
GLOBAL INDUSTRIAL PRACTICE
LEADERSHIP IN OPERATIONAL EXCELLENCE

Six Sigma, lean manufacturing, total quality management. These are just a few of the programs companies are implementing to increase profitability and eliminate waste. When integrated under the umbrella of operational excellence and applied across the organization, however, a new way of doing business emerges — one that produces higher yields, reduces waste, improves quality and increases customer satisfaction.

Traditionally associated with the industrial sector — GE and Toyota often spring to mind — operational excellence, also referred to as OpX, has moved beyond the realm of the manufacturing industry. Today, it not only encompasses everything from product development to logistics to administrative functions, but it also continues to move further into non-industrial sectors.

Yet despite this long-overdue interest in operational excellence, organizations cannot implement this philosophy overnight. To achieve true operational excellence, organizations need to commit to a ground-up, ongoing approach to conducting business. Equally as critical, organizations need the right executives to lead their OpX efforts.

To examine the skills and experiences required of today's operational excellence leaders, we recently spoke with a select group of senior-level executives who have been responsible for successfully leading operational excellence programs for high-profile industrial companies.

THE “OPX” EDGE

Companies that are committed to gaining cost efficiency, delivery, service and quality advantages through operational excellence are poised to “out-excel” the competition — be it through lean, Six Sigma or other various tools.

Whirlpool Corporation, long recognized for its quality programs, migrated to OpX after introducing total cost productivity in an effort to continue to improve the cost structure of the business’ products and infrastructure. Referred to as the Whirlpool Production System, operational excellence there focuses on quality, infrastructure cost, product and operations cost, supply chain and lean efforts. “Our approach to reducing costs was so successful that investors and analysts kept inquiring about our OpX programs,” said Roy Armes, the former senior vice president of project management for Whirlpool who recently was named chief executive officer of Cooper Tire & Rubber Company. “However, as I learned through my 30-plus years with Whirlpool, you can’t rely on just reducing costs to save the business. OpX also has to focus on helping to grow revenues.”

Eaton Corporation also had experienced its own success with operational excellence prior to hiring Tom Gross, formerly with Danaher Corporation and Rockwell Automation, to lead its efforts. “When I joined, the organization was in the middle of making Eaton a premier, diversified industrial company. Our CEO understood that customers judge us by our weakest link, so we needed to even out the performance,” said Gross, now president of power quality solutions for the Eaton Electrical Group. “Today, the Eaton Business System has become a very successful internal initiative across the company.”

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— Wayne Hewett, President and CEO of Momentive Performance Materials

At Constellation Energy, operational excellence put the focus back on helping its business leaders achieve their strategic plans, goals and objectives more evenly and with more focus and rigor. “We’ve recently trained our 1,200th person in our version of Six Sigma. We built something called SIRIUS that incorporated Six Sigma and other lean approaches and married them with project and change management skills. It’s like Six Sigma on steroids. SIRIUS is our six-step approach and stands for scope, investigate, reason, innovate, undertake and sustain,” said Roger Cockroft, vice president of business improvement for Constellation Energy Group and formerly with IBM, KPMG and Toyota in a variety of management consultant roles. Responsible for managing Constellation Energy’s Business Transformation, Cockroft’s goal for the organization is to create a sustainable improvement culture in its utility, generating and retail businesses.

Sustainability of operational excellence also was a focus at Tyco. Before Naren Gursahaney was promoted to president of Tyco Engineered Products & Services, he was the vice president of operational excellence for Tyco International. “When I was recruited to Tyco, after having spent 10 years at GE, it was to lead Six Sigma with the understanding that the program would evolve — which it soon did to include other tools like lean, as well as

other responsibilities for strategic sourcing and real estate. And while it ultimately was my responsibility to drive these important initiatives and deliver the results, we also wanted to help transform the culture and make it a much more operationally focused business,” said Gursahaney.

OVERCOMING INHERENT CHALLENGES

An operational excellence approach to business, if done well, can transform an organization and improve the bottom-line results. However, there are two critical challenges that organizations must address in order to reap all of its benefits: effecting cultural change and deploying the right talent.

