

A NEW PERSPECTIVE ON **OPERATIONAL EXCELLENCE**

RESULTS INTERNATIONAL OPERATIONAL EXCELLENCE SURVEY 2013



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THE ART OF **MOBILIZATION**

PREFACE

In the current economic climate, and with the pressure on costs, it is quite logical that Operational Excellence is an important theme for most organizations. Although there is an intuitive understanding of what Operational Excellence stands for, we have noticed a significant shift in the driving forces behind Operational Excellence: not only shareholder value is important, but also employees, customers and suppliers are becoming increasingly important. More and more, there is an understanding that only in a sustainable balance, real Operational Excellence is possible.

We noticed this shift during an initial Operational Excellence survey in the Netherlands by the end of 2011 and decided to investigate the situation throughout Europe and expand our survey. This is what we have done in 2012 and beginning 2013. The results are inspiring: lots of improvement plans and ideas, a lot of potential identified and the acknowledgement that people are the key to realize all this potential.

As you will see in this report, there are many similarities between the countries in scope, but on specific topics, we also see variation, which is a very interesting starting point for further investigation and questioning.

Summarizing, we may expect a lot of action around Operational Excellence in the upcoming years and we hope that this report will stimulate and encourage organizations to progress with their ideas and plans!

We would like to thank the participants for their time and if you have any further questions regarding this report and what it means for your organisation, do not hesitate to contact us!

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1. MANAGEMENT SUMMARY

Operational Excellence more than ever a relevant topic

For the vast majority of organizations (81%), Operational Excellence will be an important topic for the coming years and more than 50% of the organizations indicate that they will start a new initiative on Operational Excellence. One of the main drivers for this is on the one hand the recent economic conditions and on the other hand the increasing demands of consumers, which leads to the need for quality products, against a reasonable price and fast delivery.

Similar objectives, different focus and approach

While the objectives for Operational Excellence are quite stable: higher customer satisfaction and lower operational cost, the priority has shifted. The focus is more on how to reach these lower operational cost, instead of looking at this as a goal on itself. There is also a shift in the functional areas on which they focus, more and more often this is on the less traditional ones.

Experienced organizations know the potential is in the people

When asking organizations about the potential of Operational Excellence, organizations indicate that this is both “Business Processes” and “People”, but more in the latter. Organizations that have experience with Operational Excellence underline the lack of focus on “People” in earlier projects. They acknowledge that “People” will determine the real success of something that looks good on paper.

Balance needed in Operational Excellence initiatives

Almost 80% of organizations are not really balanced in their approach of Operational Excellence projects. This is a missed opportunity, as for creating Operational Excellence, the input for: “People”, “Business Processes”, “IT Systems” and “Organization” are equally important.

Complex operational processes, the main roadblock

Important roadblocks for achieving Operational Excellence are complexity of operational processes and the lack of insight in these processes. Furthermore, lack of cooperation and knowledge are mentioned as important roadblocks. There is a paramount need for clear and proper documented operational processes, which for achieving Operational Excellence is a must.

Tailor made approach with the Operational Excellence Framework as a guideline

The results of this survey show great potential for organizations that will undertake on a new project. For those who will, we recommend a tailor made approach. In this report we introduced the Operational Excellence framework.

This Framework provides guidelines for an Operational Excellence project, (I) starting with the formulation of a clear vision, (II) translating this into more concrete plans and sharing this with the organization to (III) finally implement this. Throughout these three phases (Connect, Translate and Realize) continuous feedback cycles with all relevant stakeholders, plays a pivotal role.

2. BACKGROUND: JUSTIFICATION OF THE SURVEY

During the winter of 2012/2013 an international survey was carried out to look into the status of Operational Excellence in European organizations. Over 250 respondents from different industry segments and from six (6) different countries (France, Germany, Portugal, Romania, Belgium, Netherlands) have participated in this survey. The results show an interesting insight into several aspects of Operational Excellence and the plans and ideas that organizations have with regard to implementing Operational Excellence concepts.

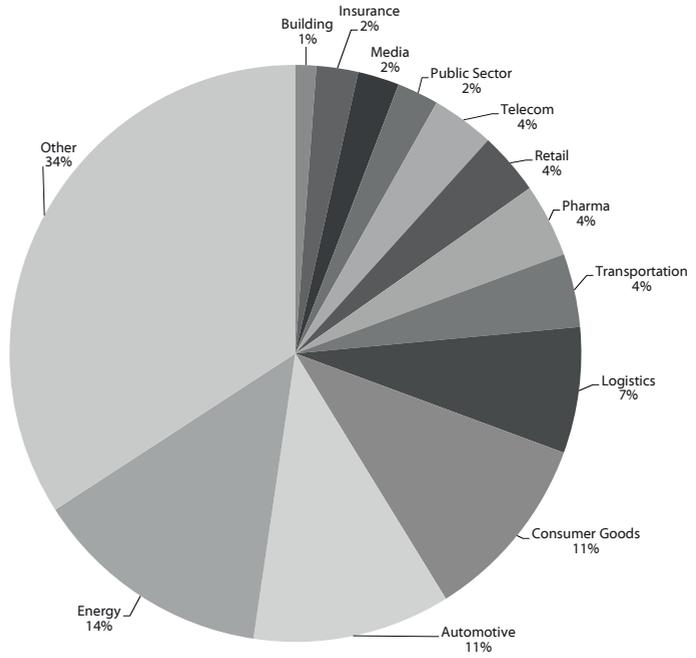
2.1. Objectives of the survey are to

- Establish the level of activities in the Operational Excellence arena;
- Analyse objectives of organizations active with Operational Excellence in the past;
- Create an insight into future plans with regards to Operational Excellence;
- Present an international vision on the status of Operational Excellence within Europe.

