# OPERATIONAL EMPOWERMENT

## Collaborate, Innovate, and Engage to Beat the Competition

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# PART 1

## The Infliction of Poor Operational Performance

In the speaking and consulting I have done with CEO's and executives from around the world, I've spent considerable time finding ways to help companies improve their operational performance.

To my dismay, however, in most instances the foundational aspects of building a high performing business operation are often insufficient or missing altogether, mostly on account of incorrect information and archaic business practices that have long since lost their effect.

In part one of this book, I will share with you the fundamental reasons of why we are failing to achieve high performing operations despite significant energy and investments. Most importantly, I will present the key ingredients for establishing a foundation upon which a high performing operation can be built, allowing you the opportunity to create renewed and lasting improvements that will span decades, and leave your competition in the dust.

# 1

# The Power is in the People

## Misconceptions That Reduce Operational Performance

There are some foundational flaws in how most businesses operate today. Our perceptions of "reducing" costs, "managing" employees, and "introducing" innovation are founded on business fundamentals that were created decades ago. We are trying to increase productivity and profitability using an out-of-date business model that was never intended to engage the culturally diversified and technologically advanced society that we live in today. Shifts in how our employees, suppliers, contractors, and customers (the people that support a business) prefer to be engaged are becoming more apparent as baby boomers retire and millennials become the more dominant and influential generation.

This shift is readily apparent in the consumer services sector, where less bureaucracy and a smaller workforce have resulted in faster-evolving and more recognizable change. My doctor for example, retired at the age of 70. He was the epitome of old school. On the wall of his office was a handwritten paper sign that read "Conversations beyond 20 minutes will result in a fee of $100 being applied to your bill. Any conversations that last less than 20 minutes are considered complimentary." He was a doctor, but his perceptions of how to "manage" patients were quite different from those of doctors of today's younger generation. I experienced this firsthand when he retired and a new doctor, some 40 years younger, took over his practice. The new doctor relocated the practice to a new office, consolidating his practice with that of six other family doctors. The staff he chose worked collaboratively with other doctors, allowing for a seamless patient experience in which doctors can actually serve increased numbers of patients due to the communication and information sharing across various practices. Most surprisingly, during every appointment he takes the time to ask questions and he seems to genuinely enjoy engaging in discussion. There are no signs, verbal or visual, that set limits to discussion and diagnosis. My new doctor's approach to client care and management represents a common evolution in patient care, shifting from a business-focused to a patient-focused model.

This example of shifting influences in a consumer setting mimics what we find in the corporate world, where an archaic business model that is focused on a top-down, cost-driven, convoluted structure has created gaps and obstacles between business leaders, employees, suppliers, and customers. Put another way, we are applying a flawed business model to how we operate companies today, the essence of which is longstanding interpretations of how to best structure, manage, and lead organizations in order to maximize productivity.

The first and most significant flaw of this model is the *management hierarchy*. Originally derived for military purposes, a management hierarchy was based on the notion that there was either a "hierarchy" of management or "anarchy" amongst the people. A hierarchy is built on the premise that in order to have hundreds of employees do as needed (and instructed), it is necessary to *enforce* a directional management style, which starts from the top and travels downward throughout the organization. This may have worked well to suit the purposes of the military, but it has done little more than create a distinct divide between business leadership and employees, otherwise known as "us" versus "them." The concept of a hierarchy in and of itself promotes a top-down approach to leading, managing, and communicating with employees, squashing out any opportunities to have a meaningful dialogue.

The next most significant flaw in business operations that we see today is our approach to *leadership*. Building on the management hierarchy mentioned earlier, we build "troops" in the form of frontline supervision, middle management, and senior management; then we invest time, energy, and resources into developing managers' abilities as if this alone will serve to increase engagement with employees. In fact, organizations are so convinced of the value of this investment that in North America alone the spending in annual training and development is near 60 billion dollars. I'm not suggesting the flaw is in the investment itself, but rather in *how* money is invested. The very notion of investing heavily in company leadership while ignoring or minimizing the development needs of employees is ludicrous, yet considering the premise of the "management hierarchy," its clear why this decision may have come about. If employee productivity is not as we desire, a management hierarchy leads us to the assumption that an *investment in the people who lead our employees* must be in order. This is like buying a new engine for your car when your tires are worn out. An investment is necessary, but it's misdirected and won't help you reach your destination any faster or with any greater efficiency.

