

**Driving Value through
Operational Excellence**

Governance & Improvement



Operational Excellence as a Value Creation Strategy

Operational Excellence

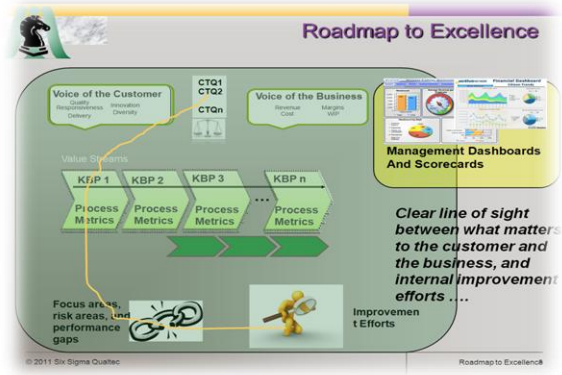
The pursuit of operational excellence started the day an owner or manager decided to improve value by improving how they did what they did. Efforts naturally focused on eliminating waste, growing the revenues and simply doing what they did better. As low hanging fruit was harvested, the need to continue driving increased returns focused on a greater alignment of resources, more structured problem solving and increasingly powerful improvement tools.

As people developed solutions, a library of thinking emerged which included foundation and advanced topics such as Balanced Scorecards, Policy Deployment, Hoshin Kanri, Value Streams, Lean Thinking, Six Sigma and Process Management. Confusion arises with varying interpretation and uses of the monikers where they are sometimes expressed as competing and sometimes as complimentary. At times the same names even describe both overarching philosophies and a tool to be applied to a specific problem.

With all these choices, how do you leverage and integrate what is available into a practical action plan to improve operations and drive value? To put order into your quest, we suggest you focus on the challenges and activities and follow with the solutions. Within Operational Excellence, we group challenges and the activities pursued to address them into three spheres:

- Set a Course
- Steer the Course
- Improve Your Capability

Set a Course. Decide where you want to go and how you want to get there. It's about seeing an opportunity with a customer, understanding what they want and examining how you can give it to them better than anyone else while meeting your goals. This is Operational Governance Goal Setting.



Steer the Course. The need is obvious. You may know where you want to go and how you want to get there. But executing is the challenge. Steering the Course is about how decisions are made and executed. This is where you convert ideas to reality. We call this Operational Governance.

Improve Your Capability. If you know where you want to go and you are consistently getting there, you naturally want to get there more times, faster and with less expense. And that is about developing more efficient and effective practices. This is the implementation of Operational Improvement.

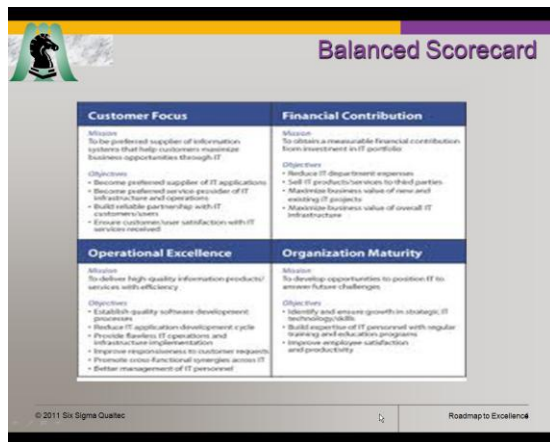
SSQ's focus starts by helping clients convert strategic, market and product plans along with competitive analysis into Operational Goals. We then aid our clients to *Steer the Course* and *Improve their Capability*. In these three areas, we have developed some of the most advanced thinking and helped global industry leading companies perform brilliantly through one of the most turbulent economic periods in the modern history of our economies.

And it is here that we can offer value to any company struggling to execute as well as they'd like or to improve their performance if they wish to strive for higher goals. Collectively, these activities drive value for all stakeholders.

