

Implementing a Business Operating System

**A Systems Approach for Executing the Strategy &
Achieving Bottom-line Results**

**Norma Simons
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An Overview

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Implementing a Business Operating System

Every successful organization must create value for its shareholders. Successful companies must develop, articulate, - execute and perform to meet their strategic goals. What is most important is the ability to maximize performance that delivers and sustains bottom-line results. How is this achieved? First, view the organization as a system composed of a collection of subsystems to produce desired results. Second, develop -protocols to observe, measure, and manage - activities within –each subsystem. Third, work and improve -activities of selected subsystems - to ensure -desired results of the -entire organization. - Finally, enlist all organization members to improve performance throughout. The Business Operating System measures performance, recommends - improvement actions, and documents the results of actions taken.-This documentation becomes the knowledge base for a learning organization. Without this holistic view, -goals within subsystems will be met at the expense of the entire system.

A **Business Operating System (BOS)** - is defined as.....

- **A disciplined system**
- **Promoting and managing continuous improvement**
- **Focusing on the collection and analysis of key measures**
- **For quick team review and action**

BOS...	BOS is NOT...
<ul style="list-style-type: none">• It is used in all areas of the organization;• Requires total employee involvement;• Focuses on customer satisfaction;• Encourages individuals to address issues affecting the organization;• Promotes responsibility and accountability at all levels of the organization.	<ul style="list-style-type: none">• Used only in manufacturing;• Used only by the Quality Department;• Focusing on quick fixes;•• Reacting to problems when they occur;• Controlling and punishing teams for poor performance.

Table 1: What is BOS?

Why Implement a Business Operating System?

1. Poorly communicated Strategic Plan.
2. Strong silo culture with departments working at cross purposes
3. Poorly aligned organization
4. Inability to accomplish established goals
5. Gaps in current performance and the inability to - close those gaps
6. Inability to use metrics - relevant to the organization
7. The failure – to consistently respond to poor performance -
8. Lack of total employee involvement
9. Constant fire-fighting
10. Lack of a structured problem-solving methodology

Although the Business Operating System is designed to address these issues, it is often customized to fit each organization's unique needs.

BOS enables the company to:

- **Execute the strategic plan**
- Often organizations -establish a strategic plan or set goals but are unable to meet these objectives -.
- **Keep track of overall performance.**
- BOS - enables -organizations to review performance at every level regularly. -
- **Collect data in a standard form for easy review -**
- BOS- helps identify appropriate measures at every level so that the progress of each area can be easily understood
- **Use a disciplined problem-solving approach.**
- The organization is exposed to a structured problem-solving methodology that enables it to be proactive.
- **Verify the effectiveness of activities**
- By having a constant review process at every level, activities performed can be evaluated for effectiveness.
- **Facilitate continuous improvement**
- For an organization to grow, it must have measures and use a structured problem-solving method to continuously close performance gaps.

Benefits of BOS

- **Begins with an understanding of the strategic plan**
- **Provides a system for developing – key performance measures.**
- **Develops a system to achieve objectives -**
- **Provides a framework for organizational alignment**
- **Uses tools and techniques to –promote consistent communication**

Frequently, leaders of organizations -- request that each functional area - select and manage their metrics, -believing that if each location is effective, the whole company will benefit. However, organizations often discover that this belief is incorrect. This creates the silo culture where individual functioning units that do not share a shared vision and objectives often operate - at the expense of the - organization as a whole. For example, one department's goal of reducing inventory -- may be detrimental to the organization's production process. Or, if one department's objective is to reduce production costs, selecting cheaper suppliers may jeopardize product quality and negatively impact customers.

The silo culture results in a poorly aligned organization with - a great deal of waste and the inability to achieve the organization's - performance goals.

