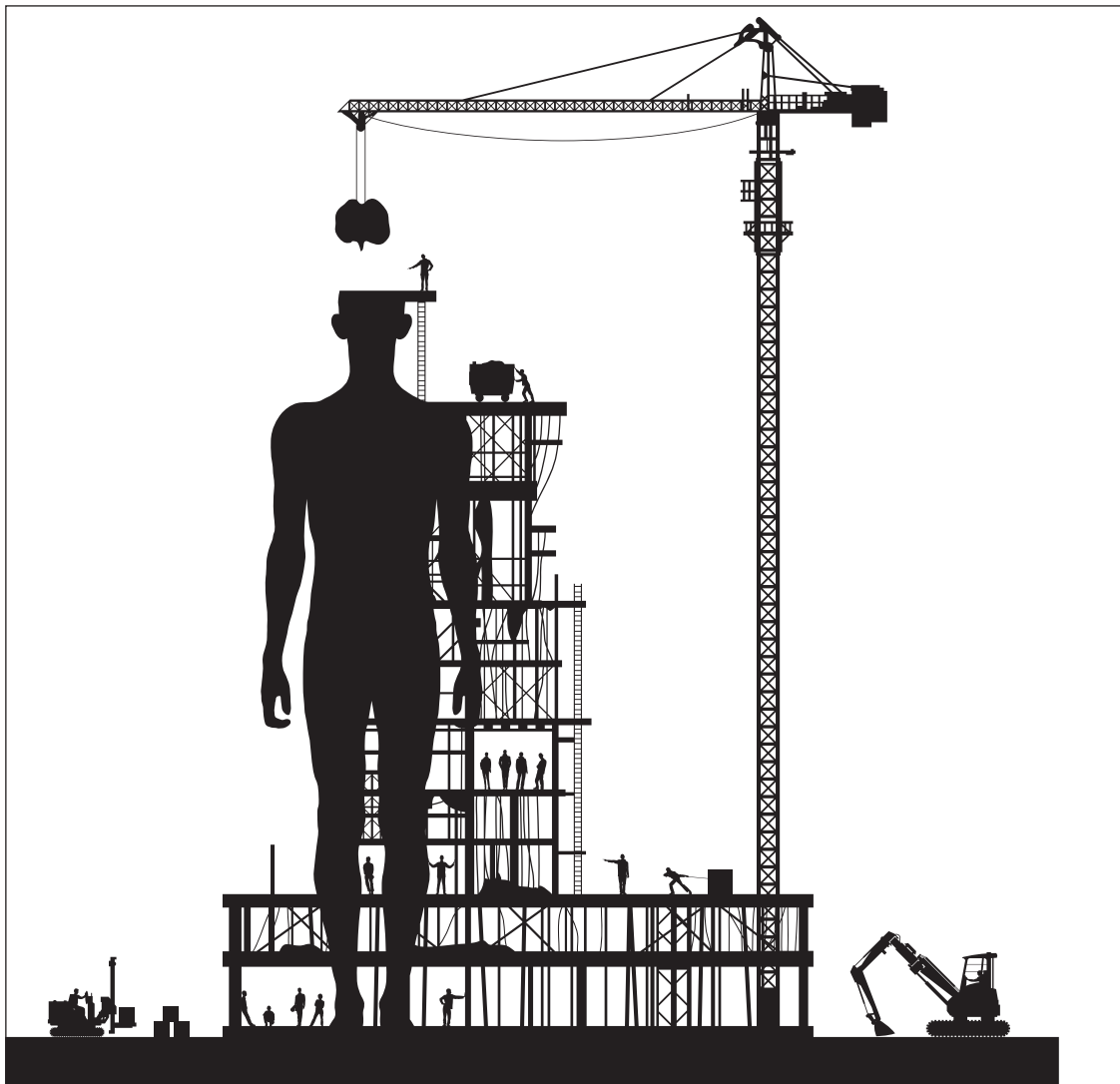


Operational excellence: Enabling sustained growth Spotlight on Asia-Pacific



An Economist Intelligence Unit report
sponsored by SAP





Preface

Operational excellence: Enabling sustained growth is an Economist Intelligence Unit report sponsored by SAP. The Economist Intelligence Unit bears sole responsibility for this report. Our editorial team conducted the interviews and wrote the report. The findings and views expressed in this report do not necessarily reflect the views of the sponsor. Ken Waldie was the author of the report and Dan Armstrong was the editor. Mike Kenny was responsible for layout and design. Our thanks are due to all of the survey respondents and interviewees for their time and insights.

May 2008



Operational excellence: Enabling sustained growth
Spotlight on Asia-Pacific

Operational excellence: Enabling sustained growth Spotlight on Asia-Pacific

Home to over 50 countries and more than half of the world’s population, the Asia-Pacific region is anything but homogeneous. Yet according to a global survey conducted by the Economist Intelligence Unit and sponsored by SAP, mid-sized companies in most Asia-Pacific countries lead other firms in growing through a strategy of aggressively implementing operational excellence principles. These companies have experienced the growth that results from the hallmarks of operational excellence: visibility across the value chain, continuous operational improvement, and high levels of efficiency and agility. Not coincidentally, given their focus on visibility into operations, they are

also investing more than firms in any other region in enterprise resource planning (ERP) software.

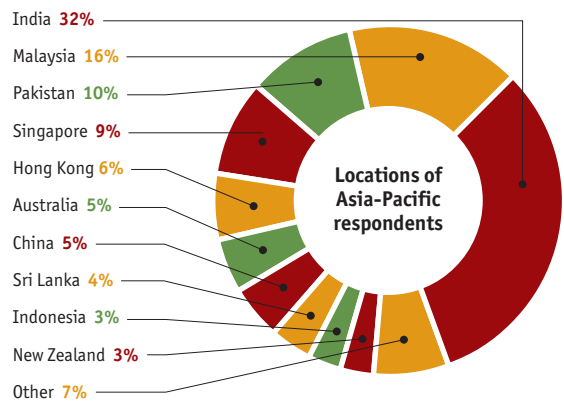
Of the 946 executives who participated in the 2008 operational excellence survey, 302 (32%) were located in the Asia-Pacific region. This paper—one of three regional papers—is based on their responses as well as follow-up interviews with senior executives in the region.

No time for complacency

Why have so many mid-sized companies in the region turned to operational excellence as a path to growth? One reason is Asia’s history as an export hub for low-cost manufacturing. Operational excellence has its

About the survey

In a survey completed in January 2008, the Economist Intelligence Unit surveyed operational, financial, IT, and sales and marketing executives around the world on the role of operational excellence in their business strategies. The survey yielded 946 responses from mid-sized companies with annual revenues of \$20m-\$500m. Nearly one-third of respondents were from the Asia-Pacific region, followed by 28% in Western Europe and 28% in the Americas. Approximately 34% of the respondents worked in finance, 24% in marketing and sales, 23% in operations and 19% in IT.



