

The purpose of the Operational Due Diligence

We firmly believe that “packaged solutions”, or predetermined outcomes, are an inadequate and inappropriate basis for a successful change process. In our experience, the approach, the duration, the solutions and the cost vary with the task at hand. It is, therefore, simply irresponsible to begin projecting likely benefits or costs before the opportunity and task are fully assessed. The **Operational Due Diligence** is our way of making that professional assessment.

The purpose of an Operational Due Diligence is three-fold:

- ❖ To define the size and nature of the opportunity realisable by effecting:
 - a) quantum change within the organisation;
 - b) re-engineering key processes, policies and structures through people. These are expressed in terms of the annualised financial improvements that we would commit to as a result of the **Operational Due Diligence**.
- ❖ To define the size of the task of implementing agreed changes. This includes the content, intensity and duration of the process and hence our cost.

To define a preliminary project approach, including a complete Education and Communications Plan which optimises ownership of the process and hence the perpetuation of its benefits. We provide tools and coaching methods that enable your people to achieve successful, lasting benefits in their management and execution of a successful integrated supply chain logistics process.

The Operational Due Diligence Process

The Operational Due Diligence Process will take between two and six weeks. The team is led by one of our senior Business Analysts, assisted by the people who would actually do the project – including the prospective Project Manager.

The Operational Due Diligence process comprises six steps, as follows:

Step 1: Opening Meeting

This is a one-hour meeting with you. The purpose is to introduce the team members and review the approach over the next week. It should be followed by a meeting with Senior Management, with an introduction by you. The purpose is to explain who we are, what we will do during the Assessment process and how the Senior Managers can assist this.

Step 2: **Diagnostic Process**

- “*Day in the life studies*” where we spend complete shifts with people at first-line management or supervision. This includes day shifts, afternoon shifts, together with all relevant support areas. The objective is to see at first hand *what really happens*, as opposed to what is *supposed to happen*. This reveals symptoms which, when traced back to root causes, provide insights into broader issues.
- Detailed analysis of strategy and business plans, organisation structure and accountabilities. This addresses the clarity, mutual compatibility and relevance of the organisation’s goals and the effectiveness of their communication through a multilayered structure.
- Detailed analysis of Management operating and control systems including a critique of financial and operational indicators. This addresses firstly the efficacy of planning; and secondly the effectiveness progress towards the planned objectives.
- Detailed analysis of current requirements between internal and external customers and suppliers. This tests the organisation’s commitment and capacity to achieve quality, service and cost outcomes. Moreover it is an introduction to understanding the “end to end” operational and business processes.
- Questionnaires and surveys. This provides a snapshot of perceptions and attitudes across the organisation. We recognise that surveys do not necessarily reflect actual behaviour and that is why we spend most of our time out “*on the floor*” with the people who are actually dealing with the task. However, the juxtaposition of attitude, perception and observed behaviour is very powerful.
- Data mining, including the analysis of the cost of current operations and dimensioning the current loss/waste due to work practices, schedules, customer requirements, inadequate planning, execution, management/supervision etc. Analysis of current reports and information available to profile work requirement, resourcing, scheduling and rostering.

Step 3: **Diagnostic Review Meeting**

This is a one-hour meeting with you at the midpoint of the **Operational Due Diligence** at the end of week 1. The analyst presents the findings to date. The focus is on the potential opportunities that have been identified. The analyst is generally able to put this in context with an estimate of the range of financial benefits achievable.