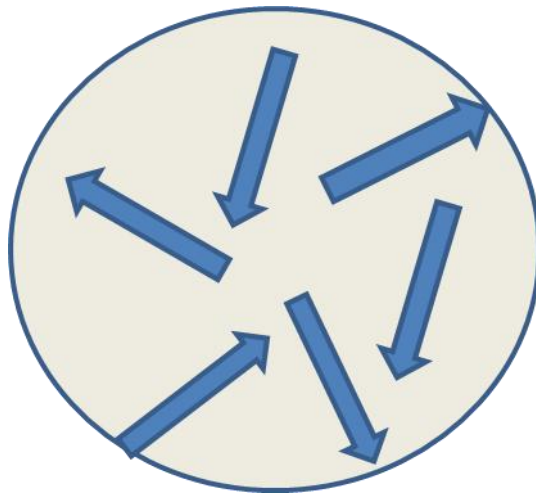


Figure 1: A Poorly Aligned Organization

The - BOS provides - a template to – enhance communication between operating units along with - continuous performance reviews to - keep the company focused on common objectives, - thus promoting organizational alignment.

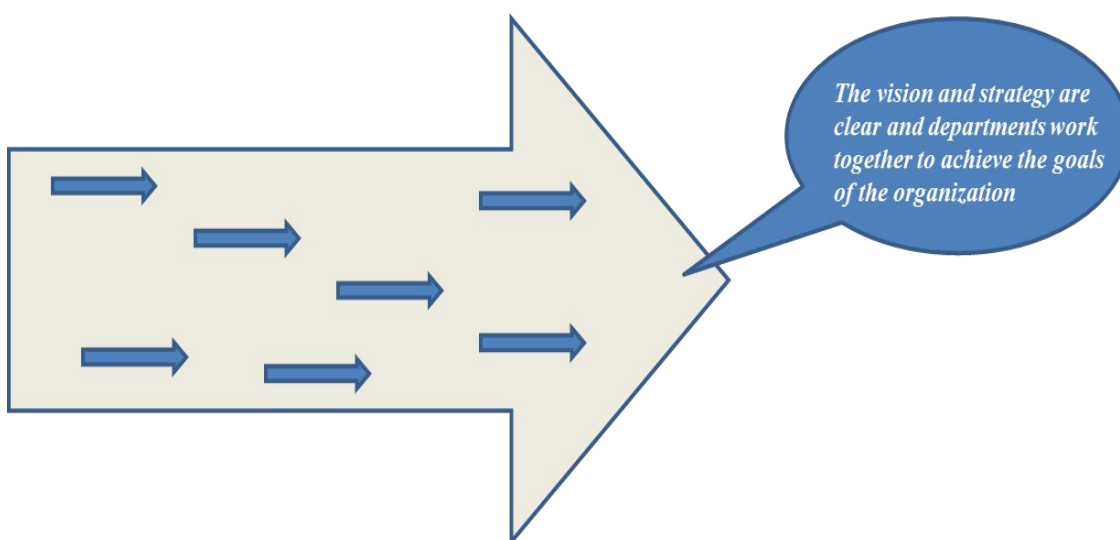


Figure 2: An Aligned Organization

An organization's BOS creates a framework to focus the entire company toward meeting common objectives, thus providing a shared mindset where all employees know how decisions are made and how each individual adds to the organization's value.

The operating system- also builds a methodology that holds individuals accountable for achieving organization objectives at every level.

A Gallup poll of 1.7 million workers found that 67% could not answer “Strongly agree” with the statement “ I know what is expected of me at work”

The Business Operating System promotes employee engagement and this enhances overall company performance.

Characteristics of the Business Operating System

There are - several characteristics of a BOS, but below are the primary ones that will ensure organization success.

Performance Measures

The famous quote -- “you cannot manage what you cannot measure”-- is often used to emphasize the need to select and use measurements. However, using the right measures ensures an organization is focused on what is important and enables the evaluation of company performance against set criteria.

Performance measures are - a quantitative means of evaluating the products and services in a system. It is important for an organization to develop and use a balanced set of measures that reflect the company's overall progress.

