



Achieving Operational Excellence is now more crucial than ever. As competition intensifies and expectations for high performance rise, companies have increased their focus on achieving higher levels of operational performance. This is why about 80-90% of Fortune 500 companies have implemented some form of a Lean, Six Sigma, or Operational Excellence program. Unfortunately, only about 30% achieve their

expected results. This is more disappointing when you consider that many have been left with greater levels of bureaucracy and cost than they started with. In this Vantage Point, we will explore the characteristics of companies that defy this trend by successfully deploying management systems to achieve Operational Excellence while simultaneously removing large chunks of cost and overhead.

What is a Management System?

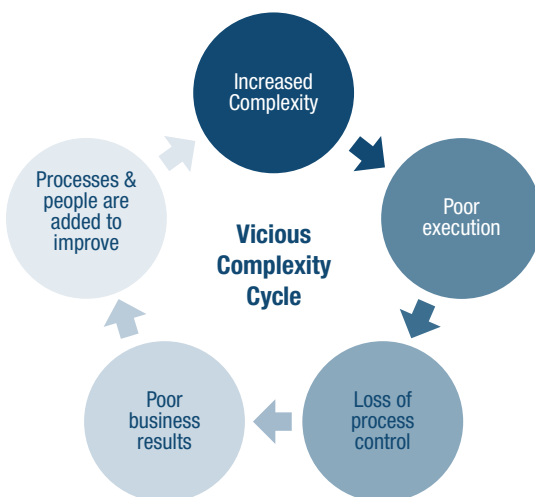
A management system is simply the collection of processes and procedures that a company uses to manage its operations in order to achieve a particular outcome. For instance, a Safety Management System is a collection of processes that a company uses to ensure its operations are conducted safely. A Compliance Management System ensures that a company's operations comply with applicable regulations. An Operational Excellence Management System establishes the management processes necessary for a company

to achieve excellence across all operational performance measures. Typical management system processes will include setting goals and targets, assigning accountability, implementing procedures, training employees, and auditing against requirements. All companies have some form of a management system. Unfortunately, many companies don't think very deliberately about their management system, and as a result it grows organically over time, often resulting in a complex, inefficient, and ineffective system.

As processes become more complex, they become difficult to manage, resulting in poor execution, loss of process control, and eventually poor business performance.

The world has changed!

The world has changed considerably over the last two decades. Email, the Internet, and now social media have radically increased the interconnectedness of the world. Globalization has led to increased competition, forcing companies to expand product portfolios and build organizations to support increasingly complex manufacturing processes and supply chains. Government regulation has become progressively more active, forcing companies to create new organizations and processes to ensure compliance. All these changes have dramatically increased the complexity of companies' operations, and the pace of change continues to accelerate.



Against this backdrop of change and increasing complexity, companies are being held to higher and higher standards by customers, shareholders, regulators, and society. Companies' strategies to compete in the global marketplace will not be sustainable if they are unable to consistently and reliably execute them. In addition to potentially not meeting customer needs, any incident or pattern of performance that injures employees or damages the environment will be met with stiffer penalties from governments and stronger reactions from consumers. The news of any incident travels quickly and is covered more intently through the 24 hour news cycle.

At the same time, to cope with this external complexity, companies create increasingly complex internal organizations and processes. As processes become more complex, they become difficult to manage, resulting in poor execution, loss of process control, and eventually poor business performance. This effect has become so prominent that strategy is often no longer the key determinant of business results—companies' ability to execute their strategies has become significantly more impactful. In fact, many firms have become unable to execute any strategy effectively. Kaplan and Pateman report that a global survey of 1,854 large

corporations shows 7 of 8 companies failed to deliver profitable growth, though 90% of companies had detailed strategic plans with much higher targets.

Many companies have implemented formal management systems in an attempt to improve execution and achieve Operational Excellence. Formal management systems have existed since the 1920's and came to the forefront with the ISO 9000 Quality Management System in 1987. Since that time, more than 1 million organizations have been independently certified as ISO 9000 compliant. In addition, many more management systems have been developed for managing safety, environmental sustainability, regulatory compliance, risk management, maintenance, and other aspects of a company's operations. While a few companies like Chevron, Exxon and Koch Industries have had tremendous success with their management systems, many other companies have found their management systems have become bureaucratic, costly, and ineffective. Even worse, they have found their management systems added more layers of complexity that further weigh upon the companies' performance.

