



Introducing Operational Excellence Readiness Index (OPERI)

– Video Transcript

Introduction to OPERI

Thank you for your interest in OPERI, which is the Operational Excellence Readiness Index. We are excited to help micro small and medium businesses embark on this journey towards operational excellence. For the next few minutes, we will show you why operational excellence is important, the key challenges micro small and medium enterprises face, how OPERI can help and how OPERI framework help to prioritise key dimensions for micro small and medium enterprises to focus on.

Let's start with why OPERI is important for micro small and medium enterprises.

Why is OPERI important for MSMEs?

As we move forward, it's important to recognise the harsh reality that many Micro small and Medium Enterprises face. Statistics show that nearly 50% of these businesses close within their first five years, as illustrated from the chart on the left-hand side. So, what are the key takeaways from this? First, Early Action is Essential. Proactive measures should be taken from the outset to mitigate risks and build a solid foundation. Second, Operational Excellence is Crucial. To navigate challenges, businesses must prioritise operational efficiency and effectiveness. As Bill Gates said, 'Most new businesses don't survive the first few years, and it's crucial to understand why.'

Even for mature Micro small and Medium Enterprises—those with more than 20 years of operations—a significant portion are struggling. Approximately 44% of these companies are either shrinking or stagnating in terms of their profit growth over the last decade, as illustrated from the chart on the left-hand side. So, what are the key takeaways here? Operational Improvements and a Continuous Improvement Culture are keys to unlocking growth. A published ILO-OECD paper from April 2022 highlights that Micro small and Medium Enterprises are lagging larger companies in terms of labour

productivity. In fact, evidence suggests that productivity gaps between small and large firms have widened over the last decade in many OECD countries, possibly due to increased market concentration.

Top 5 challenges faced by MSMEs

So, what challenges do Manufacturing Micro small and Medium Enterprises face Globally? We will go through the top 5 challenges most Manufacturing Micro small and Medium Enterprises face.

1. **Unstable Financial Performance.** Micro small and Medium Enterprises generally experience lower operating profits compared to larger corporations. This is mainly due to suboptimal workflows, inefficient operational process designs, and limited digital literacy.
2. **High Material Costs.** With ongoing geopolitical tensions and global economic uncertainty, high commodity prices are expected to persist. Micro small and Medium Enterprises often have limited bargaining power and rely on a small pool of suppliers, though they have opportunities to improve production management.
3. **Supply Chain Disruptions.** Global disruptions, such as climate change, have significantly impacted supply chains. Micro small and Medium Enterprises, which are often at the end of these chains, face increased vulnerability as well as variability, and are less equipped to manage disruptions in inventory and delivery approaches.
4. **Human Resource Challenges.** Workforce shortages are another challenge. These Enterprises struggle to attract and retain talent due to limited growth opportunities and insufficient workforce development programs.
5. **Technological Adaptation.** While operational constraints like limited financial resources are a hurdle, the main challenge for these Enterprises is the lack of digital literacy. This gap affects their ability to adopt digital tools, extract valuable insights, and deploy automation solutions effectively.

MSMEs that adapt have seen ~40% improvement in operating profits

In conclusion, status quo is no longer an option. Micro Small and Medium Enterprises who have adapted to the challenges have seen up to ~40% improvement in operating profits. Let's look at some examples of how adapting to challenges benefited micro small and medium enterprises.

A business saw 40% improvement in operating profits after professionalising of enterprise operations and using lean design of manufacturing processes.

Another saw 28% reduction in raw material costs after using alternative supplier sourcing and data driven negotiations, as well as process and product innovation to decrease reliance on single source materials.

Another, which prioritised on time in full delivery, saw 15% improvement in production plan after improving upon horizontal integration between customer order, production, inventory and delivery management by deploying digital solutions to improve planning accuracy.

Another which focused on talent retention observed a 20% reduction in manpower turnover from well defined job roles and responsibilities, with clear performance management and incentives as well as training opportunities on forward looking topics such as eco-efficiency.

And, another that prioritised labour productivity realised a 35% improvement in units produced per headcount by deploying automated solutions to reduce manual tasks and implementing digital solutions such as digital performance management.

How can OPERI help? (Benefits)

So, how can OPERI help micro small and medium enterprises?

There are 3 steps towards improvement performance.

First: Improve Approach and Methods. At the core of efficiency and productivity lies lean operations, with a focus on eliminating waste and maximising value, providing a foundation to achieve operational excellence.

Second: Enhance with Digital Adoption. By integrating technology into operations and making data-driven decisions – Micro Small and Medium Enterprises can enhance agility, foster collaboration, and unlock new opportunities for growth.

Third: Growth through Innovation and Eco-efficiency. Sustainable growth empowers Micro Small and Medium Enterprises to scale business across new pathways, reduce environmental impact, and enhance transparency.