Performance measures must relate to the overall strategy and direction of the organization -. If they do not reflect the organization’s objectives, a company cannot - move in the desired direction. The measurement method will depend on the history of the company, the industry type, and the unique needs of its customers. For example, a non-profit organization will have several measures that demonstrate their value to the target population and the time required to meet those needs. On the other hand, a manufacturing organization will have measures that have to do with meeting quality and on-time delivery performance.

In either case, suitable measures must relate to the ability of the company or institution to meet the needs of their customers.

Display of Data

- A *Business Operating System* has specific guidelines for collecting and analyzing data to speed up decision-making. -. Data is analyzed using trend charts, sometimes referred to as run charts, which show the behavior of a performance metric over time. Trend charts compare data to established goals to identify possible gaps and areas that may need improvement. For example, an analysis of machine downtime on a trend chart can be used to improve machine efficiency. See Figure 3.

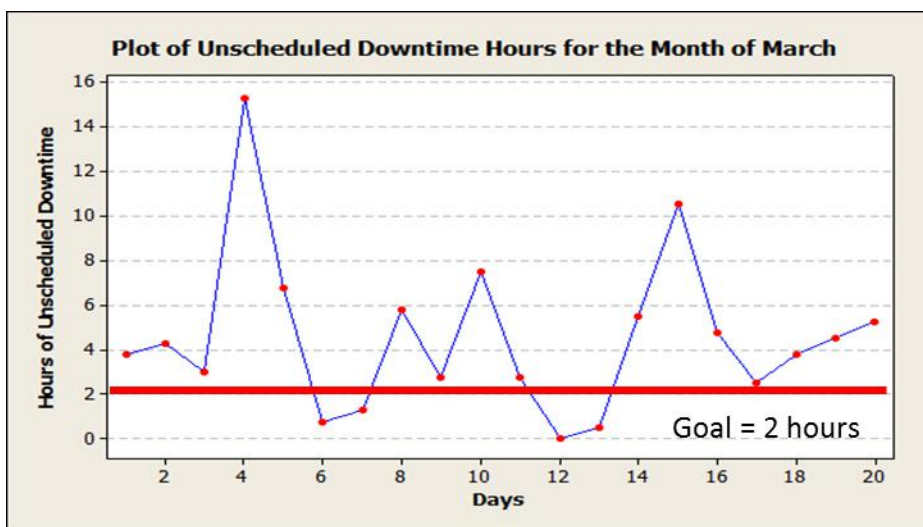


Figure 3: Unscheduled Downtime

In addition to the trend chart, Pareto charts are used to - determine the drivers of the trend and the areas for focus if - performance -should change. The Pareto chart - identifies various factors -that cause - machinery downtime --. These factors might be machine changeover, equipment failure, lack of material at the machine, lack of labor, or poor quality raw material. The most frequent cause of machine downtime - on the Pareto chart would indicate the area requiring problem-solving to improve efficiency and meet the organization's objectives.

