

**THE OPTIMISED OPERATING MODEL  
(OOM): POWERING SUSTAINABLE  
GROWTH FOR BUSINESSES**





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## INTRODUCTION

*By*

**JONATHAN OPPENHEIMER**

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Dear visionary business owners and leaders,

Twenty years ago, my father and I called for South Africa to balance growth with a just and broad-based model of economic transformation in the wake of the country's miraculous political transformation in 1994.

Now, Africa as a whole faces a new set of challenges and opportunities that require a different sort of balance. We must find a way to provide the economic growth and prosperity our societies need, without pushing our planet beyond its environmental limits.

I believe that our continent has a special role to play in achieving this. But it is a global challenge. This manifesto is a call to action: it sets out how you, the leaders of exciting, growing businesses in Africa and beyond, can make them a force for positive change.

It distills the key lessons of a lifetime of operating companies in Africa. I have learned that for businesses to thrive, they must have a laser-focus on eradicating what I call "frictional costs". These are the non-revenue generating activities that weigh businesses down. Removing them brings direct benefits to profitability, but the process of doing so also causes wider positive spillovers as well.

This is because tackling frictional costs means engaging the people in your organisation to think about the goal they are working toward and equipping them with the right information and tools to support them in doing so. Empowering them with the autonomy to make the most of their expertise, and rewarding them for doing so, is the key to unlocking this ownership mindset.

Elsewhere, I have called for investors to generate long-term value by acting as engaged owners of companies, something I term "engaged capital". In many ways, this manifesto sees the challenge from the bottom up; asking how employees can be given a stake in the value they create and the efficiency and innovation they apply to their work.

I have called this the "Optimised Operating Model (OOM)". This is intended to be a simple and descriptive (and memorable!) name for what I hope is a transformative way of thinking about a business. It goes beyond a checklist or a step-by-step guide. It acts as a catalyst to inspire your own understanding and encourage independent thinking. It is not



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a magic bullet. But it aims to provide you with some of the insights, thought-starters and the strategic direction to help your business evolve into a catalyst of enduring growth, all the while supporting our vibrant local communities and safeguarding our beautiful ecosystems.

Imagine your business thriving, standing resilient, while also enriching the very fabric of the economy and its societies. Imagine creating not just wealth, but a positive, lasting imprint on our earth. OOM isn't about prescribing you the answers; it's about igniting the questions that lead you to find your own solutions.

*Jonathan Offenheimer*

November 2023



## The three principles of OOM



## The tools of OOM



### ***Generating a shared purpose and values:***

to engage your workforce



### ***Giving workers autonomy:***

to empower them to reduce inefficiencies and drive increased profitability



### ***Using incentive schemes:***

to encourage an ownership mindset



### ***Allocating free cash flow strategically:***

to ensure long-term value creation as well as preservation of the holistic balance sheet



### ***Equipping employees with information:***

to identify and reduce frictional costs and to enable strategic decision-making



## 2. COMPANIES AS AN ENGINE OF SUSTAINABLE GROWTH

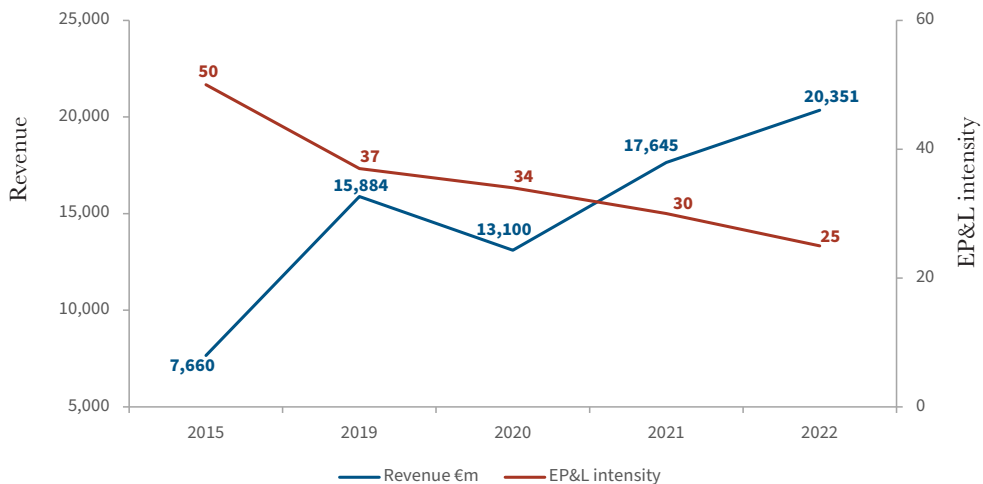
Globally, humanity faces a fundamental challenge. How do we generate growth, prosperity and jobs while avoiding over-taxing the planet we live on and share with all other life on earth? In Africa, where we will need to create 20m extra jobs per year over the next two decades, this challenge is particularly acute. Businesses just like yours are the engine that will provide the sustainable growth and prosperity we need. But for that engine to work, it must be correctly tuned.

