

THE OPERATIONAL MANAGEMENT SYSTEM

Introduction

The operational management system is the central nervous system of the business. Figure 12.1 locates it in the context of the wider business systems.

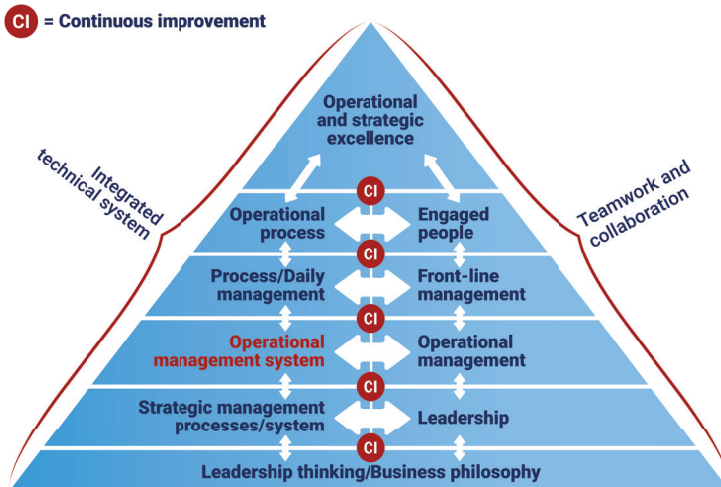


Figure 12.1: The operational management system in context

In Business Excellence, the purpose of the operational management system is to provide holistic and coherent management of all aspects of business operations. To:

- Ensure that every colleague has the right information, tools, materials and training to do their job successfully
- Measure process performance so as to provide useable and timely information to manage and improve the processes

It plans, schedules, measures and manages performance throughout the business, across all functions and levels. It aligns and coordinates the operational processes to create a coherent, coordinated, balanced, thriving operational system.

The operational management system is, as the name suggests, a system: a collection of processes with a clearly defined purpose, customers, inputs, outputs and process steps, and regular and consistent timing.

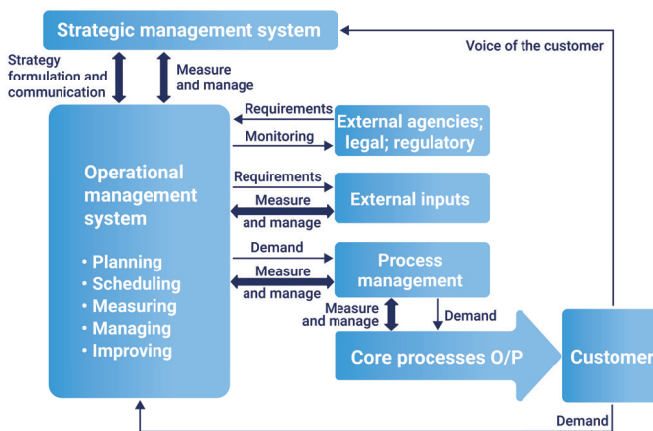


Figure 12.2: Interactions within the technical system (in detail)

As shown in Figure 12.2, the operational management system does two interrelated things. It:

1. Operationalises the strategy, translating the goals into practical action
2. Oversees the routine functions and activities of the organisation to ensure that the strategic goals are successfully achieved

Its core activities are planning and scheduling operational activity, measuring and managing operational performance and overseeing the ongoing improvement of the underlying process.

The operational management system interfaces with the strategic management system, with the strategic plan providing overall direction, specific goals and, through the values it sets out, setting the tone for how its activities will be pursued.

The operational management system feeds into the strategic management system information regarding both operational performance and underlying capability, to highlight any need for tactical course corrections and to ensure that an accurate picture of internal status is available as part of the strategic review process.

The operational management system also interfaces with the process-management processes across the business. These oversee the design, management and improvement of the front-line operational processes. From the operational management system will come information regarding the nature, timing and volume of demand for each process, and also information pertinent to the parts of the strategic plan which that part of the operation is responsible for.

Measures of the performance of each operational process will also be fed back to the operational management system, discussed by the managers responsible and, where appropriate, relevant course corrections will be made (both operationally and strategically). Short-term performance information and data aggregated over weeks, months and the full financial year will be fed back to the strategic management system to inform discussions between the relevant managers on any required course corrections, and to also inform the next round of the strategy process.

The operational management system also interfaces with the providers of various external inputs (which could be anything from stationery suppliers to agency workers to long-range weather data). Requirements are communicated to external suppliers, and performance is measured to inform ongoing dialogue and coordinate effective action.

Finally, to ensure that the company's operations are compliant with all legal standards, and with any standard the business subscribes to voluntarily (for example, Investors in People), there is communication with the relevant agencies to understand requirements, monitoring of the business by those agencies and dialogue to guide and support successful compliance.