See figure 4

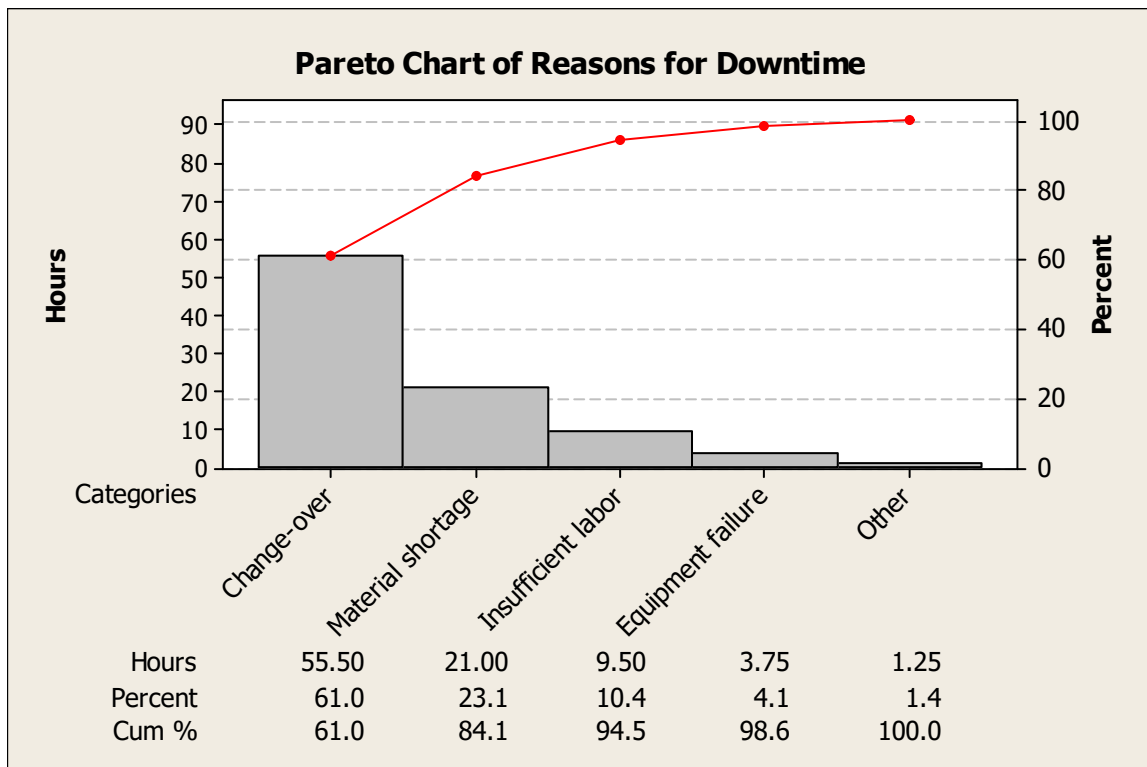


Figure 4: Pareto Chart of Reasons for Downtime

Problem Solving Activity

Problem Solving - is needed to help - the company effectively respond to -gaps in performance - identified by the data. A team-based approach should be used to - examine problems from different perspectives and identify - creative solutions. Focused team - problem-solving should be used - to improve efficiency and make system changes instead of -implementing - quick fixes. In addition, a standard method for documenting problem-solving activities will ease the transfer of learning from one area to another and improve organizational performance.

Problem Solving Activity can take many forms – from 8D problem solving, A3, and the five whys to Lean Six Sigma. The BOS establishes an integrated measurement system that provides a template for problem-solving.

A Closed-Loop System

The closed-loop system analyzes --performance data using the trend chart, Pareto chart, and results of the problem-solving activity. This provides regular feedback - and - a continuous evaluation on whether or not there is a need for change. If change is necessary, then additional feedback is provided on the effectiveness of - these changes. -