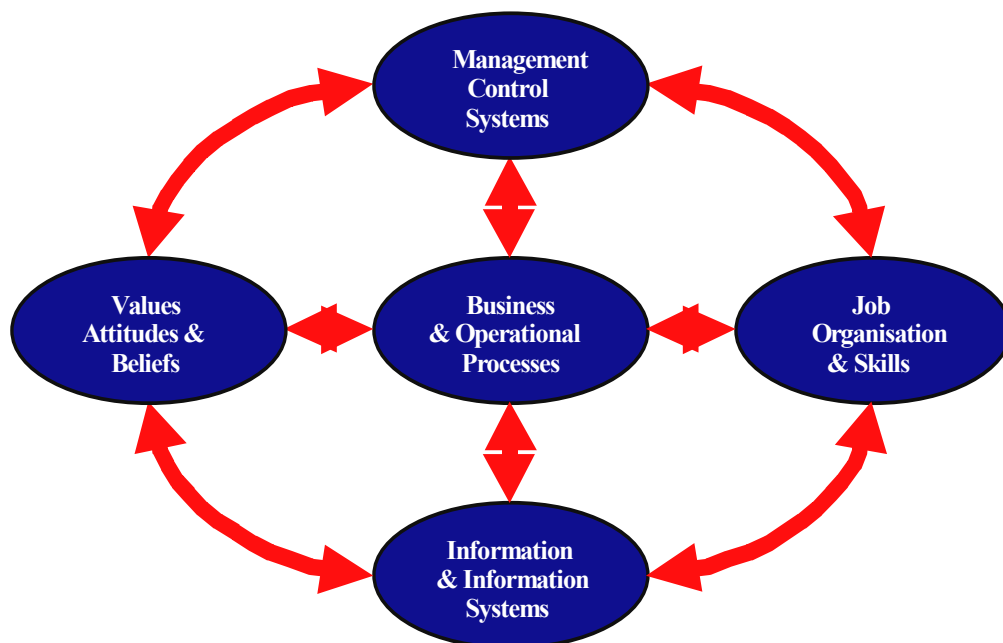
Step 4: **Development of the Preliminary Approach**

The emphasis in the second week shifts from defining the areas of opportunity; to exploring the best approaches to realise the potential identified; and then to determining how our involvement might “dovetail” with the organisation’s culture and its own plans for improvement.

The types of issues which need to be considered include:

- *Education content*
- *Sequence (i.e. which areas first/last)*
- *Potential problem areas or processes*
- *Duration*
- *Operational and financial targets*
- *Communications plan*
- *Industrial relations implications*
- *Size and nature of client taskforce involvement*
- *The nature of the week-by-week project management systems*
- *Resource requirement / cost.*

Figure 1. A View of your company from five key areas.

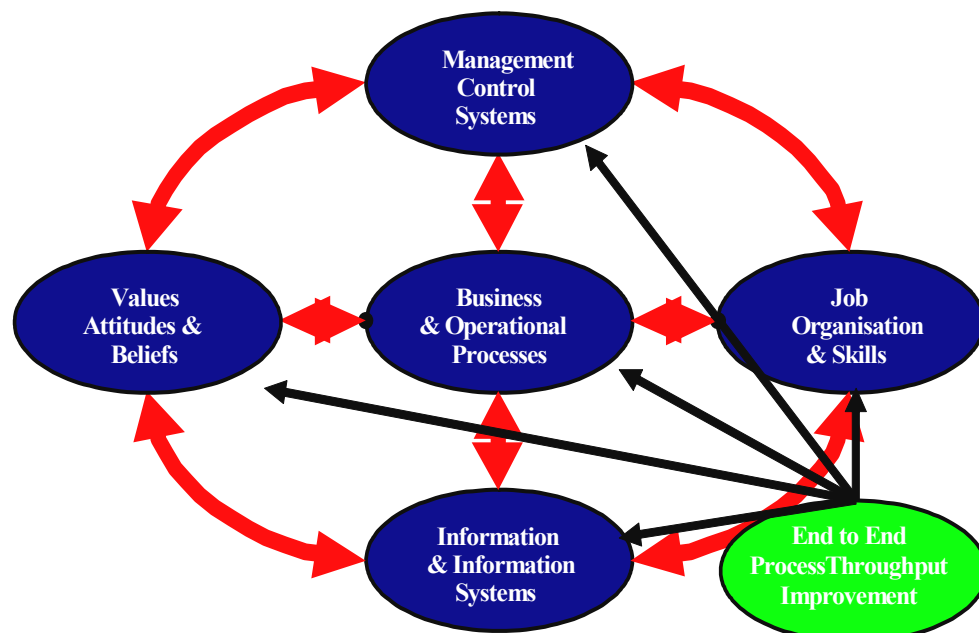


- The above figure (Figure 1) illustrates the outcomes of the business review process both in terms of the business elements, and the inter-connection

points and relativities. Moreover, it will detail the relative balance of each business element within the context of the business.

