

# What Is Operational Excellence?

By Tom Barrett, President, Lean Partners

I often get asked, "What is operational excellence?" The Business Dictionary defines operational excellence, also known as lean or continuous improvement, as "A philosophy of the workplace where problem-solving, teamwork, and leadership results in the ongoing improvement in an organization. The process involves focusing on the customers' needs, keeping the employees positive and empowered, and continually improving the current activities in the workplace." With over 25 years in the rear-view mirror of implementing operational excellence in many different companies I find this definition sums it up quite nicely. But for those of you who have never worked in an organization that has implemented operational excellence, what does the definition really mean?

## Why Do Companies Exist?

First, let's begin with why companies exist — to make money. Yes, there are the more altruistic reasons such as serving customers, providing jobs, contributing to our communities and even saving lives, but at the end of the day if companies don't make money they won't be able to do any of the above. So a more simplistic definition could be that operational excellence is a methodology for helping companies make more money in an increasingly competitive marketplace.

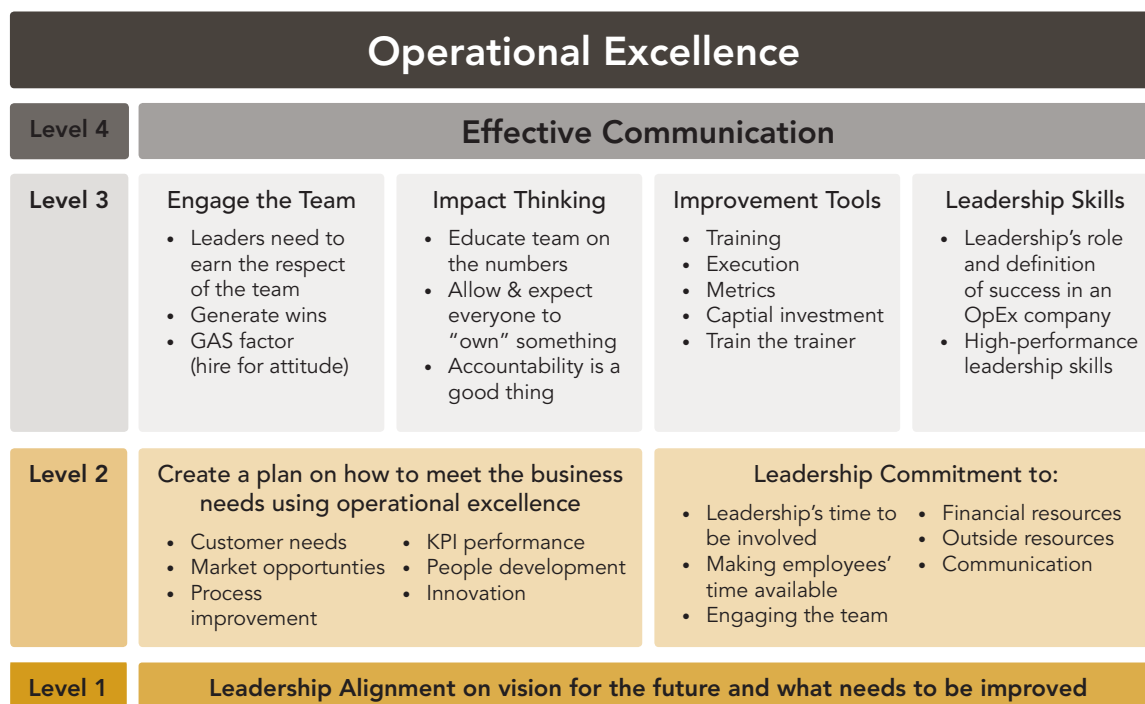
While many business owners or senior leaders would say "I want that," it's amazing how few companies actually succeed with operational excellence. There are a variety of reasons for the low success rate, but it's largely because the first step is a misstep. Too often companies start with the desire to implement operational excellence and call it "good." Instead, the thinking needs to be "I want to improve our company and use operational excellence to help us get there." It's critical to start by understanding what's preventing your company from making more money, then to create a vision of where you'd like to be in a few years, and develop a plan that utilizes operational excellence.

## Building Blocks of Operational Excellence

So what are the critical elements of a company's successful journey to operational excellence? Figure 1 on page 2 shows how the building blocks of operational excellence piece together.

First, leadership's thinking must be aligned around a vision and what improvements you're looking to make. Then you need to create a plan that engages the rest of the team. They will want to know "why are we doing this?", and your plan needs to answer that question, as well as outlining the vision of where you are going. This should not be for leadership only. Pulling in team members from

Figure 1: Critical building blocks to operational excellence



throughout the company is critical. When you include staff from all levels of the company this jump starts the education process, the engagement process, and creates goodwill ambassadors to help bring others along. The plan should include both a "push" and a "pull" component for short and long-term success.

**The Push component** is primarily driven by planning team based on customer needs, market opportunities, company performance needs, and employee development needs. The following are some examples:

- Improve On-Time Delivery to 99%
- Reduce lead-time by 50%
- Increase Margins by 5 points
- Reduce Defects by 50%
- Develop High Performing Leaders

**The Pull component** is a system setup to engage all team members in seeing opportunities for improvement on a daily basis, then to use the system to implement improvements and communicate them across the organization.

## Leadership Involvement is Critical to Success

Once a plan is created, it's critical that the Leadership Team commits to providing resources and to engaging the team. Most leaders significantly underestimate the amount of time and resources it takes to become operationally excellent. With this solid foundation in place, you are ready to begin the operational excellence journey.