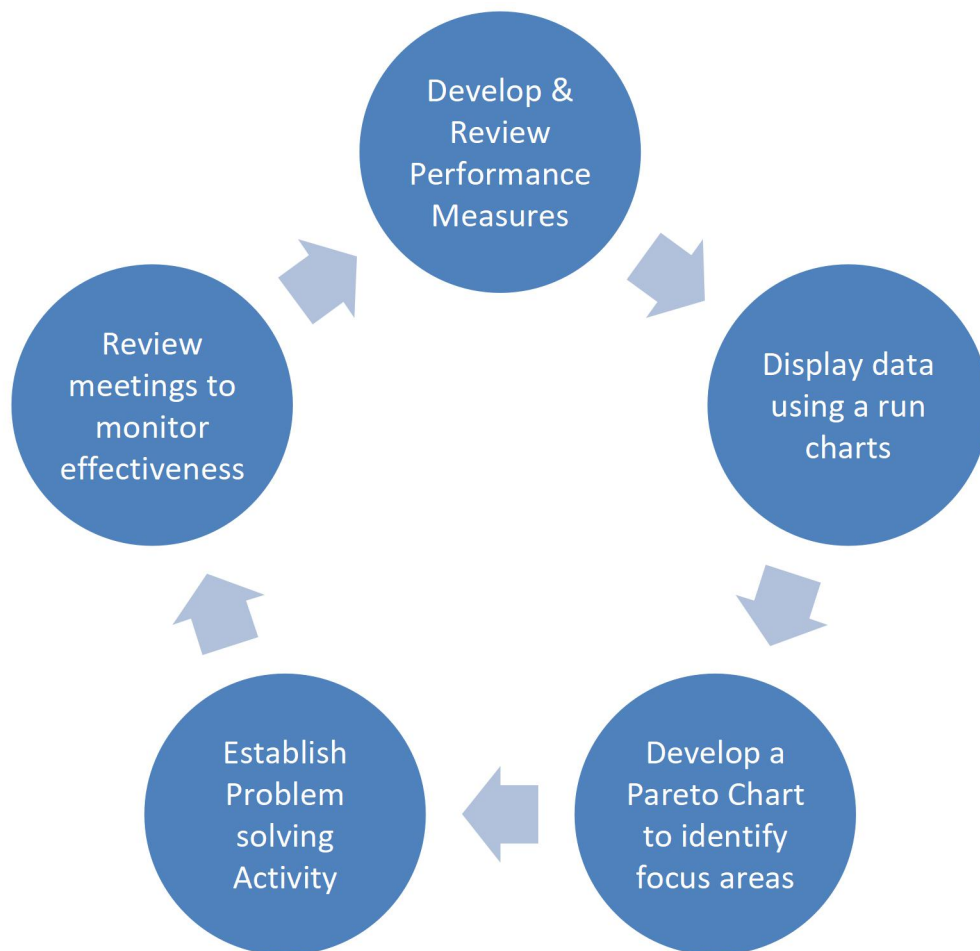


Figure 5: Closed Loop System

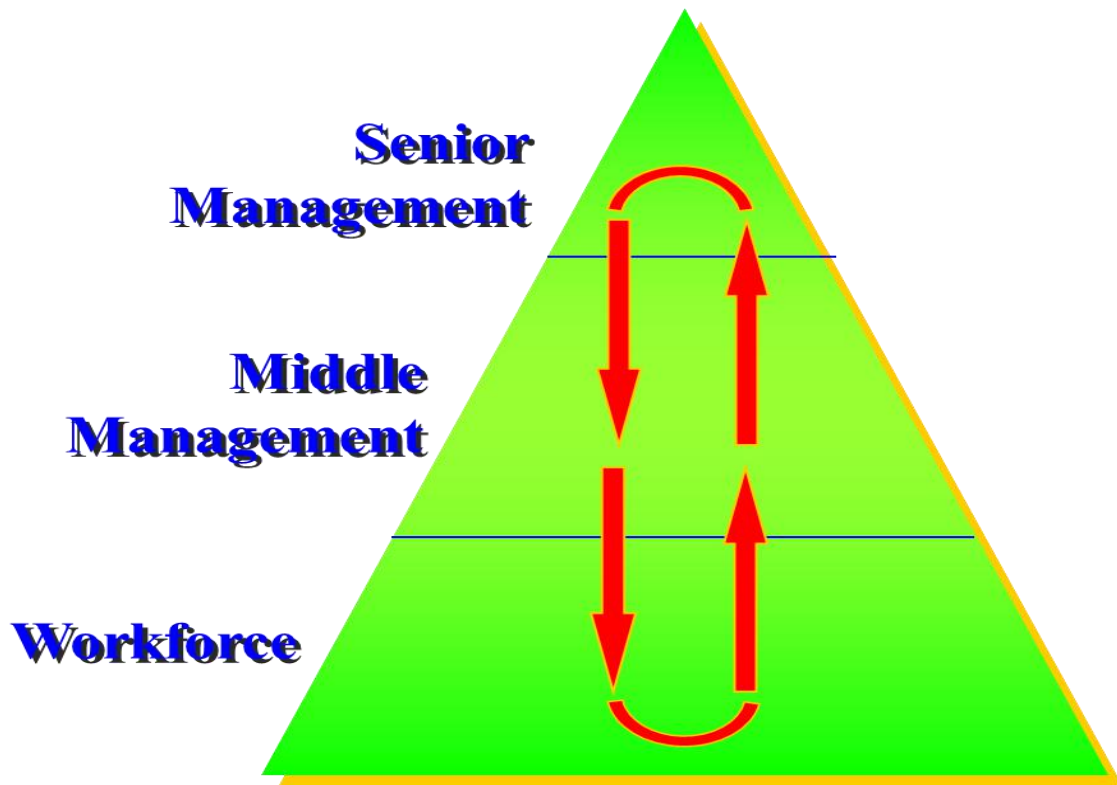


Figure 6: Communication Structure

Figure 6 shows the communication structure between all levels of the company.

Deployment of Performance Measures

Once the performance measures are established at the senior management level, steps need to be taken to deploy these measures to the shop floor and all company areas. [Once senior managers have established performance measures, these measurements are deployed to all departments of the organization. The focus of the company's upper levels is money, while the focus at the lower level is things. Therefore, it is important to - meaningfully translate the vision and strategy of the company -at all levels. This provides - organizational alignment and informs - individuals in the company about -what is essential and their contributions to the company's overall - objectives. Thus, the process of deployment not only extends vertically from upper management levels down to every department and horizontally across the organization, including all business and support processes.

A Structured Review System

The review system is the engine that keeps the Business Operating System going and individuals focused on important things to the company. The review system consists of regular meetings to evaluate the company's performance or specific departments and identify -remedies to improve - unfavorable conditions. -. In addition, remedial actions - taken to resolve previous issues - are shared with the entire group. –This Structured Review System provides the organization an

opportunity - to share – both failures and successes and encourages continuous improvement in all areas of the company. Using measurements this way allows course correction and a focus on the important issues for change. It is through regular reviews that the company maintains alignment with the strategy.