Source: Economist Intelligence Unit survey, January 2008.



roots in manufacturing operations—specifically, the practice of continually refining operational processes. Even with its cost advantages, efficiency is critical to the Asia-Pacific region’s competitive advantage in export manufacturing.

Despite Asia-Pacific’s embrace of operational excellence, companies in this region cannot afford to become complacent:

● **Asia-Pacific companies do not lead in every area.** For instance, the region is behind in adopting customer relationship management (CRM) technology to promote visibility into customer relationships and establish customers as part of the value chain.

● **There is wide variation among countries and industries within the Asia-Pacific region.** For example, Asia-Pacific as a whole leads the world in its focus on improving efficiency and driving down costs. Yet companies in China, Singapore and Australia trail the world in this regard.

● **Cost advantages are ephemeral.** Rising costs in China, for instance, are forcing some US manufacturing firms to flee the country, according to a 2008 survey by the American Chamber of Commerce. The apparently infinite supply of cheap unskilled labour may be approaching its end— and Chinese companies, no longer sheltered by low costs, will need to join firms in other countries in improving efficiency.



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How to build an infrastructure for growth

Mid-sized companies in the Asia-Pacific region stand out both in their aggressive application of operational excellence principles and in the growth that they achieve. Although they are only slightly more likely than other firms to have adopted an operational excellence strategy, they usually take a much more structured, enterprise-wide approach.

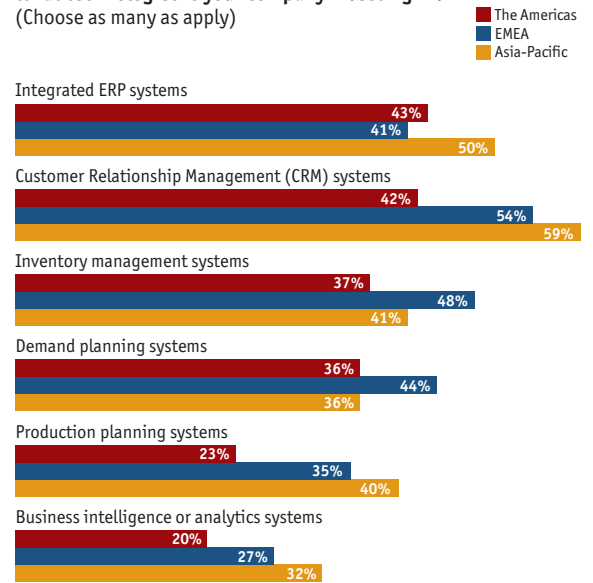
Enhancing visibility into operations

Asia-Pacific companies believe in the importance of visibility. More often than their counterparts in other regions, executives of mid-sized Asia-Pacific firms identify end-to-end visibility across the enterprise as the most important enabler of growth.

To support this drive for transparency, Asia-Pacific mid-sized firms are investing in IT support for enterprise-wide operational excellence strategy. Compared to companies in other regions, Asia-Pacific firms are more likely to invest in four out of six technologies that support operational excellence: ERP, demand planning, inventory management and production planning.

Operational excellence-related technology investments by region

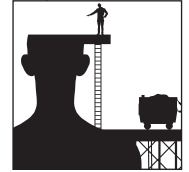
What technologies is your company investing in?
 (Choose as many as apply)



Source: Economist Intelligence Unit survey, January 2008.

Executives confirmed their strong interest in visibility. “Our organisation has 8,500 people, so visibility and access to data is something we just absolutely have to have”, says Bernard Auyang Pak Hong, chief executive officer (CEO) of Hong Kong-based Computime. “We try to simplify our business process into three major steps: business acquisition, product development and order fulfillment. Around that circle we have innovation, quality, legal, finance, HR and culture.”

“Having accurate data and visibility into these processes is absolutely essential to our business model”, says Mr Auyang. “And we do achieve that, which makes it easy for me to feel the pulse of the business.”



Promoting organic growth

Asia-Pacific companies lead the way in promoting organic growth. Asia-Pacific companies are most strongly committed to growing organically. And they act on these plans: they rank first of the three regions, ahead of EMEA and the Americas, in adopting five out of seven strategies for enabling organic growth.

However, many Asia-Pacific problems face serious capacity problems. About 30% cite difficulty in integrating and/or expanding legacy computer systems, while 27% report difficulty in scaling up operational systems (which undoubtedly have an IT component as well). Finally, 26% cite lack of capacity for product-line growth. Asia-Pacific companies have a strong incentive to invest in scalable systems – both operational and technological – that can support the growth in capacity.

Note that Asia-Pacific companies are particularly good at using information at all levels of the company. They rank first in providing integrated, single-view data reporting, which helps management target the attention and the resources needed to facilitate growth. They also rank first in providing individual employees with role-based information that allows them continually to innovate to promote speed and efficiency within their own space.

The need for agility and efficiency

Asia-Pacific companies pursue operational excellence as a means of increasing both agility and efficiency, giving them a double-barrel strategy for driving growth. They rate the benefits of increased revenue and reduced costs about the same as other companies around the world, but they are more likely also to identify agility and flexibility as key benefits. Asia-Pacific companies are more likely to rank faster responses to changing demand as one of the top benefits of operational excellence; to say that operational flexibility and agility support their organisation's growth strategy; and to assert that

their marketing and sales functions are benefiting from improved customer response times. In all of these cases, companies in Asia-Pacific countries outpace those in all other regions.