Operational Governance Set and Steer the Course

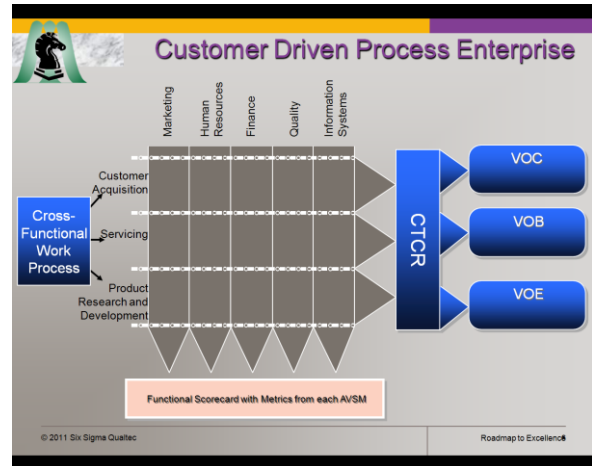
Operational Governance, which combines Setting and Steering the Course, is about how decisions are made and executed. Specifically, we talk about how companies decide on what needs to be improved and what resources are allocated to the effort. We believe in a practical closed loop system that leverages concepts in a sequence to help a company steer to their destination and correct their course in what is an endless journey. The steps are as follows:

Start with a Target. Figure out where you want to go before you start traveling. Vision, Mission and Strategies all come together in a scorecard. Making scorecard measures quantifiable with both efficiency and effectiveness measures and the creation of dashboards with Critical to Customer Requirement measures aligned to the customer and ownership as Operational Goals is where we normally enter the picture to begin the governance process.



Visually Depict How Your Organization Delivers Value. After setting the course above, we want companies to understand how they get to where they go. Since a picture is worth a thousand words, we help clients paint those pictures using various mapping methods based upon an issue's needs such as service blueprinting for service design or value streams for waste elimination. With an understanding in

hand, you measure how that process is performing.



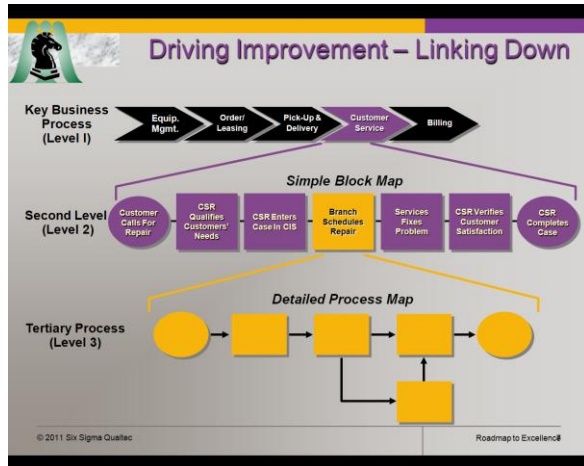
Pursue North to South Alignment. We now begin to look for wasted effort. Assuming sub-process measures exist, we want to ensure alignment of identified performance gaps and resulting improvement efforts by linking those measures to higher level process measures which eventually are linked to scorecard measures. We can debate lagging v. leading indicators. We can debate whether indicators are directly linked or merely a proxy. But whatever you choose to measure, link it.

Pursue East to West Alignment. Now we look for incomplete effort. Do the steps the organization takes touch each other? Does the definition and measurement at the end of one step look like the beginning of the next? Is there a clean handshake? If not, you need to squeeze out that white space. Either document what is happening in the white space, including who owns it, or extend the definitions of the step preceding and/or following the white space.

Identify Opportunities. Upon completing the aforementioned steps, you will have an organization that will march to where it is pointed. This doesn't mean it will perform well. It simply means that when you want to head North, you won't end up East. And you'll know what time you were supposed to arrive and whether you arrived on time or not. How do

you use this to improve value? At this point, we have our clients identify and rank performance gaps as opportunities. The maps, which must include linked performance metrics, post alignment and assignment of all process steps, should clearly show the gaps.

Along with the prioritized list of defined projects, what equally defines your improvement roadmap is your organization's knowledge. It's not just the course to be run but the conditioning of the athlete that determines a race's outcome. The two go hand-in-hand. In fact, the key to organizational improvement momentum is to develop a plan which simultaneously is achievable and builds capability.



It is the matching of capabilities to challenges, while building more capability, which is the heart of our recommendations to clients in the construction of their operational improvement plans. Let's first look at how we segment the improvement opportunities. We'll return to assessing improvement capabilities before constructing an improvement roadmap.