This manifesto sets out the principles and tools to help you sustainably maximise profits and reduce inefficiencies. In doing so, it calls for companies to preserve their “holistic balance sheet”. This concept expands the definition of a company’s assets and liabilities to incorporate the full spectrum of its resources – people, natural resources and social goodwill.

Preserving a holistic balance sheet isn’t just about ethical consideration – it’s a common-sense approach to sustainable and harmonious business operation. Exhibit 1 shows how a large French company was able to boost its revenues while reducing environmental impacts. With the right approach, almost any business can do this.

### Exhibit 1: There is no necessary tension between reducing environmental impact and profitability

Kering’s environmental profit and loss (EP&L) intensity rating vs revenue



Source: [Kering](#)



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The fundamental underpinning of such an approach is the understanding that people and natural resources are not just means to an end, but integral components of a business's long-term success. A business can only be truly profitable – profitable over the long term – when it operates in harmony with local communities and responsibly manages the natural resources it depends on.





## 3. CORE PRINCIPLES OF OOM

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### 3.1 Principle 1: Lightening your Load by Shedding Unnecessary Rocks

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The core of OOM is a relentless attack on internal frictional costs.”

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JONATHAN OPPENHEIMER

Picture your business as a trek over challenging terrain. Every inefficient practice, every wasteful procedure in your business, is a rock weighing down your rucksack, slowing your progress. The purpose of OOM is to help you identify these burdensome ‘rocks’ – or frictional costs – and cast them aside. Exhibit 2 shows how significant these ‘rocks’ can be. Removing them is often the difference between a business that succeeds and one that fails.

#### **Exhibit 2: Frictional costs are everywhere...and that is bad news for our economies**

- In 2018, lost productive work time in South Africa totalled more than 128m days.
- Unproductive employees in South Africa cost SA R70 bn in 2018 – almost 2% of South Africa’s GDP.
- Unplanned downtime in 2021-2 cost Fortune Global 500 companies an estimated 11% of their yearly turnover – almost \$1.5 trn.
- In the late 2000s, the direct frictional cost of data overload for the US economy was estimated at a staggering \$650-\$900 bn per year.



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## OOM asks:

- How can we pinpoint non-revenue generating activities within our operations?
- How can we remove these inefficiencies without disrupting essential operations?
- What methodologies can we employ to ensure streamlined procedures and minimise waste while aiming for financial sustainability?

### 3.2 Principle 2: Engaging your Workers by Creating an Ownership Mindset

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This is all about getting members of a team to think about the goal they are working toward, rather than simply completing steps. This requires creating an empowered sense of ownership.”

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**JONATHAN OPPENHEIMER**

A feeling of empowerment is a fundamental psychological need in almost all people. Humans seek agency and value the sense that they can make a positive impact on the world around them. Decades of research show that enabling employees to take greater ownership of their work is linked to improved innovation, productivity and wellbeing. Workers are most inspired when they identify with the purpose of the organisation, or feel empowered, or are encouraged by well-designed incentives. OOM provides you with the tools you need to tap into these powerful motivators.



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Visualise the people who work in your business as a vibrant ecosystem, each member a critical organism with a distinct role. Your company's success depends on every organism optimally performing that role in a way that contributes to the working of the entire system. By creating clear parameters for team members and eliminating barriers to achieving the goals they are set, each individual is empowered to thrive and excel in achieving that goal.

That in turn strengthens the business as a whole. In one study, the top 25% of studied organisations for employee engagement had twice the annual net income of the lowest 25%. In another study, companies with high and sustainable engagement levels had an average 1-year operating margin 3 times higher than those with lower engagement. The British aerospace giant BAE believes that its efforts at employee engagement on the factory floor reduced the time it takes to build a fighter jet by 25%.