Key factors

There are three key factors in getting the operational management system right: its design, management and improvement.

Design

- Identifying the operational management system owner
- Designing the operational processes as a coherent system end-to-end along the value stream
- Designing a set of measures that are integrated and aligned end-to-end
- Vertical alignment of management processes and measures
- Designing the management forums (including meeting structures and agendas)

Ongoing management

- Overall organisational load (capacity and demand matching)
- Overall organisational planning and scheduling
- Overall organisational resourcing
- Ongoing monitoring and management of end-to-end performance
- Engaging managers and ensuring cross-functional teamwork
- Compliance: ensuring the operational processes comply with regulatory requirements

Continuous improvement

- Oversight, coordination and monitoring of operational process improvement
- Implementation, oversight, coordination and monitoring of strategic improvement projects
- Continuous improvement of management processes
- Improvement of the improvement tools, training and processes

Let's look at these in more depth.

Design

Operational management system process owner identified

The owner of the operational management system must first be identified – the person responsible for the overall design, management, improvement and

performance of the system as a whole. This would normally be the CEO (or equivalent). While this step may sound obvious, not every organisation (or CEO) recognises that ownership of the operational management system is a central part of the CEO role.

Operational processes designed as a coherent system end-to-end

The network of interdependent operational processes should be mapped and configured as a coherent operational system that is aligned, coordinated, and integrated horizontally to create optimal flow of work end-to-end along the entire value stream.

Designing an integrated and aligned set of end-to-end measures

As discussed in Chapter 9, each operational process should have its own in-process and output measures, which are designed as part of the local process management. A key purpose of the operational management system is to oversee and cohere these and ensure that these local measures:

- Are fit for purpose– that they accurately measure the performance of each process and the value stream overall
- Support flow and balance along the value stream
- Align the operational processes as a whole with the VoC

Vertical alignment of management processes and measures

The operational management system should also be designed to create vertical integration and align operational goals with the strategic direction and goals of the business. Within the strategy process, both business-as-usual and breakthrough goals should be set as part of the annual plan, derived from the longer-term plan (typically covering five years). Both should be cascaded to operational management level and then to process level as appropriate.

The activities necessary to achieve the breakthrough goals should be incorporated into the operational planning and woven in with the business-as-usual activities

to ensure that they are scheduled, appropriately supported and resourced, and cascaded down to process management level. Reports and other relevant signals and information should also be fed back up through the different levels of the operational management system and to the strategic management system so that both ongoing performance, and progress toward the breakthrough goals, can be monitored and reviewed.

Management forums mapped (including meeting agendas)

The forums that comprise the operational management system should be mapped out to ensure that they:

- Coordinate and align the operational process end-to-end
- Coordinate and align the goal-setting, planning and reporting processes vertically
- Have a clear purpose, and agendas that are focused on the relevant process measures

We'll show you an example map shortly, but first let's look at the management control and reporting system (MCRS) – the network of plans, reports, measurement tools and discussion forums that manages operational performance. This is the core of the operational management system.

While the description below is, necessarily, a simplification, it outlines the key considerations and MCRS design principles.

Management control and reporting system

The MCRS is a performance management loop of forecasting, planning, execution, control, reporting and review, as shown in Figure 12.3.



Figure 12.3: Performance and control loop

Forecasting, planning, controlling and reporting will of course run across a range of timeframes: monthly (or a longer interval), weekly and daily (or a shorter interval), and every business will have to create its own unique approach, tailored to its own needs.

Figure 12.4 shows a generic, simplified example of MCRS design.

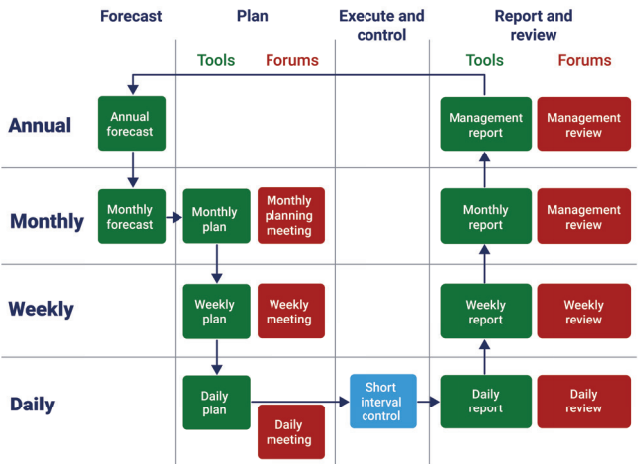


Figure 12.4: The management control and reporting system

MCRS design begins by considering the Forecast column. A business will usually have an annual forecast for activity, revenue, costs and profitability, which will flow down to a monthly forecast, adjusted to reflect changing circumstances.