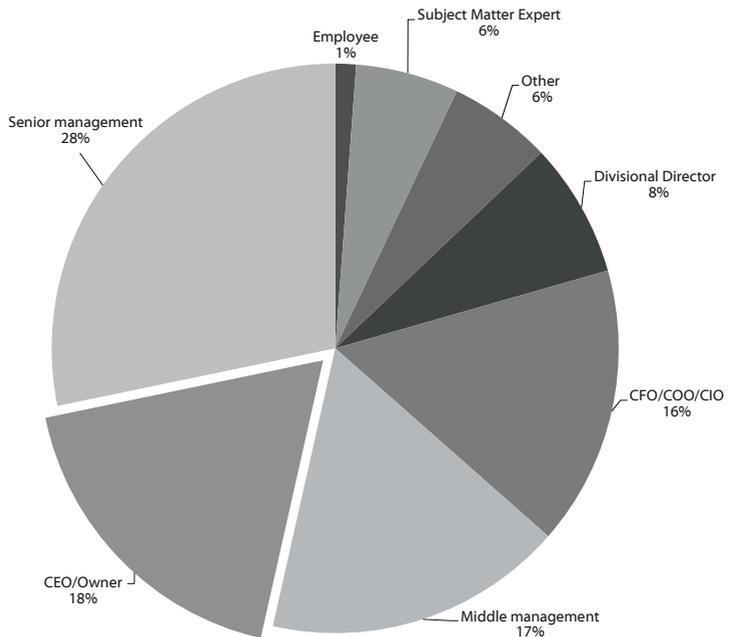
2.2. Results of the survey can be used

- To benchmark your own organization against overall results: learning from organizations in different segments, alignment of objectives and ideas;
- To use insights from other organizations in order to successfully implement your own Operational Excellence plans;
- To gather knowledge on the development of Operational Excellence during the past and coming years. Especially from the Energy sector, Automotive and Consumer Goods;
- To understand your local differences in approach and objectives.

Sectors



Positions



3. OPERATIONAL EXCELLENCE IN A NEW PERSPECTIVE

As touched upon earlier, there is a common intuitive understanding of the basis of Operational Excellence and its definition. Often it is associated with concepts as low costs, first time right and reliability.

Treacy & Wiersema (1994) describe Operational Excellence as one of three strategic options in their book: "The discipline of Market Leaders". The other two being "Customer Intimacy" and "Product Leadership". They argue that an organization will have to make an explicit choice for one of the strategic choices as this creates a clear view and will ultimately lead to better results. According to Treacy & Wiersema organizations should – next to their explicit strategic choice – have a minimum threshold for the other two.

Although we share this vision for the larger part, one has to acknowledge that the world has radically changed in the last decade. Developments like social media, e-commerce and the current economic crisis put pressure on organizations to deliver high quality products and perfect service for a reasonable price. In other words, organizations cannot afford *not* to be operationally excellent.

Operational Excellence can be considered as the basis. Innovations, mergers and acquisitions, and tapping into new sales channels for example can only prosper with Operational Excellence as a foundation.

This new perspective on Operational Excellence is generally acknowledged by the organizations that participated in the survey. It is more than saving costs and increasing shareholder value.

The new definition of Operational Excellence is about an integral involvement of employees, clients and suppliers in balance with shareholder value and corporate social responsibility.

The constant interplay is not a compromise between different interests, but a synergy as it can contribute in developing and providing the appropriate products and services.

Reliable products and services, delivered in time, with customer contact characterized by open communication and transparency, and above all reasonable priced.

Operational Excellence *OLD*

- Focus on low cost at expense of employees and customers
- Outsource to low costs countries
- Lowest level of service possible



Operational Excellence

- Focus on customer value
- Transparency, clear in communication with customers and other stakeholders
- Super reliable, excellent price
- Organisation aligned to new goals, able to respond to customers

NEW

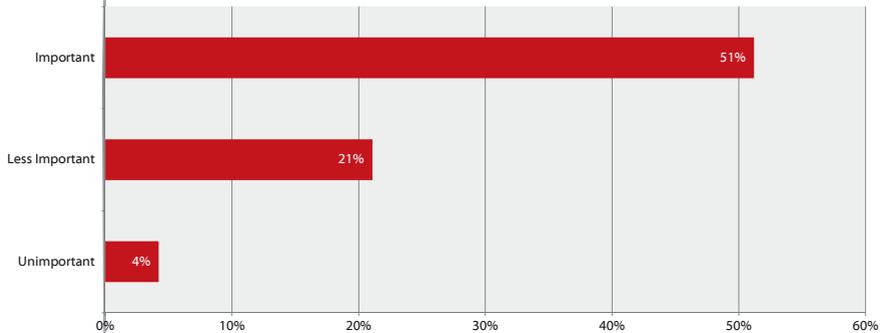


4. SURVEY RESULTS

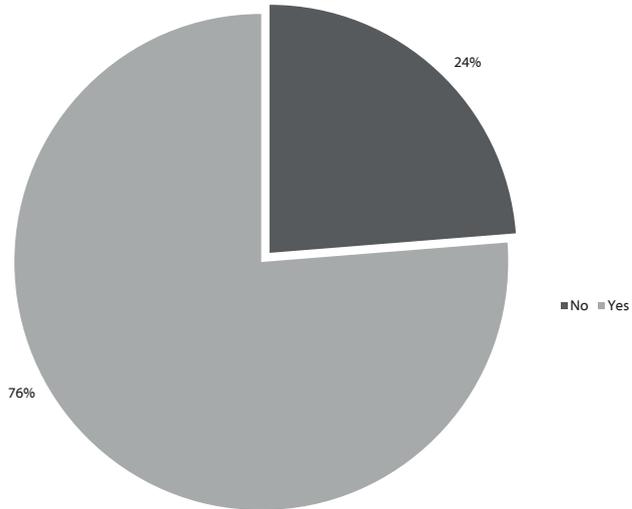
Operational Excellence remains an important theme for many organizations in the next few years. Over 50% of the participating companies indicate they will start Operational Excellence initiatives. Noticeable is the shift in objectives for future projects as compared to initiatives from the past. Summarizing, there are three main messages:

1. Operational Excellence remains a strong value proposition and will in the future encompass more elements of flexibility and employee satisfaction;
2. Operational Excellence projects still tend to have a primary focus on processes and systems with relatively little attention for the human elements;
3. Improvement potential is still to be found within business process optimization, but people will make the real difference!