In examples like this the core insight is always the same. It lies in empowering team members to be the key-holders in their domains. This means empowering them to locate and remedy frictional costs, and so drive-up profitability, in those domains. Equipped with this authority, and made properly accountable for exercising it, they become the architects of change, fuelling innovation and navigating the challenges unique to your business.

This is why engaging your workforce – getting them to bring their minds, as well as their hands, to work – is a central principle of OOM. OOM enables you to switch on the minds of employees, to get them to think more like owners and to bring an owner's concern for efficiency and maximised performance to their work.

## **OOM asks:**

- How can you instil a sense of autonomy and ownership among your team, given the unique challenges of the South African business landscape?
- How can you establish an operational environment that empowers initiative-taking, curiosity and innovation within people's respective areas of responsibility?
- What measures can be implemented to help team members locate and address frictional costs (non-revenue generating activities) in their respective areas and so drive-up profitability?



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### 3.3 Principle 3: Harnessing the Power of Information

Envision your business as an orchestra, where each member plays a unique role in the symphony of success. Within OOM, we recognise the transformative potential that comes when we give individuals the information that equips them to make informed decisions and drive progress in their respective area.

Just as a conductor provides a wide range of musical cues to different sections of an orchestra, a manager can empower their team members to find the relevant information to excel in their roles. By incorporating both observational and numerical data, you lay a strong foundation for data-driven decision-making across your organisation.

This means promoting a culture of inquiry and exploration, where each team member actively questions and seeks insights from the information available. This approach kindles innovation, reveals new perspectives and paves the way for creative solutions to business challenges.

#### OOM asks:

- How can we ensure each team member has access to the necessary data or ‘notes’, for informed decision-making within their domain of responsibility?
- How can we effectively blend observational insights and hard data to gain a holistic understanding of our business’s status quo?
- How can we encourage a culture that prizes curiosity, questioning, and data-driven analysis as foundational aspects of our everyday operations?

## 4.0. THE FIVE TOOLS OF OOM

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### Exhibit 3: The tools of OOM



***Generating a shared purpose and values:***

to engage your workforce

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***Giving workers autonomy:***

to empower them to reduce inefficiencies and drive increased profitability

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***Using incentive schemes:***

to encourage an ownership mindset

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***Allocating free cash flow strategically:***

to ensure long-term value creation as well as preservation of the holistic balance sheet

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***Equipping employees with information:***

to identify and reduce frictional costs and to enable strategic decision-making



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## 4.1 Tool 1: Generating a Shared Purpose and Core Values with your Staff

“

Believing in your common goal is the first step, so the question you need to ask yourself is: how do we get people to believe in a common goal?”

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**JONATHAN OPPENHEIMER**

The people in your business are a wellspring of knowledge, experience and unique perspectives. You can harness that collective wisdom by empowering them to define and live a set of core values that underpin your business’s purpose and aspirations. By involving them in this process, you foster a sense of ownership and commitment. Most of all, you unlock pride in the values that drive your organisation’s culture. Finding a purpose in and beyond financial profit can unleash greater performance, innovation and strategic clarity. OOM calls this a company’s “North Star”.

This has to go beyond mere words on paper. It is much more than a mission statement. It must be an authentic, living and breathing common goal that flows through everything your company does. Your team must feel part of this story and understand their role in making it real. Having a purpose beyond profit is also an important part of preserving a company’s holistic balance sheet, which includes social goodwill.

## Exhibit 4: Best Buy defines its purpose

Best Buy, an American electronics retailer, included all levels of employees in crafting its purpose. They knew how important it was to ensure employees identified with the company's story and felt they had an exciting role in it. Best Buy's leaders started by defining the company's core identity – that of an “inspiring friend” who helps customers. But the firm then rolled out workshops across all US stores to allow employees to “write themselves into the story”. All employees, from the executive team through to sales associates, met to discuss what the core identity meant to them in their role. Crucially, the work was not finished when the company's purpose had been created. It was then put into practice, including through new key performance indicators to measure progress.

*OOM tools used:*



∞

*Shared purpose and values*

## OOM asks:

- What is the purpose that acts as your company's North Star, what are the values that act as your compass in achieving it and how can your employees be involved in generating them?
- How can you create a safe and inclusive environment that encourages staff to contribute to the generation of core purpose and values?
- What strategies can you implement to ensure that the core values generated by staff are effectively integrated into the organisation's culture and practices?