Culture

Any time you try to drive change in an organization, there will be an inherent amount of internal resistance. And because operational excellence is truly a transformation of culture, that can be doubly challenging. “There was some resistance from people who felt that this was ‘structured common sense’ and they were already doing it — but many of the improvements they had made were not sustainable because they did not use the Six Sigma rigor. There were others at Tyco who didn’t feel that the changes were sustainable over the long term. We had to work to overcome that skepticism,” said Gursahaney.

At GE, operational excellence started primarily in manufacturing. “However, we knew we wanted to roll it out to all functions within three years,” said Wayne Hewett, president and chief executive officer of Momentive Performance Materials (formerly GE Advanced Materials). “It was critical that we convince people that this was not just the ‘program of the day’ and then relate it to the bottom line.”

A decentralized culture oftentimes provides an even greater challenge. “In the early days at Eaton, it was difficult to convince a decentralized organization, where the plant manager had full control, to accept a corporate initiative,” said Gross. “It was imperative for headquarters to define certain aspects of how the company would run. It was a big change for Eaton in its highly decentralized, highly autonomous business unit history.”

Dealing with a decentralized culture also was a challenge at Whirlpool. “When we first began, it was hit or miss as it spread throughout the organization,” said Armes. “Once we put in a small, centralized group, and started to roll it out region by region, we were able to drive the process more consistently.”

Talent

Recruiting and retaining the right talent to lead operational excellence efforts also poses a challenge. “Today, finding good OpX talent is still difficult. And regardless of how advanced your organization is, I imagine that everybody is struggling with it,” said Gross.

As more and more non-industrial companies venture into operational excellence, the demand for experienced OpX talent is beginning to outweigh the overall supply. As a result, retaining top talent also can be problematic. This is especially true for industrial companies — as many of the most experienced operational excellence people hail from those industrial sectors that were pioneers in continuous improvement.

“Great talent gets approached all the time,” said Armes. “But an organization’s odds of retaining these executives are increased by doing three things: identifying a viable career progression within the organization; presenting an attractive compensation package; and creating an environment for people to do meaningful work, which includes coaching, development and job satisfaction.”

CRITICAL SUCCESS FACTORS

There are a number of success factors found among best-in-class organizations that have embraced a culture of operational excellence:

- > Support from the top
- > The integration of OpX initiatives into the company’s strategy
- > Cooperation from business units
- > A common language
- > Credibility within the organization
- > Ability to measure results

CEO and senior management support

It is imperative that the organization’s leadership team embraces operational excellence. And this starts at the very top. According to Bill Ramsey, the former vice president of Six Sigma and operations for Honeywell International, “Corporate leadership has to believe in the importance of a set of tools and methodologies to drive value for our customers and shareholders. This leadership not only starts at the top but it has to consistently be carried throughout the organization.”

“Ed Breen, Tyco’s CEO, was the most critical element and he played a very active role. In any presentation — internal or external — he talked about operational excellence and how this was important to the company. He also would drop in on the training classes. It was like running with the wind at your back,” said Gursahaney.

“If leadership is not walking it, breathing it and living it, then no one will take OpX seriously,” said Hewett. “Fortunately for us, we had Jack [Welch], but we also didn’t have a massive amount of initiatives, which helped the senior leadership team when it came to acting on them. It wasn’t overwhelming.”

Leadership support also can be nurtured through the creation of senior-level councils or committees. Constellation Energy had Cockroft sit on the strategic planning board, while Eaton created an operational excellence council that included company-wide thought leaders. As Gross commented, “It’s harder to argue against nine people than just one.”

Ingrained in company’s strategy

Once leadership truly embraces operational excellence, it then must become part of the organization’s DNA — visible and central to the strategy.

At Whirlpool, this began with identifying where the company wanted to go and then creating a set of operational excellence strategies in support of that direction. “I think there was a revelation six or seven years ago when we built OpX into our strategic architecture and then held people accountable via our performance management process. It was identified as one of the company’s core competencies. Once people saw that it was integrated into the strategy, they realized it wasn’t going away,” Armes said.

When this way of looking at the business is entrenched in the organization, it fosters a mentality of constant improvement. “Toyota is the master of never being satisfied with the status quo. That means, every so often you look up and say ‘Wow, look at what we’ve achieved,’ and then you get back to the things you still have to fix,” said Cockroft. “At Constellation, we achieved this by streamlining the business planning cycle. Each year, we focus in on what needs to get done to stay ahead of the competition and then we turn those things into our top priority initiatives.”

