

Operational Excellence

See the Flow of Value

Joseph F Paris, Jr.

Definition:

“Operational Excellence is when the efforts throughout the organization are in a state of alignment for achieving its strategies and where the corporate culture is committed to the continuous and deliberate improvement of company performance AND the circumstances of those who work there – to pursue ‘Operational Excellence by Design’ and not by coincidence.”

– Joseph F Paris Jr., Chairman,
XONITEK Group of Companies

Over the past few years, I have increasingly seen a great many organizations (companies and academia) and professionals (practitioners and consultants) attempt to hijack **Opera-**

tional Excellence in an effort to “rebrand” the disciplines of *Lean Six Sigma* or *continuous improvement*. Admittedly, some do try to build a differentiator by sprinkling some “soft skills,” such as *leadership* or *culture change*, on their programs. **But this is a wholly inadequate determination** and merely a subset of what Operational Excellence is all about today and how it was initially conceived some several years ago.

Take for instance a past advertisement I received for the 2012 Operational Excellence Lean Sigma conference which was held in Berlin last November (which is just one of hundreds of examples I can offer; it just happens to be the most recent). While the conference appeared to offer considerable value for those interested in the tools and techniques related to Lean Six Sigma, it fell very short of anything resembling Operational Excellence. If you take a look at the abstracts for the presentations, each had an emphasis on some aspect of Lean Six Sigma, but none spoke to a company’s efforts outside of production, supply chain and delivery. Where are the talks that involve finance, marketing, sales and other aspects of a company and their respective roles in pursuing Operational Excellence?

MANY ATTEMPT TO HIJACK OPERATIONAL EXCELLENCE IN AN EFFORT TO “REBRAND” THE DISCIPLINES OF LEAN SIX SIGMA OR CONTINUOUS IMPROVEMENT.

Why not just call the conference “Lean Sigma” [sic]? Would anyone notice the difference?

HISTORY OF OPERATIONAL EXCELLENCE

If we look into the past (using a Google Search for “Operational Excellence YYYY”), there is a dearth of significant detail with regards to Operational Excellence prior to 2002 and what is available is very thin.

In 2002, the American Society for Quality (ASQ) advertised an article entitled, “How to Achieve Operational Excellence” and the key-words included: *business plans, commitment, communication, continuous quality improvement (CQI), performance objectives, cost management, goals and quality management (QM)*. There was no mention of Lean Six Sigma and none of the associated buzzwords.

In 2003, the United States Coast Guard (USCG) initiated an Operational Excellence program in which the criteria was to “...provide Coast Guard Auxiliary boat crews with a challenging opportunity to highlight their proficiency and skills, foster teamwork and encourage fellowship among op-

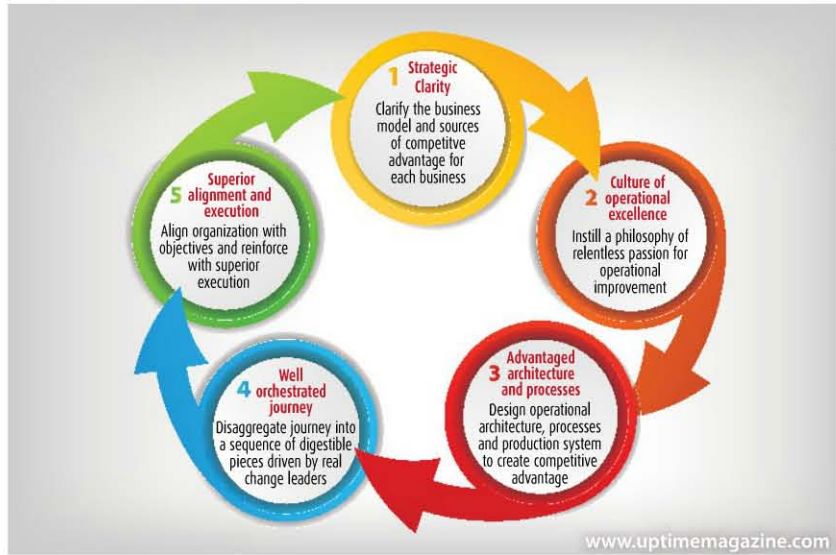


Figure 1: Operational Excellence as defined by a major chemical company

erational members.” To the USCG, Operational Excellence was all about performing as a team with an exceptional level of proficiency in completing the tasks necessary to achieve mission successes. In my opinion, this program embraces the spirit of Operational Excellence.

In November of 2003, the Economist Intelligence Unit (a division of *The Economist* magazine), published a report sponsored by Celerant Consulting entitled, “Strategy execution:

Achieving operational excellence.” It surveyed 276 executives in North America with 50 percent of the respondents being from the “C-Suite” across various industries. The interesting thing about this analysis is that it’s a survey whose intent is to measure the importance and impact of Operational Excellence, but nowhere does it state what Operational Excellence might be.

