

# **How to Assess Your Production System**

## **Guide to Self Audit the Production Management in a Small Business**

By BizMove Management Training Institute

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### **Table of Contents**

[1. Introduction](#)

[2. Preliminary Questions](#)

[3. Production System Assessment Analysis](#)

## **1. Introduction**

Small businesses often fail because owners are unaware of the many elements that can prevent the business from growing and being successful. Often, small businesses are organized around the manager's specific area of expertise, such as marketing, accounting or production. This specialized expertise often prevents the business owner from recognizing problems that may arise in other parts of the business.

This guide will provide you, the small business entrepreneur, with the essentials for conducting a comprehensive search for existing or potential problems in your production system. This guide was designed with small businesses in mind and addresses their unique problems and opportunities.

The author has combined case evidence, logical procedures, expert advice and systematic thinking to create this planning assessment guide. This instrument is not exhaustive, i.e., the business owner/manager still must rely on personal judgment and past experience. However, it does provide a systematic framework to ensure that critical areas have been addressed before action is taken. This guide is a tool, not a replacement for good management skill. Audits and handbooks cannot do the manager's job; however, effectively designed instruments, such as this audit, can save valuable time for the seasoned as well as the novice small business manager.

### **How to Use This Guide**

In order to gain maximum effectiveness from this guide, you should answer all questions in the audit, with an affirmative answer indicating no problem and a negative answer indicating the presence of a problem in a specific area.

After completing answering the preliminary questions, you can proceed to review the analysis of each section of the audit that follows to determine what action is most appropriate. The audit analysis provides an overview of how the various elements of the audit are related. This audit covers the critical function of the production system in a small business..

[Go to Top](#)

## **2. Preliminary Questions**

Please answer each of the following questions with a 'Yes' or a 'No', then proceed to the analysis section:

### **A. The company has a good relationship with suppliers.**

1. A well-documented plan addresses how to deal with suppliers.
2. Inventory delivery times are specified.
3. Levels of quality of materials and services are specified.
4. Payment terms are documented.
5. Contingency plans are provided.
6. Regular contact is made with suppliers.

### **B. The company provides for good inventory control.**

1. Company has an inventory control formula to provide for optimum inventory levels.
2. Company has a policy on securing inventory in a timely fashion.

### **C. The company conducts incoming inventory inspections.**

1. Company has a written policy on incoming inspection.
2. Incoming inspection is being performed.
3. Incoming inspection levels of quality are documented.

**D. The company has alternate sources of raw materials.**

1. Two or more suppliers are identified for each product needed.
2. Majority of raw material requirements are divided equally between two major suppliers with a third source receiving lesser but consistent orders.

**E. The company has a routine maintenance program.**

1. A routine maintenance program is documented and communicated to all maintenance personnel.
2. Every major piece of equipment has a maintenance log positioned in an obvious place.
3. Preventive maintenance is a regular occurrence.

**F. The company has a formal operator training program.**

1. Company has a written operator training manual.
2. A progressive training process is in place.
3. Accomplished operators are identified to answer questions from trainees.
4. Constructive feedback on training progress is provided in a nonintimidating fashion.

**G. The company meets Safety and Health standards.**

1. All safety records and lost time accidents are documented.

**H. The company has a well-documented processing procedure.**

1. A scheduling process enables orders to be grouped for more efficient processing.
2. A scheduling chart allowing instantaneous recognition of production status is in an obvious place.
3. Subassemblies are manufactured in sufficient quantities on a timely basis.
4. Finished stock is safely transported to a clean and dry area.
5. Adequate controls are provided to preclude excessive inventory buildups that could result in finished stock spoilage or obsolescence.

**I. The company has an environmental awareness policy.**

1. A policy pertaining to the disposition of hazardous waste materials is fully documented and communicated to all pertinent parties.
2. Attempts are made to stay current with all existing regulations pertaining to the environment.
3. Regular meetings are conducted to determine better methods of dealing with by-products.

**J. The company attempts to stay current with technological advances.**

1. Company representatives attend trade shows on a regular basis.
2. Company subscribes to trade publications.
3. A formal employee suggestion program is in place.
4. Company conducts regular technology advancement brainstorming sessions involving the employees.
5. Company is involved in the community's extended learning programs.

[Go to Top](#)

### **3. Production System Assessment Analysis**

#### **A. Inventory**

**1. The company has a good relationship with suppliers.**

Your suppliers are critical to your business survival and prosperity. It is essential that you have a written and well-documented plan on how to deal with suppliers. This document should incorporate delivery schedules, quality of material and services provided, payment terms and any other particulars regarding the procurement of raw materials and services. It should also contain contingency plans in case there are unforeseen problems. This document should be provided to all major suppliers. In addition, make certain that you remain in personal contact with your suppliers.

**2. The company provides for inventory control.**

The right amount of raw materials ensures the success of the production operation. Too much inventory at any given time can be as much a production impediment as too little. Inventory must be maintained at proper levels and provided in a timely fashion. Production efficiencies erode quickly when material is not available when needed. If owner-managers overcompensate by procuring large amounts of inventory, the probability of spoilage and damage to the inventory is quite high, not to mention the negative impact of having cash tied up unnecessarily.

**3. The company conducts incoming inventory inspections.**

Another important document is an incoming quality assurance policy. This document should set out the firm's standards for the quality of incoming raw materials. A firm may pay a premium to the vendor for a specified quality level of incoming materials or may choose to employ a statistical sampling technique. It may also inspect all incoming materials, depending on the nature of the product being produced. In any event, the criteria used to inspect incoming inventory should be documented and well publicized to all parties involved. Poor quality raw materials not only lead to the production of inferior products, loss of customers and damage to the firm's reputation, but often also can cause damage to the production equipment and create frustration on the part of machine operators.

