customers' needs first and results in a large stock inventory. (Sacks and Goldin, 2007)

The final element in "Lean" is the pursuit of 'Perfection.' Pursuit, because it is a goal that can never be reached, but a principle that should constantly be striving for. This would mean the complete elimination of all 'Muda' with all operations adding value. Womack and Jones explain this as the "complete elimination of Muda so that all activities along a value stream create value." Within the construction industry, this could be getting it right the first time and reducing snagging to zero, a goal that would be acceptable to most companies. However, it is worth noting that lean working is a never-ending process, as there are always things that can be improved upon (Womack and Jones, 2003).

Several examples were given in "Lean Thinking" of manufacturers who had been in difficulty but applied the principles of lean working with the result of turning these companies around. These included large, well-known manufacturers such as Pratt & Whitney (aircraft engines) and Porsche (car manufacturers), who certainly seem to have benefited from introducing lean methods. Any company can only exist if it uses financial resources in an efficient way and regains invested resources as quickly as possible. Value should flow through the organization with minimal waste, and cash flow should not be tied up in stock. To help the flow of products, root causes of stagnation should be removed (Crute et al., 2003).

Having studied the "Lean system" and its principles, it is difficult to argue against what is being advocated. There is a need to produce goods to order, and the best way to achieve this is through team/collaborative working in smaller units than those used in mass production. These teams should have operatives who are multi-skilled and who are able to substitute for most, if not all, of the functions undertaken. This would enable far more flexibility to adapt to the customer/client's instructions and demands resulting in creating the product that they want. Teamwork adds to a sense of pride and can only assist in trying to reach the ultimate goals of eliminating errors, having a constant flow, reducing defects to zero, producing a quality product the first time, having zero or minimal waste and a constructively engaged workforce who share in the goals (Wickens, 1993).

To implement 'Lean System' principles and to help organisations adopt them to their advantage, Womack and Jones have published a table entitled "Time Frame for the Lean Leap", a useful tool to be guide companies through the process (Powell, 2013).

A framework for introduction can be provided through Six Sigma, a process focused on variation reduction. This is focused on the gap between what is expected by the client and what is delivered (Ballard, 2008).

Although 'Lean' implementation seems to be the best option for an organization, it is important to recognize that there may be barriers in the way of successful application. For instance, the lack of good leadership. Senior management should have a high degree of involvement and communicate directly with the workforce. If not, this can hinder the implementation of 'Lean' principles. They must

have a clear assessment of current systems with a vision of the future and should communicate this to all involved, with a particular understanding of the transition required to bridge the present to the desired (Achanga et al., 2006).

Having started to introduce 'lean' and seen the clear benefits, it is important that 'lean' is maintained and improved upon, not just for the short term but also in the long term. It is important that 'lean' becomes part of the company's DNA. This will be achieved with widespread communication of current performance and metrics, continually finding new ways to keep employees motivated and encouragement of employee training and learning.

Training is critical for all involved in the Lean System, encompassing senior management and all employees. This should be carried out by suitably qualified consultants and trainers to develop a new culture of 'lean' thinking. As such having the right business culture is key to ensure all employees become multi-skilled, enabling teams the flexibility to carry out all functions necessary to produce the finished product. This would allow the workforce to step in at any point when there are absences and to change the manufacture of different products very quickly (Bhat, Gijo, Jnanesh, 2014).

With clients demanding high-quality products at low cost, the construction industry faces increased competition caused by globalization and deregulation. Firms need to build on their competitive strengths through a deliberate and managed process to improve the capacity and effectiveness of the industry and to support sustained national economic and social objectives. (Stewart and Spencer, 2006)

The value stream in construction companies was identified as designing, producing, delivering and sometimes maintaining a product. A completely 'lean' business should not only concentrate on the process of producing or constructing, but also delivering and maintaining (Cil and Turkan, 2013).