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## 4.2 Tool 2: Empowering your Team Through Greater Autonomy

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Something had switched on and it became his mine.”

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**JONATHAN OPPENHEIMER**

People value agency: a sense that they personally can make an impact on the world around them, even in the smallest ways. We know this in ourselves, but it is striking how often leaders forget this basic insight in the world of work. If we want teams to genuinely commit to working well, they need a sense of efficacy. From this comes ownership of both the task at hand and the eventual goal of which it is a part.

For some managers it can be a challenge to delegate authority. But ensuring decision-making authority is properly distributed creates a structure that maximises individual expertise and nurtures a culture of accountability and autonomy. By defining clear roles and responsibilities, from the boardroom to the factory floor, you unlock the potential of your team and propel an organisation forward.

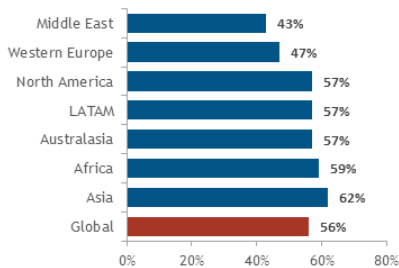
The evidence for this over the last half century is compelling. Workers who feel empowered through autonomy generate more new ideas and ways of doing things. By trusting them to be the experts on their own areas of expertise, you empower them to go beyond simply following standard operating procedures. They can be freed to think about how to make improvements and to draw on the reserves of their own experience and initiative. This potential is even greater in African workplaces, where the power of autonomy is still relatively untapped (Exhibit 5). The benefits seen by an early adopter of this tool in Africa, Aardcor Mines Division, illustrates the potential (Exhibit 6).



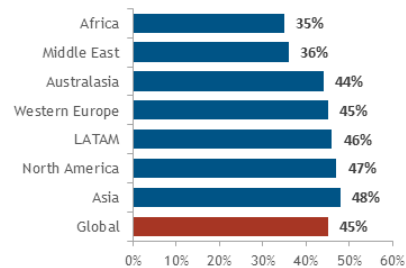


## Exhibit 5: African firms lag on worker autonomy... but back innovative employees

% of firms facilitating employee innovation, 2019



% of firms granting employees a 'high degree of autonomy', 2019



Source: [PWC](#)

## Exhibit 6: Aardcor uses OOM to quadruple productivity

In the 1990s, Aardcor Mines was made up of two small Zimbabwean gold mines and just over a hundred employees when it adopted the OOM toolkit. A variable pay incentive structure was introduced and employees were empowered to have autonomy within their span of expertise. The combination had a transformational impact. It created an ownership mindset among workers and incentivised them to identify and reduce frictional costs. One manager, who had previously rigidly followed standard operating procedures, began tackling challenges with tenacity and innovation. More junior employees also became engaged. For example, one worker used his experience to dramatically streamline the process for drilling holes at the mine. **This reduced working capital requirements by three months and gold recovery rates rose by 25%. Productivity per man went from 17 ounces per year to 70 ounces. Accident rates fell from low to zero. Overall, direct costs per ounce of gold produced fell from \$180 to \$60.**

OOM tools used:



∞ *Using incentive schemes*

∞ *Giving workers autonomy*



## Exhibit 7: IKEA cuts waste

Eliminating waste and unnecessary costs has always been key for IKEA, a European home furnishing retailer. Its founder Ingvar Kamprad once described waste as “a mortal sin” for the company, and eliminating unnecessary costs is one of its core values. In 2014 IKEA identified a data gap on the food side of its business. In 2015, they introduced a pilot scheme to equip workers with digital measurement tools, working with a technology partner called Winnow. IKEA recognised that workers are experts in their areas of operations and so gave them autonomy in using the data to identify waste and decide how to reduce it. **The pilot scheme cut food waste by 40% in six months, increasing profits and developing a sense of pride among employees. In 2018, the initiative was rolled out to 150 stores and over the next four years enabled IKEA to halve food waste.**

*OOM tools used:*



- ∞ *Shared purpose and values*
- ∞ *Giving workers autonomy*
- ∞ *Equipping employees with information*

## OOM asks:

- How is authority currently divided in your organisation, and how can a delegated authority framework enhance decision-making and performance?
- What steps can you take to define roles and create clear domains that act as ‘sandboxes’ and empower your team, generating a sense of ownership through the delegated authority framework?
- How can you ensure decision-making is transparent and efficient, while maintaining a balance between autonomy and accountability?