Having multiple management systems adds non-value added complexity and costs

Management systems have seen prolific growth over the last several decades. The International Organization for Standardization (ISO) alone has issued more than a dozen management systems in which a company can be certified. These management systems include safety, environmental, compliance, risk, quality, asset management, etc. Many other organizations also prescribe management systems. The Occupational Safety and Health Administration (OSHA) requires that companies that deal with high hazard chemicals implement a chemical process safety management system. The Environmental Protection Agency (EPA) recommends implementation of an Environmental Management System. In addition to these management systems, there are also continuous improvement methodologies such as Lean, Six Sigma, Total Quality Management, Total Productive Maintenance, etc., that contain many of these same management system processes.

Unfortunately, because most management systems today are designed to achieve a single outcome (safety, compliance, quality, etc.), many companies have fallen into the trap of implementing multiple management systems. What they haven't realized is that the vast majority of these systems contain exactly the same processes. For instance almost all management systems require processes for setting goals and targets, identifying risks, implementing procedures, training employees,

and conducting audits. By implementing multiple management systems, companies unintentionally create redundant processes and needless overhead.

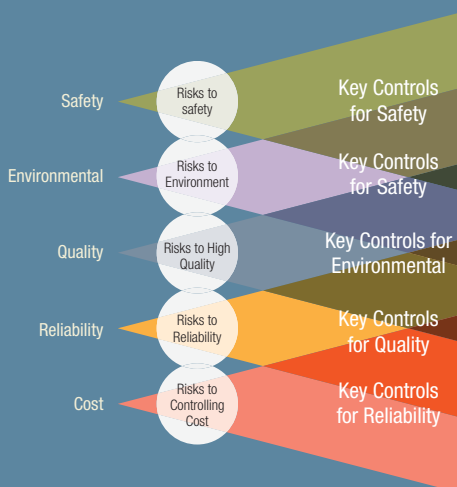
For instance, if a company has implemented a safety management system, an environmental management system, and a quality management system, it is likely that they have created three separate sets of training processes, with three separate training organizations. That means employees may have to go to training three different times, and there could be three different teams to manage the different programs. It would be far more effective and efficient to create a single training process managed by a single group. Likewise, we have seen companies that have separate sets of safety procedures, environmental

procedures, quality procedures, and operating procedures for the same manufacturing processes. That's four separate documents. And they wondered why the operators didn't use the procedures!

By implementing an Operational Excellence Management System that is designed to drive exceptional performance across all operational outcomes, a company can consolidate and simplify multiple management systems into one. This dramatically reduces the bureaucracy and overhead necessary for managing the multiple systems.

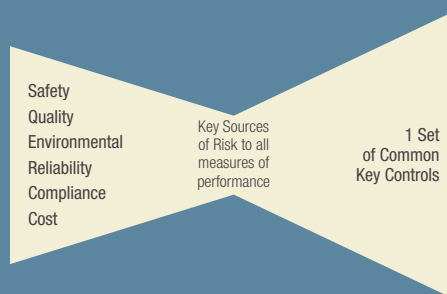
For some of our clients the opportunity for cost reductions has been as much \$50 million. And that doesn't include the results of improved performance that come with reducing complexity.

Common Management System Approach



- Overlapping ownership
- Duplicated effort
- Higher cost

Operational Excellence Management System



- Increased performance
- Accelerated learning
- Reduced cost and overhead

There is a better way

Through our research and experience helping clients implement world class management systems, we have identified 10 key characteristics of Operationally Excellent companies. These characteristics allow them to leverage their management system to achieve higher performance than their peers while cutting cost and complexity. Specifically, operationally excellent companies:

- 1 Have committed **leadership that believes Operational Excellence can only be achieved through a systematic, disciplined approach to managing the company.** They believe that managing operations isn't an art, it's a science. Furthermore, they believe that the core management processes that are necessary to achieve excellence don't change from one operation or department to another.
- 2 **Define Operational Excellence through the results it achieves.** Many organizations fall into the trap of defining Operational Excellence as a philosophy, methodology, or set of tools. As a result, they fall into the trap of believing

that because they have implemented a particular methodology or set of tools that they are now Operationally Excellent. A better definition of Operational Excellence is the execution of the business strategy more consistently and reliably than the competition. Operational Excellence is evidenced by results. Given two companies with the same strategy, the Operationally Excellent company will have lower operational risk, lower operating costs, and higher revenues than its competitors, which creates value for customers and shareholders.