The last fundamental flaw in how businesses operate today is in our approach to *employee communications*. We communicate to employees on a "need to know" basis. The larger the organization seems, the more employees feel like mushrooms—kept in the dark and fed less-than-appetizing nutrients. Building on the perceptions of how to effectively "lead our people," communications travel from the top down, forming a one-directional approach to communications that is supportive of neither collaboration nor employee morale. A study conducted by Accountemps in 2013 cited a breakdown in employee communications as the leading cause of poor employee morale, and it goes without saying that low morale equals low productivity and lack of commitment on the part of employees.[1]

When we combine these flaws it becomes apparent that we are *operating* our companies using an upside-down business model, misdirecting funds toward leadership rather than employee development, and applying a one-directional approach to communications from the top of the organization down, all with the expectation of maximizing productivity, profitability, and innovation.

In addition to these flaws, and in an effort to find restitution in quick-fix solutions to ongoing challenges with employees, many business executives have turned to changing *how* a business is operated, rather than focusing on *who* operates it. Our approach to managing business operations today is highly process and technology centric, not people centric, and in doing so we are losing the hearts, and more important the minds of our employees. The majority of employees feel disempowered, disheartened, and discontent in their working environment, and it shows. A study of 142 countries conducted by Gallup in 2013 identified that only 13 percent of employees were truly engaged in their role, meaning they were psychologically committed to their jobs and were most likely to make a positive contribution to their organization.[2]

Fortunately it's not all doom and gloom. Through our inability to achieve the desired levels of productivity and profitability while operating with these fundamental flaws and perceptions, a vision as to how organizations should be structured and operated in order to maximize productivity and profitability becomes much clearer. As Ralph Waldo Emerson once said, "Our strength grows out of our weaknesses."

## Why Operational Excellence Is Not the Solution

In 1998, I was introduced to the concept of Lean at Ford Motor Company. At the time I had been invited as an employee of Magna International to participate in a supplier training and education event that was focused on introducing and integrating Lean practices into the supply chain. Ford was doing something that many other organizations had not, which was to invest in its suppliers and help them to recognize how they could improve their business in order to provide greater value to Ford, their customer. The intent was to create the proverbial "win-win" outcome: if you help me to reduce costs, then I will provide you with more business opportunities.

What I most remember about this event is not the concepts or ideas discussed, but the lack of engagement from the suppliers who were in attendance, most of whom were not in Operations or Supply Chain Management but found their way to the event from Sales or Business Development. It became readily apparent through discussions over periodic breaks and dinner that the audience in attendance believed that, despite the event's intended purpose, it was a sales opportunity, not a proactive, engaging session to share ideas on how to improve Ford's—and in turn the attendees'—business. What was intended to improve business performance and profitability for Ford and its suppliers was less effective than desired because the right approach was used to engage the wrong audience. Herein lies the challenge with many business improvement initiatives and ideas. With the best of intentions a proven approach to business improvement is applied ineffectively, resulting in less-than-desirable outcomes, yet we blame the approach or methodology rather than the application.

Earlier in my corporate career, while working at a Fortune 500 company, human resources initiated an employee engagement survey that resulted in less-than-desirable scores. In order to improve the levels of employee engagement, one of the initiatives taken was to introduce an online employee rewards program, providing a mechanism for supervisors and managers to reward employees for a job well done. The belief presumably was that more employee recognition would equate to higher levels of engagement. Each manager and supervisor received a quantity of points each month, which they in turn had to award to their employees to recognize good performance. As the program progressed it became clear that supervisors were not awarding all of their allotted points to employees; moreover, employees were not interacting with their supervisors or managers any more than they had previously. The "solution" did not meet the needs of the employees, and it increased the workload of supervisors. Again, a proven approach to engagement was applied ineffectively, resulting in less-than-desirable outcomes.

