

The Path to Operational Excellence



By Kevin Duffy, Global Vice President Kepner-Tregoe, Inc.

“A great place to look for growth are the areas where you out-perform the competition. Applying a strategic focus to these areas will give you a significant competitive advantage and a consistent path to growth.”

“Operational Excellence” (OE) has in recent times become an ever-increasing component of organization and leadership vocabulary. It can be observed in many forms: as a banner for a broad range of improvement initiatives, in job titles of individuals and departments and in the consulting world where institutes, working groups and practices have been formed around it. Although many organizations invest heavily in the concept of OE, it remains very broad and has no clear definition.

That said, many have tried to define what an organization must do in order to achieve ‘Operational Excellence’ using complex project portfolios and pyramids of initiatives to successfully ‘implement’ and ‘achieve’ OE.

Initiative overload is among the greatest challenge that organizations face today in their quest to achieve a competitive position in global markets and supply chains. With this in mind selection of the focus areas for activities and programs is paramount. The list of alternatives such as: TPM, 5S, SMED, LEAN, Six Sigma, Supply Chain and ABC is almost endless. Each initiative in itself warrants the attention of the whole organization if it is to be successfully implemented. Yet, organizations often attempt to run parallel

implementations of these major initiatives, with limited resources, at inflated costs, pursuing internal or external acknowledgement to achieve Operational Excellence.

Unless clearly articulated in the specific context of an organization’s market and customer strategies, OE becomes internally focused and loses sight of how it can be part of market-facing, game-winning strategies for the organization.

The strategic goals of the business must be the drivers that guide the selection of the operational areas and processes the organization needs to help improve and excel in.

To *deliver the goods* for the business, OE must help develop strong capabilities in strategy and leadership – focused on doing the right things, and on execution – doing things right.

Strategy and Leadership

Without leadership, the quest for Operational Excellence is likely to underachieve or fail. The most powerful elements in the creation of an OE philosophy and culture are the focus and determination of a leadership team to execute the right things effectively



by engaging the employees and creating a “High Performance Culture.” This culture is one where employees know what they are doing, why they are doing it, and are supported by goals and measures that drive improvement.

Leaders must consistently reinforce the goals of an OE program with employees. It is important to remember that employees with more than 15 years of service have most likely been through at least three different improvement initiatives that have since been abandoned by the organization. It may take more than one day to gain their acceptance and commitment to an OE initiative by the current leadership team.

To be successful and create a sustainable culture, leadership must select a tight focus area for OE activities. The majority of organizations today undertake an excessive number of initiatives and programs, rendering them incapable of executing all of them well. It is a practical impossibility for the leadership of an organization to provide adequate resources, emphasis and time to undertake any more than a few critical activities and successfully run the business as well.

In organizations that run an excessive portfolio of OE initiatives, leaders are often found to have only a superficial knowledge of the programs that are being implemented in their businesses. The ability of the leadership team in envisioning, communicating, role-modeling and inspiring the pursuit of balanced and realistic goals cannot be understated and must be set in the context in which OE will be applied to create an operational advantage for the organization.

It is an unrealistic expectation for a leadership team to demonstrate these important behaviors if their exposure to the subject matter is through a number of crammed, hour-long executive overviews which, in the absence of deep prior understanding, are little more than an acronym and jargon management program.

Leaders must also direct the OE activities and actively guide implementation. The improved area of emphasis must first create a stronger competitive position in the market in which it competes. All too often programs and activities are focused primarily on internal cost management activities, which while necessary, are not usually a source of competitive advantage. Why is this the case? Operational Excellence focused on cost-cutting is typically either a corrective action to bring organizational cost structure in line with the levels of its competition, or a continuous improvement tool to achieve year-on-year cost reduction in order to keep up with inflation and stay in the game.

The most powerful and sustainable OE cultures exist in organizations that align Operational Excellence programs and activities with the strategic goals of the company and thereby improve its competitive position, thus ensuring the support of their Board of Directors and shareholder groups.

A trend that we have observed in the current economic climate is an increasing number of organizations eliminating OE programs, Six Sigma functions and Lean teams in cost management initiatives. This may be something of a paradox indicative of the lack of alignment between corporate aims and strategic goals.

At Kepner-Tregoe, we define Operational Excellence as:

“Creating a position of competitive advantage for the organization in its target markets by focusing on the operational activities where it can out-perform competition.”

Execution

In guiding our clients through an evaluation of the optimal emphasis of OE as a source of strategic success, we identify the priority focus of Operational Excellence activities — improved quality, capability, shorter lead times, increased service levels and lower cost — through consideration of the five execution drivers of operational competitive advantage.

1. Safety

The safety of personnel and assets involves building an environment in which business operations can be successfully conducted. The operation and maintenance of facilities with zero harm and minimized incidents is a critical success factor in achieving compliance, cost and talent retention.

How can this be a source of competitive advantage and not just an issue of regulatory compliance? In several industries, particularly those in the capital equipment, construction and natural resource sectors, an increasing trend in contract award consideration is the historical safety performance of the vendor.

