IMPLEMENTING STRATEGIC CHANGE: Tools for Transforming an Organization
Implementing Strategic change:
Tools for transforming an organization

• Key Points - 1
  – Strategy and Strategic change are key words/themes that are central to the success of any business organization in any industry. These topics have gained sufficient bandwidth/attention in the corporate world (especially at the turn of the century) that the leadership in many organizations are seeking ‘silver bullets’ in order to stay ahead of competition and to retain market leadership position at all times. Typical strategic plans aim to look over the longer term, trying to get a “crystal ball” of the likely changes in the market place, deriving their annual plans from the long term plan and deploying a robust implementation plan to track and monitor the effectiveness of those plans.
Implementing Strategic change:
Tools for transforming an organization

• Key Point - 2
  – To support the implementation of those strategies, many companies have resorted to the use of many of the tried and tested Quality tools/Business Models. This presentation will cover the success story of the Tata Group (US 100 bn in Revenues), how this program started with its humble beginnings in the mid 90s and now covers about 100 companies and an employee base of 600000 people with the Tata Brand as an international benchmark and services comparable to the best in class. Quality occupied center stage in Board meetings, got ingrained into the ethos of the Tata culture as each of the 100 companies strove to be best in class to retain and protect the Tata Brand.
Implementing Strategic change: Tools for transforming an organization

• Key Point - 3
  – If we switch to today’s context given all the vagaries of the changing dynamics, this presentation will also highlight how the use of Lean Six Sigma as a tool has helped and is helping many companies to achieve its strategic objectives i.e. drive costs down, enhance top line growth and work as an enabler to increase shareholder value. An approach that is of practical value is also presented
Agenda

• Background/Context
• Strategy: Meaning/Perception
• The Tata Success Story:
  – Group Stats
  – Need for change
  – TBEM Framework
  – Criteria questions – Strategy
  – Results
• What made it work:
  – Brand Equity
  – Executive commitment
  – Strong governance
• Strategy for Market Leadership (Today’s context)
  – Applying Lean Six Sigma as a viable tool
  – Enhancing top line growth through Lean Six Sigma
• Wrap up & Next Steps
• What is your strategic Planning Process..?

• How does the process address the need for
  - Transformational change/prioritization of change initiatives
  - Organizational agility/operational flexibility
  - Innovation
  - Risks to your organizations future success

• What are your key strategic objectives
  - Balance short and long term planning horizons
  - Balance the needs of all stakeholders

• What are your short/long term action plans in relation to your strategy
  - Resource Allocation
  - Workforce plans
  - Performance Measures
  - Performance Projections

• HOW do you establish and implement modified ACTION PLANS if circumstances require a shift in plans and rapid execution of new plans?

These are very good questions......what though are the answers.....look for the Tata Story........in the next few slides
Why is Tata and its Transformation Important?

• India’s most respected and largest group, over 140 years old
  • 66% of Tata Sons owned by Tata Trusts involved in philanthropic activities
• Group Revenue ≈$109bn in FY 15; Intl revenue> 65%, >80 countries
• Diverse: 7 sectors
• Largest employer in private sector in India and UK, over 610,000 employees
Transformation troubles

Who can guess on what happened here!!!
May be .....May be ......NO strategy ??????
The Transformation Imperative

- 45% gone from 1975-1995
- 57% gone from 1995-2015

These are some “hard to digest’ figures
Some “small data”
# Putting Tata Transformation in Perspective

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<th>Time 1</th>
<th>Time 2</th>
<th>Multiple</th>
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<td><strong>GE</strong></td>
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<td>Revenues (US $ bn)</td>
<td>54.6 (1991)</td>
<td>146.0 (2013)</td>
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<td><strong>Siemens</strong></td>
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<td><strong>Tata</strong></td>
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<td>Group Revenues (US $ bn)</td>
<td>5.8 (1992)</td>
<td>103.3 (2014)</td>
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<td>Group Profits (US $ bn)</td>
<td>1.16 (1991)</td>
<td>5.8 (2014)</td>
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The Transformation Paradigm

• How did this happen.......??

