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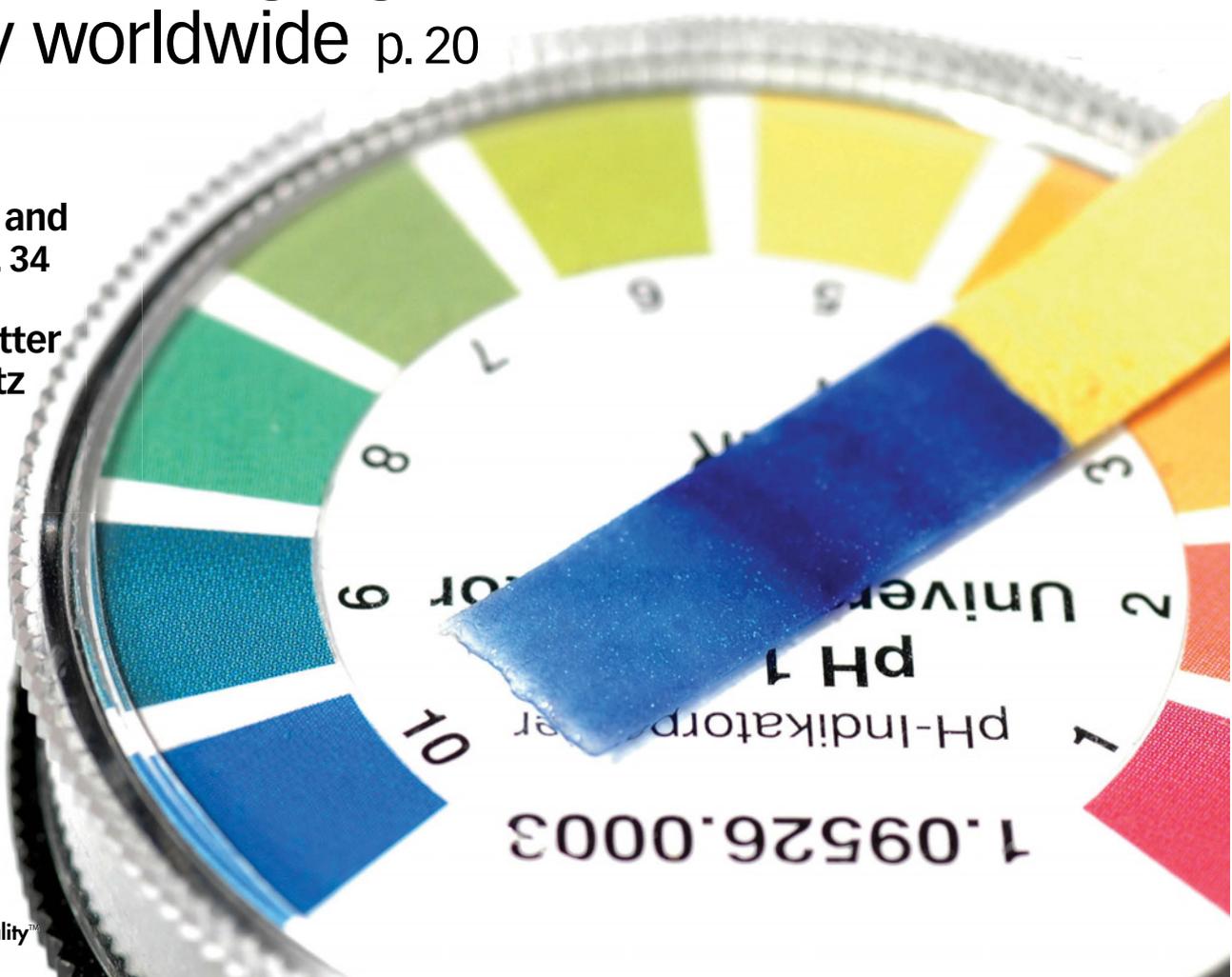The Story of a
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# RAISE THE BAR

## Taking your operational excellence initiatives **to the next level**

by Thomas Bertels
and Arne Buthmann

**In 50 Words Or Less**

- Operational excellence (OPEX) programs such as lean and Six Sigma can become sluggish after years of deployment.
- Often, it's necessary to review and refresh the programs to meet changing business needs and priorities.
- There are four approaches to taking an OPEX program to a new level.