The monthly forecast informs the monthly plan and schedule, which are discussed and agreed at a monthly capacity planning meeting. The monthly plan can then be distilled down into a weekly plan, which can be discussed and agreed at the

weekly planning meeting. Similarly, the weekly plan can then be distilled down into a daily plan, which can be discussed and agreed at the daily planning meeting, completing the Plan column.

Drift is best managed with regular checks and corrective action. Figure 12.5, which looks at how the frequency of review and control points influences the degree of performance drift, illustrates this.

This is short interval control (SIC). Checks will be carried out at least daily and, depending on the nature, requirements and speed of the process, as often as hourly.

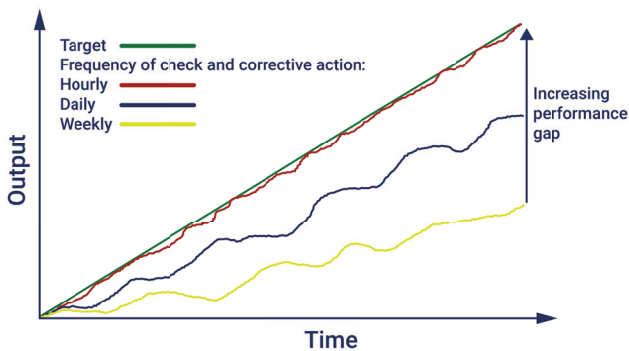


Figure 12.5: Control frequency and performance drift

Report and Review begins with a daily report compiled from the SIC information which is discussed at the daily reviews. A typical agenda for this would be:

- **Planned:** What output was planned for this interval?
- **Actual:** What was the actual output?
- **Variance:** What was the nature and size of any difference? What is the cumulative difference for the day?
- **Reason:** Why did the difference occur?
- **Action:** What will be done to get back on track and prevent recurrence?

General status from the daily front-line meetings is communicated upward. Current or emerging problems that may affect the local process, other adjacent processes or the system overall are flagged up and, where appropriate, escalated for appropriate decision, action or support.

The information from the daily reports is compiled into the weekly report. The results are discussed at weekly meetings to identify any relevant corrective or process-improvement actions.

The process repeats, chunking up to monthly management reports and the annual summary report. These are discussed at the respective meetings, where progress against financial goals is also tracked.

The design of the MCRS must incorporate all the functional requirements to support operations, including planning, procurement, material handling and dispatch.

Completing the management and communication system map

To these core MCRS forums must be added the other forums essential for engaging people and running the business, including health and safety meetings and continuous improvement meetings. The full management system map may look something like Figure 12.6.

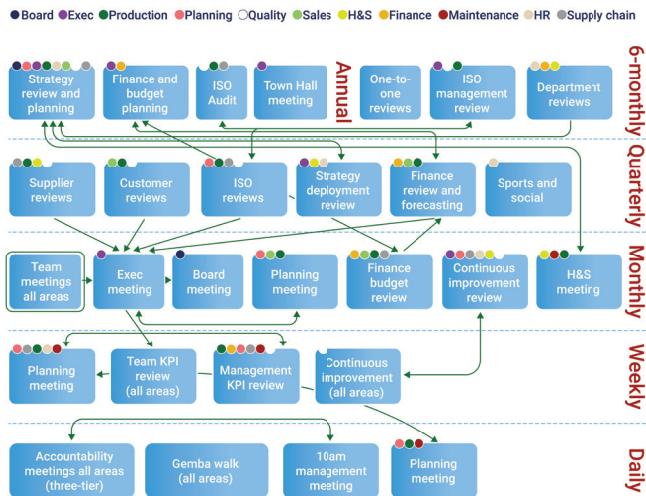


Figure 12.6: Full management and communication system map

Finally, each forum should have a clear purpose and agenda, focused on the relevant process measures.

Ongoing management

Overall organisational load managed (capacity and demand balanced)

A key purpose of the operational management system is to create smooth end-to-end flow and to keep the process consistently operating within capacity, avoiding both a) the inefficiency of running with overcapacity, and b) overloading the process, creating stresses and strains that in the short term lead to quality problems, and in the long term to the degradation of both the process and colleague engagement.

This means that, first, demand must be understood: its volume, nature and frequency over the short and longer term. And second, the capacity of the process end-to-end, especially any potential bottlenecks or points of failure, must be understood, again over the short and longer term.

The two must then be compared and the resultant information used to either manage demand or adjust process capability. Or, more likely, both.

This is of course, in practice, highly dynamic – part art as well as science. It's always better to err slightly on the side of short-term inefficiency rather than risk long-term process degradation with frequent incursions into overload.

Overall organisational planning and scheduling

Following on from the above, overall operational activity should be planned and scheduled to match customer demand and process capacity, to deliver on-time-in-full without inefficiency or overloading the process.