The aforementioned process grants our clients the ability to methodically set a course and steer toward it thus acting as a value creation process. It's able to correct its course if it finds itself headed in the wrong direction. And it's able to predict its arrival time, measure how far off from that time it is due and which of its organizational processes are holding it back from performing as desired. This is a practical governance system with self correcting measures and the ability to feed a separate improvement effort.

Segmenting the Improvement Opportunities.

Once an inventory of improvement opportunities have been created, separate them by impact to the organization, degree of difficulty and common root causes. Impact to the organization is very much based upon the organization's goals and what they feel is standing in their way. It will incorporate business goals, available investment and competing initiatives.

Operational Improvement (Improve Your Capability)

So where are we? We have a spot on the map where we want to go and the ability to get there. Now we want to get there faster, never miss the target and do so at a lower cost. The key is the prioritized list of performance gaps and their corresponding list of defined projects. It is the creation of the project list which is the transition point from governance, or steering, to improvement.

Degree of difficulty can be split based upon fundamental questions such as whether the character of the process been defined and if there is reliable data available. The question of

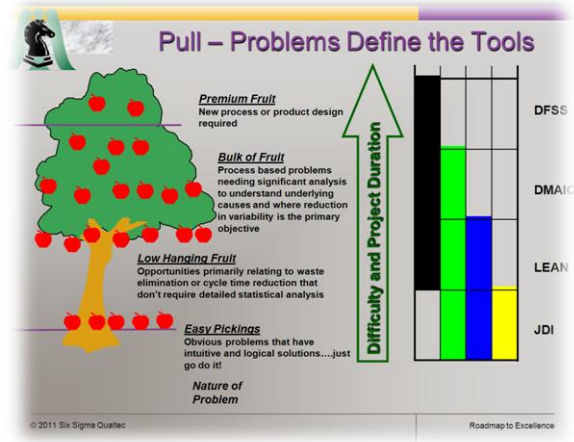
common root cause initially can be broken down by whether the organization needs to reduce variation or improve the speed of the process.

You can see a matrix form between degree of difficulty and nature of the problem. And within each cell of the matrix, projects can be categorized and prioritized. We then recommend this matrix be created for the various business units within the organization as different parts of the organization can have greatly different levels of process maturity and available resources. We'll return to this matrix to develop an improvement roadmap.

While segmenting and prioritizing the improvement opportunities, an organization should assess its capability to tackle the issues. You can well imagine the various skills necessary which would include process and analytical skills. The skills needed are where you begin to hear the tool discussions. Process Management, Lean, Six Sigma and Service Design are some of those tools. They should be viewed by business unit so as to match capabilities to the improvement matrix developed above.

With problems and capabilities in hand, a deployment plan begins to emerge. First use existing resources that have the skills to tackle the really tough issues in order of priority. When appropriate resources don't exist, buy or rent them if a strong enough ROI or strategic imperative exists. Finally, teach the skills using prioritized projects as learning opportunities.

While there isn't one answer on where to start, we stress three simple implementation rules; *Pull Don't Push, Go Broad Before Deep and Pay-As-You-Go*. Pull means the improvement activities should support the mission and not be the mission. Go Broad means improvement is across the organization versus entrusted to a brain trust. And Pay-as-You-Go means the activity must produce results or be put aside.



This generally produces a deployment plan where you initially implement process management tools to establish process stability. Then you continue with lean to clean waste while establishing reliable measurement systems. Finally you move to more data intensive methodologies such as Six Sigma that help point to deeper root causes.

Governance & Improvement Acting Together - A Maturity Model

The governance and improvement implementation described above are built not to create best in class operations on day one but to establish a base level of stability and then continually improve in a manner that is aligned to business goals. In an organization with its varying levels of performance, you may have to work in one area more than another to bring it up to speed with more advanced business units. But over time, you begin to see muscle tissue build as the governance system points the improvement efforts to the areas that bring the greatest impact to improving execution.