The goal of introducing Lean/Six Sigma (LSS) into a Dutch construction company was to reduce the average project time from 12 months to 6 months, thus giving the company gains which could be realized sooner. What is mentioned is the fact that the projects are structured and repetitive processes, and their THT (throughput time) is influenced by process variability and waste. Consequently, DMAIC, i.e., Define, Measure, Analyse, Improve, Control. It is a useful structure and tool to analyze and improve the execution of process improvement projects: 'Define' – starts with a clear definition of the process. In this instance, it was to reduce the THT to 6 months. 'Measure' – the critical-to-quality measures, or CTQs. The THT is decomposed into the CTQs processing time (PT) and waiting time (WT), as represented by the CTQs flow down. 'Analyse' – the current performance which is expressed in terms of total THT per project. 'Improve' – consists of the project leader designing improvement actions that link to a selection of the vital influence factors, the so-called vital few influences. 'Control' – In this phase, the aim is to structure the quality control systems of the process so that they can embed the improvement actions of the previous phase and maintain the improved results, i.e., to achieve the 6-month completion time (Pfeifer, Reissiger and Canales, 2004).

The narrowed scope of the Dutch construction company targeting the speed of projects meant they

could produce an in-depth analysis which enabled them to produce concrete recommendations. They believed this offered a checklist for construction companies in the project selection process in starting or improving an LSS program. Is a reduction in a project's length enough to get a sensible measure? If the idea was to reduce the average time of all projects from 12 months to six months, then possibly – or would looking at the individual profitability of each project be a better measure? Larger projects are going to run for longer, and there will always be influencing factors that will have an effect on the time span of that project. These can range from weather, when areas become available and are released to the company and seasonal variations such as traffic (Haron, 2013).

In construction, a defect is anything that is not in line with a client's specification. Therefore, it is difficult to achieve the goals of Six Sigma (recognized as 3.4 defects per million products, which manufacturing strives to achieve, where a defect is defined as a product that does not meet specifications.) thus, Six Sigma, within construction, is a philosophy aimed to continuously improve process quality rather than attaining the 'Six Sigma' quality level (Ferng and Price 2005).

In construction, lots of unrepeatable tasks and different process design techniques are carried out, so LSS does not seem to be a completely applicable management approach. It can be integrated into the existing management procedures. Taking everything into consideration, it is obvious that LSS has a lot to offer in accelerating fundamental and cultural challenges the construction industry needs (Baarends, 2015). Relationships must be developed within the team, as trust is critical. The teams and employees must have the correct resources to carry out their functions with incentives aligned with the new lean methods (Emiliani, 1998).

The development of Lean leaders can help to drive the pace of change and will involve the workforce with both short-term and long-term wins. They will take ownership of the project and involve everyone by communicating a clear vision passed to them from senior management, which will, in turn, benefit the lean system by supporting implementation (Turesky and Connell, 2010).

Leadership at SPMS is such that it has been recognized that, as a business, there is a need to embrace some if not all, the principles of LSS. "Looking at 'Value' – are we giving the customer what they want within the time-frame agreed?" "This figure is unacceptable and must be greatly improved upon in order to reach a target of 90 % in the first instance and improve towards a figure closer to 100%. This figure is achievable, even given the outside influences which can affect this, such as weather, other contractors holding processes up and the client changing specifications."

SPMS' work in external wall insulation is quite standard across the board in the method of application. Thus, it has been relatively easy to identify the steps in the process of a project. Spoken with suppliers and agreed that materials would be delivered to the site in the exact quantities for each property, would save on storage both on-site and at the offices, and would greatly reduce the capital tied up in stock. The stock is being delivered for each stage of the installation exactly as it is required. Each installation consists of five stages and, on individual properties, can take up to 3 weeks, so again, staging the deliveries reduces the amount of storage on-site and capital tied up in stock.

Employees work in teams, which has given several clear benefits: there is better camaraderie, which has had a knock-on effect of competition between different teams. The teams have been given the responsibility to deliver a finished product with minimal or no defects. They carry out their own snagging as the project progresses and a final check at the end, so all snagging is carried out in the project time scale without the need for a return visit to do snagging. This has led to a 70% reduction in snagging, a figure which is continuously getting better. Teams have the responsibility to get sign-off forms completed by the householder, so it is in their interest to ensure the project is completed to the householder's satisfaction.

SPMS arranges with the client, e.g., a housing association, which will visit the property at the end of the project to sign off their form with the employees. This has given a far better insight for the employees into what is expected from the company from all parties involved. Furthermore, a bonus scheme has been introduced where for sign-offs, with positive comments and zero snagging, prizes can be won, including such items as meals for two, nights away etc., which boosts productivity.

