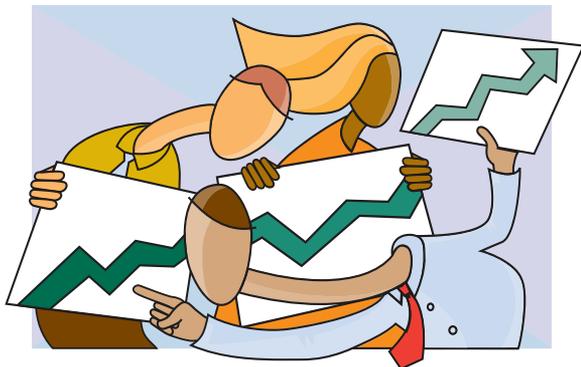


Striving for High Performance through Operational Excellence

by Sherree DeCovny



Commodity price volatility and the liquidity and credit crises have thrown the world into economic turmoil. In the current climate, having the right operating model can make the difference between just surviving and outperforming your competitors. According to High Performance Business research from Accenture, companies can take one of three approaches to achieve operational excellence.

“Executives need to rethink operations, not just in terms of how work is carried out but how the business is organized,” says Trevor Gruzin, Accenture’s managing director, management consulting, Asia Pacific. “Once they have a plan in place that the entire management team agrees to, executives can breathe easier knowing the company is positioned to weather the storm and take advantage of a rebound.”

Appropriate action depends on factors such as the company’s financial health, its market position, its industry and even the temperament of its senior executive team. “Leaders should start by making a clear-eyed assessment of their positions,” adds Narendra Mulani, head of Accenture’s supply chain management service line and co-leader of Accenture’s operations excellence initiative. “What does our balance sheet look like? What are our capabilities? Should we change our operating model and, if so, how broad and how deep should the changes be?”

Three Fundamental Approaches

The *continuous improvement* approach requires companies to undertake many different small-scale initiatives and create an ongoing change capability. Programs are usually led by divisional or geographic leaders, require relatively small investments and tend to be natural extensions of current practices rather than wholesale reinventions of the operating model. Think of Lean Six Sigma or process optimization efforts. Despite being the least radical of the models, this approach can generate big payoffs.

One of the world’s largest insurance companies used the continuous improvement approach to develop uniform business processes across its divisions, and according to the company, generated \$2 billion in cost savings. Companies with a well-developed operating model and with decentralized authority are well suited to this approach.

The *targeted intervention* approach is typically adopted in response to an external stimulus such as a disruption in the market or a major new opportunity for growth. This approach focuses on one specific area that will yield a clear return on investment. Many companies choose this

approach when they need to make sizable changes to their operating model but fear doing too much at once. Working on one initiative at a time, such as creating a new shared-services unit, avoids a major disruption to operations.

A leading food equipment manufacturer used this approach to integrate a key unit with the rest of its business – first aligning the unit’s strategy with the global strategy, then overhauling its supply chain and devising a new talent-management model. The corporation estimates that collectively, those interventions cut costs by \$75 million and added more than \$40 million in revenue annually.

The third approach, the *transformation program*, ushers in large-scale change. Businesses taking this approach nearly always reinvent their operating model and significantly overhaul their organizational structure. When successful, this approach is the fastest way to execute large-scale change and to leapfrog the competition. Because it’s a bet-the-business type of move, it is driven from the top, and corporate leaders need to be comfortable with risk.

Consider one of the world’s largest and most diversified consumer goods companies. It created a program to streamline the business by creating single operating companies for each country and outsourcing parts of the IT, human resources and finance functions.

Historically, economic slumps have been trigger points for change, allowing certain high-performance businesses to create a competitive advantage that lasts well past the eventual upturn. The choice that executives make about what kind of change to pursue in their quest for operational excellence will have important ramifications for their companies’ future performance. Those that make the right decision will be positioned to leapfrog competitors and achieve high performance when the current slump ends.

Sherree DeCovny is a journalist specializing in business and technology. Her work has appeared in leading trade journals published in the United States and the United Kingdom. She is also the author of several books and reports in her field.