Fast Track to Operational Excellence

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Operational Excellence Introduction.

Operational Excellence is hot. A Google search produces between 1.5 and 2 million hits. A closer look makes clear that Operational Excellence is defined in many different ways. A recipe for confusion. To keep things simple and understandable, we stick to a definition as formulated in the book that was dubbed “The hottest business book since 1993’s Re-engineering the Corporation”.

It was 1995 when Michael Treacy and Fred Wiersema published the bestseller “The Discipline of Market Leaders”. And still today, their concepts are fresh and relevant. Based on the notion that different customers buy different values – best total cost, best product and best total solution- they defined three matching value disciplines:

- **Operational excellence.**
  Operationally excellent companies provide middle-of-the-market products at the best price with the least inconvenience. It is about low price, hassle-free service, no frills: Wal-Mart.

- **Product leadership:**
  Practitioners of this value offer customers the best product period. They continue to innovate year after year, product cycle after product cycle: Intel, Nike

- **Customer Intimacy:**
  Such companies focus on what specific customers want; not just on what the market wants. It is not about one-time transactions, but about cultivating relationships. We have the best solution for you – and we provide all the support you need to achieve optimum results and/or value from whatever products you buy: Home Depot.

The real key to Operational Excellence is Executional Excellence.

This is not merely a smart word game. The research of Michael Treacy and Fred Wiersema un-covered four explicit rules that market leaders adhere to:

- **Rule 1:** Provide the best offering in the marketplace by genuinely excelling in a specific dimension of value
- **Rule 2:** Maintain threshold standards on other dimensions of value;
- **Rule 3:** Dominate your market by improving value year after year;
- **Rule 4:** Build a well-tuned operating model dedicated to delivering unmatched value.

Market leaders accept that they cannot be everything to everyone. What makes them really market leaders is that they also excel in the execution of what they have decided to focus on. Given a value dimension, either Product Leadership or Customer Intimacy or Operational Excellence, excel in what you have chosen to excel at. Executional Excellence is thus the real discriminator.

High-performing versus lagging entities: the differentiators

For many years our people have had the opportunity to work for many different companies in a variety of units and contextual settings: DSM, Rio Tinto, Smurfit Kappa, Daimler, Heineken, Ericsson, Volvo, Philips, Siemens, Shell, Tata Steel and many more. A consistent theme that we observed time and again is the significant variation in performance between those units; under seemingly similar conditions. This not only between units of different companies, but also between entities within companies with a multiple unit base. Through comparing performance between entities of such companies, we find that: all these entities have a very similar means to deliver a product or service. They have the same methods and “tools” like Lean; 6 Sigma; and Total Productive Maintenance (TPM) available. Access to technical and technological expertise is identical. And control from Corporate is for all these entities consistent. Despite these similarities, there is still a significant difference in performance between those entities. Our findings are confirmed by independent academic research.
In company after company, it is the attitude of the management and the workforce in the unit that matters most:
- The effective unit manager hungers improvement and communicates directly a vision for what the unit should look like in the future and how it should run;
- The leadership style at the unit is people-oriented and decisive;
- Simplicity beats sophistication;
- Employees feel like they own the unit; and Experimentation, follow-up, and implementation are pursued aggressively.

*From this you may conclude that the dominant influencing component of performance is attitude, i.e. observable behaviour.*

The key components that collectively determine performance.

This conclusion is confirmed by our analysis of the key factors that improve performance:
- The number one factor is new attitude, i.e. observable behaviour at all levels in an organisation;
- The number two factor, at a distance and in this sequence, is improving workforce knowledge.

As the only way to describe attitude is by using examples of observable behaviour, we will work from here only with the term behaviour.

Behaviour and knowledge as two components to determine performance are insufficient: Performance of what? Typically, performance is expressed in operational and financial Key Performance Indicators. Indicators such as customer service levels, responsiveness, order lead time, asset utilisation, profit margin, revenue, cash-flow. Therefore it is essential that people in an organisation understand how they contribute to performance. Their role must be linked to specific Key Performance Indicators and they must ensure that business process steps happen by executing a specific action at a specific moment. Organisation Management Systems create this clarity and enable individuals to understand and perform well. By Organisation Management System (OMS) we mean the combination of Key Performance Indicator structure, Roles & Responsibilities, effective behaviour codes for key roles and key teams, meeting structures and reporting structures. The OMS connects people with business process steps and is therefore the missing component to determine performance. Performance is fundamentally determined by the combination of:
- Behaviour;
- Knowledge;
- Systems

The difference between performance excellence and mediocrity is thus determined by how well knowledge is actually applied in the day-to-day context. How well systems are designed in line with how one wants to conduct business. And how effective observable behaviour of people in an organisation is.