After some consultation between management and employees, SPMS introduced some additional tools to help speed up the installation process; using hand bench cutters for the expanded polystyrene insulation boards has reduced the time spent cutting boards to size in the region of 20%, whilst also reducing the cleaning time spent clearing the polystyrene beads which were created with the previous method of cutting the boards with a saw. Application spray machines have been introduced, which considerably speed up the application process. With larger trowels, the machines give a better finish to the render with less work. Our aim as a business is to reduce the time taken on each property from three weeks to two weeks, giving a 33.3% improvement. This, in turn, will allow a better margin to be made on each project and make us more competitive.

The implementations put forward at SPMS coincide with Noonan and Panebianco's 'nine ways.' The vision is communicated from senior management to all employees, showing the gains 'lean' is contributing. Standard work is always updated with visual work instructions to help employees adhere to the correct procedures. Regular visits to the site are made, and employees discuss what has been done to make improvements, giving a clear message of the importance of their input. A culture of continuous improvement is built by encouraging new ways of trying something, even if failure occurs occasionally. A respectful, team-driven organization is fostered, producing the benefits that are already seen (Ferng and Price, 2005).

"We strive to motivate employees by demonstrating the management's commitment to joint problem solving and maintain regular training in the redesigned and improved work process. Performance and progress are reinforced with regular metrics, visual management tools and relevant incentives. Post continuous-improvement by tracking the results and communicating these to all staff. By implementing these measures at SPMS, we hope to progress 'lean' and develop it long into the future."

-SPMS Official

As can be seen, 'lean' is a system that encourages engagement with employees, suppliers and customers, and it has proven successful for SPMS to date. Lean is a system that is developing, and as a company, SPMS is likely to see further improvements and benefits as they progress and mature the system within the company. Lean is not just a short-term goal but a new method of working and dealing with customers and employees with a system that is far more engaging, motivating and rewarding for all concerned and will eventually become part of the psyche of the company (Klamer 2012).

Transformational leaders provide individualized consideration and intellectual stimulation and possess charisma. They are able to offer idealized influence, providing a vision and sense of mission, instilling pride and giving respect and trust. This type of leader inspires, communicating high expectations, using symbols to focus efforts and expressing important purposes in simple ways. They provide intellectual stimulation and promote intelligence, rationality and careful problem-solving. They give individualized consideration and personal attention, treating each employee individually and consistently coaching and advising (Humphreys, 2001).

Looking at these two interpretations of types of leaders, it would suggest that the Transactional leader is very much a Strategist, as shown in the previous example, and the Transformational is the Alchemist. Looking at the various traits of the leadership styles it would seem quite clear which sort of leader I would prefer leading me. Bearing that in mind, it would follow that pursuing the skills to become more of an Alchemist would be the most sensible course of action.

A good leader must try to understand the employees' point of view in order to better communicate a vision. The skill to be able to negotiate through coaching and/or mediation to arrive at the take on of the vision is preferable to a boss who dishes out orders without thought for others. Social perceptiveness gives insight and awareness to how employees will react to change as there is a better understanding of them and what motivates them. It is also important for a leader to have the ability to be able to change one's behavior to situational changes by being flexible rather than locked into one's impulses (Helsing, 2014).

There is a difference between leaders and managers. The biggest difference is how each motivates employees. Managers have subordinates, with the manager being the formal authority with different levels of seniority. Leaders have followers who may be subordinates but follow in a voluntary manner, and formal authoritative control needs to be relinquished (RAFOLS, 2015).

In business, however, there needs to be an understanding of both management and leadership to arrive at the correct balance between the two. Management needs leadership and vice-versa. If good leadership is within a company it would still need effective management to carry out the vision and objectives. "Leadership vision and strategy becomes the real achievement if it is managed effectively." (Mullins).

Adam and Jordan Bornstein, in their publication, asked a number of CEOs and public figures what they believed were the most important attributes of a good leader. Answers included focus, confidence,

transparency, integrity, passion, innovation, patience, stoicism, open-mindedness, decisiveness, empowerment, positivity, generosity, persistence, insightfulness, communication, accountability, and restlessness. Without going into these individually, they could be summed up as leadership (Sayogo, 2013).