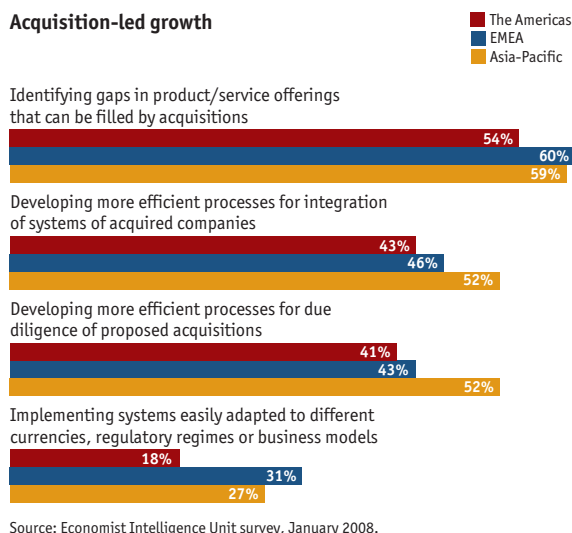
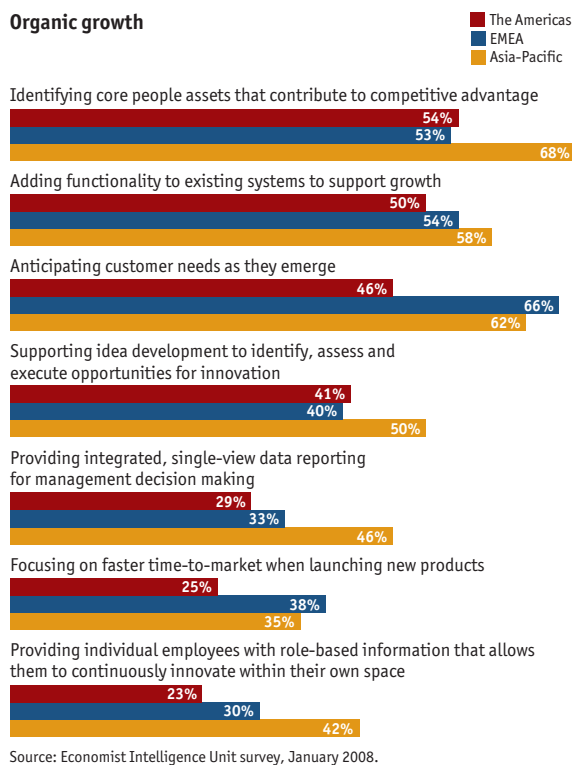
Almost 80% of Asia-Pacific companies say they are evaluating and improving overall business processes for every function, a higher level than in any other region. Large majorities indicate that these measures have driven every indicator of business performance, including revenue and margin growth, customer satisfaction levels and the number of new product and service launches. In every case they outperform companies elsewhere.

In addition, more than 73% of Asia-Pacific executives say that they are investing in systems and processes to improve efficiency, with between one-third and one-half reporting that these investments have resulted in better business performance. Again, these results surpass those of other regions.



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Regional rank of 11 overall strategies for driving growth



A focus on the enterprise

Getting the most out of any growth strategy requires getting the enterprise behind it. This is where companies in the Asia-Pacific region excel: They implement operational excellence strategies that are truly enterprise-wide. Almost 80% are evaluating and improving business processes across the business, compared with less than two-thirds in North America. This tendency is particularly evident in aligning the finance and IT functions with corporate growth plans. In finance, Asia-Pacific leads the Americas and Europe, the Middle East and Africa in every category. Similarly, Asia-Pacific companies are the most frequent adopters of seven of nine IT strategies for supporting growth.

Aligning people with business objectives

Nearly 60% of Asia-Pacific firms say that they are implementing more effective alignment of people skills with emerging business needs, compared with 44% in North America. Similar percentages say that their growth strategy includes identifying core people assets that contribute to competitive advantage, and that they are improving internal systems so employees can be more efficient in daily activities.

Often an enterprise-wide strategy is also multinational, which forces Asia-Pacific companies to balance aggressive, systematic approaches with concepts of operational excellence seen in other cultures. "Our operations span many countries", says Kris Wiluan, CEO of Singapore-based KS Energy, "including Indonesia, Malaysia, China, the Middle East and the US. Each has different cultural values and each has a different perspective of operational excellence. So the challenge is how we make a universal standard for all of us."



What is operational excellence?

In its simplest terms, operational excellence means consistently doing things well across the value chain as a way of gaining competitive advantage. In its broadest terms, it is a discipline that drives corporate strategy. In their book *The Discipline of Market Leadership*, Michael Treacy and Fred Wiersema suggest that operational excellence is one of three “value disciplines” that a successful organisation must choose from as its underlying operational model.

In practice, operational excellence is a means to achieving the other value disciplines: product leadership and customer

intimacy. Doing things well across the organisation is fundamental, but most successful companies do one thing exceedingly well and identifying and reinforcing core competitive strengths is part of operational excellence.

The definition in this paper has three elements:

- superior performance and visibility across the value chain
- value-added delivered to customers
- effective integration with external partners.

While the concept of operational excel-

lence is simple enough, execution is another matter. A drive for efficiency is implicit, but this must be achieved in a coordinated way by building links across the organisation so that all functions share a harmonised set of performance metrics. The ultimate goal is a “single source of truth” where senior executives have shared visibility into all parts of the organisation, enabling management by facts. The ideal result is a high-level dashboard for senior executives with the ability to drill down into different business functions, including operations, finance, IT, and sales and marketing. ■



Conclusion

Compared with the rest of the world, companies in the Asia-Pacific region distinguish themselves with a broad approach to operational excellence that is likely to touch on every corner of the enterprise. Yet executives in India, Indonesia and Australia should not be complacent. There is a great deal of variation among companies, industries and countries. Companies following best practices in operational excellence exist in every region. Like people and capital, business strategies flow freely across borders, and in the 21st century new companies rise and old ones fall with astonishing rapidity. Moreover, there is no secret to operational excellence, which in its most basic form is a set of techniques to grow by facilitating incremental improvements over time. Finally, Asia-Pacific companies lag in two key areas of operational

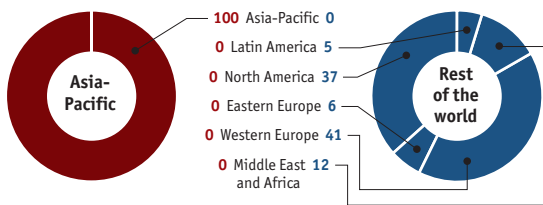
excellence: the use of CRM to gain visibility into customer needs and the use of business intelligence (BI) or analytics systems to bring facts into the service of management decisions.

Nevertheless, at least some of Asia-Pacific's rise can be attributed to the adoption of strategies promoting efficiency and agility to drive superior business performance. Moreover, this transformation has taken place despite the need to adapt the underlying philosophy of operational excellence to myriad cultural differences. As Mr Wiluan puts it: "You want to earn a profit while providing your customers with what they want. But there are so many ways to do that. Just like when you play football, there are so many ways to score a goal. But if you do it elegantly, I think that's operational excellence."

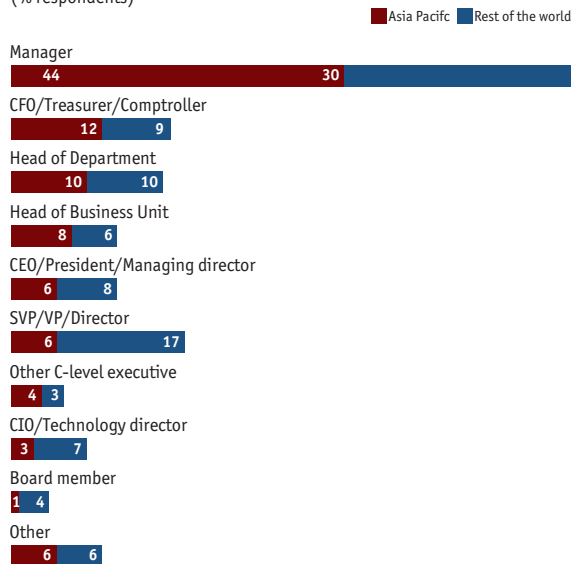
Appendix: Survey results—operations Asia-Pacific only

Between November 2007 and January 2008, the Economist Intelligence Unit conducted a global online survey of 946 senior executives from various industries, of which 216 were from the operations function. Please note that not all answers add up to 100% because of rounding or because respondents were able to provide multiple answers to some questions.