This brings me to concept of "Operational Excellence," which has become the latest flavor of the month, an evolution of the historically popular term "Manufacturing Excellence" and designed with the intent of ensuring that initiatives and investments to improve productivity actually achieve their desired result. The phrase and accompanying framework provides an approach to improving operational performance to the point of achieving "*excellence.*" No small feat by any measure. The real question we must ask ourselves, however, is why "excellence?" Why would we invest in achieving excellence when, at least in some areas of the business, good enough is acceptable? I've found that many CEOs and senior business leaders I encounter seem to be enamored with the pursuit of operational excellence, which quickly becomes evident following a quick review of their vision statements and strategic objectives with phrases such as "achieve excellence" and "introduce operational excellence" peppered throughout. When I help an organization formulate its business strategy, invariably the phrase "operational excellence" creeps into our discussions at some point. When it does, I instinctively ask, "What does operational excellence mean?" The room typically falls silent as everyone struggles to formulate a clear and measurable definition of such a vague and spongy phrase. More specifically:

Who *defines* excellence?

How can we measure *excellence*?

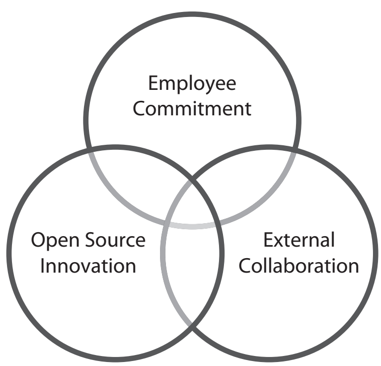
What can we do to ensure a *return on our investment* in excellence?

Put bluntly, the term *operational excellence* is too vague. The sheer use of the word *excellence* suggests that this is something appealing, and in turn every organization should strive to achieve it, when in reality this is ludicrous, as the investment to pursue "excellence" most likely always outweighs any possible benefits to achieving it.

Consider some of the most significant and successful operational accomplishments of the twentieth century such as NASA putting the first man on the moon or Henry Ford improving upon the concept of mass production. In both of these instances the concept of "Operational Excellence" was nonexistent, yet these seemingly impossible operational feats were accomplished. The pursuit of "Operational Excellence" suggests we are chasing an elusive outcome, not a reasonable target. Our focus needs instead to be on the specific and often dynamic operational inputs that achieve the desired outcome in performance measured in the form of productivity and profitability. Put in this manner it becomes apparent that we aren't seeking the attainment of "excellence," but rather we are seeking to be effective.

When we shift from the vague, and seemingly unreasonable, target of achieving excellence to instead being effective, the focus areas become much clearer. An operation of any size or magnitude after all is only as effective as the people that support it, both internally and externally. Achieving operational effectiveness in turn requires that we design a structured approach to capitalizing on external resource collaboration, engage employees to continuously improve business processes, and sustain an injection of both internal and open sources of innovation. To capitalize on any of these three areas in turn requires clarity (to those involved both internally and externally) as to *the reason for the improvement* (what's in it for me), *the urgency for implementing and sustaining the improvements* (why should I treat this as a priority), *and how it is supported by a collective vision* (how will this help us). (See Figure 1.1.)

**FIGURE 1.1 Operational Effectiveness**




Employee commitment + External collaboration without Innovation = *a lack of fresh ideas*
External collaboration + Innovation without Employee commitment = *an inability to implement change*
Open source innovation + Employee commitment without External collaboration = *lack of new ideas and best practices*

From my experience in working with companies from around the globe, I have found that the most significant attributes of any operationally effective company are as follows:

- Their vision is not just a statement, but a guide from which decisions are made.
- Their leadership operates as a single collaborative unit, demonstrating the desired behaviors and attributes of the organization.
- Unionized or otherwise, the decision-making atmosphere is one of collaboration and action, not command and control.
- Customer value is at the forefront of all decisions surrounding business operations. If the customer won't find benefit, it is unlikely to happen.
- Employees identify, design, and initiate improvements to business processes, not a separate department or function within the company.
- Employee decision-making autonomy is more important than satisfying procedural requirements.
- Suppliers, contractors, and affiliates are considered strategic partners and are leveraged for innovative ideas and opportunities.
- Technology selection and integration is done collaboratively across the business, with employees being the predominant stakeholders.
- Everyone understands how his or her efforts contribute to the customer and ultimately profitability for the company.