Working with the business units directly

Once OpX is ingrained in the company’s strategy, it is imperative that the individual business units embrace the new way of conducting business. This requires that operational excellence executives work very closely with the heads of the business units.

At GE, every business unit had the freedom to define how it would use Six Sigma. Some would focus on productivity, others on capacity. “We took the strategic elements of our vision and worked with the businesses to convert them into dollars and cents, and this drove the connection for the business leaders,” said Hewett.

According to Daniel Sebillaut, director of operations for Europe for the Delphi Energy and Chassis Systems Division, there is no one-size-fits-all approach to working with business units. “Operational excellence leaders need to adopt a different approach for different business situations. We cannot take a standard approach and apply it to all cases. Not only is it not the right thing to do, but the programs will lose credibility throughout the organization,” he said.

Helping the business units create their strategic plans — and spending ample time with them to learn their business — is critical for success, according to Cockroft. “The business already has a language — learn it and use it to prove you’re adding real value,” he added. “The payoff is simple — once you prove you add value then you turn business leaders into OpX champions.”

Having dedicated resources embedded within the business units is a best practice among the majority of operational excellence pioneers. Both Honeywell and Eaton committed full-time resources at every plant. It was no small decision to have dedicated people assigned to organizational effective activities at each of Eaton’s 150 plants; in total, the company had approximately 1 to 2 percent of its salaried workforce assigned to full-time Six Sigma roles.

The quickest way to lose business unit support is to overwhelm the business leaders with myriad issues. “You cannot start off with 300 projects,” said Gursahaney. “Rather, work with the business units to focus on a few critical projects. While it’s important to have stretch goals, business leaders still need to feel like they’re achievable.”

A common language

By creating a common language when referring to operational excellence — one that is applicable across every business unit — organizations have a better chance of increasing understanding and acceptance. This shared lexicon should be communicated consistently and regularly with the entire enterprise.

Whirlpool created a virtual university for online training and basic education of the core competencies as a way to create this common language and understanding. “This allowed us to promote a widespread understanding, at different levels, of how these tools can be used in people’s everyday jobs,” said Armes.

Once everyone is speaking the same language, organizations then need to focus on how to keep the operational excellence programs top of mind. Constellation tapped into numerous channels — including videos, Internet sites, dinners and award ceremonies — to promote and explain OpX initiatives. The utility also produced a regular company-wide newsletter that featured success stories, lessons learned, top OpX performers and related job openings.

According to Delphi Energy’s Sebillaut, success in operational excellence is a matter of regular, consistent messaging. “This requires regular follow-up, especially given the pace of progress,” he said.

Credibility

While the support of top management and business leaders is necessary to the success of operational excellence, the individuals leading the day-to-day operational excellence initiatives also must have credibility with the entire organization. Not surprising, executives’ credibility often is determined by their backgrounds.

When Gursahaney joined Tyco, he was not referred to as the “initiative guy” or the “Six Sigma expert.” Rather, he was known for running a business at GE that embraced Six Sigma and leveraged the tools and methodologies to make the business better. “As a result, I was able to sit down with division presidents and talk to them in their terms instead of Six Sigma terms. I didn’t speak about statistics, only how this would help them address the issues important to their businesses,” he said.

Credibility within the organization also is earned through the sharing of success stories and by starting small, getting some early successes and then expanding. “At Tyco, we already had a best practice in the organization, as Tyco Healthcare was already involved in Six Sigma, although on a pretty small scale,” said Gursahaney. “We didn’t have to point to GE, Honeywell or Motorola. I was able to point to improvements in our own organization and this helped a great deal.”

Measurement

The final success factor is an organization’s ability to track the value that OpX adds to the company. Once the organization is able to see a noticeable, proven improvement, the momentum builds for future projects. This was the case at Whirlpool, where the company tracked its ability to save money by eliminating waste in manufacturing and redeploying resources. “By having these measurements in place, we proved how we were adding value by freeing up both financial and human resources to redeploy toward our innovation efforts,” said Armes.

Measuring the success of operational excellence requires a disciplined project management system. “At Honeywell, we didn’t want to just measure the number of events or projects. We wanted to make sure we were focused on the right things, which is why we had a local, web-based project management system that tracked this progress,” said Ramsey.