Well Developed Documentation System

Information from the Business Operating System needs to be documented in an easily retrievable manner. Whether it is written on the company's Intranet or as a hard copy, the documentation structure needs to be the same. Well-developed documentation methods are prescriptive and -in a standard format that - is easily retrievable and understood by all individuals within the company. The documentation will have sections for performance measures, including the trend chart and the Pareto chart, and a - summary of the problem-solving activity. Other areas in the manual will have minutes from review meetings and action items.

Visual Management System

The information from the Business Operating System should be displayed on visual boards in each department -. Each area of the company should display the performance measures, trend charts for each measure, Pareto charts identifying areas of focus, and the relevant problem-solving activity. This

vision board is very important on the shop floor as it becomes the means to transfer information between shifts. The display of information allows problems to be more visible and increases the speed of problem resolution. The visual management system also -enhances communication across the company.

DESCRIPTION OF THE BUSINESS OPERATING SYSTEM

The Business Operating System evolved from the original Quality Operating System created by Ford Motor Company. The original QOS focused on using - tools that are also used in the BOS. These tools: -

1. The trend chart for each metric
2. The Pareto chart to identify areas of focus
3. 8D Problem Solving
4. Paynter Chart

Figure 7 shows the primary tools used in the original QOS system and is also incorporated in the Business Operating System.