Companies can adopt the Kaizen philosophy to foster a culture of continuous improvement within an organisation. Kaizen, a Japanese term meaning 'change for the better,' focuses on the idea that everything we do can be continuously improved. The philosophy is rooted in a mindset shift toward ongoing, incremental improvements rather than waiting for major overhauls.

On the left, we see the Kaizen cycle, which involves four key steps: One. Standardise Adherence to maintain improvements. Two. Expose and Quantify Problems to identify

areas that need improvement. Three. Determine the Root Cause to understand underlying issues. Four. Implement Solutions to address these issues directly. Through this cycle, organisations can not only solve immediate issues but also create a foundation for sustained growth and improvement.

On the right, we see a comparison of performance over time between organisations that implement standards with improvements versus those focusing on improvements alone. When improvements are standardised, performance growth tends to be much more consistent and substantial over time. Some key benefits of adopting Kaizen include creating a platform for future improvements, the ability to measure impact, facilitate staff familiarity with improved processes, and provide a quicker pathway to secure buy-in from the team when they see tangible benefits.

Let's see how advanced micro small and medium Enterprises are in their digital journey. The first Industrial Revolution introduced water and steam power for mechanical production. The second Industrial Revolution introduced electricity, enabling mass production. The third industrial revolution introduced automation through IT systems and the fourth industrial revolution introduced cyber-physical systems, Internet of Things and Artificial Intelligence to automate complex tasks intelligently. Most Micro small and Medium Enterprises globally are still at the second industrial revolution. In contrast, larger multinational corporations have moved into the third and fourth Industrial Revolutions. Digital literacy is the first step for Micro small and Medium Enterprises to advance.

Growth via innovation and eco-efficiency is also increasingly important. Micro small and Medium Enterprises can grow by seeking out new pathways for growth such as new customer segments – bringing current products to new geographies as well as increasing penetration in current market. New applications using existing capabilities such as process changes, product line expansion and product repositioning. New product lines with sustainability focus and with different functionalities. New industries such as expansion to different parts of the supply chain.

As the world shifts toward sustainability, Micro small and Medium Enterprises are increasingly being influenced by a mix of push and pull factors driving the adoption of eco-efficiency practices. Let's go over some of these factors.

Firstly, there's significant near-term value at stake. It's projected that 3 to 5 trillion dollar in sustainability investments will be deployed across various industries by 2030.

Next, bolder environmental regulations are coming into play, with up to 30-50% of corporate profits potentially impacted by external engagement policies, such as carbon pricing.

Investor requirements are also intensifying, with a strong sustainability focus potentially driving a 2 to 5 times multiple uplift for companies.

Moreover, Customer expectations are shifting. Consumers are increasingly willing to pay a premium—up to 15-30%—for sustainably produced products and services, across both business to consumer and business to business sectors.

Another factor is the movement of talent toward sustainable companies. Around 80% of millennials report wanting to work for companies with strong commitments to environmental, social, and governance factors.

Additionally, first movers are capturing value. Companies that adopt sustainable practices early on are seeing growth benefits, with brands like Unilever's Sustainable Living Brands experiencing 50% faster growth compared to the rest of the portfolio.

In addition, the manufacturing industry remains one of the leading emitters of greenhouse gases. As a major contributor to pollution, this sector needs to play an active role in global sustainability efforts by reducing its environmental impact.

Second, the EU Carbon Border Adjustment Mechanism is creating ripple effects for global suppliers. Under this policy, EU importers of carbon-intensive products—like steel and cement—are required to buy carbon allowances, leveling the playing field with EU producers who already comply with the EU Emissions Trading System.

Third, regulatory pressure continues to increase. Over 30 countries, including large economies such as the EU and China, have implemented carbon taxes or equivalent mechanisms. With net zero targets set for 2050 or 2060, these regulations are pressing companies of all sizes to adopt cleaner practices.

Fourth, consumer demand for sustainable products is rising. More than half of sustainability leaders report that consumer demand for environmental action has surged, particularly since COVID-19. Many believe they risk losing customers if they don't meet these expectations.

Finally, large manufacturers are setting ambitious emissions reduction targets to decarbonise their entire supply chains. This push is evident among leading brands such as Coca-Cola, Nestlé, P&G, and many others.

All the above underscores the need for Micro small and Medium Enterprises to adopt practices that drive operational excellence and bridge the productivity gap. Let's explore how OPERI can help these businesses foster such improvements.

OPERI is an all-rounded assessment of operational efficiency across three building blocks and 6 pillars. The first build block is increase productivity which are supported by approach, workforce and technology interaction as well as measure pillars. Collectively, they help Micro small and Medium Enterprises to improve their operational efficiency. The second build block pertains to start digitalisation, supported by digital literacy pillar. These help Micro small and Medium Enterprises assess if they have the right foundation for digitalisation. The last build block is accelerate growth which is supported by the progress and increase pillars which provides a foundation for Micro small and Medium Enterprises owners to track and accelerate their business growth.