Importance starting a (new) initiative



- In the next few years, Operational Excellence initiatives will be important for over 50% of the participating organizations



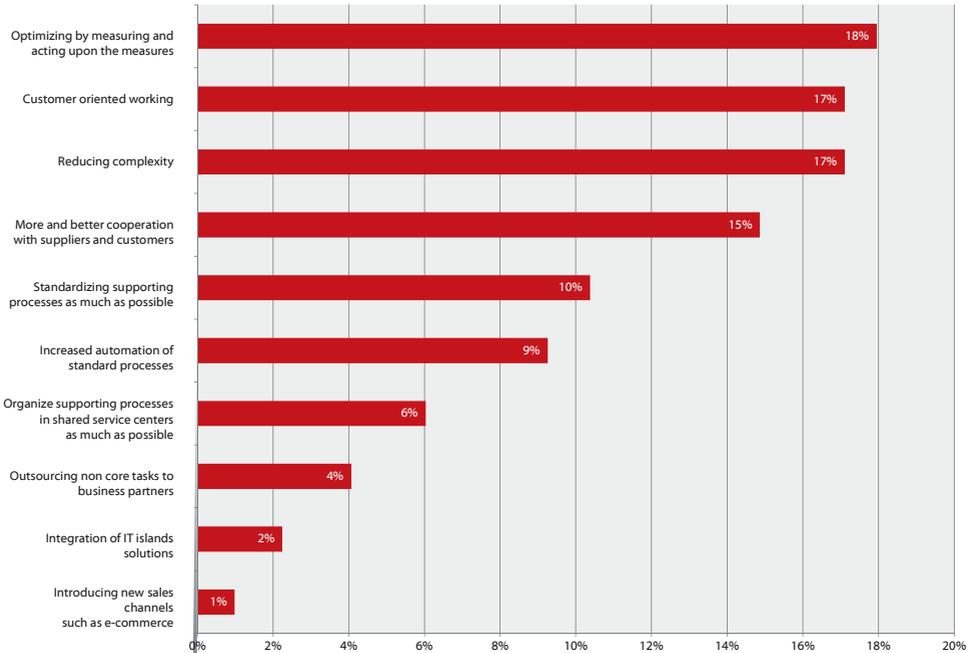
- More than 75% of the organizations have experience with Operational Excellence initiatives

4.1. **How Operational Excellence is defined**

How do we define Operational Excellence? As indicated, Eurogroup Consulting notices a shift in the definition of what most companies perceive as Operational Excellence. The survey shows that participating companies also see this shift. The most important elements that companies indicate as part of Operational Excellence are:

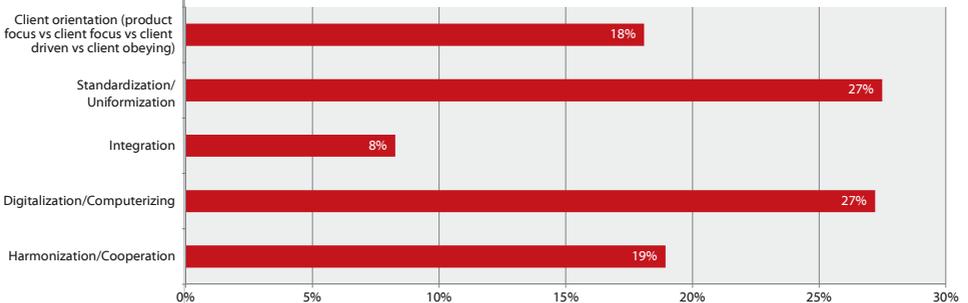
- Optimizing by measuring and acting upon those measurements;
- Stronger customer orientation;
- Reducing complexity

Associations



- When we dig deeper, client orientation, cooperation, standardization and digitization are key elements. This is clearly different from the traditional “low costs” definition

Associations (clustered)

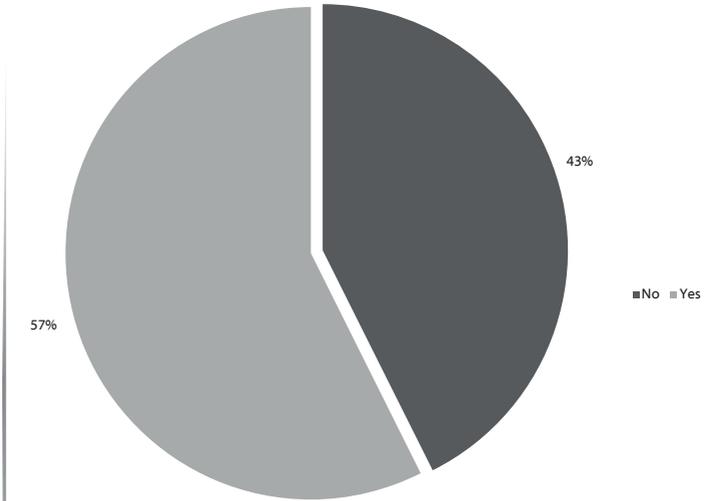


- Operational Excellence: client orientation, cooperation, digitization and standardization

4.2. Comparing the present with the past

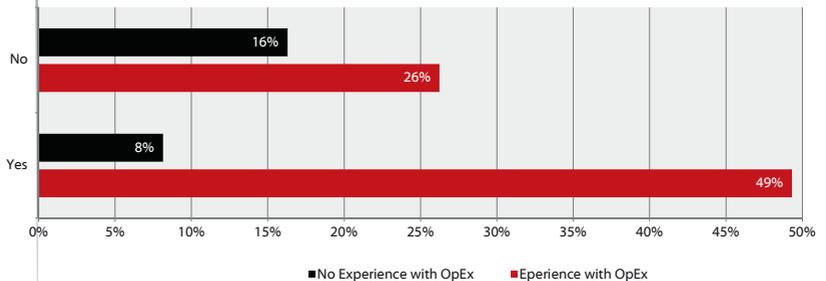
Operational Excellence is a popular topic. Almost half the participants has plans to start a new Operational Excellence initiative. These are often organizations that already have experience with Operational Excellence and have seen the potential.