#### **4. The company has alternate sources of raw materials.**

An organization or a firm may have a fantastic relationship with a very competent supplier, but it is essential that alternative sources of supply be identified. It is recommended that the majority of a firm's raw material requirements be equally divided between two major suppliers, with a third source receiving lesser, but consistent, amounts.

### **B. Equipment**

#### **1. The company has a routine maintenance program.**

This is a must! What maintenance needs to be done and when it needs to be done should be documented and communicated to equipment maintenance people. Every major piece of equipment should have a maintenance log positioned in an obvious place where one can confirm that the routine maintenance schedule is being followed. When a firm is short of cash, frequently one of the first items cut is routine maintenance expenditures. However, the small savings that result from such cutbacks may later result in much larger expenditures to adequately maintain or rebuild the equipment.

#### **2. Preventive maintenance is a regular occurrence.**

Like routine maintenance, the firm needs a well written and -communicated policy on preventive maintenance. Unlike routine maintenance activities, which are normally accomplished during off production hours, at night and on weekends, with little interruption of production, preventive maintenance activities require a major amount of down time. The written policy should address a routine so that only one piece of major equipment is down for refurbishing at a time, thus minimizing lost production hours. Failure to do preventive maintenance may result in a critical machine's breaking down just when production requirements are highest.

#### **3. The company has a written operator training program.**

All production supervisors, as well as new employees, should have a copy of the operator training manual. This manual should include a step-by-step narrative of how the job is to be performed. Training techniques that can be employed range from classroom instruction to apprenticeship programs in which new employees work alongside an accomplished operator. The manual should list learning rates, production

tips and whom to contact with questions. Constructive feedback on training progress should be provided in a nonintimidating fashion to all new employees.

#### **4. The company meets Occupational Safety and Health standards.**

Business owner-managers must obtain Occupational Safety and Health standards that pertain to the business and incorporate them into a written document. Meetings with employees should be conducted regularly to ensure that all phases of the operation are in compliance with standards. Safety records and accidents requiring workers' compensation should be documented and maintained.

### **C. Processing**

#### **1. The company has an adequate scheduling process.**

Every production organization needs a well-thoughtout scheduling process to enable grouped orders to proceed through production, maximizing efficiency and satisfying customer due dates. A scheduling chart allows instant recognition of where a particular job is in the production sequence. This chart also allows the firm to provide customers with information regarding the progress of their orders. Combining an effective scheduling process along with a current scheduling chart not only facilitates efficient production, but also allows for changes to meet production deadlines when complications arise.

#### **2. In-process inventory is adequately controlled.**

Where a production operation has several stages of activity, the movement and storage of in process inventory becomes an item of major concern. Subassemblies that are produced in one manufacturing area must be available in sufficient quantities and in a timely fashion for the next stage of manufacturing. Quite often subassemblies are very fragile and subject to damage or contamination by foreign materials, thus it is important to ensure that their production and temporary storage is properly managed.

#### **3. Finished stock is safely stored.**

It is important that finished stock be safely transported and stored in a clean and dry area. A firm may provide warehousing at its own location, or it may choose to store its finished product in a commercial warehouse. A firm may also choose to have stock warehoused by its customer. In any case, adequate care should be taken to protect the product from damage or theft. In the latter two cases, it is imperative that a written contract specify who is responsible for insuring the product. In addition to storage, it is critical that adequate controls be exercised to preclude excessive inventory buildups that could result in stock spoilage or obsolescence.

#### **4. The company has an environmental awareness policy.**

With increasing emphasis being placed on environmental concerns, small businesses must now be aware of their responsibility for the environment. This is especially true in the disposal of hazardous waste materials. Appropriate information should be obtained

through national and state environmental protection agencies and incorporated into a written policy for the business. In the case of environmental pollution the business will be held liable whether or not they understand their responsibilities. This is truly a case where ignorance of the law is no excuse. Sometimes, as energy is expended in deciding what to do with byproducts, new markets for such materials may be identified.

## **D. Technology**

### **1. Company representatives attend trade shows.**

A key element to the survival and prosperity of any small business is its ability to use state-of-the-art technology; therefore, it is imperative that you stay abreast of advances in the technology related to your business. Attending trade shows on a regular basis is one method of staying current, even though this may be somewhat costly.

### **2. The company subscribes to trade publications.**

Trade publications are another source of information on technological advances. Many small businesses find this an inexpensive way to obtain information. Although the small business owner may have very little time for outside reading, taking the time to be informed about such matters is critical. Often this can be done during nonbusiness hours.

### **3. A formal employee suggestion program is in place, and regular brainstorming sessions involving the employees are conducted.**

In addition to productivity enhancements that can be obtained from external sources, another vital source of productivity enhancement ideas is the employees who are actually engaged in the production activities. It is essential that the owner-manager establish a well-communicated employee suggestion program with immediate rewards. In addition, many fruitful ideas can be obtained from regular brainstorming sessions involving the employees.

### **4. The company is involved in the community's extended learning programs.**

An often overlooked source of new production ideas and technological advances are the various extended learning programs in your community. The small business entrepreneur should become involved in such programs offered by community colleges, universities and technical training schools. These activities can range from taking classes to teaching classes. Not only does such involvement build good rapport with the community, it also is a valuable source of new ideas and technical innovations.

[Go to Top](#)

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