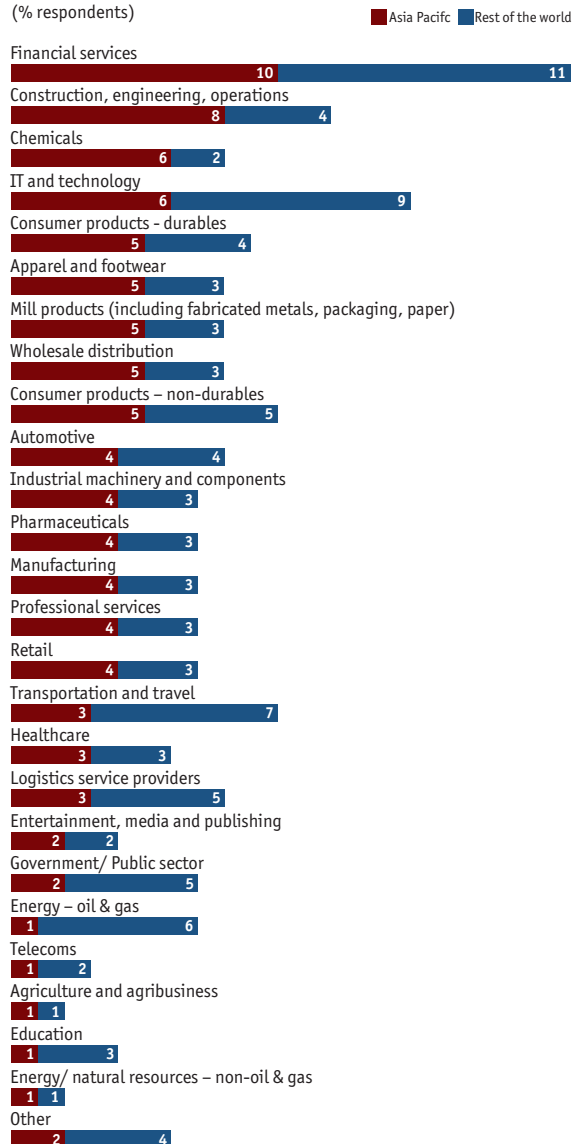
In which region are you personally based? (% respondents)



What is your title? (% respondents)



What is your primary industry? (% respondents)



Appendix: Survey results

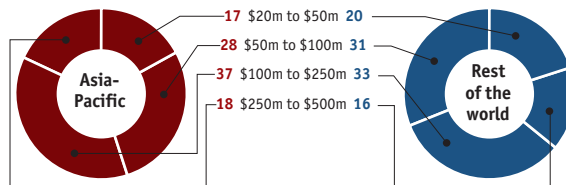
Operational excellence: Enabling sustained growth

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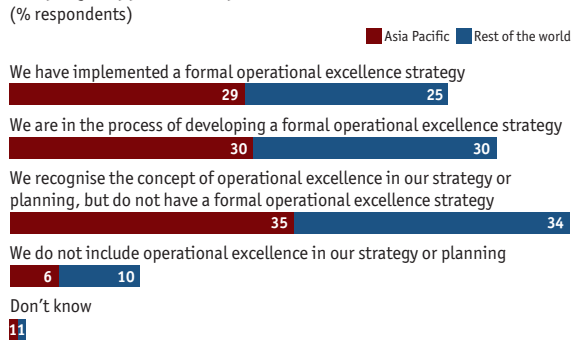
1. What is your principal functional role in your organisation? (% respondents)



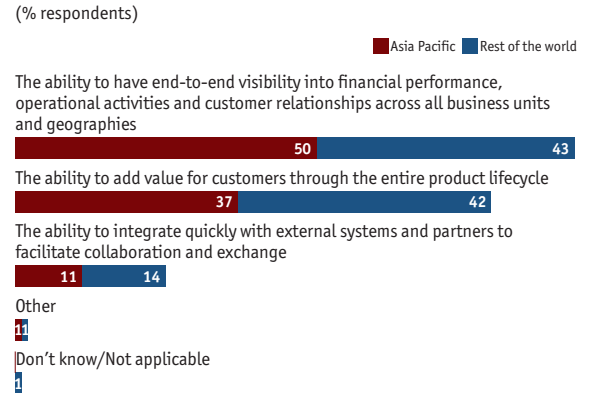
2. What are your company's annual global revenues in US dollars? (% respondents)



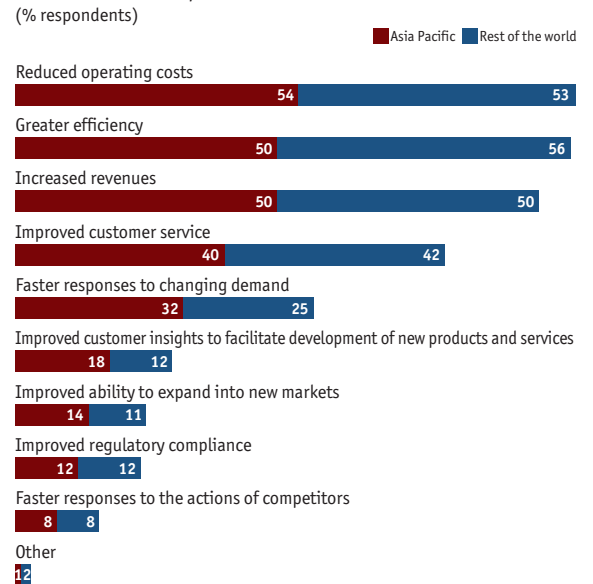
3. Which of the following statements best describes your company's approach to operational excellence? (% respondents)



4. Which of the following do you consider the most important component of operational excellence? (% respondents)

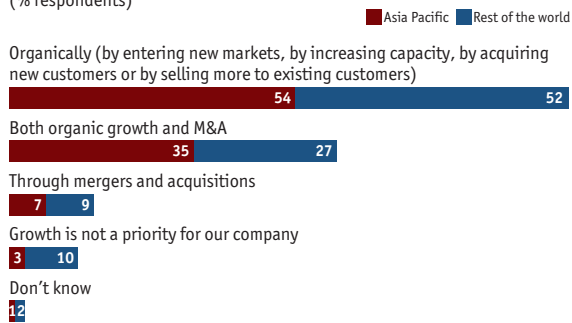


5. Which of the following statements best describes your company's view of the perceived benefits of operational excellence? Select up to three. (% respondents)