- **Management Control Systems** monitor processes and report variances between actual and planned outcomes in a timely manner for appropriate corrective action.
- **Values, Attitudes and Beliefs** is concerned with staff knowing more than what is expected of them, and understanding the logic of their role in relation to the process. Performance will be objectively measured against specified criteria. Values, attitudes and beliefs drive their performance and also ensure that they do not adopt a 'silo' view of their position in the organisation or the supply chain.
- **Jobs, Skills and Organisation** ensures jobs are in alignment with the objectives of the organisation and the supply chain process – that they add value. The skill level is matched to the requirements of the process.
- **Business and Operational Processes** are formulated in accordance with what the organisation and supply chain are attempting to achieve given the level of resources and constraints. An interdependent relationship exists between Business and Operational Processes and the other four elements.
- **Information and Information Systems** collect data and transform it into information that assists decision making.

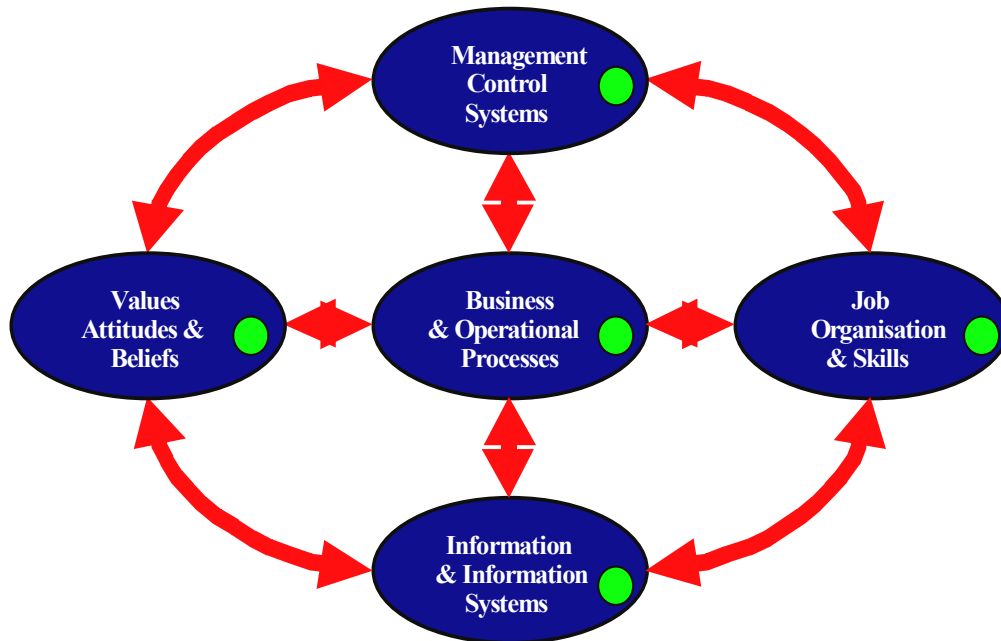
Figure 2. Operational and Business Excellence Value Chain.



A detailed understanding of organisational elements from the business review provides a platform from which the operational integration of the operational and value chain process can be understood and appreciated. It enables and facilitates an understanding of the connection points and drivers of the process.

Moreover, it will highlight and detail modifications to organisational protocols to allow successful operational integration of improvement requirements to facilitate delivery of a **High Performing yet Simplified Business model**.

Figure 3. Successful operational integration of improvement requirements



The implementation process is driven from the perspective of maximising involvement by BHP Iron Ore staff. In this manner ownership and accountability for the new and changed processes become integrated into the BHP Iron Ore way of thinking.

Step 5: **Review of Preliminary Approach**

This is a one hour meeting with you in the later stages of the review. The purpose is to discuss the preliminary approach. The analyst at this stage will have firm cost benefit numbers.

Step 6: **Presentation of Formal Proposal for Project Implementation**

Several points need to be made about the proposal. If a decision to proceed with a subsequent project identified and scoped within the Operational Review is made, we are engaged on a weekly basis with the cost spread as per the proposal. Therefore, if we do not meet our commitments, you may discontinue the project. In this way, you maintain control, and the onus is on us to get the job done on time and on budget.

Project Approach

I feel it worthwhile to put these comments about the **Operational Review** in context, by explaining how we approach a project once the **Operational Review** is complete. Whilst much of the tasks to address improved business processes to drive additional supply chain throughput; where additional resources are required to project manage specific process and behavioural change initiatives to increase throughput in the short term and sustain that production level these will be highlighted for consideration.

A Project typically comprises four phases.