Eaton established a handful of goals that were put into a measurement system. “Setting measurable goals — those that are fair and balanced — makes defending OpX much easier,” said Gross. “It helped everybody to fall in line and become an evangelist. However, you can’t let scoring and measurement become out of hand. While it can become a point of pride for many, we have to ensure that we’re ultimately measuring customer satisfaction.”

REQUIRED SKILLS AND EXPERIENCES

For those organizations just beginning the operational excellence journey to those multinationals that have built a more robust function, there is an optimal set of skills and experiences that are required for today’s OpX executives. While the depth of skills may vary based on the organization’s level of operational excellence maturity, it is imperative that OpX leaders possess skills in the following areas: leadership, technical proficiency and strategic understanding, project planning, communication, and teaming and collaboration.

Leadership

Visibly demonstrating a commitment to operational excellence is a critical component of leadership. “This capability to demonstrate to the organization that you really believe in OpX is the single most important competency,” said Sebillaut. “As part of this, you must be passionate about OpX. Basically, you get what you give. You pass your passion along to others across the organization to ensure that people think first before they act — be it the right solution or the right strategy. Passion is the backbone of cultural excellence and is a hallmark of being a leader.”

Gross concurred: “Share your passion for the ‘revolution,’ and always believe there is a quantum leap in front of you.” In addition, OpX executives must be hands-on and keep the process simple. “When you have a leader on the floor with his or her sleeves rolled up, it draws people in,” he said.

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— Tom Gross, President of Power Quality Solutions for the Eaton Electrical Group

OpX executives also need to identify and eliminate barriers to implementation. “We review the business units’ priority lists, clarifying the ‘nice’ things to do versus the priorities. This requires us to embrace the art of diplomacy,” said Cockroft.

Another important facet of leadership is providing professional development to the operational excellence team, which can vary from a centralized team of 30 people or a handful of executives scattered throughout the business units. In the first year of implementation, Tyco did not have a large corporate team and focused on getting the right type of operational excellence leader in each division. “It was my job to make sure the right capabilities were within the organization,” said Gursahaney.

Technical proficiency and strategic understanding

There are specific tools that all top-level operational excellence executives must understand: data collection and analysis, process mapping, statistical process control, hypothesis testing, etc.

OpX leaders also must be able to quickly assess and quantify the impact of identified metrics (i.e., cost, service, etc.) and the impact of operational excellence initiatives on P&L and balance sheet performance, which requires strong financial acumen with respect to OpX performance metrics and KPIs.

However, technical proficiency must be coupled with an overall strategic understanding. Best-in-class organizations need OpX talent who understand the customer and are well-respected operating people. “The role of an operational excellence leader is to spend time figuring out if we have the right strategy to fix the right business problems. Approximately 80 percent of the business problems are fixed once the right strategy has been selected. It is imperative that OpX leaders gather enough factual data to support the right path,” said Sebillaut.

Added Cockroft: “If you hire just a ‘quality guy,’ he will just talk about quality. I want an OpX person who can speak business.”

Project planning and execution

The ability to plan and execute is a required competency for all OpX executives. “Good planning, the capability to anticipate problems and to involve all stakeholders is critical for operational excellence,” said Sebillaut.

At its core, this is the ability to develop and support the implementation of a comprehensive OpX strategy. The required skills include managing resources, interdependencies and expectations across the enterprise, and identifying and organizing best practices throughout the organization.

And, more often than not, execution of OpX programs must be accomplished with limited central resources. However, while Gursahaney launched and drove the program through Tyco operating divisions with a team that included him, one director and one “master black belt” at the corporate level, there were considerable resources within the business units and divisions. “To execute, you must be hands-on,” added Cockroft. “You can’t talk about OpX theoretically — you have to act.”

Change management

Experience in change management is particularly important for those organizations that are truly embedding operational excellence throughout the entire enterprise. “One of my responsibilities was to figure out how to get people to follow change. We had to start with creating the need, then deciding how to mobilize resources and then identifying the change measurement systems and reward/recognition systems,” said Hewett.

Skills required for OpX success

- > Leadership
- > Technical proficiency & strategic understanding
- > Project planning & execution
- > Change management
- > Communication
- > Teaming & collaboration

This requires that today's OpX executives understand the magnitude of change involved, build a comprehensive program, and develop and deploy the appropriate communications, training, metrics and rewards in order to drive operational and cultural change.