Organizations starting a new Operational Excellence initiative



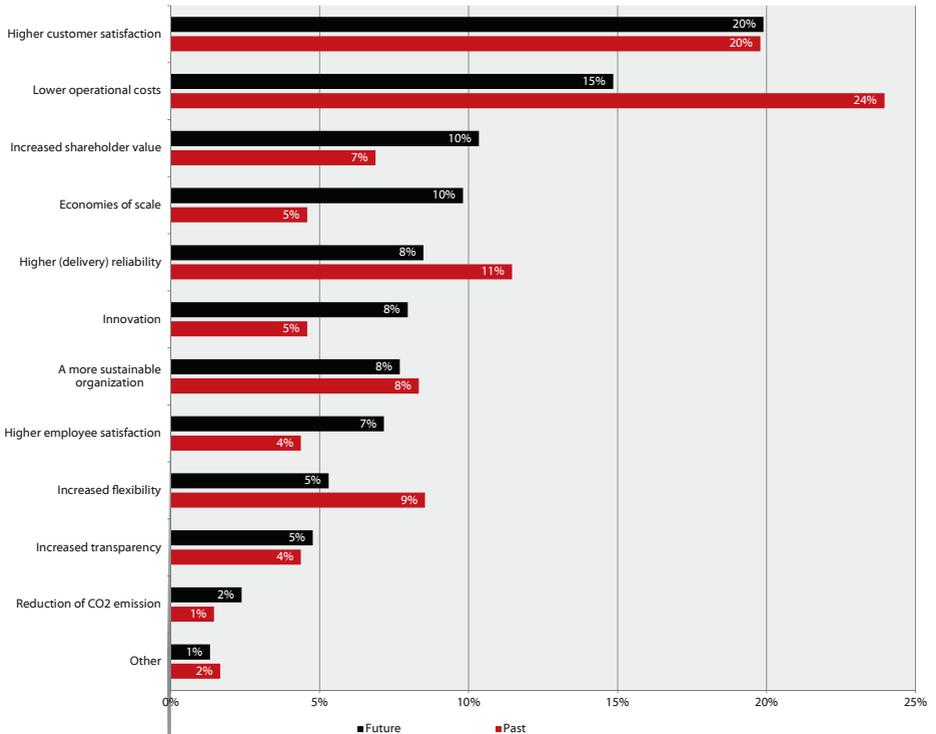
- Almost half the organizations plans to start new initiatives

Starting (new) initiative



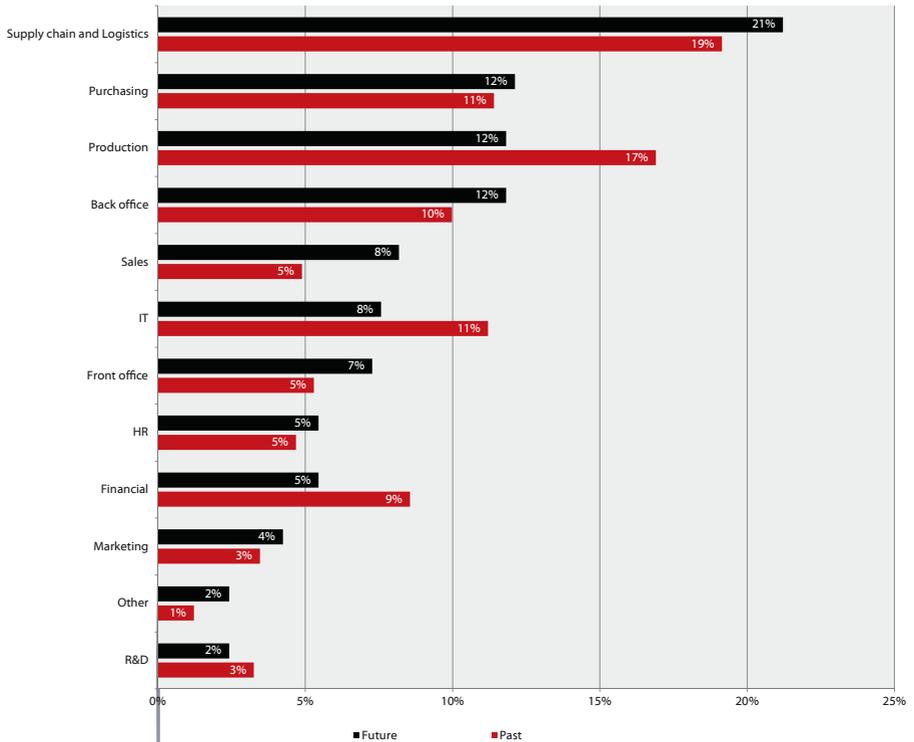
- New initiatives are often started by experienced organizations

Objectives



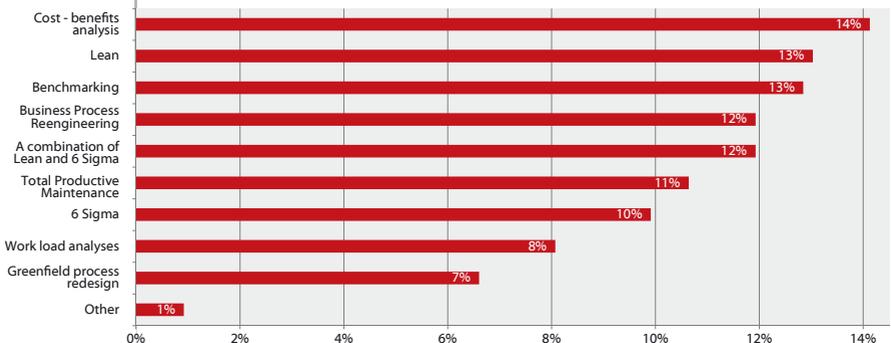
- The most important objectives in the past and also in the future for Operational Excellence are higher customer satisfaction and lower operational costs. Increase shareholder value comes on the third place as objectives for future initiatives;
- Lower Operational costs will be considerably less often the objective for Operational Excellence initiatives while economies of scale increase as an objective. A possible explanation is that the focus is no longer solely on costs, but more on possible ways to do this

Focus



- The focus on production, IT and financial for Operational Excellence will decrease in the future and a light increase can be noticed for Supply Chain and Logistics, purchasing, back- and frontoffice