Figure 2: Sample Operational Excellence Elements



TO THE U.S. COAST GUARD, OPERATIONAL EXCELLENCE WAS ALL ABOUT PERFORMING AS A TEAM WITH AN EXCEPTIONAL LEVEL OF PROFICIENCY IN COMPLETING THE TASKS NECESSARY TO ACHIEVE MISSION SUCCESSES.

It’s obvious from reading the survey questions that there is a spin for leveraging technology as some means for achieving Operational Excellence. However, the only thing one really seems to gain from reviewing the responses is that top performing companies have “... more committed management, make better and more frequent use of performance data and management mechanisms, and have stronger communication channels to link senior management with frontline employees.” I read that and couldn’t help but think, “Duh – no kidding.” But again, no direct connec-

tions or correlations between Operational Excellence and Lean Six Sigma are made.

By far, one of the more interesting position papers I came across was from a major chemical producer. It's a fairly detailed document, but after reading it a few times, I came away feeling that it was disconnected and/or incomplete.

- Although the document spoke to Operational Excellence and its achievement, it never defines it anywhere. How can one know if one has achieved Operational Excellence (or even on the right path) if one does not know what it looks like?
- There seemed to be a conflict in messaging where the philosophies were presented graphically and never addressed, but what was addressed were the details of the approach and no reference to the philosophies. This left me feeling that the graphics were created and presented by strategists, but the verbiage describing the program was created by the tacticians who implemented, as demonstrated by the following graphic and associated text: a) "Taking the journey toward Operational Excellence typically begins with making an initial step change improvement, followed by a continuum

While I thought the graphic (Figure 1) went a long way in illustrating the concepts of Operational Excellence, the content spoke more to continuous improvement and, in fact, specifically mentioned "world-class manufacturing systems." This seems to be a conflicting message; certainly it makes it unclear and confusing.

However, this company did demonstrate that it felt Operational Excellence had three aspects: asset productivity, capital effectiveness and operational risk management, as shown in Figure 2. But again, there is no mention made of Lean Six Sigma being a component of the program.

Another model for Operational Excellence used by a finance and insurance company (see Figure 3) is very nearly identical to the chemical company's Operational Excellence Integrated Management System. It is interesting to note that the major difference between the two models is that the finance and insurance company lists the customer first and the other does not list the customer at all.

There is very little mention of Lean Six Sigma (except for "Lean Project") and it is very apparent that Storebrand differentiates Operational Excellence from Leans Six Sigma.

Operational Excellence," does a very poor job of offering a definition. From their website:

"MISSION: The mission of *The Shingo Prize* is to create excellence in organizations through the application of universally accepted principles of operational excellence, alignment of management systems, and the wise application of improvement techniques across the entire organizational enterprise. We do this by teaching correct principles and new paradigms that accelerate the flow of value, align and empower people, and transform organizational culture."

IF OPERATIONAL EXCELLENCE ISN'T JUST ABOUT CUSTOMERS, CAPITAL/ASSETS, PROCESSES/OPERATIONS, PEOPLE, OR EVEN FLOW, THEN WHAT IS OPERATIONAL EXCELLENCE ALL ABOUT AND WHAT PART OF THE ORGANIZATION IS INVOLVED (OR EVEN SHOULD BE INVOLVED)?

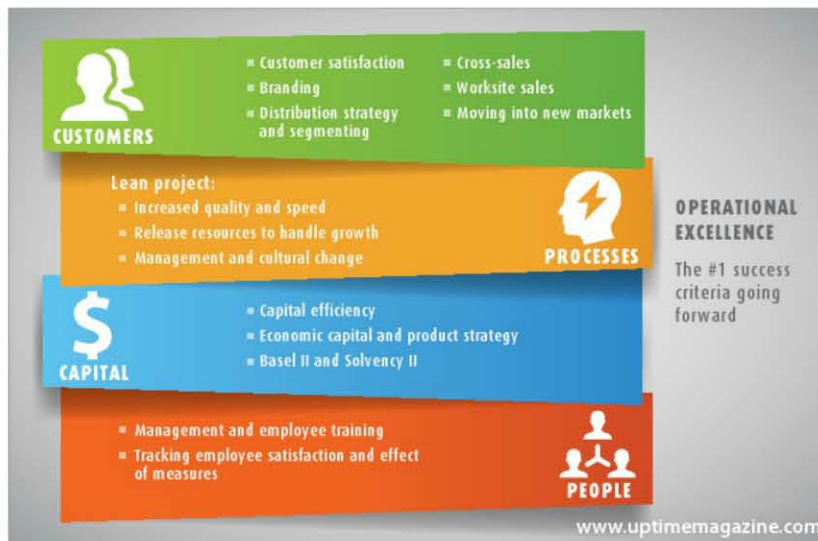


Figure 3

of incremental enhancement. Installing a culture of Operational Excellence results in a significant and sustained competitive advantage." And b) "A study by the Board on Manufacturing and Engineering (formerly the Manufacturing Studies Board) of the U.S. National Research Council showed that the companies that effectively implemented world-class manufacturing systems achieved improvements in asset productivity performance."