For the complete list of the attributes and measures of operationally effective companies as well as dozens of other resources to empower your operation, visit www.operationalempowerment.com.

As I eluded to earlier, the fundamental flaws we have built our businesses upon have in turn led us down the path of seeking a "quick fix" to improve productivity and profitability. Operational excellence is the latest trend in a long list of initiatives that promises rapid and effective solutions; however we are ignoring reality if we believe that the pursuit of "excellence" will yield our desired results. It is only through the identification of methods to be operationally effective that we can clearly define what success looks like and exactly how we can achieve it.

## The Operational Disconnect

CEOs, senior executives, and even executive directors often make decisions based on what they have been told, not what has been verified as valid and valuable information. Once while serving on a board of directors of a not-for-profit association, we had a member who became highly agitated and disgruntled with the direction of the association. The executive director provided recommendations to the board on how we should respond to the allegations and claims made by the member; however, when we asked the ED where he attained his information, he admitted that it was compiled from discussions with one of his senior staff members. That's right—not once had the ED attempted to reach out and speak directly with the disgruntled member or seek input or validation from other association members as to the relevance of the feedback. The information the executive director was ready to act upon was unqualified and based on the perspectives of one individual who was removed from the situation. Herein lies another significant contributor to poor decisions in improving operational performance today. Our desire for a "quick fix" often leads us to make hasty decisions based on unqualified information.

CEOs, business owners, and executives consistently make decisions based on a combination of experience and both qualified and unqualified information. Qualified information is that which is relevant, important, and validated for our use. Information that flows from trade associations, peer networks, and even business consultants is often qualified. Unqualified information is that which is often from a single source, contains opinion and conjecture, supports personal agendas, or is initiated to cause a reaction.

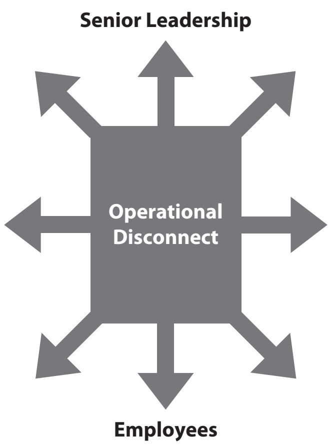
You may recall the game of telephone, often played by children, where a message is crafted and then passed around a circle, being transferred from child to child. The result often is that the message that reaches the last child in the circle is significantly different from the message that was originally crafted. Each child acts as a filter to the information, creating slight modifications to the message's intent as he or she passes it along. This type of filtering is exactly what happens across organizations as messages from employees on the front lines get transferred to those in executive positions. The more managers that exist between the employees and the CEO, the greater the chance that information will be filtered based on the personal agendas, priorities, and objectives of managers. In turn information that reaches the executive suite is unqualified. In Figure 1.2 I identify how these filters exist and their influence on information.

Examples of unqualified information resulting in poor decision making in business are everywhere. A recent report on CNBC identified how an attempt by McDonald's to develop an online financial planning tool for employees actually resulted in a clear demonstration of how impossible it is for employees to survive financially solely on the wages McDonald's provides.[3]

Here is the kicker. It's through information, both qualified and unqualified, that upper management makes decisions and takes action, allocating funds and selecting resources to overcome operational challenges and improve business performance. The outcome is often significant financial investments and shifts in business focus and direction that *do not* target the root cause of the real challenges the business faces.

I call this this phenomenon the *operational disconnect*, as demonstrated in Figure 1.2.

**FIGURE 1.2 Operational Disconnect**



Earlier I touched upon my employment at a Fortune 500 company, a business that had several very powerful unions amid its operation. As an organization, it was struggling to improve its operational effectiveness. When speaking with frontline staff, the number one comment I heard was that the CEO *used to* visit the shop floor to discuss employee challenges and provide feedback about the business. Through these actions, employees were left feeling that the CEO understood what they were dealing with on a daily basis, and they in turn felt that he was taking the right actions to move the company forward. Somewhere along the line, the CEO ceased this level of interaction and replaced it with quarterly town hall meetings. The lack of focus and engagement within the business could be measured back to the point at which the face-to-face interaction between the lowest and highest levels of the organization ceased. Though his intention had been to focus more on the business, the CEO had inadvertently shunned his employees, resulting in a reduction in both employee engagement and productivity.