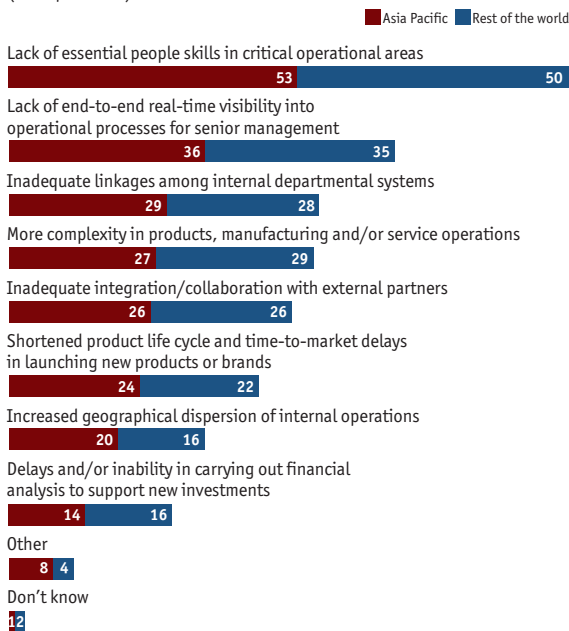
6. How does your company plan to grow during the next two to three years?

(% respondents)



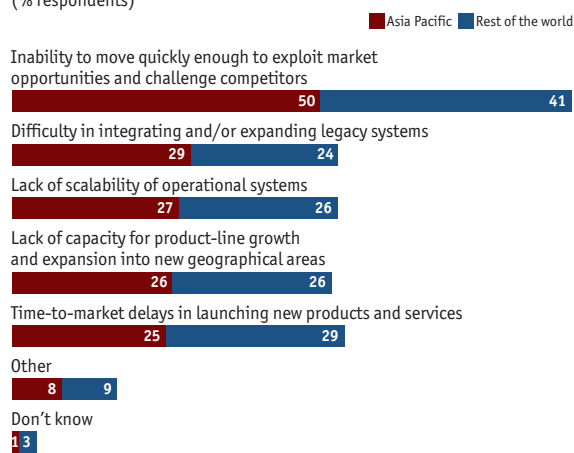
7. What are the biggest obstacles to your company in achieving operational excellence, in your view? Select up to three.

(% respondents)



8. What are the biggest obstacles to your company's ability to grow organically, in your view? Select up to two.

(% respondents)



9. How is your company enabling future organic growth?

Select all that apply.

(% respondents)



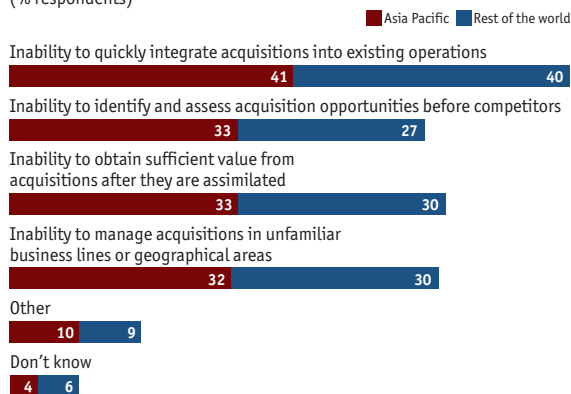
Appendix: Survey results

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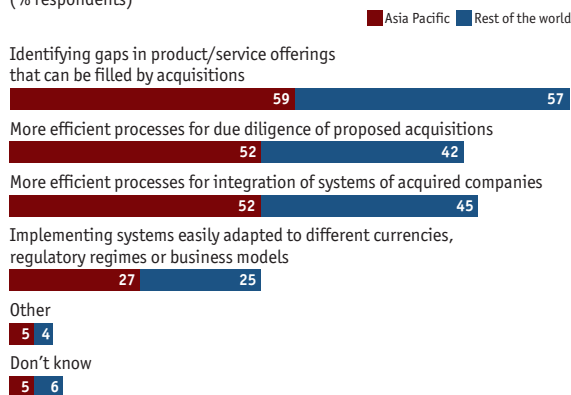
10. What are the biggest obstacles to your company's ability to grow through acquisitions, in your view? Select up to two.

(% respondents)



11. How is your company enabling future growth through acquisitions? Select all that apply.

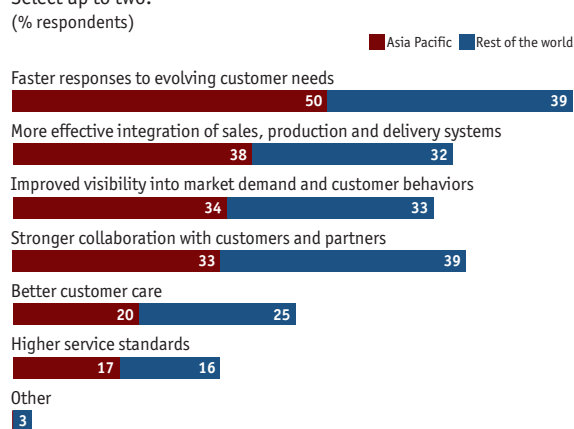
(% respondents)



Question for Sales and Marketing respondents only

12. How are your marketing and sales departments aligning to support the organisation's strategy for growth? Select up to two.

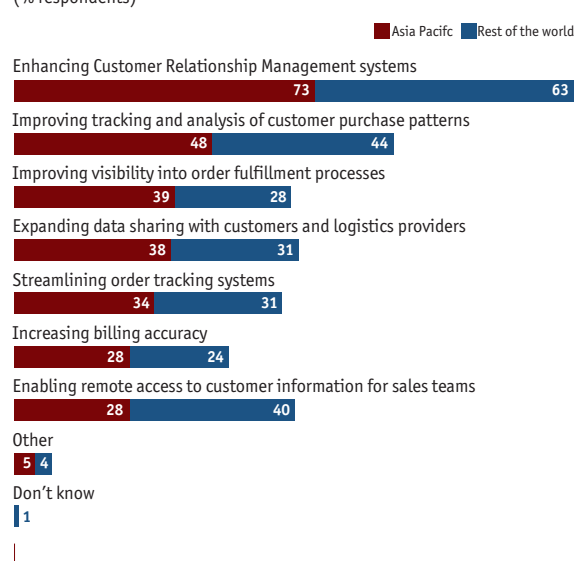
(% respondents)



Question for Sales and Marketing respondents only

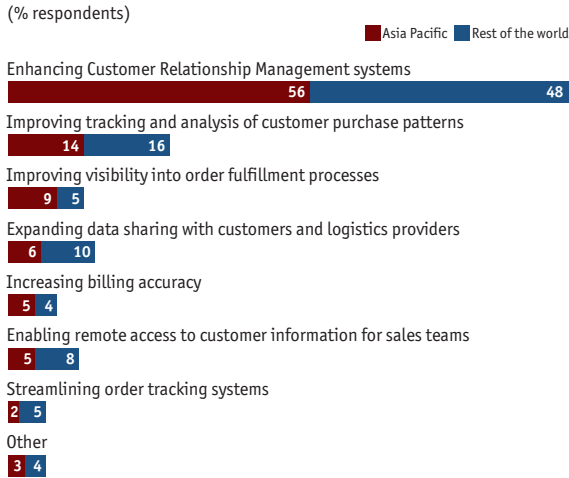
13. What is your company doing to ensure that your marketing and sales systems can support your organisation's growth strategy? Select all that apply.