"To move an organization forward, you have to facilitate and coach everyone through the change process," said Ramsey. Despite the work involved, it is an attractive aspect of the job for many OpX experts. "I was intrigued by the opportunity. It's not very often you get the chance to be involved with changing a culture of 60,000 people," said Gross.

Communication

In order to lead change management — and work well with the business units — operational excellence leaders must be exceptional communicators. Not only must they carefully listen to external and internal customer needs, but they also need to clearly articulate how they can meet those needs. Effective, two-way communication is especially important when working with the business units.

The creation of a common language of continuous improvement is a means of achieving effective communication. "We got everyone to talk about improvement in the same way. For instance, everyone knows what should be in a scope document or what a change plan looks like. That makes it much easier to communicate effectively. It's just logic and common sense and that never goes out of fashion," said Cockroft.

Teaming and collaboration

Implementing operational excellence requires high-performance OpX teams with the appropriate balance of skills, experiences and influence in order to optimize performance. This requires top OpX leaders who are well-versed in team building and collaboration — especially when leading initiatives in decentralized environments.

According to Gross, personality can make the difference. "Collaboration is most important. It doesn't work well to go in and be critical of the plant and say everything has to be fixed. You need a collaborative, nonthreatening person with a soft-handed approach," he said.

RECRUITING TOP TALENT

In addition to overcoming cultural resistance, recruiting and retaining top operational excellence talent is cited as one of the biggest challenges to achieving a continuous improvement culture.

One problem is that people tend to compartmentalize themselves. It often is difficult to find someone who can do it all — lean, Six Sigma, supply chain, quality — as a generalist. Gross concurred: “This is why we look for people who believe that quantum leaps are always in front of them, which is why we look for traits beyond expertise in the tool sets.”

Organizations committed to implementing operational excellence can take one of two paths: hire externally or develop the talent internally. It is not surprising that the most successful companies tend to do both.

For organizations unable to quickly develop the level of technical and leadership expertise they require, one option is to bring in outside experts who are responsible for coaching and mentoring the team. Whirlpool initially retained an external consulting firm to train a number of hand-picked people and provide benchmarking. “We then developed our own experts internally,” added Armes. “As part of its centralized group, the company now has an appropriate number of master black belts who are responsible for the training and development of its many black belts within the various business and functional units.”

GE initially leaned toward recruiting talent from outside as well; however, for operational excellence to become a philosophy, the company needed leaders, not just Six Sigma toolkit experts. GE required that business unit leaders develop Six Sigma toolkits and skill-sets and then enhance their leadership style.

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— Roger Cockcroft, Vice President of Business Improvement for Constellation Energy Group

Cockcroft said: “At Constellation, we rotate people through critical jobs to learn the tools. As part of our black belt program, we identify high-potential middle management folks and take them out of their operating units to train and develop their operational excellence skills. They then return to their business units while continuing to work on OpX projects.”

It is extremely effective for organizations to select internal line people, those with experience running a business, and train them as an OpX expert before returning them to the line. “At Honeywell, we developed internally and only recruit externally in the rarest of situations, usually overseas. OpX was a great way for us to develop management talent,” said Ramsey.

OPX OF THE FUTURE

No longer limited to purely manufacturing operations, more and more industrial companies are working to implement an integrated approach to operational excellence. “At Eaton, we are launching a holistic enterprise initiative. We can’t just make it an initiative for the factories, we need to make it happen in the office, where there is a lot of waste,” said Gross. While Eaton looks at the back office, Constellation Energy is moving OpX into the commodities world.

To expand their efforts, operational excellence leaders need to take the tools and make them applicable to the tasks that people do. For example, Honeywell applies the same set of tools to its 20,000 engineers as it does to its hardware and software designers.

In addition, OpX standards always are a moving target. Hewett said: “Once the customer is happy, the goal post gets even higher and further away. All of a sudden, what was considered Six Sigma is no longer. It’s a never-ending quest. We’re always working on improving our efficiency, especially when you look at our size, we’re always institutionalizing.”

By understanding the inherent challenges associated with operational excellence and, more important, the success factors and skills needed to overcome those challenges, organizations will be better positioned to create a culture of continuous improvement — one that is never satisfied with the status quo.

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