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### 4.3 Tool 3: Using Incentives to Encourage an Ownership Mindset

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Introducing a partially-variable pay structure is designed to give people an ownership mentality. This helps them to understand that optimising the short-term operational side of the business through small changes – which they are best placed to understand – can contribute to improving an overall metric for the company and so benefit all.”

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**JONATHAN OPPENHEIMER**

A half-century of research into incentives shows that financial incentives can have significant impact in a company, but that careful design is key. What teams appreciate in incentives often reflects what they want from satisfying work. The most robust research suggests that incentives should target performance, rewarding increments in performance standards or demonstration of skill. People value rewards for completing complex tasks well, which reflect their skill and agency.

Incentives also need to be seen as fair. Employees often have a powerful sense of whether an incentive scheme is just, and do not like those that are not. Across an organisation, incentives should be equitable, but not necessarily equal. Research suggests that reward systems need to be transparent and consistent, and managerial discretion in applying them kept to a minimum.



OOM draws on this insight to create incentives that unlock exceptional performance. OOM recommends a substantial variable pay component, at least 20% on top of guaranteed salary, creating a powerful incentive that fluctuates based on the overall performance of the entire company. The variable pay component is paid out only after the holistic balance sheet (see description on pg. 5) is preserved. This unique structure has the potential to trigger remarkable transformations, making a tangible difference in the lives of individuals and providing them with both newfound financial security and a clear sense of the value of their work. Variable pay becomes more than just a bonus – it becomes a catalyst for personal growth and achievement.

## Exhibit 8: How Bindura Nickel halved its operating costs in 18 months

In the 1990s, Bindura Nickel Corporation (BNC) was concerned about the operating costs of its mining operations in Zimbabwe. Management had to rapidly improve efficiency. To engage workers in this challenge, in 1996 they introduced a variable pay incentive structure. Workers received their base pay each month regardless of company performance. But in addition to this, they were for the first time given the chance to receive variable pay, by participating in free cash flow after balance sheet preservation. This was combined with absolute recognition of employees' expertise in their roles and empowering them with the autonomy to reduce frictional costs in their span of responsibility. **In 18 months, these changes enabled BNC to reduce its operating costs by 45%. Basic cash costs for each pound of Nickel produced fell even further, from \$1.95 to 95c. This took a set of mines that were near bankruptcy and made them highly profitable.**

OOM tools used:



∞

*Using incentive schemes*

∞

*Giving workers autonomy*



## Exhibit 9: How C.H.I. used incentives to create an ownership mentality

In 2015 C.H.I. Overhead Doors, an American manufacturer of garage doors with 800 employees, gave its junior and mid-level employees a financial stake in the business. This provided the short-term incentive of dividend payments, and the long-term promise of a payout when the company was sold. According to C.H.I.'s CEO this created "a common platform for all of us to be united, around a common purpose... [and to have] this mindset of, how do I think and act like an owner everyday". Employees described the transformational impact on motivation. From day 1, new starters were encouraged to think about how to improve processes and cut waste. For example, one employee worked out a way to move doors from the carts to the line with less physical exertion. **The CEO described the results as "tremendous" and as helping push the company's value up 10X in seven years. The rate and severity of injuries also dropped by over 50%.**

*OOM tools used:*



∞ *Using incentive schemes*

∞ *Giving workers autonomy*

## OOM asks:

- How can you design a variable pay structure that inspires and motivates individuals at all levels, igniting their drive for exceptional performance and life-changing outcomes?
- How can your management involve staff in defining variable incentives?
- What strategies can align variable pay with the overall performance of the company, fostering a sense of collective success?
- How can you educate staff about the potential of the variable pay structure?
- What steps can foster a culture of excitement, engagement and collaboration, enabling staff to fully embrace the incentives and potential for life-changing circumstances?



## 4.4 Tool 4: Ensuring Free Cash Flow is used for Long-Term Value Creation

One of the key challenges of running a successful OOM business is managing surplus operating cash flow. Intelligently allocating this cash flow to ensure it is reinvested in projects and opportunities that drive sustainable value creation is what marks out a business maximising its growth and revenue potential. By striking a balance between prudent financial management and strategic investment, you can optimise the use of available resources, maximise returns and build resilience.