(% respondents)



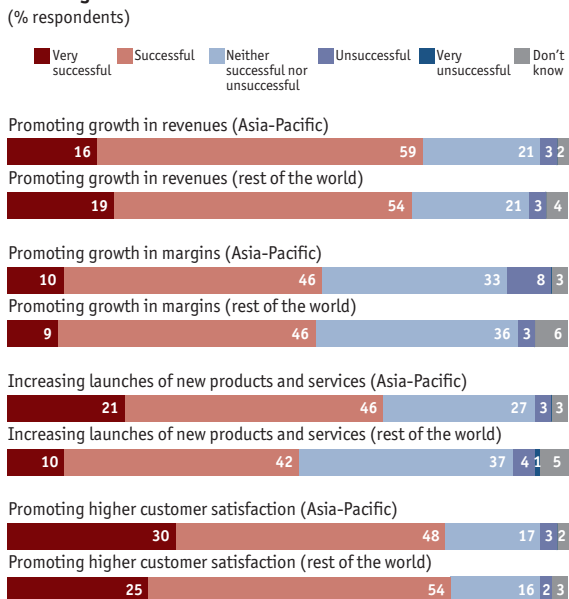
Question for Sales and Marketing respondents only

13a. In the previous question, you checked the following actions your organisation is taking to ensure that its sales and marketing systems can support its growth strategy. Which one of the actions you chose is the most important?



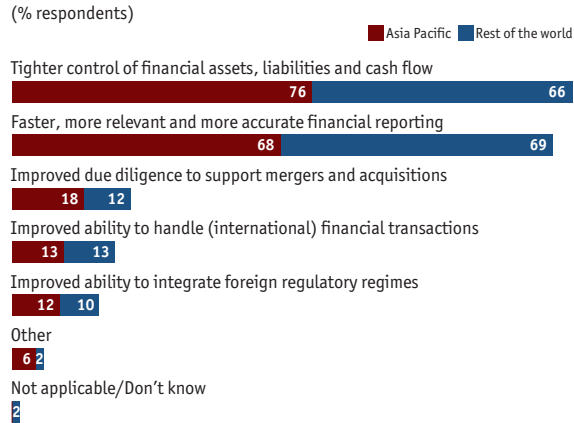
Question for Sales and Marketing respondents only

13b. What was the effect of your first-ranked choice on the following areas?



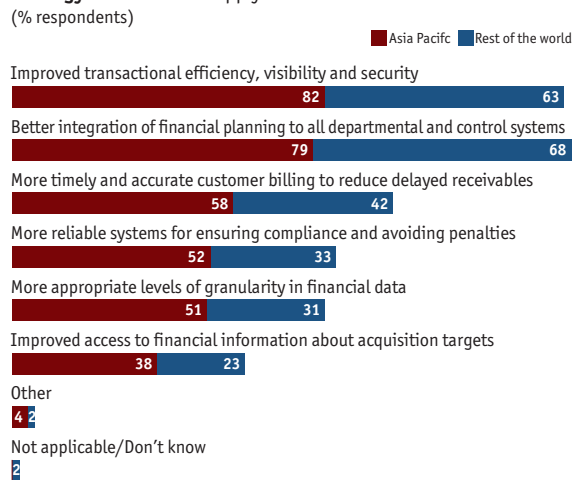
Question for Finance respondents only

12. How is your finance department aligning to support the organisation's strategy for growth? Select all that apply.



Question for Finance respondents only

13. What is your company doing to ensure that your financial systems can support your organisation's growth strategy? Select all that apply.



Appendix: Survey results

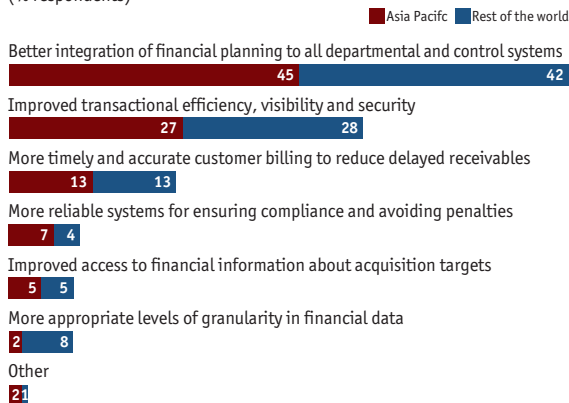
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Question for Finance respondents only

13a. In the previous question, you checked the following actions your organisation is taking to ensure that its financial systems can support its growth strategy. Which one of the actions you chose is the most important?

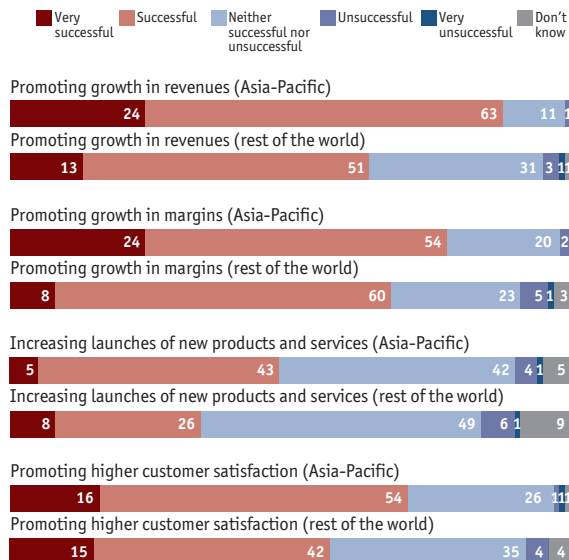
(% respondents)



Question for Finance respondents only

13b. What was the effect of your first-ranked choice on the following areas?