Phase 1: Definition

This phase is principally about determining the “*root cause*” of problems or improvement opportunities in order to meet the objectives agreed to in the **Operational Due Diligence**. It is a natural extension of the **Operational Due Diligence**, except that it is more detailed and involvement of your people needs to change from a co-operative to participative role. For this reason, we strongly recommend direct continuity from the **Operational Due Diligence**.

Phase 2: Development

This phase is principally about developing the interventions (process changes, revised management operating systems, etc.) that are required to remedy the ‘*root causes*’ identified during the definition phase. A heavy emphasis is placed on applied education to enable your people to understand the why and how of the change process and to train your Senior Managers how to lead it effectively. This will be of paramount importance for successful implementation.

Phase 3: Implementation

This phase is the point when the changes in systems, processes and behaviours are implemented. It marks a change in the role of the consultants from being facilitators to coaches, helping your people be successful in the new environment.

Phase 4: Perpetuation and Integration

This phase is designed to wean your people off coaching support. It also refocuses them on the next range of improvement opportunities. The duration in calendar time obviously needs to be tailored to your specific requirements.

IN SUMMARY

IMPLEMENTATION APPROACH

The overall implementation approach is broken into four fundamental phases namely, definition, design, development and implementation. Each phase provides a rigorous, stable foundation upon which the next phase may proceed.

DEFINE OUTCOMES

This phase is where expectations are disseminated and where ownership is formalised. Information is consolidated from a range of internal and external sources to provide a robust and realistic background from which a specific quality strategy management plan and program schedule can be formulated. Fundamental in this phase is the determination of specific measures of success and the evaluation methodology.

Key objectives of this phase are:-

- develop a conceptual framework
- articulate specific corporate values
- agree key issues
- understand diverse requirements
- set structure
- agree strategic plan
- empowerment of groups/individuals
- communication plan

DESIGN PHASE

The design phase is where individuals, groups and the organisation as a whole are prepared for change. Broadly, the three major interventions may be classified as:-

- educational/facilitation
- system and process re-engineering
- structural modifications

Key objectives are:-

- preparation of individuals for change
- involvement of individuals and task teams to achieve ownership
- discovering best practice
- discarding redundant processes
- development of critical indicators
 - quality
 - delivery
 - cost

- organisational mapping now and the future state
- gap analysis

DEVELOPMENT PHASE

The development phase is where concept is anchored into reality. Specific detailed plans are developed by task teams or architectural teams based on gap analysis from the previous phase. Systems and process supports are designed and developed as structural plans.

These plans are rigorously validated against specific values articulated in the “define” phase. Reality checks and proof of concept allow “off line” validation.

Key objectives of this phase are:-

- redesign to allow improvements
- harness fresh ideas
- future organisational blue print
- operational simulation
- reality check
- proof of concept

IMPLEMENTATION PHASE

The implementation phase is where behavioural, process, system and structural changes are put in place to achieve a measurable and sustainable change in business operations and behaviour. Key profit improvements are realised and measured.

Key objectives are:-

- seamless transitions
- adding business value
- minimise customer disruptions
- profit improvement
- business improvement

The Way Forward after the Operational Due Diligence

There are eight steps to successfully implement and transform the organisation, these are:

1. Establishing a Sense of Urgency

- a. Examining market, competitive and operational realities
- b. Identifying and discussing issues, potential issues, and major opportunities

2. Forming a Powerful Guiding Coalition

- a. Assembling a Group with enough power to lead the change effort
- b. Encouraging the group to work together as a team

3. Creating the Vision

- a. Creating a vision to help direct the change effort
- b. Developing strategies for achieving that vision

4. Communicating the Vision

- a. Using every vehicle possible to communicate the new vision and strategies
- b. Teaching new behaviours by the example of the leading coalition

5. Empowering others to Act on the Vision

- a. Getting rid of obstacles to change
- b. Changing the systems or structures that seriously undermine the vision
- c. Encouraging risk taking and non-traditional ideas, activities and actions

6. Planning for and Creating Short-Term wins

- a. Planning for visible performance improvement and visible changes
- b. Creating those improvements
- c. Recognising and rewarding employees involved in the improvements

7. Consolidating Improvements and Producing Still More Change

- a. Using increased credibility to change systems, structures, and policies that don't fit the vision
- b. Hiring, promoting and developing employees who can implement the vision
- c. Reinvigorating the process with new projects, themes, and change agents

8. Institutionalising New Approaches

- a. Articulating the connections between the new behaviours and the corporate success
- b. Developing the means to ensure leadership development and succession