**MANY LARGE ORGANIZATIONS** have invested in operational excellence (OPEX) initiatives, including programs such as lean or Six Sigma deployments. Some organizations are motivated by potential cost savings, while others are looking for culture change or a common language for solving problems. The organizations start by training and coaching high-potential employees, and providing useful tools and methods to improve processes.

Over the first few years, most programs deliver significant results, but at some point, they stagnate. The low-hanging fruit have been picked, the organization has become saturated with projects, and executive interest starts to wane. It seems time for a change. "Do we need to refresh the effort? Does the program need a course correction? Are we using our resources wisely? Does OPEX really add value, or should we discontinue the effort?" These are some questions OPEX leaders and executive sponsors start to ask.

How should you decide whether the program needs to change, where to go next and how to effectively manage the transition?

## Do we need to change anything?

The first step is to review the program's value proposition in the organizational context and consider the following five questions:

1. What results has the program delivered so far?
2. Is the investment into the program delivering an attractive return?
3. How do we measure success?
4. Are we on track to deliver against current objectives?
5. How are we creating value for the organization?

Examples of OPEX value propositions might look like this:

- Our team of OPEX specialists trains and coaches our associates in common tools and techniques for continuous improvement, delivering annual cost savings of $35 million.
- We have created highly skilled problem solvers and team facilitators who work on our most challenging manufacturing problems. As a result, the perfect order rate has risen from 33 to 98.7%, cost of poor quality has been cut by 75%, and yield is close to 98%.
- Our OPEX capability is crucial to our strategy of improving the competitiveness of our manufacturing function. In 2012, we completed nearly 150 OPEX projects and delivered almost $100 million in cost savings.

The second step is to look at sponsorship and governance. Do you have strong sponsorship? What happens if your main sponsor leaves? In general, how supportive is leadership? How engaged are key leaders in OPEX? Is their behavior aligned with OPEX principles?

Third, the OPEX brand and its positioning should be reviewed. What are we known to do well? What is the OPEX brand? How are we perceived by the business? Does OPEX have a positive image? How do we currently define the scope of OPEX? Are we working on high-value problems?

Next, capabilities and competencies should be explored. What do we do really well? Where could we improve? Where do we have gaps? What will it take to close those gaps? Are we attracting the right level of talent?

Finally, you should look at competition from other programs and efforts that vie for the same resources and at collaboration with internal and external partners. See Figure 1 for an overview of this five-part current-state assessment.

Every organization must reinvent itself from time to time. It's important to periodically review the status of the program and answer two key questions:
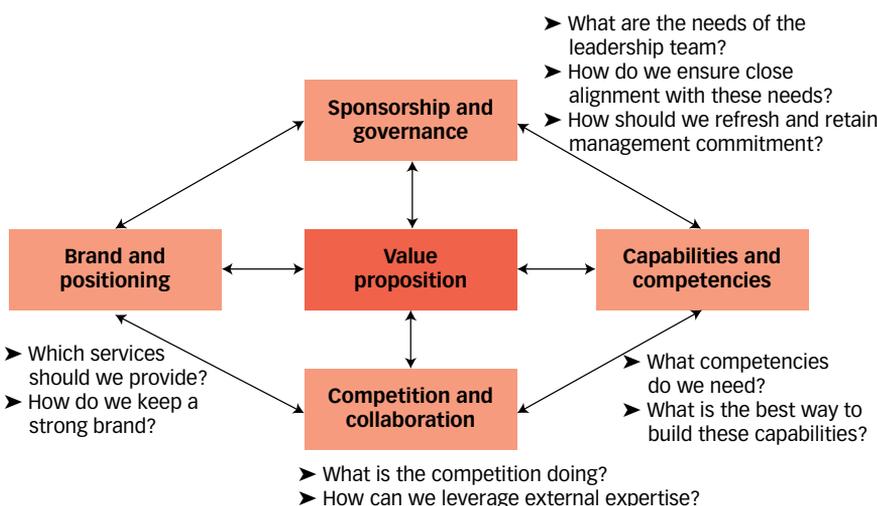
1. Are we delivering results?
2. Are we in sync with organizational needs and priorities?