• Few key initiatives kicked off around the same time
• Quality was one of them...
• The Group embraced the MBNQA criteria
  – Program Kick off – 1994/95
  – More than 100 companies in the Program
  - To be considered for the Quality award, companies had to score in excess of 600 + on a 1-1000 scale
  - Governance Structure in place
The Secret Sauce for Tata Group’s Transformation

Organisational Profile
Environment, Relationships and Challenges

1. Leadership
   - Approach & Deployment (Max 550 points)
   - 120 points

2. Strategy
   - 85 points

3. Customers
   - 85 points

   - 90 points

5. Workforce
   - 85 points

6. Operations
   - 85 points

7. Business Results
   - Results (Max 450 points)
   - 450 points

85
2
Strategy

85
5
Workforce

85
6
Operations

85
3
Customers

Approach & Deployment (Max 550 points)

Results (Max 450 points)

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Types of questions that Criteria asks

- How do you know that you know your customers well?
- What are your future economic engines?
- How do you know your **strategy** will overcome your challenges? What are your current and future core competencies?
- What do you think your competitors’ performance will be 5 years from now?
- Who do you benchmark with and why?
- How do you know your measurement system is effective?
- Can you demonstrate how your employees and partners relate to your **strategy**?
- How do you assess and improve your acceptability to the society?
*TBEM Scores Over Time

TBEM = Tata Business Excellence Model
(equivalent to Malcolm Baldrige Criteria)

- This graphic represents scores on “Approach/Deployment’ dimensions (max 550)
- Scores can be seen to be trending upwards of all group companies
- The other 450 is for Results
The **ADROIT** framework to assess the strategic significance of TBEM at Tata

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<td><strong>A</strong></td>
<td><strong>Add volume</strong></td>
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<td><strong>D</strong></td>
<td><strong>Differentiate or increase WTP</strong></td>
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<td><strong>R</strong></td>
<td><strong>Reduce costs (operating costs, post-merger integration costs, capital costs, etc.)</strong></td>
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<tr>
<td><strong>O</strong></td>
<td><strong>Optimize risk (systematic, idiosyncratic, downside): reduction in volatility of cash flows and reduction in competitive risk</strong></td>
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<td><strong>I</strong></td>
<td><strong>Innovate; create and combine knowledge, resources, and capabilities</strong></td>
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<td><strong>T</strong></td>
<td><strong>Transform</strong></td>
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</table>

The fundamental equation for Economic Value (EV)

$$EV = 	ext{Volume (A)} \times \text{Margin (Differentiate, Reduce Costs)} + \text{Optimize Risk} + \text{Innovate/Improve industry structure} + \text{Transform}$$
Three Levers in Tata’s Transformation

1994-onwards: Business Excellence

2003-onwards: Globalization

2006-onwards: Innovation

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Results of New Operating System

18 times in the last 19 years ($)

Exchange rate for FY15 $ = 61.15

Source: tata.com
Business Results:
1. Tata Consultancy Services (TCS)
2. Jaguar Land Rover
3. Tata Steel India
4. Titan

Product/Service Quality reached best-in-class levels
Five Lessons from Tata’s Transformation

1. Leadership
2. Execution
3. Analytics
4. Discipline
5. Society

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Summary

• Transformations matter, but hard to pull off

• Tata group’s experience provides a proven, systematic and general approach to transform large organizations that relies on levers of business excellence, globalization, and innovation
What made it work…The three pillars

- **Company Results On TBEM linked to Tata Brand**
- **Executive Commitment**
- **Strong Governance**

- Group Companies urged to provide a roadmap of how they will reach 600+ scores on the TBEM scale within a reasonable timeframe
- Luxury of using the Tata Brand was at stake
- “Tone at the Top” .... spearheaded by Mr. Tata himself as Chairman of the Group
- Quality ...First Item on the agenda in Board Meetings

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Fast Forward to Today

• Strategy for Market Leadership:
  – Enhancing Top Line Growth using Lean Six Sigma principles

How does this work in today’s context?
Outline

- Lean Six Sigma: Background/Context
- Strategy for Market leadership (EVA Model for Profitability)
Lean Six Sigma – Fact Sheet

• Over the past 20 years, use of Six Sigma, the popular business improvement methodology, has saved Fortune 500 companies an estimated $427 billion
  – About 53 percent of Fortune 500 companies are currently using Six Sigma – (It is 82 percent when you look at just the Fortune 100).