OPERI offers 3 key benefits for micro small and medium enterprise owners. Firstly, New Ways to Increase Performance by discovering new business concepts with informative animations that make complex ideas easy to understand and relevant.

Second, Tailored Guidance for Transformation. Micro small and medium enterprises will receive tailored advice on prioritising key dimensions, empowering them to achieve business goals and advance to the next level of operational excellence.

Thirdly, Enhance Growth with new pathways by discovering opportunities in leveraging digital tools, boosting environmental efficiency, and igniting innovation. Unleash the hidden potential that will take business to the next level.

OPERI helps Micro small and medium enterprises through 3 key features. Firstly, guided self-assessment via a user-friendly online tool designed to evaluate current business operational maturity. Micro small and medium enterprises can gain instant insights and actionable feedback to drive business growth.

Secondly, visualise Operational Excellence with Star Emblem. Micro small and medium enterprises can utilise the star emblem system, which is an indicator that allows them to easily benchmark against industry leaders and understand their business operational readiness.

Thirdly, report with in-depth analysis for Improvements. Micro Small and Medium Enterprises will gain a comprehensive view of current and future operational state across 18 dimensions, benchmark against industry standards, and receive customised growth recommendations.

TIER framework, LEAD Framework, OPERI Build Blocks and Pillars

Now that we have introduced why OPERI is important and how it can help micro small and medium enterprises, let's move on to the OPERI Frameworks.

The TIER Framework outlines four principles for companies to consider as part of a holistic prioritisation exercise.

The 4 elements of the Tier framework are T - today's state to develop an in-depth understanding of the company's current Operational Readiness. I - Impact to bottom line and business aspirations to Identify improvement aspirations based on key components to micro small medium Enterprises such as Revenue growth, Cost improvement and Labour efficiency and validate existing operations based on collected data. E - Essential Key Performance Indicators also known as KPIs – to Determine KPIs that are most critical to the company based on Customer, Financial, Internal Operations and Innovation. R - References to the broader community using the Best-in-class benchmark to learn from the leading operational practices of the broader manufacturing community.

The Lead framework, a continuous four-step process, can help Micro small and Medium Enterprises approach Operational Excellence. First, learn about applicable “best practices” on relevant topics focusing on increasing efficiency, start digitalisation and accelerate growth. Second, evaluate the state of company's existing operational excellence. Third, architect prioritised dimensions Transformation Schedule template that includes prioritised roadmap, problem statement, estimated impact, estimated budget and optimum timeline. Forth, deliver impact and sustain transformation initiatives.

Now, let's look at the OPERI framework. It is supported by the three build blocks, six pillars and 18 dimensions. Let's go through each of them.

The increase productivity build block is supported by the approach, workforce and technology interaction and measure pillars, as well as the customer order management, production management, inventory and delivery management dimensions. The start digitalisation build block is supported by the digital literacy pillar, along with digital tools, data insights and automation dimensions. The accelerate growth build block is supported by the progress and increase pillars, alongside financial performance, cascading effective targets, skill and organisational development, eco-efficiency, core improvement of process and product and new pathway dimensions.

Let's go through the three build blocks in detail to understand the definition behind each build block and its supporting pillars.

The first build block is Increase productivity, which answers the question – how can Micro Small and Medium Enterprises improve their operational efficiency? The second build block is Start digitalisation which answers the question Does Micro Small and Medium Enterprises have the right foundation for digitalisation? The third build block is Accelerate growth which answers the question how Micro Small and Medium Enterprises owners can track and accelerate their business growth.

Let's deep dive into the increase productivity build block. It is supported by three pillars. First, approach, which assesses how lean and digital principles are integrated within businesses to achieve productivity and operational efficiency. Second, Workforce and technology interaction, which evaluates how workforce and technologies interact within businesses to optimise productivity and operational efficiency. Third, measure, which checks if the right key performance indicators are in place to effectively monitor productivity and operational efficiency.

Next, the start digitalisation build block. It is supported by digital literacy pillar. It assesses if Micro Small and Medium Enterprises have the right understanding and application capabilities in place for successful digital deployment.

Finally, the accelerate growth build block. It is supported by progress and increase pillars. These assess if the businesses have the right business fundamentals in place for growth and if the businesses are implementing the right growth levers by staying ahead of market trends, focusing on innovation and exploring new growth vectors.

If you would like to know more, please visit our website at www.incit.org, or contact us, and we will be happy to help you with your transformation journey. Once again, thank you for your interest in OPERI.

We hope the above gives you an idea of what OPERI is about and how OPERI can help micro small and medium enterprises progress into the next step of operational excellence.

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