**Executional Excellence Our definition**

Building on the insight that performance is determined by the combination of knowledge, systems and behaviour, our definition of Executional Excellence is:
- Effective observable behaviour which is fully aligned with the company’s objectives;
- Appropriately designed organisation management systems:
  - Fully aligned with how a company wants to conduct its business;
  - Supporting the transparency of performance;
  - Supporting the required effective behaviour.
- Relevant knowledge is trained and people are skilled in the application of that knowledge.
An interesting insight we feel we need to share at this point, is the relative irrelevance of IT systems. In our practice to drive performance improvement. IT is often presented as a panacea for organisational performance. Well, generally it is not. Sometimes IT systems annoy because relevant data are not available at a specific position to help an individual to perform better. But typically this can be solved quite easily by minor adaptations to the system. Typically IT is a non-issue in driving major performance improvement. Our experience is very consistent with an important conclusion from academic research:

Automation, economies of scale and ERP systems do not contribute to performance improvement, unless they lead to:

- Reduced variation in quality, quantities, and timing; and/or
- Reduced throughput time.

As a consequence they struggle to get the tools genuinely used in the normal day-to-day of conducting business. Indeed, performance improvement is visible, but it comes through way slower than possible. And often it is not sustainable. The fast track to Executional Excellence is to focus on the development of the right behaviour first. This is the very reason why in our practice of performance improvement we build on the existing knowledge and experience and first focus on closing the knowing doing gap. A major performance leap is the result. We will deliver refreshment trainings as theoretical knowledge has often not been used for a while. Then and only then we will consider to train new knowledge. In any case, our main focus throughout an improvement programme is on developing the required effective behaviour of people in an organisation.

To put it very black and white: Speed, quality and sustainability of performance improvement can only be achieved if the dominant focus is put on developing the required effective observable behaviour of people in the organisation. Then and only then, new relevant tools can be introduced. These new “tools” only have a fair chance if the people who need to apply them understand how they contribute to successfully tackling the problems they face today’s problems.

The fast track to Executional Excellence.

We often meet people who are heading up improvement initiatives. More often than not these initiatives revolve around the implementation of a specific “tool”. The most popular ones that we come across are Lean, 6 Sigma and TPM. Those Project Directors never have a problem to get the people trained in the “tools”. Without exception they struggle in developing the required effective behaviour to apply the “tools”.

Axisto Executional Excellence:

What you can expect

The ability to support the achievement of top quartile performance by facilitating the development of genuine Executional Excellence.

Services which are grounded in tens of years of experience in a wide range of industries.

Knowledge, tools, methods and change management capabilities to make rapid, sustainable improvements possible.

A central focus in our projects is the development of the people in our client’s organisation. We consider this to be key for long term sustainability of improvements.

Measurable and tangible results (operational, financial and people & organisation); not reports.

An approach which is characterised by speed, reliability, local ownership and sustainability.

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Typical challenges we can help you master

“We operate in a market that we have created. We are seen as the front runner in product development. We are primary, and often single, design partner for co-designing new products with our clients. The market is growing extremely rapidly. Currently we have about twenty crash actions related to new product type introductions, consuming a significant part of our Innovation capacity. All knowledge concerning how to structure and manage an innovation project and an innovation portfolio is well documented and available on the intranet. How can we prevent such crash actions of happening again in the future?” “Over the last year demand has increased significantly. Although we have sufficient installed production capacity, stocks have dropped below minimum safety levels and delivery reliability is under pressure. How can we get the situation quickly under control?”

“We have executed a full strategic review of our business. We have a good understanding of market trends, how our customers view us, and how we can take a genuine competitive position. For that to be successful, it is crucial to position the company strongly in the value dimension Customer Intimacy. This means a major change. How can we best approach that change?” “We are rolling out a Manufacturing Excellence programme regionally, using TPM as the vehicle. My experience so far is that results in the various plants are erratic. In some plants implementation runs relatively smoothly. However, often results are not sustainable, and in other cases it is extremely difficult to improve. The way we monitor progress doesn’t seem to be representative for what really happens. How can we ensure quicker and more predictable implementations and sustainability of performance improvements?”

“Over the last one or two years the future outlook for our site has changed dramatically. A major investment in a new product range was stopped. For the remaining product range we are facing a fierce price competition. Currently we are in the process of cutting costs. Particularly in the management layers and the indirects we are eliminating jobs. How can we now best develop a sustainable behaviour in our organisation which focuses on aggressively defending our current position and grow from there?” “Currently business is still strong, but we are concerned about what the near future will bring. Our business is financed with a high leverage and we are seeking to reduce Operating Working Capital (OWC) quickly. What is the best approach to reduce OWC in one of our Business Units where despite all pressure OWC is going up?”

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