A series of interviews with executives from various levels in the organization often complements the OPEX program leadership's point of view.

Such an assessment sometimes reveals the brand is still strong, and there's really no need for any significant changes. Other assessments reveal weakening sponsorship and interest from the executive team. Most programs require a major course adjustment after three or four years, but what are the options?

**Example:** A mid-sized leasing business had pursued an OPEX program for the last three years, with a focus on applying lean

# Current state assessment / FIGURE 1



➤ What are the needs of the leadership team?
➤ How do we ensure close alignment with these needs?
➤ How should we refresh and retain management commitment?

**Sponsorship and governance**

**Brand and positioning**

**Value proposition**

**Capabilities and competencies**

**Competition and collaboration**

➤ Which services should we provide?
➤ How do we keep a strong brand?

➤ What competencies do we need?
➤ What is the best way to build these capabilities?

➤ What is the competition doing?
➤ How can we leverage external expertise?

tools. A new leader for the program, recruited from the outside, concluded the program he inherited faced significant challenges:

- The value proposition was narrowly focused on process improvements.
- Sponsorship was weak: The executive who had initiated the program was long gone, and governance of the program was virtually nonexistent.
- The program did have a well-defined brand but was positioned as a remedy to deal with low-level process improvement opportunities.
- The program had a staff of 12. The new leader's direct reports, three Master Black Belts (MBB), had extensive experience and good technical skills but lacked business acumen.
- The program seemed to be operating in a bubble. The executive team was relying heavily on external consultants to tackle critical business issues.

## Decide where to go next

There are three alternatives to business as usual, all of which can take OPEX to a new level. The options are not mutually exclusive, and it's possible—but rarely effective—to pursue all three at the same time. Table 1 compares advantages and risks of the different options.

**1. Expand the program scope:** The first option means broadening the use of OPEX. In most firms, the OPEX program focuses on functional areas that are accustomed to talking about processes and efficiency, such as manufacturing and customer service. Many OPEX projects take their effort beyond operations and start pursuing projects in finance, sales, marketing or product development.

Often, the OPEX toolbox and strategy must be adapted to functional needs. Taking OPEX into the sales and marketing function, for example, often necessitates simplifying the curriculum, focusing on a few high-value problems and reducing the emphasis on process and data.

## Taking OPEX to a new level / TABLE 1

| | Expand program scope | Manage processes and align goals | Manage strategic projects | Continue business as usual |
|---|---|---|---|---|
| **Pros** | • Leveraging a proven approach.<br>• Cross-functional problem solving.<br>• Consistent method across the entire business. | • Embeds OPEX into the fabric of the organization.<br>• OPEX becomes a critical part of executing strategy.<br>• Get close to business leadership. | • Gain access to executive leadership.<br>• Expand the OPEX skill sets to work on important issues.<br>• Avoids process fatigue. | • Build on a proven track record.<br>• Create a culture of continuous improvement.<br>• Develop strong capabilities. |
| **Risks** | • Failure to adapt to functional needs.<br>• OPEX often seen as less relevant.<br>• Outside operations, often difficulty attracting top talent. | • Dependent on interest of functional leader.<br>• Organizational rejection: too bureaucratic.<br>• Requires multiyear commitment. | • Lack of project management, strategic thinking and change leadership skills.<br>• Competition from outside consulting firms. | • Program fatigue.<br>• Declining leadership attention.<br>• Becoming easy target for cost reduction. |

**Example:** A global consumer goods company had successfully deployed OPEX in its manufacturing function. Having addressed many issues, the company recognized that many problems, such as poor process capabilities or analytical method performance, were rooted in the R&D function. The company, therefore, engaged its R&D colleagues in a design excellence program.