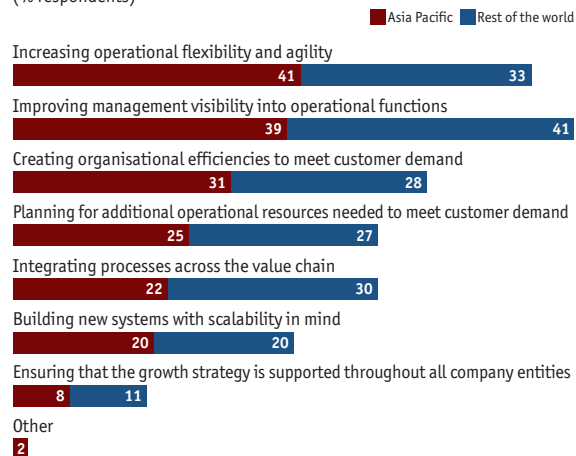
(% respondents)



Question for Operations respondents only

12. How is your operational function aligning to support the organisation's strategy for growth? Select up to two.

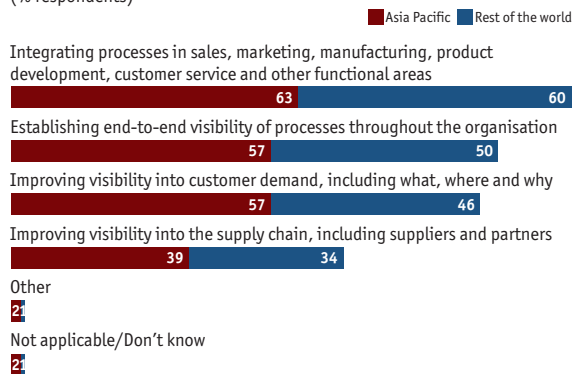
(% respondents)



Question for Operations respondents only

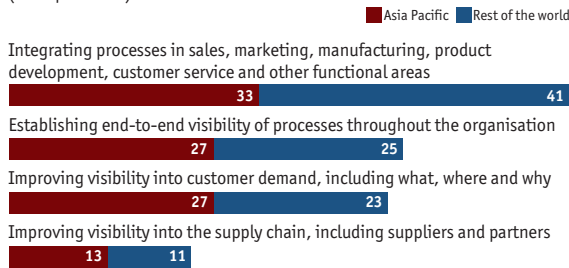
13. What is your company doing to ensure that your operational systems can support your organisation's growth strategy?

(% respondents)



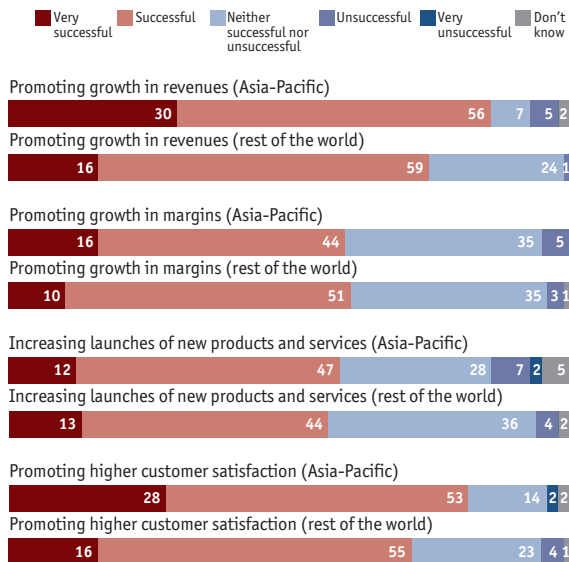
Question for Operations respondents only

13a. In the previous question, you checked the following actions your organisation is taking to ensure that its operational systems can support its growth strategy. Which one of the actions you chose is the most important?
(% respondents)



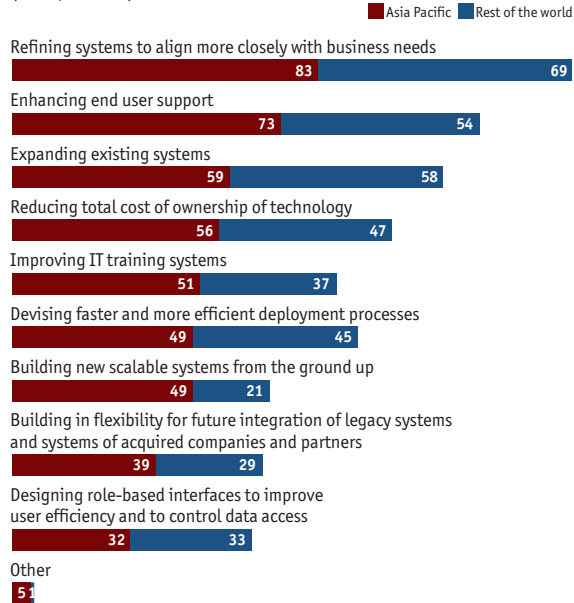
Question for Operations respondents only

13b. What was the effect of your first-ranked choice on the following areas?
(% respondents)



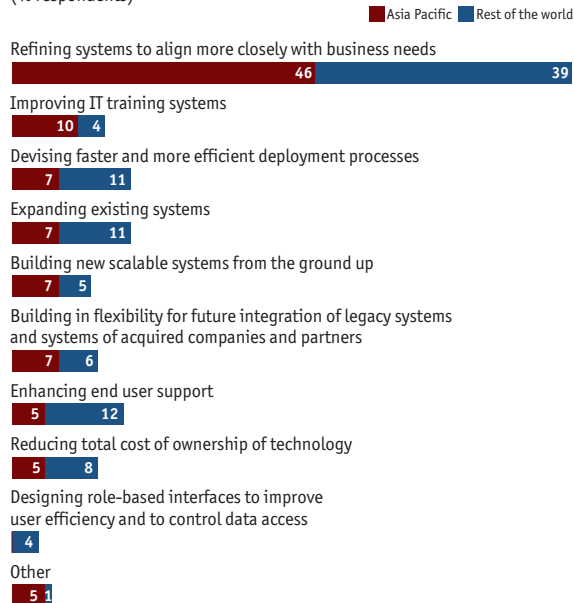
Question for IT respondents only

12. What is your IT department doing to support your organization's strategy for growth? Select all that apply.
(% respondents)



Question for IT respondents only

13. In the previous question, you checked the following actions your organisation is taking to ensure that its IT systems can support its growth strategy. Which one of the actions you chose is the most important?
(% respondents)



Appendix: Survey results

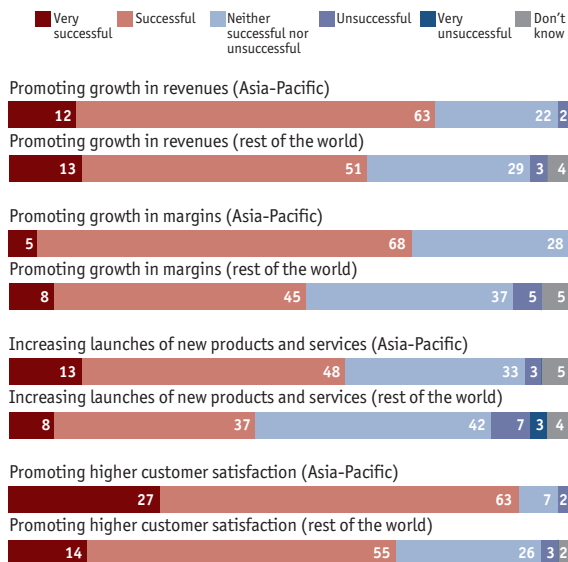
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Question for IT respondents only

13a. What was the effect of your first-ranked choice on the following areas?