Good leaders are able to motivate and direct others, taking responsibility for the directions of a team and setting clear visions and objectives. They organize and motivate, taking the initiative. When plans are not working out, they persevere and adapt, dealing with frustration/failure with a positive attitude. They accept responsibility for mistakes or wrong decisions and are prepared to be flexible in modifying goals. "Combination between skilled leadership and competent management is required." (Kotter, 1990.)

Continued Education And Training

Learning is constantly taking place in the workplace as SPMS strives to progress and search for opportunities to take the next step forward. SPMS provides materials and opportunities for employees to constantly learn and strive to improve. This may include offering a selection of self-learn books and online tutorials, bringing experts in to teach new or improve on existing skills or setting a budget aside for external training. This also makes employees feel valued and respected; appreciative of your investment in them and allowing skills to be honed or learned to the benefit of all concerned.

Volunteering by employees kills 'two birds with one stone,' so to speak. Many people now choose to work for companies whose brand values match their own. Increasingly so, as everyone is becoming more socially and environmentally conscious. Offering staff the opportunity to have paid time off to participate in volunteer projects can help boost staff morale and provide priceless publicity for your business, showing that the company is giving back to the community. A team day out to help a local organization in your area would add to the community and create a sense of unity.

Happy staff make happy customers, and to this end, it is imperative to ensure employees have the opportunity to enjoy breaks away from work. Even for a motivated individual, it is not possible to be 100 percent focused for the full eight-hour working day. Everyone needs to take a few minutes out every couple of hours to recharge, whether it is looking away from our screen or wandering through the office to get away from our desks. Providing a comfortable games/relaxation area with refreshments and healthy snacks can ensure the breaks are enjoyable for employees, allowing them to switch off and return to work feeling recharged, resulting in efficient work. Increasing employees' salaries year on year does not guarantee happiness, and it is necessary to invest in personnel and look after them consistently. Pressurized, tired, unappreciated staff are not happy staff and this will be passed on to clients in the way work is carried out. Happy staff -happy customers!

Leadership And Change Management

“Those who do not learn from history are doomed to repeat it” (George Santayana 1905 Reasons in Common Sense volume 1 page 284, the Life of Reason.) What makes a good leader is a well-documented area and has been looked into by a number of academics. Most seem to agree that there are certain attributes that all leaders need and that a pattern of behavior is required. That said, there is no perfect answer.

The first important step in understanding leadership is to find how you are fair within the leadership function. David Rooke and William R. Torbet (Harvard Business Review April 2005) talk about the ‘Seven Transformations of Leadership’ and the internal “action logic” of how people interpret their surroundings and react when their power and safety are challenged. Very few people understand their own action logic and less have explored the possibility of changing it. Leaders who make an effort to understand their own action logic can improve their ability to lead, but they must understand what sort of leader they currently are.

The Opportunist- typical characteristics are mistrust, egocentrism, and manipulation. They focus on personal wins and control. They treat people very badly, only found to be 5% of those surveyed.

The Diplomat- avoids conflict, loyally serves the group, and seeks to please high-status colleagues. It can have a very negative effect if a senior manager. According to his action logic, a leader gains more by enduring acceptance and influence by cooperating. They tend to work at the junior rungs of management and concentrate on their own behavior.

The Expert- most leaders fit into this category and account for 38% of those surveyed. They work by perfecting their own knowledge in both their professional and personal lives. Watertight thinking, they present hard data and logic to gain consensus. Great contributors because of their need for improvement, efficiency, and perfection. Emotional intelligence is neither desired nor appreciated.

The Achiever- generates an environment that challenges and supports to creation of a positive team. Achievers represent about 30% of those surveyed and focus their efforts on deliverables but have trouble thinking outside the box. They know that creatively transforming or resolving clashes requires sensitivity to relationships and the ability to influence others in positive ways.

The Individualist- has the ability to recognize that all action logics are constructions of oneself and are not natural. They are aware of possible conflict between the principles and their actions. They tend to have political savvy when it comes to projects but tend to upset people because of their unique, unconventional ways of operating in that they ignore rules they regard as irrelevant.