In OOM, we use a ‘cash sweep’. This separates responsibilities for the day-to-day management of the company and preservation of its balance sheet from strategic decisions on allocating capital towards investments in future growth. Surplus operating cash is ‘swept’ into the investment allocation process, and so moved from the oversight of day-to-day managers to that of the organisation’s lead strategists.

### Exhibit 10: How Kering quantified environmental profit and loss

French luxury goods retailer Kering has for more than a decade measured its environmental impact through an “environmental profit and loss” (EP&L) tool. This tracks the cost to society of the environmental impacts of the company’s activities. It enables Kering to make informed decisions on capital allocation in ways that can reduce environmental costs such as air pollution and water consumption, for instance by investing in new technologies and solutions. **The results show how senior management can take into account the “environmental balance sheet” of a company while not compromising on revenue: between 2015 and 2020, Kering halved its EP&L intensity while nearly tripling its revenue.**

*OOM tools used:*



∞

*Allocating free cash flow strategically*



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## **OOM asks:**

- How can you establish a system to regularly sweep excess free cash flow out of the day-to-day management of your business?
- What criteria should you consider when evaluating and selecting the best projects and opportunities for reinvestment?
- How can you create a compelling business case to justify the reinvestment of swept cash on a regular basis?



## 4.5 Tool 5: Equipping your Workers with the Information they Need

Something extraordinary happens when you empower each domain owner within a business with the right information and data. The benefits of data analysis and autonomy can reinforce one another, with employees both empowered and equipped to make more strategic decisions. From the ground up, valuable perspectives and ideas merge with strategic vision. Insights flow freely from all levels, creating a powerful sense of collective intelligence.

It can be a big cultural change. You have to trust in the expertise and insights of every individual, because they hold the keys to unlocking innovation, efficiency and growth. Together, as a united force, you will forge a path towards excellence. African businesses currently lag behind counterparts in other regions in leveraging the power of data and technology. That means this tool has huge untapped potential for African firms.

### Exhibit 11: How Element Six used data and autonomy to cut frictional costs

Element Six, an industrial diamond production business with facilities in countries including South Africa, used data analysis and an empowered workforce to cut its worst-in-class costs. First, an external consultant sorted through data to spot inefficiencies. This highlighted a significant problem with the production line: it was operating as a batch process rather than a continuous process, meaning equipment was breaking faster than expected and so pushing up operating costs. Second, management gave employees autonomy over their areas of expertise. Using the insights provided by data, the employees generated a solution: introducing strategic stocks at different points in the production line to enable a continuous rather than batch process. **As a result, the average cost per carat of industrial diamond produced fell from 36 cents in 2001, to 8 cents per carat by late 2003. Element Six was able to become a truly global competitor.**

*OOM tools used:*



∞

*Equipping employees with information*

∞

*Giving workers autonomy*





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## **OOM asks:**

- How can you create a culture of knowledge sharing and collaboration that allows insights to flow freely from every individual in your organisation, regardless of their position or role?
- What steps can you take to ensure that each domain owner has access to the specific information and data they need to make informed decisions in their respective areas?
- How can you continuously assess and improve the flow of information and data across domains, identifying any bottlenecks or gaps and addressing them to enhance decision-making effectiveness?
- What resources, tools and training can you provide to support individuals at all levels in effectively utilising and analysing data, enabling them to make informed decisions aligned with the organisation's goals?



## 5. CONCLUSION: UNLEASH YOUR BUSINESS POTENTIAL BY JOINING THE OOM COMMUNITY NOW

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In the diverse and dynamic African business landscape, there exists a tremendous opportunity to build resilient businesses that achieve both financial success and operational excellence. With OOM as your compass, you can define a path of business resilience helping your organisation to thrive and adapt in an ever-changing environment. But it needs you to make the journey.

So we invite you to join our open-source online community, where we can learn together, share experiences and continue to build compelling evidence of what is possible in contemporary Africa. By joining this community, you become part of a new movement that aims to change the trajectory of Africa and unlock its investment potential. Together, we will challenge the prevailing narratives and showcase the immense opportunities of our continent and its real economy.