Methods and techniques

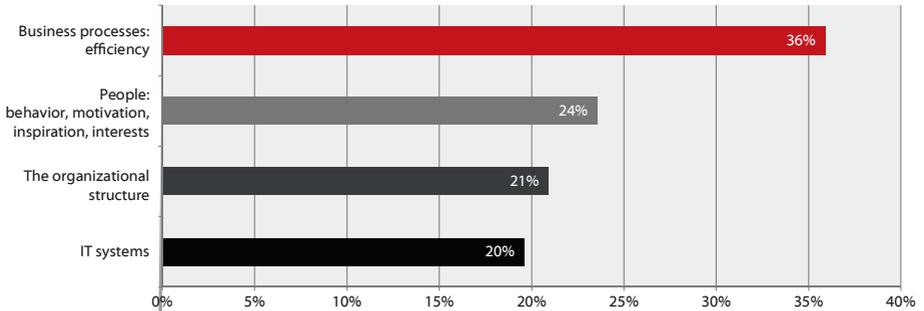


- Methods like Lean, BPR, benchmarking and Costs-Benefits analysis have been the most popular

4.3. The potential for Operational Excellence is in creating balance

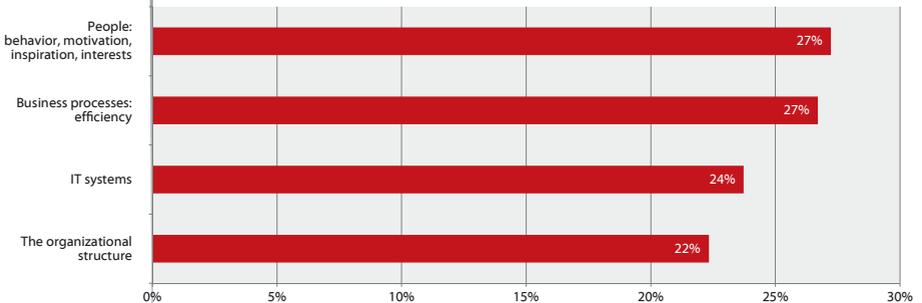
The combination of people, processes, the organizational structure and supporting IT systems is the foundation of every organization. This is also valid for Operational Excellence projects. In order to make Operational Excellence projects a success, these four elements need to be in balance. The survey indicates that most attention is paid to improving business processes.

Focus (clustered)



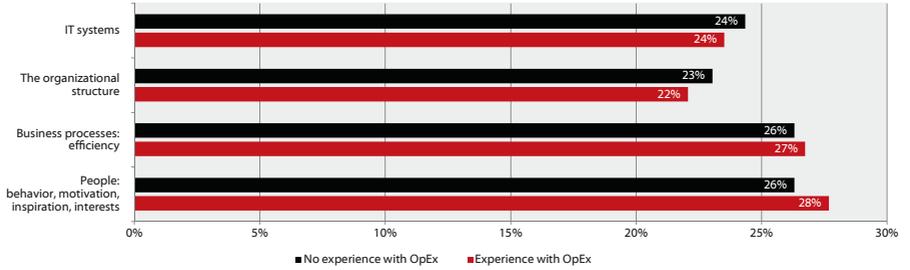
- Most attention is paid to business processes;
- For the future, "People" are seen as the most important success and improvement factor

Potential (clustered)



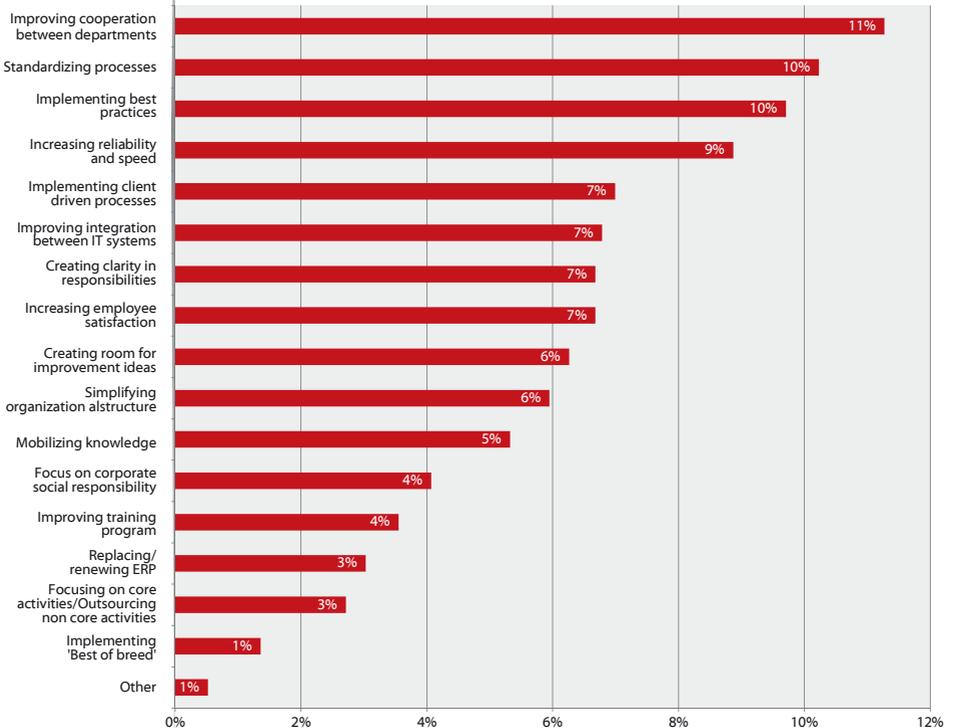
- Organizations with experience in Operational Excellence projects tend to see the biggest improvement potential in "People", with "Business Processes" still a strong second. For inexperienced organizations, "Business Processes" and "People" score at the same level

Potential



- Organizations with experience see “People” as the largest source of improvement. When we zoom in on the specific improvement potential areas, we see that the top five topics are mainly aimed at the areas of “Processes” and the top ten topics is a combination of “People” and “Processes”.