Workers should feel empowered through team building and the realisation that they are the masters of their own destiny, in that they will see the product through from start to finish in a more professional and resourceful manner, thus decreasing ‘Muda’. They will have control over the quality

of what is being produced and can take pride in their product. Workers should embrace new ideas, and resistance should be overcome quickly. As such, having the right team across the organization is crucial to realize meaningful change.

Nelson Mandela when, in 1995, wore the Springbok Rugby shirt at the Rugby World Cup. This was significant as rugby had been the bastion of white supremacy. Not only did he attend the game, walking onto the pitch wearing the shirt of the Springboks (which was so hated by black South Africans), but he also, at the same time, gave the clenched fist salute of the ANC, thereby appealing, almost impossibly, both to black and white South Africans. Tokyo Sexwale, ANC activist and premier of South Africa Gauteng province, said of him: "Only Mandela could wear an enemy jersey. Only Mandela would go down there and be associated with the Springboks. All the years in the underground, in the trenches, denial, self-denial, away from home, prison, it was worth it. That's all we wanted to see."

Understanding these action logics and then understanding that it is possible to change from one to another is an excellent starting point. Agreed with all or a part of the action logic, more important is the acceptance that everyone is different and will see different traits in others and self and the acceptance that these can change with the right incentives and training.

A Construction Company Example

A good example of a construction company that was led by a perceptive and charismatic leader who had the ability to see the employees' perspective and translate that into a vision is Edward Wates. He founded his house-building business in 1897 and, because of his ability to understand his employees, was able to give a clear vision for the business, enabling his sons Norman, Sir Richard and Allan to expand the business through pioneering building techniques into general construction.

Success continued during the war years with the construction of Mulberry Harbours using a unique pre-cast concrete that was used on the D-Day landings. System-build was developed after the war as a cost-effective method of construction, resulting in 60,000 homes being built using this method. The company has grown since those years by ensuring the same values of integrity and empathy that were instilled into the company in the early days remain with the current family owners.

Under the leadership of James Wates, CBE Chairman (fourth generation of the family), the company still operates under the same ethos as its founder – empowering employees to make decisions and master their own destinies. This is borne out in that James, outside the company, is involved in a number of industry bodies, reflecting his dedication to promoting the construction sector as well as ensuring access to employment opportunities for all. The values he has instilled in the company are integrity, intelligence, teamwork, performance and empathy, all values that are seen in good leaders.

Findings

In the business to business (B2B) industry, trade credit is what most companies rely on as a form of purchase. There is trust that customers will keep up payments and pay, but not everything works out as planned. This is why an effective credit control procedure and/or team to handle invoices is essential so that there is dedication in chasing invoices. This, therefore, allows managers to focus on other parts of the company that need attention more. It is imperative that the right person or team with appropriate experience and a similar mindset are employed when it comes to managing your company.

A credit controller can find out how credit-worthy a new company or supplier is by checking their credit report before you enter into business with them. Such checks will highlight their past and present payment behavior and allow credit controllers to read and decipher any red flags that might be showing, which a non-professional may not have been able to spot. It can then be decided whether to work with them and how much credit can be securely offered. This check should identify customers who will keep up with their payment terms and pay invoices on time.

Since your credit controller will have followed the payment from start to finish and has been solely responsible for it, the process will be more professional, efficient and easier as they are aware of the whole situation. They will understand the correct procedures to chase payment, what legal actions to take, and when. This should ensure clarity and make sure bills are paid in a timely manner.

Can the credit control system and process be improved to make it more professional and effective and consume fewer resources? Firstly, it is necessary to ascertain why customers do not pay.

- They do not have the information to approve payment (purchase order number, supporting documentation)
- They are querying the invoice: quantity, quality, price etc.
- They do not have the funds

The function of credit control can be summarised thus:

1. To ensure correct invoices are issued at the right time
2. To pursue customers who are overdue paying their bills
3. To make arrangements to facilitate payment
4. If invoices remain unpaid then pursue the debt through legal means via the court system.
5. Keep management informed of the debt so suitable provisions can be made.

Credit control in terms of lean waste analysis is a sustaining non-value-adding activity, so it is essential to minimize its cost. A large proportion of time is spent chasing invoices, finding out when customers will be paying and giving the customer all documentation to enable them to pay. Providing this documentation after the customer is late paying is a waste, and it should have been provided

correctly in the first instance.