**2. Manage processes and align goals:** The second option aims at taking OPEX from project to process levels. Instead of pursuing operational gains, the emphasis shifts toward managing processes end to end. Especially in industries and processes in which OPEX is critical for success, effective process management can yield enormous benefits and avoid local suboptimization.

A key foundation for process management is effective strategy deployment and functional alignment: How do we effectively cascade strategic goals, financial objectives and customer requirements, and align the various functional groups? A side benefit of this strategy is that it embeds OPEX principles and thinking into the organizational fabric and routines.

Adopting this strategy requires a transition from executing projects to coaching executives, building effective relationships with human resources, finance and strategic planning functions, and, most importantly, gaining sponsorship at the top of the organization. Adopting a process management approach often requires a fundamental change in the way the business

operates. Without a multiyear executive commitment to stay the course, the likelihood of success is low.

**Example:** A division of a large credit card business built a process management system for its operations using *hoshin kanri* to deploy strategic objectives, establish process teams and implement dashboards. During the first year, the leader of the program focused on building alliances with finance, integrating OPEX tools and principles into the annual planning cycle, and educating key leaders on managing with dashboards.

The team consciously limited the scope to the top three layers of the organization. During the second year, the emphasis shifted toward deploying a formal process management structure, building a scalable architecture for business dashboards and facilitating the process of deploying strategy. After the basic infrastructure was in place, the OPEX resources were transitioned to the business to support the individual business leaders, leaving only a small core team in place to provide ongoing education and to ensure the gains were sustained.

**3. Manage strategic projects:** The third option is to move from narrowly scoped process improvement projects to supporting strategic projects by leveraging existing OPEX competencies and capabilities. For this path to be successful, the OPEX team must be able to develop or source new skills and competencies—such as change management or program management—or partner effectively with internal and external groups to close gaps. Often, this requires upgrading the talent.

**Example:** Leveraging its internal Black Belt capabilities, an animal health company created a corporate program management office with five MBBs to support strategic projects and initiatives sponsored by members of the company's executive team. For specific projects, the MBBs often would partner with external consultants to augment their skills and capabilities.

**4. Business as usual:** The current state review actually may show the OPEX program is in good shape. Results may not be as exceptional as during the first years, but the project pipeline is filled, high-profile candidates to execute the projects are available, and leadership support is strong. The key to being successful with this approach is staying closely aligned with business priorities, focusing on flawless execution and attracting high-talent employees who see a stint in OPEX as a vital career booster.

**Example:** A multinational pharmaceutical compa-

ny has had its OPEX manufacturing program in place for more than eight years. The key to its continued success is that the OPEX toolkit is continuously growing to fit all types of improvements and works as an enabler for every new program—for example, continuous process verification, quality by design and inventory reduction.

## How do we transition effectively?

After the decision is made to change the program, the emphasis must shift to execution. The critical questions a program leader should ask are:

- Who are the key stakeholders that need to buy into the shift?
- What level of sponsorship is required?
- How do we quickly close the gap in skills?
- What investments are required to make this happen?
- What can we do to demonstrate value to the business as soon as possible?
- What are the key risks that must be managed?
- How can we accelerate the transition?

## Customized strategy

There is no single right answer for where to take OPEX next. The most suitable answer can be found by taking an honest look at the current state of the program, engaging program representatives and key stakeholders, and evaluating how to best add value to the business.

There are obviously myriad ways for an OPEX program to evolve. Start the journey by exploring the four basic options and developing a customized strategy that meets the needs of the business. Independently from the option chosen, the key success factors remain the same: strong leadership commitment and building the right capabilities to deliver results. **QP**

*THOMAS BERTELS is a founding partner of Valeocon Management Consulting in New York and responsible for the firm's life sciences practice. He holds an MBA from New York University's Stern School of Business. He is the editor and a main contributor of* Rath & Strong Six Sigma Leadership Handbook *(Wiley and Sons, 2003).*

*ARNE BUTHMANN is a director of Valeocon Management Consulting in Hamburg, Germany, and holds global responsibility for operational excellence. He earned a master's degree in organizational psychology from the University of Hamburg.*