Using operational excellence to beat the competition

WITH **AROSHA JAYASUNDERA**

Why do some companies perform so well that their industry counterparts are competitors in name only? Although they operate in the same industry, serve the same market, and even use the same suppliers, these 'rabbits' lead the race and, more importantly, continually widen their lead. In *Chasing the Rabbit*, Steven J. Spear describes what sets high-velocity, market-leading organizations apart and explains how you can lead the pack in your industry.

Chasing the Rabbit

Spear examines the internal operations of dominant organizations, including Toyota, Alcoa, Pratt & Whitney, the US Navy's Nuclear Power Programme, and top-tier teaching hospitals-organizations operating in vastly differing industries, but which share one thing in common: the skillful management of complex internal systems that generate constant, almost automatic self-improvement at rates faster, durations longer, and breadths wider than anyone else musters. As a result, each enjoys a level of profitability, quality, efficiency, reliability and agility unmatched by rivals. *Chasing the Rabbit* is a book which describes the importance of :

1. Build a system of 'dynamic discovery' designed to reveal operational problems and weaknesses. 2. Attack and solve problems at the time and in the place where they occur, converting weaknesses into strengths. 3. Disseminate knowledge gained from solving local problems throughout the company as a whole.
4. Create managers invested in the process of continual innovation.

Whatever kind of company you operate–from technology to finance to healthcare–mastery of these four key capabilities can put your business on the fast track to operational excellence, which will generate faster, better results using less capital and fewer resources. Interestingly, in Sri Lanka, this management philosophy has not filtered in. Some reasons attributed to this, is that we believe that accountants, marketeers and managers know best. However, Operational Excellence is based on data analytics and many Sri Lankan firms are very weak in this respect believing that it falls within the scope of the IT Department. The understanding of which data to capture is fundamental and it requires a concerted effort of marketing, operations, accountants and senior management to understand this. For companies to properly capture their data there has to be a team effort to do so and the right technology and tracking systems need to be in place. For instance even call centres in organizations do not see themselves as critical customer interface areas! Which means they are losing out on critical Voice of Customer data which can be used to build market share.

Samsung Electronics launches an international brand

An example of a Korean company which used the four key tactics outlined above is Samsung Electronics Co (SEC) which was founded in 1969 and sold its first product, a television receiver, in 1971. Since that time, the company has used tools and techniques such as total quality control, total process management, product data management, enterprise resource management, supply chain management and customer relationship management. Six Sigma was added to upgrade these existing innovations and improve SEC's competitive position in world markets.

Prior to 2010, SEC's products were virtually unknown by Americans or were known as the cheaper, lower quality substitute for Japanese brands. This perception then vastly changed. But by 2010, Samsung became the World's Smart Phone Leader and retained that position till late 2014.

As a foundation for its Six Sigma thrust, SEC began by pursuing a pervasive goal of developing its internal resources, especially people, to put innovation first in the development and design of products and then into manufacturing and marketing and also into the growth of employees. With its strategic objectives established, the foundation was ready for the Six Sigma process to begin in late 1999 and early 2000. No individual or operation in SEC was exempted from the training – including staff members in management, personnel, accounting and procurement. Black Belts were trained in Lean Six Sigma concepts to guide several projects per year, which further increased each project's return on investment. Promotion and other awards and incentives were awarded by the operation in which each employee was assigned. Starting in 2000, the use of the Six Sigma began in the manufacturing division using the define, measure, analyze, improve and control (DMAIC) discipline.

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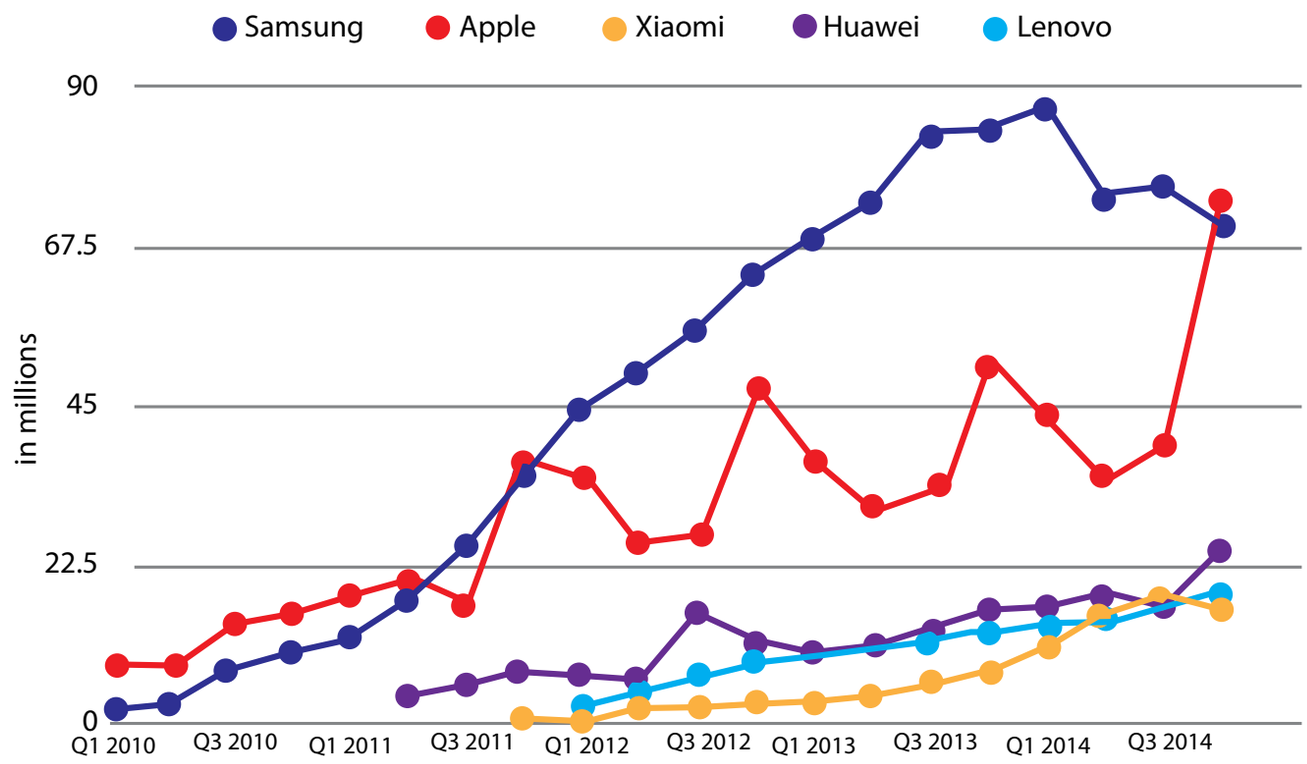
Six Sigma included in the strategic objective