What you should witness is a maturation curve with stages like the following:

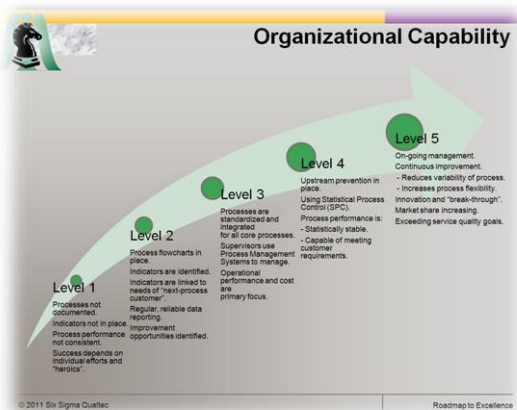
Level 1 – The Beginning State

The beginning is identified by undocumented critical processes. Don't spend millions to

create a library of process maps destined to collect dust. But when critical processes are undocumented, they lack the visibility to ensure alignment or the understanding to allow for improvement. And documentation includes selection of indicators as part of the documentation. If processes lack indicators there aren't the guideposts to link improvement activities to stakeholder and customer demands. Undocumented processes leads to inconsistent execution which means that fulfilling requirements depends on individual efforts and "heroics". When we see this, we want our clients to start with the establishment of basic process management skills within their process owners and the application of that knowledge to provide some understanding of a processes performance.

Level 2 – Disciplined, Repeatable Processes

Once processes are understood through the application of basic process management skills including the use of indicators, the next step in process maturity is to see regular and reliable data being reported. The key here is to gain further understanding by measuring vis a vis the indicators whether the process is consistent. Are the people and other resources used in executing the process producing consistent results? This doesn't speak to whether the results are optimized or even correct. We are just looking for repeatability. Here we begin to prescribe basic tools and techniques to analyze the data and reduce far outlying results.



Level 3 – Standard, Consistent Processes are Managed

With the advent of disciplined, repeatable processes an organization has something solid onto which to build. Leaders and Process Owners can use the structure to manage...to set a compass heading with a reliable tool, move forward and adapt to changes. Initially, you see Process Owners using the system more than Leaders and they drive process performance and costs. What we look for is the use of the data to eliminate some low hanging fruit in terms of variation. But we can also begin to do some process improvement with the elimination of waste. This is where lean tools can be applied. Process improvement is possible once you have process stability.

Level 4 – Predictable Processes Become an Organizational Rudder

As the process system grows in reliability and waste is removed, the system becomes as much a tool to prevent problems as it is to identify and fix them. And more chronic, cross-functional issues can be addressed as more sophisticated tools can be used to find deeper root causes of problems. The emphasis also moves from addressing simple process level issues to addressing how to meet customer requirements. Here is the introduction of Six Sigma both within functional areas and cross-functionally.

Level 5 – Optimized Processes

Finally, as the whole system is built and matures, leaders can use it to drive an organization into a stronger competitive position. As the system reduces process variability, it increases process flexibility. Flexibility opens the door for innovation and "break-through". Service companies are tremendous beneficiaries of this as they have the least visible processes and the most white space to eliminate. Resolution to these issues

leads to market share gains and an increase in profitability. This opens the door for process redesign opportunities.

Conclusion

Driving Operational Excellence starts with knowing where you want to go and how you want to get there. Executing on that vision is based on a governance system that ensures alignment and timely delivery of improvement results. Improvement results are based on well-known tools but their effective application is based on prioritizing the opportunities and your organizational capability. With that understanding, a deployment plan can be devised using the basic principles. The balanced integration of governance and properly implemented improvement will move your organization from whatever level of performance may exist to higher levels. This closed loop system is how you drive value.

This is not an easy road. However, it's not a complicated one. It's a pragmatic approach where the difficulty doesn't come in the concepts but the execution. The challenge is for the organization to believe in the benefits sufficiently to attempt and support the effort. The elegance of our model is its simplicity. The challenge is in its implementation.

About SSQ



SSQ is a global provider of business performance consulting, training and technology solutions. SSQ has a wealth of experience helping owners and managers successfully implement strategies. SSQ helps define and deploy sustainable business performance improvement initiatives – yielding greater customer loyalty, reduced risks, improved quality, quicker turn times and enhanced revenues.



To learn more, call (800) 247-9871, email info@ssqi.com or visit our website at www.ssqi.com.