And of course, the planned targets, activities and timings must also be communicated clearly, systematically and in good time to each of the local processes, to facilitate proper execution and coordination across the organisation.

Overall organisational resourcing

The core processes must be properly resourced with the right quality and quantity of raw materials, tools, equipment and consumables, and the right number of people with the right skills. All of which need to be in the right place at the right time.

A key purpose of the operational management system is to oversee and coordinate the network of internal processes that feed each other, and the processes for bringing in external resource and making it available at the right time. This must be planned not just on a daily or weekly basis, but across the full business cycle, looking ahead to anticipate changing seasonal requirements or other circumstances likely to affect the nature or volume of demand.

Ongoing monitoring and management of operational performance

When the appropriate measures and forums have been designed, these should then be used in a systematic and disciplined way. The various meetings should be run on time, to an agenda, in a constructive fashion. As we will discuss in Chapter 13, in the short term, the flow of work and all key measures and other vital signs should be consistently monitored at the front line to allow for responsive course-corrections. A key part of this is the daily standup – the short start-of-day meeting. This forms tier one of the three-tier system (as discussed in Chapter 2).

Engaging managers and ensuring teamwork

The management process should empower, engage and support people to deliver excellent and continuously improving performance. At a technical level, this includes providing:

- Effective operational processes, tools and resources
- Performance data that can be used to understand and improve how the processes are performing
- Forums that give people the opportunity to discuss performance, problems and ideas in an environment focused on constructively resolving problems and free from fear and blame

Equally important is effective people management to ensure that each individual has:

- Clear expectations
- Appropriate skills and knowledge
- Ongoing coaching
- Accountability for personal attitudes, behaviour, performance and results
- Empowerment to solve problems, including continuous-improvement training, and appropriate time, authority and support

There should also be accountability at all levels of management, from top managers to those on the front line, to ensure that all of the above is being done in a systematic and disciplined way, and where it is not, that it is picked up, corrected and the underlying reasons identified and dealt with.

Finally, the design and operation of the system should actively foster, promote and support teamwork across the organisation and between the different levels.

Compliance: ensuring the operational processes comply with regulatory requirements

The operational management system should ensure that all operational processes are compliant with regulatory requirements, including health and safety, financial and any industry-specific requirements. The measurement system should be designed to track key regulatory requirements and to ensure that these are built into the agendas at the appropriate forums, to highlight them to the colleagues responsible. Similarly, the measurement system should track the setting and completion of actions to address any shortfalls in this area.

Continuous improvement

Oversight, coordination and monitoring of end-to-end process improvement

While the continuous improvement of the local front-line processes is the responsibility of the front-line managers and teams, it is necessary to monitor and manage these at operational management level to avoid the dangers of:

- Working on the wrong priorities, e.g. speeding up a process that is not a bottleneck
- Changes in one process (e.g. making cost reductions) having unintended negative consequences in others (e.g. taking quality below an acceptable standard)

There will also be cross-functional improvement projects that require cooperation and coordination between different functions, and that need to be monitored and managed at operational management system level.

Ongoing improvement projects should also be monitored in a structured, disciplined way, at operational management system level, to ensure that they get completed on schedule, and that the benefits are incorporated via appropriate process changes and become standard practice.

Implementation, oversight, coordination and monitoring of strategic improvement projects

Within the strategy process, breakthrough goals should be set as part of the annual plan, derived from the longer-term plan. These should be cascaded to each area as appropriate.

The activities necessary to achieve the breakthrough goals should be incorporated into the plan and woven in with the business-as-usual activities to ensure that they are scheduled and appropriately supported and resourced. Central to this is making sure that the people involved in each breakthrough project are given adequate time and are all available at the same time as each other, to allow the project to progress on schedule.

As with the locally generated continuous improvement projects, the progress of the breakthrough projects should be monitored as part of the regular review process.

Continuous improvement of management processes

As with every process, the operational management system must itself be reviewed and systematically improved. Ways should always be sought to improve the quality, speed, accuracy and efficiency of information-gathering, analysis, presentation and decision-making, and the communication of those decisions.

The quality and efficiency of the various discussion forums should also be periodically reviewed and improved.

Though primarily the responsibility of the local process owners, the improvement of both the front-line processes and process management in each area should also be monitored and tracked at operational management system level.

Improvement of the improvement tools, training and processes

The continuous improvement process, tools and training must themselves be analysed and improved, for two reasons:

- To allow improvement opportunities to be identified and exploited faster and better
- To be able to successfully tackle increasingly more complex and subtle problems

Summary

The shape that the operational management system needs to take will be influenced by the unique mix of factors specific to a business, including the product or service, the tasks involved, the people, and technology. And, like any set of processes, it too will be subject to both short-term adaptation and longer-term improvement.