Samsung Electronics wanted to be a borderless, global brand - and a household word wherever its products and services were available. SEC's strategic objective was to create both qualitative and quantitative growth and deliver competitive value to all stakeholders – customers, partners and shareholders – while maintaining profitability.

The objective was focused on the value chain of the company's four major businesses – home, mobile, office networks and core components. The emphasis was on creating a solid framework for these businesses by optimizing the supply chain to make operations as efficient and timely as possible. To achieve the goal of efficiency and timeliness, SEC integrated Six Sigma into its entire business process. SEC saw the universal adoption of Six Sigma throughout the company's 16 businesses worldwide as the way to perfect their fundamental approach to product, process and personnel development with Six Sigma tools used for innovation, efficiency and quality. The financial benefits made possible by Six Sigma, included huge cost savings and increased profits from sales and new product development.

When implemented strategically, Six Sigma helped Samsung Electronics to turn over working capital faster, reduce capital spending, make existing capacity available and new capacity unnecessary and produce even better results from the design and Research and Development functions. Such outcomes fostered a working environment that stimulated employee development, motivation, morale, empowerment and commitment, leading to increased opportunities for promotions. The four factors that have made Six Sigma successful throughout SEC's international operations and culture are:

World Market Shares of Samsung and Apple (Smartphone)



- Strong proactive support with required resources provided by top management.
- Acceptance and implementation of Six Sigma's basic disciplines by employees.
- Linkage with all innovative and infrastructure activities.
- Accurate and fair evaluation of all successful Six Sigma projects, with meaningful recognition and rewards for employees.

Adoption of new management techniques

A flattening of Samsung Electronics's organizational structure, made it much easier for key decisions to be made at lower levels, was another factor contributing to Samsung Electronics successes from Six Sigma. Black Belts and Master Black Belts were encouraged to act as change agents. Career development paths for these internal experts were evaluated continually to ensure a win-win alignment of individuals with company goals.

Six Sigma's role in improving development and manufacturing operations has been well-documented outside Sri Lanka. There are, however, leading garment companies in Sri Lanka who have used these techniques to become niche world leaders but who do not wish to disclose their techniques. But today, in Sri Lanka, not many people realize Six Sigma can and is making a major impact in a wide range of new functions and processes. It however, requires a different mindset. This is a combination of creative, forward looking, logical and clear thinking to fully understand the issues being faced throughout the organization. Six Sigma is used at a micro level but has macro impact. These include transactional activities such as completing an invoice, designing procedures to improve cycle time and improving processes in human resources, accounting, business planning, sales, call centres and customer services. In fact, all business processes are candidates for Six Sigma.

One reason why a wider range of employees can participate in Six Sigma is that advanced computer software is making statistical tools easier to use. In good and in bad economic times, businesses face challenging pressures to maintain a competitive edge in everything they do while enjoying productive and loyal relationships with customers, shareholders, employees and the complete supply chain. That means, for example, optimizing cycle time and equipment usage; having fewer rejects or errors; improving response time to customer inquiries; reducing inspection, maintenance, inventory and other high costs; providing more employee development and of course boosting the bottom line. Any company that cannot change its work practices, or improve its product development and customer satisfaction levels will disappear in a competitive environment. In Sri Lanka, many companies are cushioned by barriers to entry, however should there be entrance by foreign companies into the local markets, it is very probable that many companies would rapidly lose market share .

Becoming No. 1 in the world

Samsung Electronics (SEC) has used Six Sigma and innovation to become a world leader in the digital convergence revolution into Android phones. SEC focused on shareholder return, return on equity, revenue growth and total revenues. Importantly the rise to such heights was also a result of SEC's employees' belief that quality is the single most important reason for the company's higher sales, lower costs, satisfied customers and profitable growth. In addition to becoming a consistent world leader for the last 4 years in the Smart Phone market, today it is No. 22nd in ranking in the Fortune Global 2000 index.

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