Potential (specific)

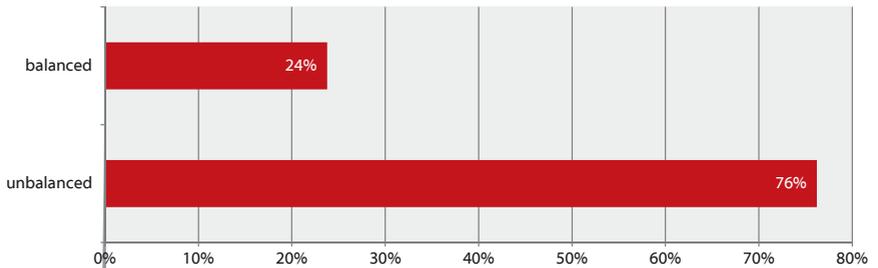


- Improvement is possible by improving cooperation between departments and standardization of processes.

From experience with organizations that have done Operational Excellence projects before, it appears that it is very important to create a balance between the four elements mentioned before. For future projects it is strongly recommended to create and maintain this balance right from the start.

When looking at the results, it is noticeable that almost no organization is really balanced. Most organizations have elements that are clearly running behind or in front.

Balance elements

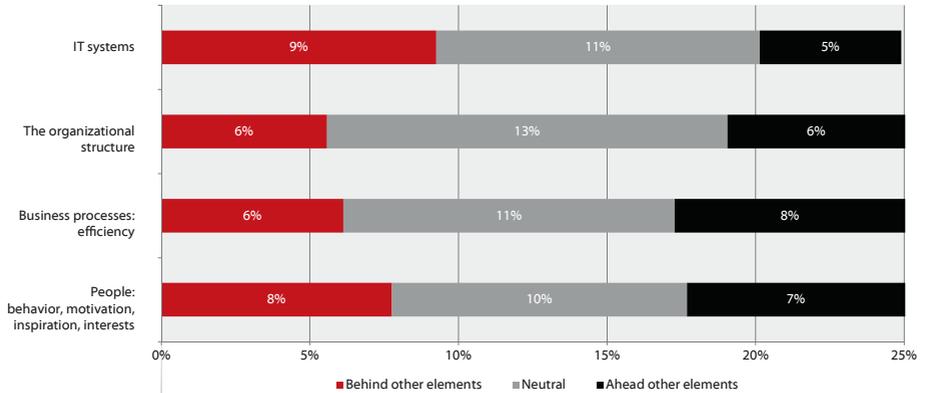


- The four elements “People”, “Business Processes”, “Organizational Structure” and supporting “IT systems” are unbalanced in almost 80% of the cases

Organizations that want to create a balance between the four elements can best concentrate on “People”. For this there can be thought of creating clarity in roles and responsibilities, investing in employees in providing training to mobilize knowledge for example. The survey shows that this element is most often ahead or behind in the balance. Also experienced companies indicate that this is the most important, however it gets the least attention. This means this is a risk.

The “Organizational Structure” has the highest balanced-score, “IT systems” is also not a very balanced element. All in all, it can be said that in order to become successful in Operational Excellence, balancing these four elements is a prerequisite.

Balance elements



- The “People” element is often out of balance, “IT systems” are often behind

4.4. Operational Excellence in the future

In defining new Operational Excellence initiatives, it is essential to determine beforehand what the risks are and what possible roadblocks could be in the way of success.

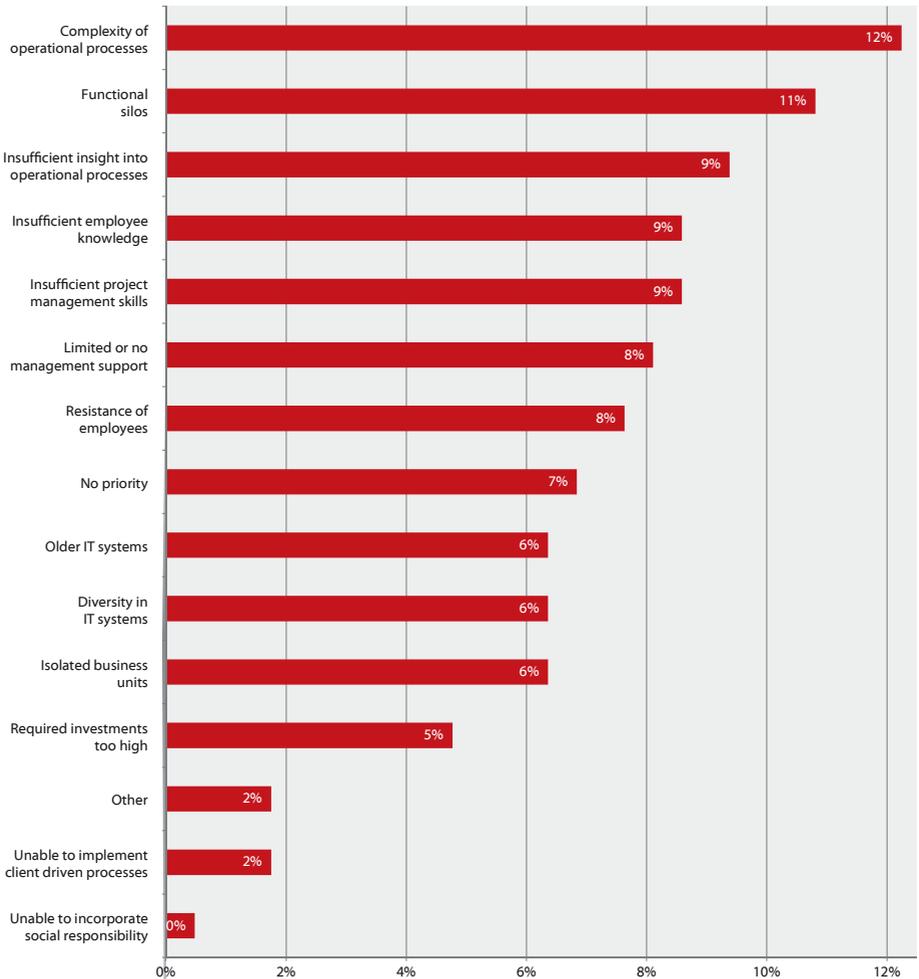
For all organizations planning to start new initiatives (almost 65% in this survey), it makes sense to be aware of the experiences of others. In this report, a number of issues has been discussed that can be of value for organizations embarking on Operational Excellence journeys, like focusing on the right functions, concentrating on the highest improvement potential areas and creating balance. However, there are a number of additional points to be made:

We have asked the participants which roadblocks they have experienced in realization of their projects. The most important roadblocks are:

- The complexity of operational processes
- The existence of functional silos
- Insufficient insight into operational processes

Next to this, insufficient employee knowledge and insufficient project management skills also rate high. Again a clear link to the four elements mentioned before.