• Corporate-wide Six Sigma deployments saved an average 2 percent of total revenue per year
  – Motorola saved $2.2 Billion within 2 years of implementing Six Sigma
  – GE achieved an increase in Net Income of up to $1 Billion in just two years
  – Johnson Controls, within the first year of implementing Six Sigma, saved $22 Million dollars working on as many as 160 Process Improvement Projects and that figure rose to 100 Million Dollars in 3 years
  – Ford realized savings in excess of $675 Million dollars within the first 3 years

And More........................................
Lean Six Sigma is a methodology that uses a structured framework to maximize shareholder value by focusing on accelerated rate of improvement in customer satisfaction, cost, quality, process speed, and invested capital.

The principle of Lean Six Sigma:
- The activities that cause the customer’s critical-to-quality issues and create the longest time delays in any Business process offer the greatest opportunity for improvement in cost, quality, capital, and lead/cycle time.
The DMAIC Model

Define
Define the Problem/Issue and the impact on the Customer caused by this issue.

Measure
Baseline the process, verify the data, Measure Current performance.

Analyze
Determine the root causes, understand the input factors contributing to the poor performance. Statistically validate that the input factors are the right ones.

Improve
Implement Countermeasures to reduce the variations. Statistically Validate that the Countermeasures are the right ones.

Control
Sustain the gains from the improvement phase. Complete Project Report.

Define the Problem/Issue and the impact on the Customer caused by this issue.
Financial Benefits....Sources

• Examples of Potential Revenue Enhancement:
  – New sales of existing or new products
  – Increased retention of profitable customers
  – Price increases

• Examples of Potential Cost Reduction:
  – Labor Cost: Reduced number of hand-offs
  – Rework: Less defective work due to improving quality at the source of the defect
  – Servicing Cost: Decreased number of quality related service calls

• Examples of Potential Capital Reduction
  – Cost of Capital: Decreased time of service to customer payment
  – Supplies: Decreased volume of inventory due to process improvements
  – Occupancy: Decreased storage area due to quicker shipping times
# Lean Six Sigma Toolkit

<table>
<thead>
<tr>
<th>Define</th>
<th>Measure</th>
<th>Analyze</th>
<th>Improve</th>
<th>Control</th>
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<tbody>
<tr>
<td>Project Charter</td>
<td>Process Mapping</td>
<td>Cause &amp; Effect</td>
<td>Design of Experiments</td>
<td>Control Charts</td>
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<td>SIPOC</td>
<td>Pareto</td>
<td>FMEA</td>
<td>ANOVA</td>
<td>Mistake Proofing</td>
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<tr>
<td>Brainstorming</td>
<td>Value Stream Map</td>
<td>Correlation Matrix</td>
<td>Lean Tools ..</td>
<td>Standard Work</td>
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<td>• Kanban</td>
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<td>• Mistake Proofing etc</td>
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<td>Cost of Quality</td>
<td>Run Charts</td>
<td>Scatter Diagram</td>
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<td>TPM etc</td>
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<td>Voice of the Customer</td>
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<td>Process Capability</td>
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Economic Value Add (EVA)...Concept/Definition

- Economic Value Add (EVA) is a single key measure that should drive all Businesses for Market Leadership
- EVA Or Economic Profit captures not only the operating costs (as does income), but also the capital costs required to generate a particular revenue stream

\[
\text{Net Operating Profits after Taxes (NOPAT)} - \text{Capital Charge} = \text{Economic Profit ($)}
\]