There are **four "execution" elements** that can and should be done in parallel:

1. Engage the Team
2. Impact Thinking
3. Improvement Tools
4. Leadership Skills

The planning, execution, and results of these four areas need to be wrapped in an effective communications plan that not only reaches all team members, but becomes fully understood by all as well.

## Why Would a Company Pursue Operational Excellence?

This operational excellence endeavor is no "get-rich-quick scheme" or a project with a defined start and end. It requires significant commitment and resources and, in order to be successful, is a journey that never ends. This needs to become how your company thinks and functions on a daily basis. But how can a company measure a culture shift that isn't constrained to a specific deadline? The great news is there are quantifiable benefits all along the way, and they increase as you go. Getting the supporting elements in place and effectively engaging the team is where most of the hard work is. As that takes root, the journey becomes much more fun because the improvements start to accelerate and the team becomes more confident in taking on challenges they would not have tackled before.

You may notice that implementing operational excellence is a considerable undertaking. So why would a company decide to pursue such a monumental effort? Because they are likely coming up against hurdles and pain points again and again in their business. The following are some common examples:

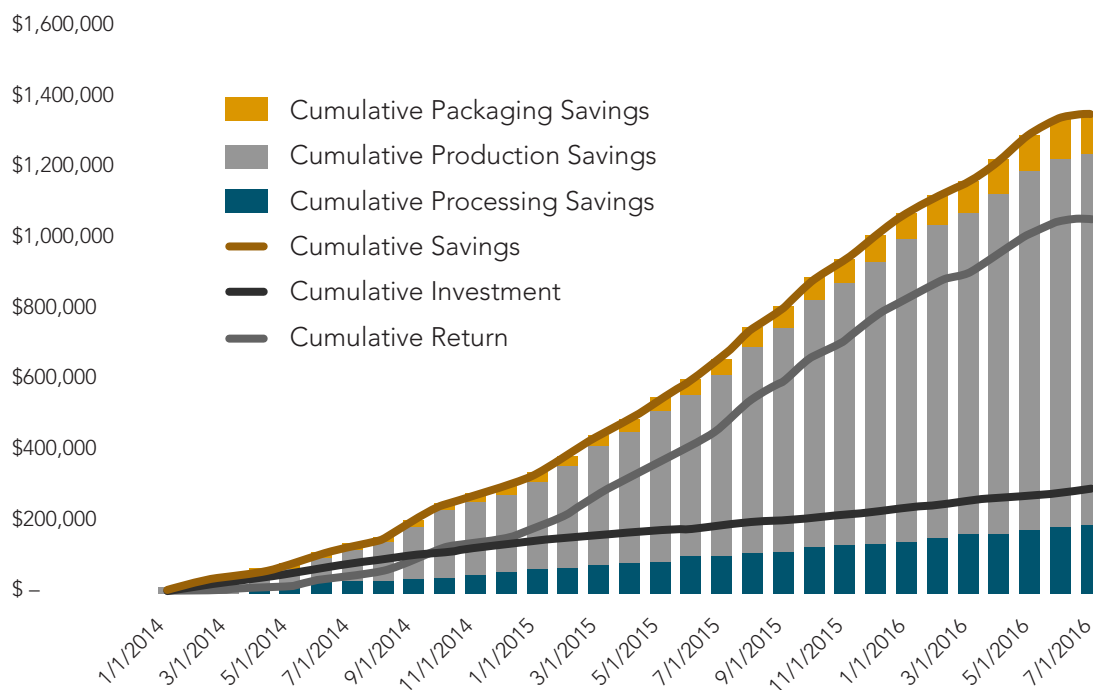
- Margins are eroding or not where you'd like them to be
- Sales growth is too slow
- It's hard to find enough qualified people to meet your growth needs
- You are running out of space
- You are losing market share or key customers
- You are losing your top team members to other companies
- Technology or societal trends are making your product or service obsolete

Additionally, the return on investment for embarking on an operational excellence journey can be measured several ways, which many business owners find beneficial. Some typical results are as follows:

- Productivity improvement of 15-20% every year
- Quality Improvement of 50% every year
- Lead-Time reductions of 70-90%
- Tripling profits in three years
- 90+% improvement in Safety performance
- 90% reduction in voluntary employee turnover

Figure 2 shows a typical return on investment for a company that aggressively pursues operational excellence.

Figure 2: Operational Excellence ROI



## Conclusion

An operational excellence journey is well worth the investment of time and money provided you are willing to be as committed to aligning and engaging your entire organization. Every senior leader that has experienced success along an operational excellence journey tells us it's the best investment of time and money they have ever made. The results are far greater than any new piece of equipment or technology you can put in, because it's an investment in your organization's culture that keeps paying you year after year. If you are thinking about dipping your toe in the water, don't simply dive in head first. Begin by visiting some other companies, talking to other senior leaders who have been through this and asking them to share their experiences have been and what the results they have seen. Once you find a trusted guide, commit to operational excellence, set high expectations, be aggressive and you'll be ready to begin the most fruitful and exhilarating journey of your career.

## About the Author

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Tom Barrett, Co-founder and President of Lean Partners, has been implementing continuous improvement methodologies for over 20 years. Tom earned a Bachelor's Degree in Industrial Engineering and Management and a Master's Degree in Manufacturing Systems Engineering. Tom has consulted with over 100 companies from \$5 Million to over \$500 Million in revenue, helping them by coaching and aligning leadership thinking, training and engaging employees, creating an environment where continuous improvement can thrive, all culminating in significant long-term process improvements that yield top and bottom line results.