To further demonstrate the operational disconnect and its impact on operational performance, let's consider a very common challenge of data capture and reporting. In every business upper management requires data to understand business performance, but often this data needs to be collected and manipulated in order to provide the desired information. Somewhere along the line an error is often spotted in existing reports, or possibly new information is deemed unattainable based on existing system protocols and functionality. What's the outcome? If they are reports that the senior management or the board require, a significant investment will be made to attain the correct data, and most likely in this example the result will be a new enterprise resource planning program (ERP). How does this come about? After direction comes from senior management to "fix the problem," the IT department will make some calls, following which some individuals in very fine suits will present their software solution that will often do everything but shampoo the carpets, and presto—new software implementation. Now let me ask you, during this process did anyone ever confer with the frontline staff to understand what system capabilities and reporting they need to do their job more effectively? Not likely. How about engaging end users of the software in reviewing and providing feedback on various features or system options? Not likely. This example may seem unwarranted, but in my experience technology selection and integration is one of the most prominent and detrimental influences today on productivity, and the example I provided above on how the solution is selected and integrated is all too common amongst North American businesses. As I mentioned earlier, we are operating with a significant disconnect between what shareholders, owners, and senior management believe will improve productivity and what those actually doing the tasks need to improve productivity.

The key to overcoming the operational disconnect is to be able to minimize the gap between actual operational needs and senior management's interpretation of those needs.

Earlier last year I was having lunch with the director of finance for a North American cement manufacturer. During our discussions he confided with me about his frustration with a recent situation where senior executives had acted on unqualified information, making decisions and taking actions that were misguided and a complete waste of time for the business. The issue had initially arisen when an executive was advised that accounts receivable had been extending beyond 30 days for some time. The first level of investigation was finance, who suggested that the challenge was in the ability to rapidly process invoices due to submission delays from vendors. The problem was then directed to purchasing to "fix the vendor issue." Through the director's investigation it became clear that the "vendor issue" was actually delays caused by the business operations (the group responsible to receive vendor products and produce cement), as they were not signing for any goods received, causing finance to reject receipts and forcing vendors to spend weeks attempting to contact the operations department to request signatures that would allow them to be paid for goods already delivered.

Ultimately communication gaps exist across all levels of an organization, as well as between the business and its customers, suppliers, and affiliates. Overcoming the operational disconnect through multifaceted communications is the only means by which to engage employees, suppliers, and customers in order to create a business of perpetual profits and long-term sustainability.

## The Operational Imperative: Why Is Now the Right Time?

The global marketplace is no longer something to consider becoming a part of; it's here, and along with it is competition that can do what you do faster, smarter, and often cheaper. To survive in today's economy, CEOs, business owners, executives, and directors have to come to grips with the urgent need to empower their operation in order to stand apart from their competition.

Procter & Gamble is a great example of an organization that recognizes the need to improve its operational performance in order to stay ahead of its competition. CEO A. G. Lafley was largely responsible for the initial introduction at Procter & Gamble of an Open Innovation model, aptly titled Connect + Develop.[4] This approach to innovation attracts and connects with entrepreneurs, suppliers, inventors, and other *outside resources* to find solutions to improve its products or services. P&G was ahead of its comfpetition when it introduced this model, which it continues to improve and enhance today.

Companies that understand the operational imperative readily acknowledge their weaknesses relative to delivering on customer commitments while maximizing company profitability and embracing rapid and dramatic change in order to drive sustained improvements. They recognize that customer attraction and retention is the direct result of the combination of both great marketing *and* great execution. They understand the importance of delivering on their strategy, and they demonstrate this ability consistently, despite the various obstacles that present themselves along the journey. They also recognize that success in operational execution is consistently achieved when they have stronger relationships and interdependencies between their employees, suppliers, and customers.