- 3 **Set high targets for safety, quality, productivity, cost, and other operational performance indicators, and they judge the effectiveness of their management system through its contributions to achieving those targets.** For those companies that are successful, the primary purpose of the management system is to achieve industry leading performance. Therefore, they don't measure success of the management system by counting the number of findings from external auditors.

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- 4 **Implement a single Operational Excellence Management System designed to achieve Operational Excellence, rather than several separate management systems to achieve excellence in individual dimensions of performance** (e.g. safety, environmental, quality, reliability, etc.). They recognize that the management processes necessary to achieve excellence in safety are not different than those required to be excellent in quality, regulatory compliance, productivity, or cost.

By implementing a single management system, they dramatically reduce the complexity of their organization.



Wilson Perumal & Company 7 Element Operational Excellence Management System

- 5 **Develop logical and efficient management systems made up of mutually exclusive, collectively exhaustive groups of controls** to ensure value chain processes are executed consistently and reliably. The logic and clarity in the structure of these successful management systems make communicating, understanding, and using the management systems easier.
- 6 **Assign clear ownership and governance for the processes that make up their management systems.** The requirements and expectations for those processes are clearly communicated to employees through standards and procedures. Defining authority for who can create or modify a standard or procedure, as well as the scope of that authority, establishes a clear chain of command. In other words, the company is managed through clear and consistent standards, rather than by politics and horse trading. This ensures employees understand what is expected of them, and drives standardization across the company, further reducing non-value added complexity.
- 7 **Integrate implementation of the management system into the business planning cycle.** They don't treat it as a separate project to manage. When leaders are asked how they plan to improve their business performance over the next year, they answer by explaining the gaps they plan to close in their management system. Creating a separate planning cycle for the management system only serves to add more complexity.

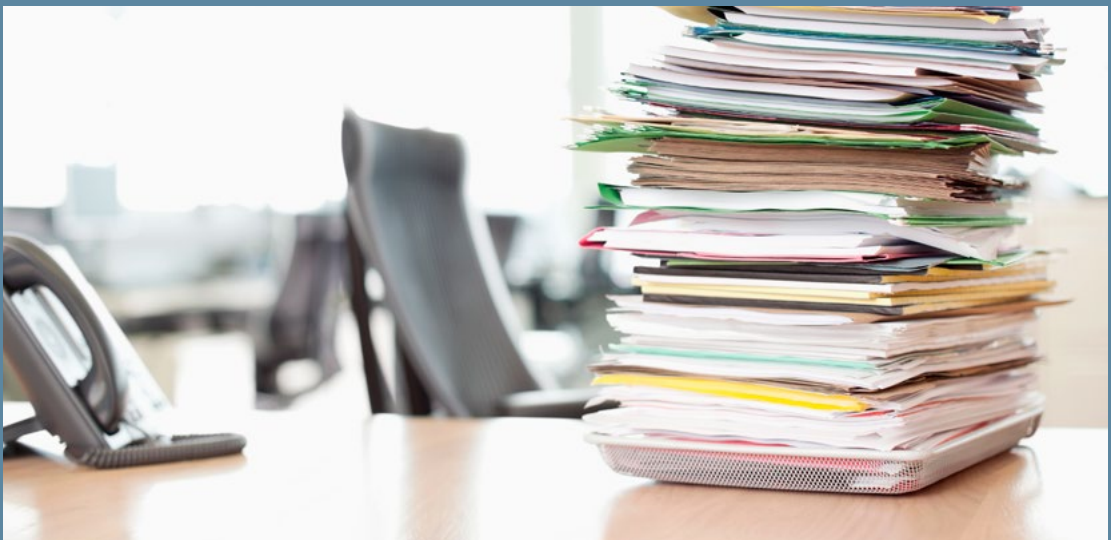
The impact of clear ownership and governance

One of the most common and underestimated issues we see with our clients is a failure to clearly define ownership and governance of their management system processes. This can result in two potential issues. First, without clear ownership, no one takes accountability for formally documenting and setting standards for the management system processes. This results in a high degree of variability, and consequently waste, throughout the organization. In addition, without clear standards it is difficult to hold employees accountable for their performance.