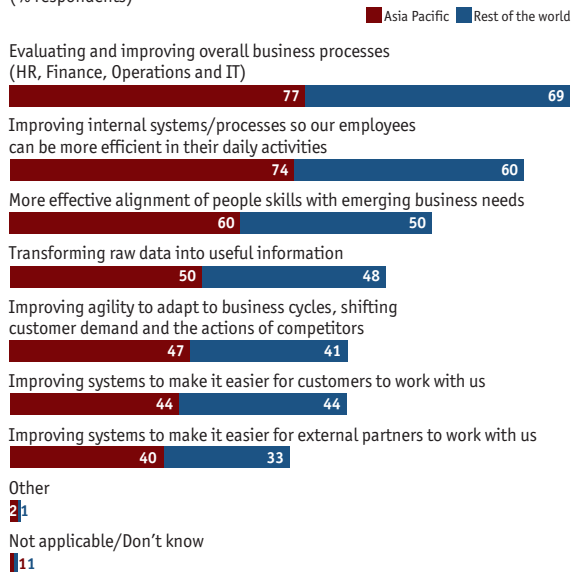
(% respondents)



14. What is your company doing to improve efficiency?

Select all that apply.

(% respondents)



15. In the previous question, you checked the following actions your organisation is taking to improve its efficiency. Which one of the actions you chose is the most important?

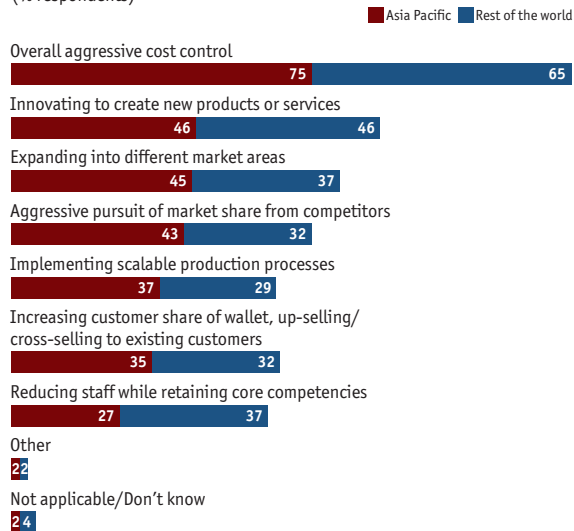
(% respondents)



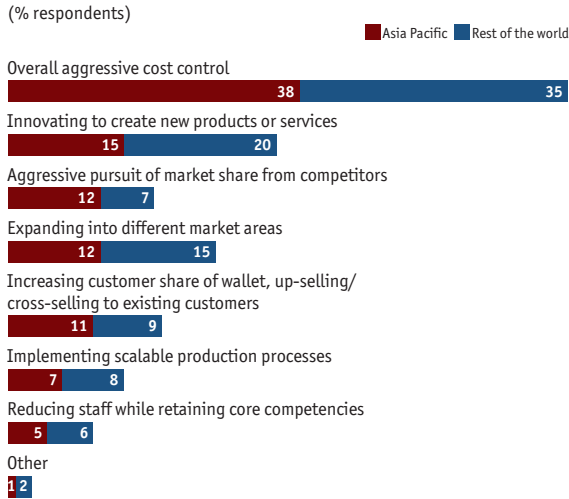
16. What strategies has your company established to maintain profitability during periods of slow economic growth?

Select all that apply.

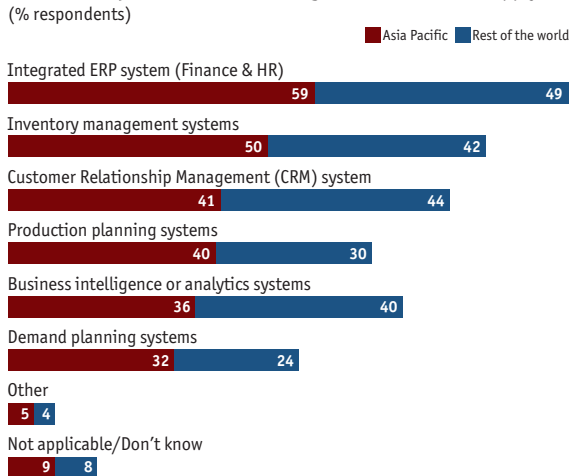
(% respondents)



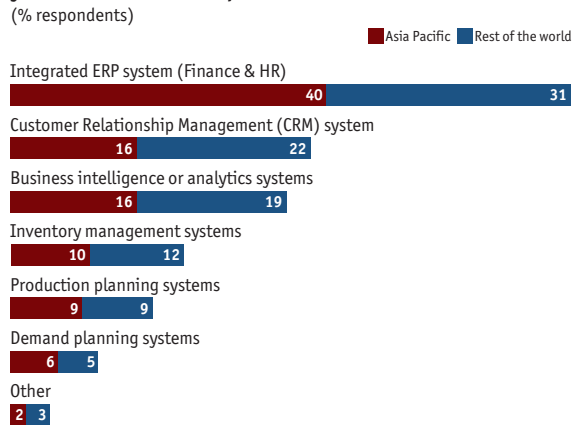
17. In the previous question, you checked the following strategies your company established to maintain profitability during periods of slow economic growth. Which one of the strategies you chose is the most important?



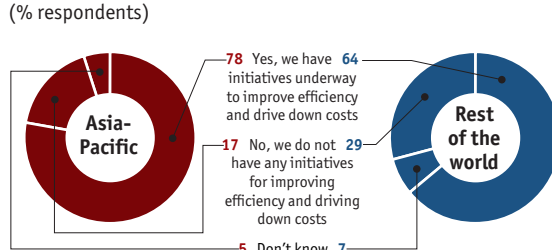
18. Has your company invested in the following technologies to achieve its operational excellence goals? Select all that apply.



19. In the previous question, you checked the following technologies in which your company has invested to achieve its operational excellence goals. Which one of the technologies you chose is the most important?



20. Does your company have initiatives underway to improve efficiency and drive down costs in your functional area?



While every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in the report.

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