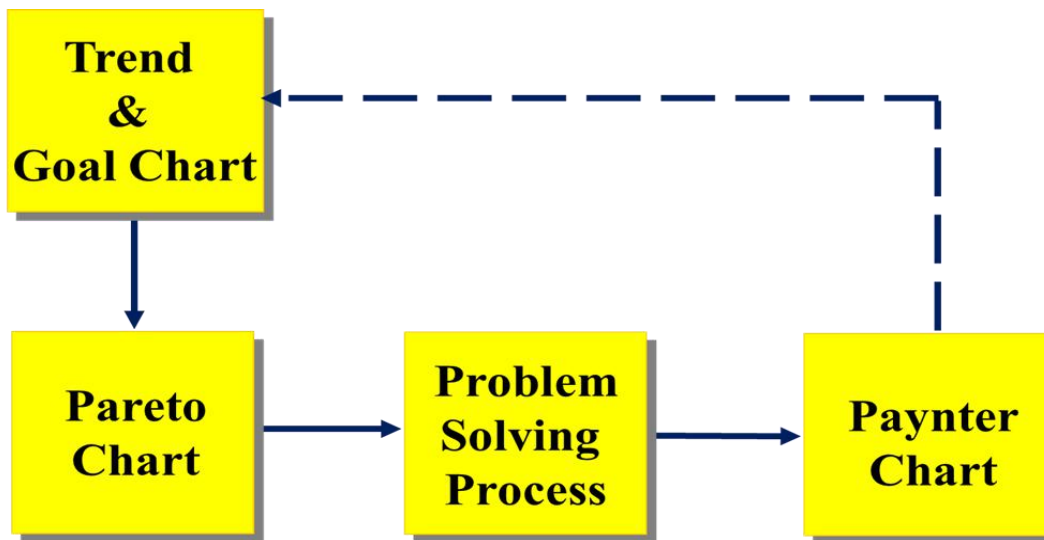


Figure 7: Tools Used in the QOS/BOS

The original QOS was applied primarily to manufacturing and, in particular, the quality department. The system is useful in -identifying priorities and - problem-solving. Working with several clients, we uncovered the value of the QOS, and it was renamed the Business Operating System. For more information on BOS development, see - - BOS Guidelines - published by a team of volunteers at the Automotive Industry Action Group (AIAG). The BOS became accepted as the way a successful business operates.-

Using this concept, we have applied - BOS to every area of the business. It is used as a tool to ensure organizational alignment.

Implementing the system now includes:

- Evaluation of the Strategic Plan – identifying the overall direction of the company
- Creation of a Strategy Map used to enhance communication on the overall direction of the company.
- Integration of five key component areas:
 - Performance Measures (Key Performance Indicators). These are tied to the organization's overall direction and are developed by the management team at the highest level of the organization.
 - Documentation system that includes the trend chart, Pareto chart, Problem Solving and Paynter chart. The documentation system keeps track of measures and actions taken to drive change.
 - Structured deployment process. Deployment of performance measures so that individuals throughout the organization can understand what is important and their role in helping to move the organization forward
 - A Review System. This is done periodically at every level and in every department to evaluate performance at each area.
 - Visual management system. This enhances communications and provides a means to recognize and resolve problems quickly.

These five components -that now comprise the BOS exist in every company. In fact, - there are more than five components. However, the major problem is that they are disjoint, and there is no connection. The result is an organization that goes through the motion with little organizational alignment.

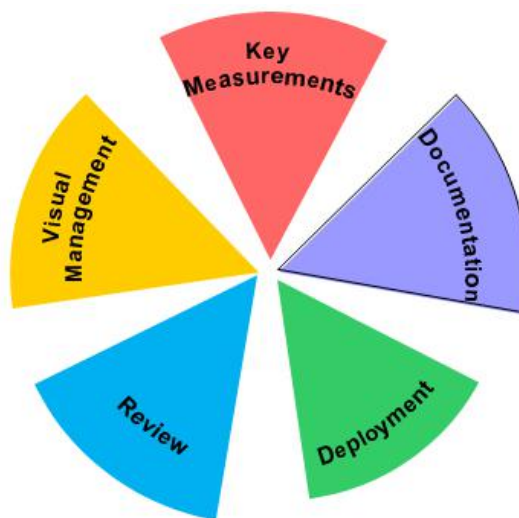


Figure 8: Components of the BOS

–A holistic approach to running a company is needed that ensures the connection of each of these components to improve - company performance. The BOS methodology not only provides this template but also allows a company to:

- Execute the strategy – a weakness that many companies face
- Develop a system that promotes alignment

- Provide a model for change management
- Build accountability in all areas
- Emphasize employee involvement at all levels
- Present and promote the vision of entrepreneurs across every area of the organization.