2. Asset Productivity

A seemingly obvious statement, asset productivity — the revenue generated per dollar of the organization's asset base — is of critical importance to the well-being of asset-intensive manufacturers. However, many organizations fail to take the opportunity to optimize their asset footprints. By using capital as a means to maintain alignment between assets and sales revenues rather than investing in OE activity, organizations miss the opportunity to increase the flexibility of their current asset base. By using a comprehensive asset strategy, companies carefully consider the number and location of facilities, operational improvement initiatives and maintenance strategies aligned with volume requirements and the business cycle.

If there is such a thing as an upside of downturn, it is a forced emphasis on the improvement of asset productivity and utilization. With the flows

of easily-available capital greatly diminished, organizations must tap the under-utilized resources that exist within to release value and defer investments as demand levels rise when growth returns.

3. Human Capabilities

The area of human capability development and productivity improvement is the third element in which competitive advantage can be gained in every region of the world. Over the coming decade millions of man years of technical, operational and 'tribal' knowledge will simply walk out of the workplace. Those organizations which address the challenge of knowledge retention stand to create a distinct advantage that will manifest itself across a broad range of operational metrics. Failure to do so will result in long organizational 're-learning cycles' with the potential to negatively impact each area of potential OE advantage.

This applies as well to emerging manufacturing regions. Research indicates that China has a unit productivity shortfall in comparison to more mature regions. This gap, initially masked by a lower hourly labor cost, will be increasingly exposed as pressure on wage rates continues to rise. It is already resulting in manufacturing relocating to provinces with cheaper labor and to other emerging production centers in Asia and Eastern Europe.

4. Quality

The area of product and/or service quality provides rich opportunities for OE focus. Recent events have demonstrated that global manufacturers who had previously unquestionable credentials for ensuring product quality and responsiveness to customer needs can now experience potentially catastrophic difficulties. This issue of improving and maintaining quality is relevant to both mature and developing operational markets.

Increasing demands from customers in the developing world — and in mature economies — will ensure that quality improvement through



The Path to Operational Excellence

improved process management, variation control, waste reduction and increased levels of product consistency provide a potentially enduring area for disciplined and focused efforts with OE applications.

5. Business Process

Business Processes are the steps that convert inputs into outputs. In an effective OE strategy leadership must first ensure that the processes required to deliver a competitive advantage are in place.

If a competitive advantage can be built through world class performance in a production-to-ship cycle, then it must ensure that the processes that support this are in place: forecasting, planning and scheduling, production control, expedition and inventory management.

The importance of removing process deficiencies to achieve Operational Excellence cannot be overstated. The most significant process deficiency is, of course, not having one. Just because work 'gets done' does not mean that there is a valid process for it. For a process to be effective it must be well designed, measured and managed. If this criterion does not exist then a process will be sub-optimal and not deliver the advantages that the organization requires. Unless applied in this broader context, OE technique application runs the risk of short-term unsustainable improvements that, in the worse case, do the wrong things more efficiently.

Performance Management — Encouraging and Sustaining an OE Culture

Goals and Metrics

Management initiatives come and go and fluctuate in their relative importance to leaders. One feature that has remained prominent in the past half century's range of activities is the theme of performance measurement.

Measures enable an organization to keep score and monitor the effectiveness of strategies and plans. They are – or should be – the basis for management OE decision making. Unless done with rigor and careful thought, the implementation of metrics and measures can drive undesirable behaviors and produce cynical reactions from staff.

The old adage, "what gets measured gets done," is not always true. What is true is that if a measure is important enough, it will be managed. Every day thousands of man hours are devoted to make reported measures acceptable to groups and steering committees. Employees are cognizant of these activities and may very well feel demotivated by creative accounting that often accompanies new program initiatives.

The relentless pursuit of the cost/benefit equation – where the energy of OE activities is outweighed by time-consuming collecting, documenting and reporting of "savings" – is often never reflected in the P&L because of flawed measurement design.

In the past five years we have noted numerous examples where metrics and measurements have negatively impacted the pursuit of Operational Excellence. This is evidenced by situations where organizations have chosen what is easy to measure rather than what is truly important, pursuing specific metrics at the expense of others which may be more important.

While not a direct source of competitive advantage on which to focus OE activity, the design and deployment of an optimal goal and measurement system is critical to the success and sustainability of an OE culture.



Kevin Duffy

Global Vice President, Kepner-Tregoe, Inc.

Kevin Duffy, Global Vice President leads a global industry team in consulting with clients in North America, Europe, Australia, and Southeast Asia, specializing in accelerated asset improvement, structural cost reduction and manufacturing excellence. Twenty years in the manufacturing industry in positions ranging from production engineer, VP of manufacturing, General Manager in packaging, hygiene product, converting and building product sectors. This included international and Pan-European responsibilities with Lafarge (France), the Wiggins Teape, and Caradon Groups (U.K.). A mechanical and production engineer, he holds a MBA from Bristol Business School (U.K.), attended executive education programs at Duke University (U.S.), Lyon Business School (France) and the Cranfield School of Management (U.K.).