Roadblocks

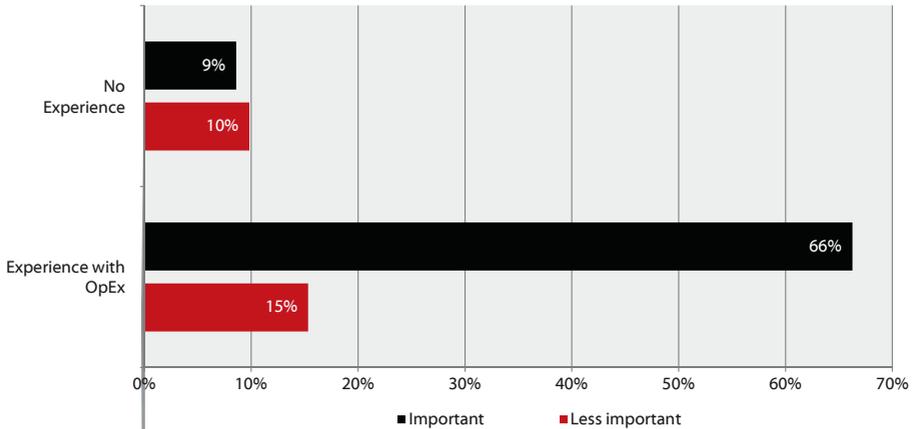


- Complexity of operational processes and the existence of functional silos are the main roadblocks

Learning from experience

Organizations planning to start new initiatives can use the experiences of other companies to their advantage. By mapping roadblocks and risks in advance, the course of the Operational Excellence projects can be made lighter. That this can deliver good results is shown in the results below: experienced organizations rate future Operational Excellence projects significantly higher than those without experience.

Importance in the future



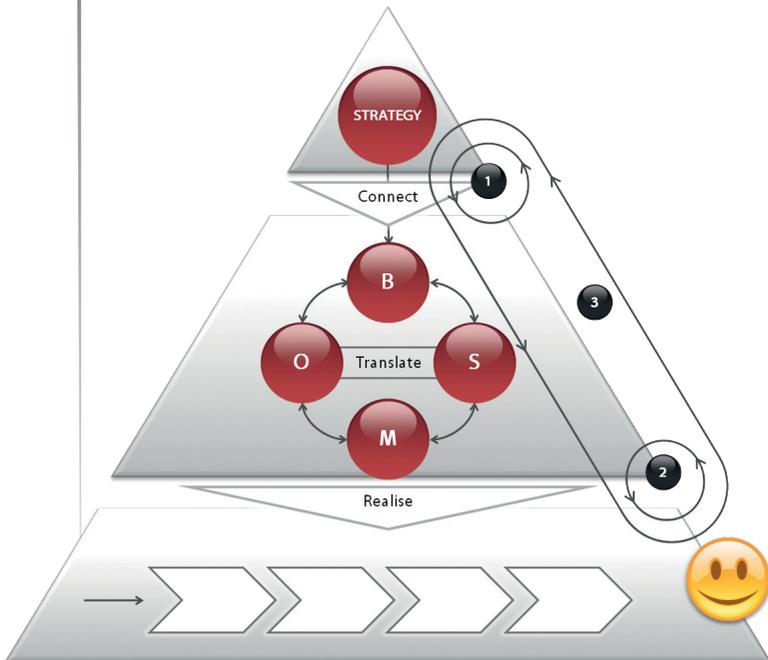
- Experienced organizations know that Operational Excellence is important for their future

5. THE OPERATIONAL EXCELLENCE FRAMEWORK

Every organization is unique; the existence of one single solution that would be appropriate for each and every organization is therefore very unlikely. This does not mean by definition that the methods earlier mentioned are inappropriate. Nevertheless, these methods should be seen as tools to create Operational Excellence, which can be used when this suits the challenges that the organization faces.

In order to provide guidance for Operational Excellence missions and based on our experience, we have created a framework. The framework consists of three levels: the strategic level, the tactical level and the operational level.

In executing an Operational Excellence project, the levels are connected in the phasing of the project: connect, translate and realise. In this paragraph the three levels of the framework will be explained. Later on, the phases of the project will be explained further.



Strategic level

Strategic goals are to be set by the management of an organization. In the end, the management of an organization is responsible for making strategic choices and can also be held accountable for the consequences, positive or negative.

There are however different means to determine the course of an organization. This can be created in an ivory tower with the involvement of members of higher management only, but this can also be done with the input of the whole organization.

Tactical level

On this level, the strategic goals are translated into a clear design of the four so-called tactical levers (Business processes, Organization, Systems and People). It is our belief that in order to be successful, all these levers need to be mature and balanced with each other: best practice processes cannot be supported by hotchpotch IT systems. A state of the art IT system is useless with an untrained workforce, etcetera.

Operational level

On daily basis execution of operational processes the level of excellence shows. This is where the customers notice how well they are served and how well the cooperation and communication work. On this level, the reliability of products and services is measured. This is also the level where feedback from customers, suppliers and employees has to be gathered in order to continuously improve.

In this following part the different phases are explained in more detail.

Phase 1: **Connect**

In the connect phase, a strategic vision will be formulated, creating a clear view on the future of the organisation for the coming years. To establish this view, the input of employees and customers can be used to create a vision which is supported by the majority of stakeholders. This can be done by using 'mobilization workshops', 'the voice of the client', analyses and benchmarks for example.

Here, a blueprint can be created to determine the current and future status of the four factors, business processes, organisation, systems and people, thus the whole organisation. This is important since it enables the identification of the improvement potential.

CASE STUDY

A waste disposal company decided to focus on their purchasing function. The vision was that by professionalizing purchasing, costs could be saved and a more reliable delivery of services and incoming goods could be guaranteed. By a combination of professional assessment of the potential and involvement of all key people by means of mobilization workshops, the vision was made tangible and translated into short term and medium term projects.