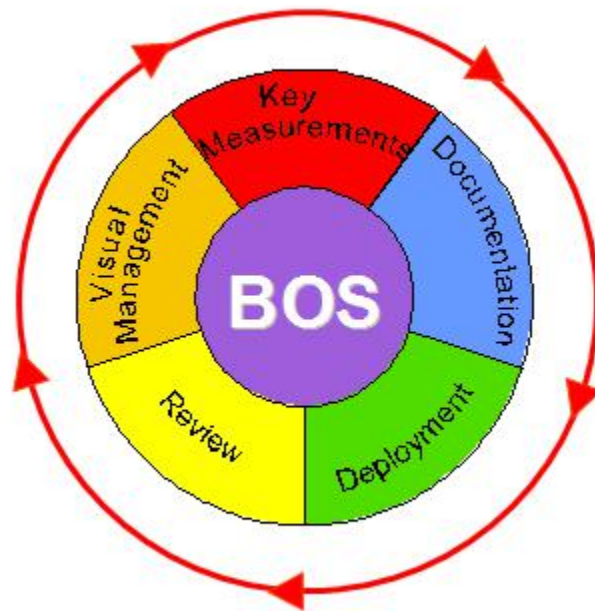


Figure 9: Integration of the Five Components of BOS

This model ensures improvement in communication – a problem that is consistent - identified in every company.

In addition, the BOS activity and the thought process need to be used with the Sales team, Financial, IT, and New Product Development groups – areas that are often overlooked in a typical rollout of the Business Operating System.

Achievements

Some achievements of BOS Implementation include:

- A format to 'turn around a company from one that is losing money to one that is profitable
- Able to achieve improvement in cash flow of up to 200%
- Reduce scrap rate by about 50%
- Improve On Time Delivery performance from 70% to 100%
- A template for employee engagement
- A means to ensure a robust cultural shift

In some cases, achievements have been made within six months to one year and are based on the fact that the organization is moving in a common direction, is aligned and performs in a manner that reduces waste.

The next sections will provide more information on how to implement the five components of the Business Operating System.

Norma S. Simons, President of Performance Innovation LLC., & Lean Six Sigma Master Black Belt, believes in and is committed to providing companies with practical solutions that yield bottom-line results. She has advised and consulted with all size companies, including many Fortune 500 companies, and has coached many of their top executives individually.

Norma was honored by the AIAG (Automotive Industry Action Group) as a *Distinguished Contributor* for her instrumental contributions in developing guidelines for establishing a Business Operating System (BOS). The Business Operating System is a mechanism for guaranteeing that all of the critical ingredients of a business unit's success, including its day-to-day activities, are, in fact, continuously focused on and aligned with the organization's underlying vision and goals. In addition to the guidelines for a model system, Norma has also developed actual Business Operating Systems for various entities, which have, in turn, enabled those organizations to integrate their processes, thus resulting in increased profitability and other bottom-line improvements for specific plants or divisions, as well as for the overall organization.

Concerning her certifications, Norma is a member of the ASQ (American Society of Quality), a Certified Quality Engineer, a Certified Reliability Engineer, and a Certified Six Sigma Black Belt. In addition, she has received distinguished recognition as ASQ Fellow. She currently works as Chair-Elect for the Education Division and Chair for the Quality Education Conference in November.

Norma has a Master of Science degree in Industrial Engineering/Operations Research from Wayne State University in Detroit, Michigan, and degrees from the University of the West Indies in Jamaica, in Natural Sciences and Education.

For additional information on the Business Operating System, she can be reached at: norma@performance-innovation.com