I appreciated the approaches used earlier by ASQ and I especially enjoyed the definition used by the U.S. Coast Guard in their Operational Excellence program. But it still would appear that the definitions used are inconsistent across the companies that embrace Operational Excellence – with most of these individual definitions also being incomplete.

Even one of the most renowned names in Operational Excellence, "The Shingo Prize for

Nowhere in its definition (or even in the rest of the website or as a link to somewhere else) can I find what these "universally accepted principles of Operational Excellence" might be. So how does one know if they have done the needful to achieve the recognition?

Defining Operational Excellence as Lean Six Sigma is like defining a vehicle as an automobile – the latter of each being a subset of the former, but not the same. Why not just call it Lean Six Sigma?

And I swear, if I read one more definition of Operational Excellence being about "flow," I am going to retch. What good is flow if you have no orders for the product? Or you have no way of collecting the information to build/provide? Or you have no business? A definition for Operational Excellence has to embrace the entirety of the organization.

ORGANIZATIONAL CONSIDERATIONS FOR OPERATIONAL EXCELLENCE

So if Operational Excellence isn't **just** about customers, capital/assets, processes/operations, people, or even flow, then **what IS Operational Excellence all about** and what part of the organization is involved (or even should be involved)?

For your consideration, here is an extensive (if incomplete) list of business requirements and functions that must be embraced and integrated into any true Operational Excellence program:

Entity: What is the best type (sole proprietorship, limited liability company, partnership, or corporation) and structure for the entity (investor terms and conditions)? Where is the best place (state where company holds office or some other) for the entity to be formed?

Professional Services: Finance and accounting, who are the "legal eagles," accountants and financial advisors for the company and their respective expertise? Is their expertise in alignment with the requirements of the company?

Finance: What is the best capital finance structure for the organization? Are the investors strategic and what is their exit strategy? How much equity versus debt? What is the collateralization of the debt and what are the covenants associated with the loans?

Front Office Operations: We need to make sure the business entity is running smoothly and that the transactions (and all related details) are moving through the entity with as much accuracy and velocity, but with as little friction as possible. Is that happening?

Supply Chain: Do your suppliers know what you need (products and/or services), to what specifications, in the quantities that you need it and when you need it by? How do they know all this? How do YOU know all this?

Production (whether a product or service): How do you generate the products or services in the most efficient and effective manner?

you keep them happy after they have placed their trust in you?

Since all of these various dimensions must be considered if an organization were to have a hope in achieving any reasonable level of Operational Excellence, how can such a discussion only involve the disciplines associated with Lean Six Sigma? Or even if you toss in leadership and/or culture change?

Which of the organizations in Figure 4 do you believe is more likely to achieve Operational Excellence?

Is it the one that is more aligned and committed? Or the one that is less? Which one are you?

SO, WHAT EXACTLY IS OPERATIONAL EXCELLENCE?

DEFINITION OF OPERATIONAL EXCELLENCE

So, what exactly is Operational Excellence? Where is there an adequate definition that transcends the strategic, through the tactical and logistical, and all the way to execution and does so in a manner that embraces the entirety of the organization and its collective efforts?

Through my studies, analysis and work over the past several years – work that cuts across all industries, geographies and cultures – and by my own experiences and observations in owning the Operational Excellence Group on LinkedIn and in my founding of the Operational Excellence Society, I propose the following definition for Operational Excellence (also found at the beginning of this article):

"Operational Excellence is when the efforts throughout the organization are in a state of alignment for achieving its strategies and where the corporate culture is committed to the continuous and deliberate improvement of company performance AND the circumstances of those who work there – to pursue 'Operational Excellence by Design' and not by coincidence." – Joseph F Paris Jr., Chairman, XONITEK Group of Companies

So let's break down this definition. *"Operational Excellence is..."*

... when the efforts throughout the organization... – all efforts in any capacity, every calorie or cash expended throughout the entirety of the organization and its value chain;

... are in a state of alignment... – there exists communication and transparency such that unity of purpose and of being is realized;

... for achieving its strategies... – the goals of the organization have been effectively conveyed and all assets, resources and efforts are focused on attaining those goals;

... and where the corporate culture is committed to... – there exists an ethos throughout the organization that it is unreservedly devoted to the effort. This is a function of effective lead-



Figure 4

Development (Design Engineering): Who is the principal designer of the service or product offerings? What do they need to come to market and then perpetuate the value?

