

Case Study

Mahle GmbH

The business world is littered with failed change initiatives. Researchⁱ shows that about 70 percent of major change programmes don't succeed and the number one reason, according to management expert John P. Kotterⁱⁱ, is that they failed to instil a strong sense of urgency. Whether interim operations director Steve Leahey knew this or not when he accepted an assignment with automotive giant MAHLE in Feb 2008 is not clear. But his instinct to set a fast pace of change turned out to be the right one all the same. MAHLE GmbH is one of the world's largest automotive suppliers and a \$7.5bn business. In 2007, the business was restructuring factories acquired from Dana Corporation, then in Chapter 11. Two of these were in Scotland, at Bathgate near Edinburgh and Kilmarnock, twenty miles south of Glasgow.

In their heyday, these plants were state-of-the-art in engine bearings production, but they had fared badly following underinvestment by previous owners and a succession of plant managers with ineffective change agendas, explains MAHLE's UK Human Resources Director, Mark Raymond.

"The stark commercial reality was that these factories weren't making money and there was overcapacity in Europe and the US. In 2008, management took the decision to close Bathgate and Kilmarnock faced a difficult time to improve productivity and profitability. Both plants were highly unionised and carried a legacy of difficult and old-fashioned labour relations. So to say this was a difficult management assignment would be an understatement. We needed someone who wouldn't be daunted by all that and could deliver a project on time and to budget, working with the Union and employees."

Although Mark had never used an interim executive before, he knew they had a reputation for making changes happen quickly. He also knew it was his best chance of finding someone with the requisite skills, who could be hired and hitting the ground running within days. It was for these reasons that he arrived at BIE Interim Executive, after identifying three suppliers from his business network.

"BIE stood out and what it came down to was the high calibre of candidates they offered, plus the confidence I had that they understood both the situation we faced and the role we needed an interim to perform," he says. But before briefing BIE formally, Mark had to convince management colleagues at MAHLE.

"Understandably, they had concerns that an interim manager would not be committed to the company in the same way a permanent manager would. But I'd taken up references with other clients of BIE and was able to reassure them on that point. Inevitably, they were also concerned that this was high-profile and high-risk, as any disruption to supply and the transfer of equipment would be highly damaging to customers and our future business".

BIE's Steve Dengel recommended Steve Leahey as his preferred candidate. Leahey began his interim management career in 2002 after starting working life as an engineering apprentice, later gaining an MBA and securing various management roles at British Aerospace. When he talks about his interim career, it becomes clear why Dengel selected him.

"It might seem odd to some, but I actually enjoy the challenge of turning around chaotic manufacturing operations. The first interim assignment I did through BIE was overhauling operations at a rat-infested Midlands foundry. Another memorable job was turning round an underperforming manufacturer in Barnsley that lost half its factory to winter flooding mid-assignment. Perhaps these and similar experiences have made me a bit battle hardened," he quips.

Mark admits he was surprised when Dengel asked to join Leahey at their first meeting together, but agreed all the same.

On arrival in Scotland, Leahey's first few days were spent talking to employees, customers and union officials, and touring the plants to assess the full extent of the challenge for himself. The fundamental problem at both plants was that they had failed to change and adapt in line with the market.

"It was a bit like stepping back in time, says Leahey.

“Many people’s entire working lives consisted solely of what they’d experienced in those two factories: no one ever left or moved out of one functional area into another. There was a tangible ‘job for life’ mentality, but the reality couldn’t have been more different.

“There was no direction, no cross-fertilisation of ideas, no multi-skilling, no ownership of problems, and no customer-focussed culture. There was also a big skill and training problem looming, with 42 out of 500 employees approaching retirement. On top of that, MAHLE was on the verge of losing its approved supplier status from Ford, a very big customer.”

It was evident that this was the proverbial ‘burning platform’; a great deal had to change, and fast. Next, Leahey reported his analysis and recommendations to MAHLE HR Director Mark Raymond and his US superiors.

“There were so many things we had to tackle simultaneously and we got into an interesting debate about the pace at which we could realistically change things. An interim’s mindset is to change things quickly and Steve was pushing a very aggressive timetable. But my colleagues were convinced we should take a more cautious line, so we ended up agreeing on somewhere in the middle,” explains Mark.

With his plan finally agreed, Leahey met the workforce and unions armed with just five presentation slides, outlining his 10 year vision for Kilmarnock. Bathgate’s closure was inevitable, he told them, but he would relocate part of its operations to Kilmarnock – provided the workforce was open to changing - and the unions backed him. Having secured vital initial confidence, over the next few months Leahey began building on that while implementing his plan. An early action was to change the management structure to provide greater accountability and breakdown some longstanding in-fighting between functions.

“Many people were getting badly needed direction for the first time in their lives. We had to do a lot of coaching to instil the right behaviour and attitudes, Leahey adds.

“Over six months we went from functional silos to team-based business units working towards new, customer-focussed key performance indicators. Changes were afoot for Leahey too, as he chose to join MAHLE as a permanent employee, where he remains as plant manager. By September 2008, the Kilmarnock plant had moved back into modest profit. Both customer and employee confidence had improved markedly, as they witnessed the changes taking effect. One year on, and following the worst recession the automotive sector had ever known, profitability has risen steadily and Kilmarnock’s future finally looks secure. Meanwhile, over in Bathgate, it’s a different story; the company is in the closing stages of relocating its racing engine bearings operation to Kilmarnock,. After that, operations at Bathgate will be shut down and the factory put up for sale. But as Mark Raymond reminds us, this assignment was always about making the best of a difficult situation:

“You have to remember that our starting point was two failing factories, both facing competition from other plants in the group. Over the course of my career I’ve seen a few internal projects fail through inertia, lack of management commitment and company politics. But in just 18 months we’ve produced something at Kilmarnock that now has a fighting chance: a customer-focussed, open and forward-looking culture, led by a new management structure. Our union relationships are improving and our customers appreciate the changes and a more service-minded approach to deliveries and problem solving. Steve has the drive to actually make change happen and that’s a rare commodity in business. It’s his single most important contribution to this successful turnaround story.”

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ⁱ Harvard Business School research cited in preface to the book ‘A sense of urgency’, Harvard Business School Publishing, 2008

ⁱⁱ John P. Kotter is a Professor of Leadership Emeritus at Harvard Business School, and is widely regarded as one of the world’s foremost authorities on change and leadership.