- Operating Income - Taxes
- Average invested capital employed - weighted average cost of capital (WACC)
- Allows for comparison between companies
EVA Model Driving Bottom Line Improvements

- **EVA** (Economically Value Added)
- **Profit**
  - Revenue
    - Price
    - Volume
    - Mix
  - COGS
    - Labor
    - Material
    - Overhead
  - SG&A
    - R&D
    - S&M
    - G&A
    - Plant
  - PP&E
    - Equipment
    - Inventory
- **Capital Charge**
  - Working Capital
  - A/R, A/P

**Key Success Factors**

**External**
- Price
- On time delivery
- Service
- Corporate Social Responsibility

**Internal**
- Productivity
- Low service cost
- Low working capital
- Employee Satisfaction

**Opportunities**
- On Time delivery
- Service excellence
- Defect reduction

**Examples:**
- On Time delivery
- Service excellence
- Defect reduction

**Gap Analysis**

Focus here for launching LSS Projects

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Customer View Model tied to EVA (Enhance Top Line Growth) – A suggested approach

- Determine Cost of Poor Quality for each of these CPPs
- Determine KPIs impacted by these ‘non – performing’ processes
- Identify corresponding processes that are not delivering
- Determine Maturity level of the ‘Offending’ processes

• Validate the new processes are delivering
• Document Standard Operating Procedures
• Train users on the new process

• Evaluate the new process at the end of the 90 day period

• Use Lean Six Sigma principles (DMAIC) to improve the processes
  • Train Project Teams on LSS tools as needed

• Form Kaizen/Quick Win teams to work on these Process gaps (90 Day runway)

• Draw Value stream Maps for the same processes
### Objective: Enhancing Top Line Growth... *Duration 12 weeks*

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<tr>
<th>Topic</th>
<th>Wk1</th>
<th>Wk2</th>
<th>Wk3</th>
<th>Wk4</th>
<th>Wk5 thru Wk10</th>
<th>Wk 11</th>
<th>Wk12</th>
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<td>One day Executive overview (if required)</td>
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<td>Pilot Project - Identification</td>
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<td>Core Team/Governance Model in place</td>
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<td>Lean Six Sigma Training (Core/Project Team)</td>
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<td>Core/Project team uses DMAIC cycle to resolve the key business issue</td>
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<td>Leadership Readout on the outcome of the project (Validate Cost Savings with Finance)</td>
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<td>Project close out report/complete SOPs etc</td>
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Success Story: Alcatel-Lucent

The Six Sigma Model

**Define**

Goal was to increase OTD to 65 to 70% to stay ahead of competition in 2 years time.

**Analyze**

On Time Delivery was averaging 20 to 25% for several years across all product lines globally.

**Improve**

1. Improve the Sales and Forecasting process
2. Work with the Project Management community on date management changes
3. Replace old tools with state of are planning tools

**Measure**

Goal was to increase OTD to 65 to 70% to stay ahead of competition in 2 years time.

Expedited shipping costing huge $

**Control**

• OTD touched 65% in 2015
• Hold the gains
• SOPs/Training completed
• “New” process handed over to the process owner

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Summary/Wrap up

• Strategy and Strategic Planning (both short & long term) ought to be central to the success of any organization
• Strategy must address Transformational initiatives
• Quality (Big Q) can play a pivotal role in the transformation
• Is MBNQA still the recipe for Big Q
  – Debatable (My opinion)
• One of the CEOs likened MBNQA to “writing a book”
• His refrain was “we need 60 seconds commercial”...not a book
  – That is the silver bullet, I believe
  – Lean Six Sigma is certainly in that realm
• The same CEO also remarked “the language of Business is dollars. The language of Quality has to be dollars”...
  – Application/Implementation of Lean Six Sigma does fit into that maxim

Questions ??
Pl call me 609-462-2713
vaneswaran@msn.com
References

1. Dancing Elephants and Leaping Jaguars: How to excel, innovate and transform your organization the Tata way: Sunil Mithas : 2014
Thank You