Typical scenarios that can be considered are:

- Outsourcing of non-core - and insourcing core processes
- Integration or differentiation of departments/business units
- Standardization or unification of processes and decreasing complexity
- Automating standard processes
- Digitalization of quality control or performance indicators
- Aligning business processes with the focus on customer value

Furthermore, once the desired to-be situation has been formulated, and the current status is known, a roadmap can be distilled.

Phase 2: Translate

In the translate phase, the strategic goals and vision that has been established in the connect phase will have to be 'translated' into more concrete plans. Here, the four tactical levers: business processes, organisation, systems and people are very important. These four factors will have to be formed or developed according to the strategic ambitions. The performance of these four tactical levers, determine the performance of the whole organisation.

What is important in Operational Excellence projects is the balance between the different factors, because imbalance will lead to errors caused by the shortcomings of one the levers.

For the creation of more concrete plans so called “T-teams” can be created to work on the different opportunities of improvement potential, that have been identified in the connect phase. These T-teams can be formed by people from the business and managers, so there is a constant feedback between different levels of the organisation. Moreover, this enables employees to put forward their own ideas on concretization of the strategic ambitions.

Typical activities in this phase are:

- Planning
- Formulating plans and actions
- Developing organisational models
- Designing templates
- Formulating business cases

CASE STUDY

One of the largest telecom organizations in the Netherlands was involved in the takeover of another telecom organization. In the light of the post-merger project new processes and departments had to be defined and implemented for the business unit Customer Service.

Planning and design of processes have been made to enable a successful realization of a new Contact Centre.

Once actions and plans have been formulated in the teams, also time phased implementation plans can be made including business cases.

The various inputs of the teams can eventually be consolidated into an overall implementation plan and business case. Here, it can be useful to make a planning with a distinction between several ambition levels. In other words, quick wins for the short term, more difficult changes for the mid-term and the more profound projects and plans for the long-term.

Phase 3: Realise

When an overall planning and business case has been created, the next phase can be started. In the realisation phase the changes will actually be implemented in the organisation. To be successful in this phase, it is of utmost importance that the first phases have been executed properly, since a premature start of this phase is a recipe for disaster.

“R-teams” are formed in this phase to ensure a structured implementation of the plans to utilize the improvement potential.

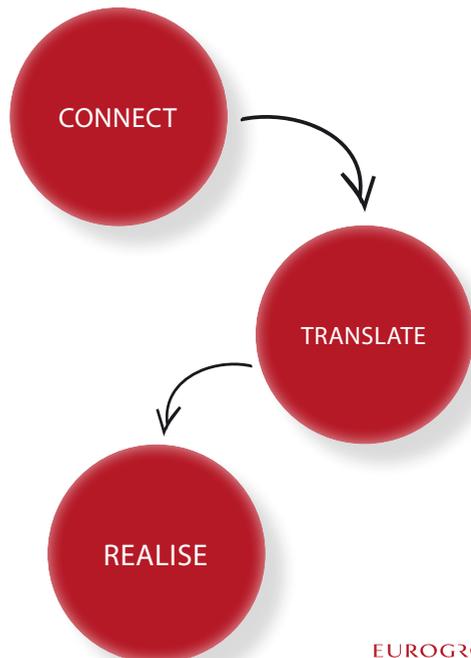
Typical activities that are important in this phase are:

- Project management
- Change management
- Performance tracking
- Risk and quality management

CASE STUDY

A large publisher participates in a yearly benchmark of its advertisement process. By comparing with best practices on the one hand, and tracking year-by-year performance of itself, a process of continuous improvement has been established, leading to improved cost control and awareness for potential improvements.

Next to the structured implementation, R-teams also make it easier to keep informed about problems, progress and challenges the business faces. Important in this phase is keeping the momentum and mobilize employee. Momentum is important enable a quick implementation of plans as mobilization of employees is a requisite to create sustainable Operational Excellence.



6. CONCLUSIONS

A lot of organizations have experience with Operational Excellence, so for many organizations this has been a relevant topic and looking at the high percentage of organizations who will start new initiatives, it still is. Moreover, the organizations that have experience are more inclined to start new projects, since they have seen what the benefits of Operational Excellence can be.

As indicated earlier, Operational Excellence is not something new, but we have noticed a shift in the definition and the use of it. While it is still about saving costs, the approach towards how to reach this goal and where to focus on has changed. The objective is no longer solely on cutting cost, but for example higher employee satisfaction is more likely to be an objective of Operational Excellence. Also the focus shifts towards other, less traditional functional areas, like purchasing and back or front office. As this is unknown territory for many organizations, they should take into account that other approaches might be needed in these cases.

Notable is that the methods used to achieve the objectives set, are still quite traditional. Methods like Lean, Business Process Reengineering and Cost-Benefits analysis remain the most important methods used. The use of less traditional or more general models and methods would be more suited to align with these changing needs.

For future projects, organizations could learn from organizations already having experience and making use of the lessons learned. In the past organizations mostly focused on "Business Processes", while for the future, organizations see the highest potential in "People", which is in line with also the change of definition and objectives. This effect is stronger for organizations having experience with Operational Excellence.

We believe that the focus on different elements, like “Business Processes”, “Organization”, “People” and “IT Systems” should be balanced. This is also one of the reasons why organizations with experience have other priorities as they acknowledge the need to focus also on other elements than “Business Processes”. From the participating organizations a vast majority focuses too much on one of the four elements, instead of having a balanced focus in their projects, which means that there is room for improvement in this perimeter.

Also the different roadblocks of Operational Excellence are important to take into account for future projects. A general tendency is that the complexity of operational processes and also lack of insight are seen as major roadblocks for achieving Operational Excellence. Having a good view on the current operational processes will support in locating the crucial constraints in processes, which on his turn enables improvement.

The defined ‘Operational Excellence Framework’ could support organizations, which are about to start an Operational Excellence initiative: formulating a clear view on the future together with the organization and clients (Connect), sharing this with the organization and translating this into more concrete plans (Translate) and after that working together with the organization to execute this (Realize), to really become an Operationally Excellent organization.

We wish all organizations that will work on Operational Excellence the coming years all the best in achieving this!

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