Sometimes a failure to assign ownership and establish governance results in the opposite problem. Instead of a lack of standards, the company suffers from a proliferation of governing documents. Without clear ownership and

governance, everyone may think they have the authority to write a standard about any issue that they feel is important. This can result in a convoluted system of many unnecessary and overlapping standards.

One of our clients suffered from this second issue. After inventorying their existing standards we determined that they had more than 85+ standards in place, when they really only needed around 35. This additional administrative bureaucracy was costing them more than \$5MM annually to manage the documents, fulfill the requirements of unnecessary standards, and to audit and assess for compliance. In addition, because the system of standards was so convoluted, employees often were unable to find the appropriate standard, or were unaware that it existed.



8 Drive accountability through audit.

Setting standards and communicating expectations is important, but there must be accountability as well. Companies that achieve Operational Excellence do this by creating an audit function to monitor conformance. This audit function is separate from the group that helps the company design and implement the management system. Therefore the auditors remain independent, and the implementers can have a partnership role with operations.

9 Take a risk-based approach.

Successful companies recognize all processes and procedures do not warrant the same degree of rigor. For high-risk processes, where there is a high probability of serious consequences, a high degree of rigor is warranted. In those cases, detailed procedures that do not allow for deviation, documented checklists, two-person reviews, or other controls are warranted. However, low-risk processes do not deserve the same level of rigor. In those cases it may be sufficient to communicate a few minimum expectations, or boundaries, and allow employees to operate within them as they see fit.

10 Place a high degree of emphasis on

culture. Companies that get value out of their management system realize that having great processes and procedures is not enough. They must also create a culture that follows those procedures in the right way. We call this culture Operational Discipline, and find that it is one of the most overlooked aspects of management system implementation.

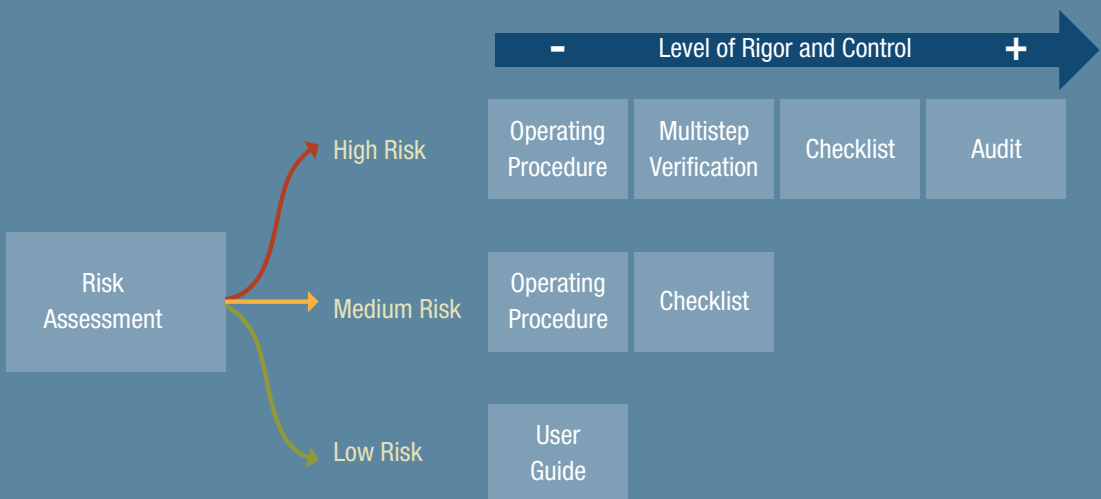
Implementing these 10 key characteristics is no easy task. It can take multiple years to accomplish, and requires significant change management. However, it can also be truly transformational, resulting in Operationally Excellent levels of performance and dramatic reductions in cost and overhead. If you would like more information on how your company can apply these lessons, please contact one of our Operational Excellence professionals at contact@wilsonperumal.com.