Firstly, look at what the customer wants so they can pay the invoices on time. The business has to take responsibility for ensuring the “Right first time,” i.e., the invoice is correct, and the customer has all the documentation they need to approve payment of the invoice. The people who provide the service need to ensure they understand the customers’ needs and requirements and the paperwork matches those requirements. It is all too easy to concentrate on the service provided and lose sight of the customers’ requirements.

Invariably, when chasing invoices, it would be at least 60 days since the invoice was prepared, and then providing the customer with the evidence he requires to pay this invoice becomes that much more difficult and time-consuming. So, how can credit control be improved? By doing a waste analysis of the process, it is clear that getting better at calling and collecting evidence did not make much difference, so a new approach and business model will be required.

Successful companies seem to use a proactive approach, but how can this be in lean terms to arrive at a situation where the only reason for the customer not paying is that they do not have the funds? With high-value customers, it is possible to contact the customer before the due date to ensure they have everything they need to process the invoice, purchase order, and all supporting documentation. If additional information is required, it would be far easier to send this after a month rather than several months later. Credit control doing this function would be seen as customer support, not chasing, which needs to be reflected in the way they do their work.

The effect of this will very much depend on the structure of the debtor’s book. If being a classic 80/20 value/number, then the reduction in the amount overdue should be significant. This should have a good effect on morale in that they are moving from just chasing customers to customer support and equally a reduction in resources in doing this function.

As a business, it is necessary to ensure that staff understands the importance of giving the customer exactly what they require to close the loop. This can be achieved through training and better empathy with the customer. Over a period of time, this should lead to better billing the first time, thus reducing the requirement for credit control.

Other initiatives that could be used:

- Categorise invoices into three types: large, medium and small amounts. Large being dealt with proactively, as suggested above, and the rest in the normal manner. The threshold value of large invoices is reduced over time as resources allow until all invoices are dealt with proactively.
- Change the classification of outstanding invoices to be in line with the stage in the process. This would ensure that invoices under query and those requiring documentation (those invoices that were not right the first time.) were highly visible.
- Areas of the business that have the highest level of overdue invoices could be examined to

establish the causes and develop ways of overcoming or at least ameliorating them.

- Improving the quality of the chasing records so the business could better understand what is going on. This should improve customer relationships and the reputation of the business.

Large Contractors

The company has been working with larger contractors such as Wilmott Dixon, Keir, Dawnus and Midas for a number of years. Payment of invoices is 30-35 days after the invoice, which can be issued at the end of the month. This, in effect, means that work done at the beginning of the month will not be paid until the end of the following month, giving two months' credit. It is not possible to alter the payment terms of these companies unless offering a discount for early settlement, which some will accept. SPMS has now set up factoring with Lloyds's factoring service. This enables us to factor in all or some of the invoices, allowing 75% of the invoice value to be paid immediately.

Small To Medium Sized Companies

Small and medium-sized companies have the worst record of paying invoices, taking the longest number of credit days. All too often, one person is in charge of authorizing payment of invoices, resulting in late payments due to absences, personalities and egos. Their own controls at getting payment in from their customers are not robust enough, often causing considerable delays to themselves that then affect their cash flow. Again, with SMEs, better terms can be negotiated before the contract starts or factoring is used.

Working Directly With The Client

The companies working with the client without any intermediary agency are found to be the best payers, with some socially aware clients actually paying within 14 days of invoice. Due to the number of credit days being taken, which on average is 20 days, they are clearly the best customers to have. Margins tend to be higher with these customers as there is no third party involved in taking a margin. Once these customers have been established with the right leadership at SPMS and well-trained employees, the company should be able to maintain an excellent working relationship and retain a loyal customer.

Conclusion

This project has helped SPMS in a number of different ways by looking at the client base, how and when the clients pay their bills and how much chasing has to be done to achieve payment. The company has introduced 'lean' into the credit control system, which has enabled us to meet the customers' requirements with regard to the invoicing, i.e., being right the first time with a clear

understanding of the credit terms and exactly when payment should be made. This has resulted in improved payment times.

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