Facilities and Production Assets: Where are the production facilities to be located and what characteristics are required for the facility site (existing talent pool, roads, Internet, airport, utilities, taxes, etc.)? What is needed to produce the product or service?

People Resources: I dislike "human resources" and prefer "people resources," but in any case, what talent is required to produce, deliver and service the offerings? How do you find them and how do you effectively get them on board?

Marketing: Let's assume you have a great offering that people will want – how do people know? Who is your customer, how do you reach them and what's your messaging? Are you sure that is the message they want to hear?

Sales: Hurray! They like your messaging! Now, how do you get them to turn that attraction into a transaction – to monetize your offering? You do realize that without this transaction occurring, there is no need to worry about pull or flow, right?

WHERE ARE THE PRODUCTION FACILITIES TO BE LOCATED AND WHAT CHARACTERISTICS ARE REQUIRED FOR THE FACILITY SITE (EXISTING TALENT POOL, ROADS, INTERNET, AIRPORT, UTILITIES, TAXES, ETC.)? WHAT IS NEEDED TO PRODUCE THE PRODUCT OR SERVICE?

Logistics & Delivery: How do you efficiently and effectively convey the ownership of your products or services from you to the customer?

Post-Sale Service: Once you convey your products or services to the customer, how do

ership, stewardship, mentorship and followership all existing;

... **the continuous and deliberate...** – not just always moving forward, but moving forward in an intentional and calculated manner, with not only a sense of purpose, but purpose itself;

... **improvement of company performance...** – This simply means to improve **profit**, a.k.a., the bottom line, EBIDTA, shareholder value, or whatever other euphemism that can be conjured up in the name of political correctness. There are many ways to facilitate the realization of increased profits, but make no mistake, businesses exist to make profits and their improvement efforts must yield greater profits.

The efforts to improve company performance should ensure the company is always innovative and competitively positioned in its value proposition to its present and future customers and to drive both short-term and long-term value. These efforts include (but by no means should be considered an exhaustive list): aligning the development of the offerings of the company to the desires of the marketplace and ensuring the messaging and sales efforts are effective in positioning these offerings; making sure the finance and equity structure are optimal to support the strategies of the company; validating the efficiency and effectiveness of the supply chain; and all other considerations including those that involve operations, such as Lean Six Sigma, theory of constraints, Total Quality Management, enterprise resource planning and the entire alphabet soup of other management methodologies, are embraced in the definition – and yes, even flow.

“... **AND the circumstances of those who work there...**” – in addition to improvements in company performance, improvements in the circumstances of those who make the company successful also must be equally considered. I specifically do not specify “pay” or “compensation” because it’s been my experience that what is important to each individual varies by the person (or group of people). Most people will not leave a company for five percent (or 10 percent or even more) in pay. They will leave if they feel disenchanting, disrespected, detached or undervalued. They want a sense of pride and ownership. They want their lives to be more joyous and they want to look at their job as a means to that joy. Company leaders who get this will reap great rewards both professionally and personally.

It is a colossal mistake for companies to believe that they can improve company perfor-

mance just by heaping more and more on the backs of their employees. It’s unsustainable and there is a breaking point that will eventually be reached. The company needs to set its pace for a marathon, not a sprint. There needs to be enough energy in reserve for a “kick” when needed.

“... **to pursue...** – this is a never-ending quest and will not ever be achieved;

... **Operational Excellence by Design...** – that this quest must be conducted with a sense of purpose and in an engineered fashion with: clearly defined goals; clear and concise plans communicated effectively and transparently; proper commitment, support and alignment throughout the organization; and strong leadership (and followership) during execution;

... **and not by coincidence.**” – Operational Excellence cannot be achieved by accident.

It has taken me a very long time to develop this definition (with many revisions over time and with even one made during the writing of this article) and I am sure there will be many of you who disagree with me. However, discourse

and debate are fair and welcomed. After all, even the definition of Operational Excellence should be subject to the mantra that is Operational Excellence – without the opportunity to improve upon it would be hypocritical.

This definition, applied throughout an organization and its value chain – from its vendor’s vendor to its customer’s customer

– is the “**Manifesto of Operational Excellence**” and, if pursued with vigilance, will result in your becoming a **high performance organization**.

This article first appeared on the website:
<http://www.xonitek.com> - October 18, 2012.



Joseph F. Paris Jr., is the Founder and Chairman of the XONITEK Group of Companies, an international management consultancy firm specializing in all disciplines related to Operational Excellence, the continuous and deliberate improvement of company performance AND the circumstances of those who work there to pursue “Operational Excellence by Design” and not by coincidence. He is also the Founder of the Operational Excellence Society, with hundreds of members and several Chapters located around the world, as well as the Owner of the Operational Excellence Group on LinkedIn, with over 25,000 members.
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