Taking a risk-based approach results in improved performance and lower costs

Taking a risk-based approach means that a company has processes in place for systematically identifying risks, assessing their severity and likelihood, and then implementing controls to mitigate the risk commensurate with the assessed risk. It is a recognition that all activities the company undertakes don't carry the same level of risk, and therefore do not warrant the same level of rigor. Companies that fail to take a risk-based approach end up spending too much time, money, and effort managing low-risk processes, and not enough on the processes that can seriously harm their employees, customers, or the community.

Consider one client we worked with who had failed to implement a risk-based approach and

was treating everything as equally important. For instance, audit findings of critical miscalculations that could harm their customers were being treated with the same level of rigor as minor inaccuracies in job descriptions. Lengthy checklists were required for virtually every task, regardless of the potential impacts associated with performing the task incorrectly. This resulted in significant waste of resources, as well as frustration on the part of employees. There was so much unnecessary documentation that the company's service delivery lead time was almost 4 times that of its competitors. While detailed procedures and checklists are necessary for high-risk tasks, they aren't necessary for everything.



A risk-based approach applies different levels of rigor to different risk tasks.

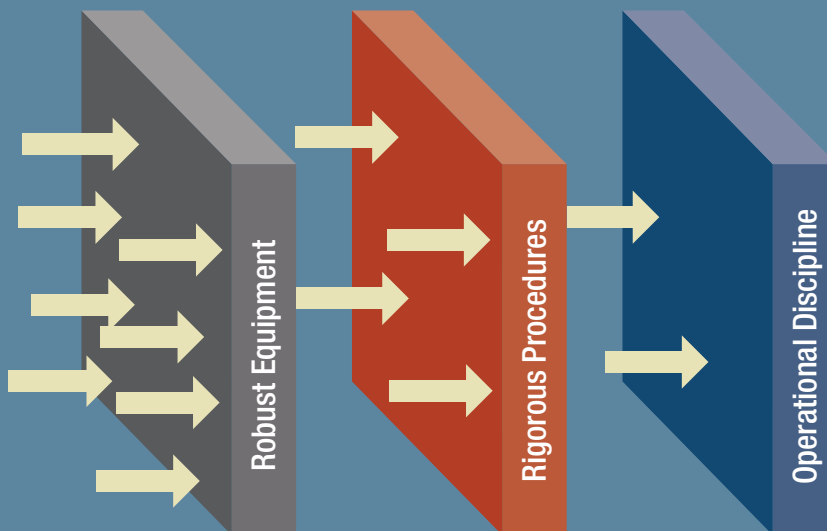
Focusing on culture leads to a step-change improvement in performance

The impact of culture on the ultimate success of an OE program is frequently underestimated. Organizations regularly devote most of their resources and efforts to refining and perfecting the processes and procedures within their management system. While further refinement is necessary for continuous improvement, each iteration may find diminishing returns as the room for improvement narrows. Quite often we find that faster progress is possible with a balanced approach to improving the management systems that defines the procedures while also establishing a culture that encourages and reinforces following those procedures.

One of our clients in the Oil & Gas refinery industry spent the past year steadily transforming their culture into a culture of Operational Discipline (OD). A culture of OD is credited by High Reliability

Organizations as the key to achieving high performance in a volatile, unpredictable environment. In such an environment, it is impossible to predict every single situation or way in which your equipment and management system may fail. An inadequate culture will undermine your management system's procedures whereas an appropriate culture serves as a last line of defense against incidents.

Through steady and calculated deployment, our client delivered OD behavior programs to every employee within the organization and is now beginning to see direct improvements in performance. In 2014 alone, their utilization rate improved nearly 5% while their lost opportunity events were cut by half, both of which they closely attribute to their new culture.



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About Wilson Perumal & Company:

Wilson Perumal & Company is a premier management consulting firm and the leading advisor on how to manage and capitalize upon the complexity of today's world. To learn more, visit www.wilsonperumal.com.

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