Here's how you can get involved:

1. **Register interest in the OOM learning programme:** Use the link below to express interest in the OOM online learning programme.
2. **Implement the OOM principles and tools in your business:** Start by selecting the principles and tools that resonate with your business objectives. Test them, adapt them and measure their impact on your operations and financial performance.
3. **Share your results:** As you implement OOM in your business, document your journey and the outcomes you achieve. Share your successes, challenges, and lessons learned with the community. By sharing, you contribute to the collective knowledge and inspire others to follow suit.
4. **Engage in discussions and collaborations:** Participate actively in our online community. Engage in discussions, ask questions, and seek advice from fellow business owners who are also on the OOM path. Collaborate with like-minded individuals and organisations to explore new opportunities and tackle common challenges together.
5. **Contribute to the open-source movement:** Embrace the spirit of open-source by freely sharing your experiences, tools and resources with the community. By doing so, we can collectively build a repository of knowledge that benefits everyone on this journey.
6. **Be part of the change:** By joining this community, you become an agent of change, contributing to the transformation of Africa's business landscape. Together, we will challenge the status quo and create a compelling case for investment in Africa's real economy.



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Let's unite our efforts, unleash the power of business innovation and build a thriving ecosystem of profitable businesses in Africa. Together, we can demonstrate the true potential of the Optimised Operating Model and pave the way for a brighter future. Join us in this movement and let's change the narrative together. Africa is ready, and so are we.

**Visit [summit.southafricanfuturetrust.org](https://summit.southafricanfuturetrust.org) to join the OOM community today**



# APPENDIX

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## DEFINITIONS

<b>Cash sweep</b>	A mechanism that separates responsibilities for the day-to-day financial management of the company and preservation of its balance sheet from strategic decisions on allocating capital towards investments in future growth. Surplus operating cash is 'swept' into the investment allocation process.
<b>Engaged capital</b>	Providers of capital that are engaged in the ownership of their businesses and who give management the space to take long-term business decisions.
<b>Frictional costs</b>	The non-revenue generating activities that weigh businesses down. This paper focuses on the inefficiencies within a business, but frictions can also be imposed from outside.
<b>Holistic balance sheet</b>	This concept expands the definition of a company's assets and liabilities to incorporate the full spectrum of its resources – people, natural resources and social goodwill.
<b>North Star</b>	The guiding overall purpose of an organisation. A purpose beyond profit must be an authentic, living and breathing common goal that flows through everything a company does.
<b>OOM</b>	The Optimised Operating Model (OOM). This model is designed to reduce inefficiencies and to bring wider benefits to a business. It is made up of three principles (reducing frictional costs, engaging employees, and using information) and five tools (generating a shared purpose, empowering workers with autonomy, using incentive schemes, allocating free cash flow strategically, and equipping employees with information).
<b>Operating free cash flow</b>	The surplus cash that remains after the holistic balance sheet of a company has been preserved. This should be allocated strategically to drive long-term value creation.

## FURTHER CASE STUDIES

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### Exhibit 12: How BAE Systems used factory floor ideas to save costs

In the late 2000s BAE Systems, a British manufacturer of aerospace products, was struggling to streamline production processes. In November 2009, it introduced a new scheme enabling factory floor employees to put forward ideas. By September 2011 this was having significant benefits.

**Employees identified more than £26m of improvement opportunities in the first year, and in the second year the target reduction in build hours for aircraft was exceeded. For some aircraft, build hours fell by more than 25%.**

*OOM tools used:*



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*Giving workers autonomy*

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### Exhibit 13: How Babcock helped employees understand their North Star in the 2000s

Babcock Marine Clyde, which provides engineering support services to the UK's Royal Navy, saw benefits from engaging its workforce in the 2000s. To do so, Babcock designed a narrative graphic telling the story of the organisation's journey, mission and vision that would help all staff feel ownership of the company's overall goal and the strategy to achieve it. Management also created a new business plan written in relatable language and encouraged employees to identify which objectives were most relevant to their teams and how. **Engagement efforts helped to bring: a 30% drop in sickness absence between 2005 and 2009; a 50% drop in reportable accidents between 2007/08 and 2008/09; and overall project performance overruns falling from 48% to less than three per cent.**

*OOM tools used:*



∞

*Shared purpose and values*



## Exhibit 14: How UPS equipped drivers with data, but avoided overload

In 2008, United Parcel Service (UPS), a US shipping and logistics firm, equipped front-line drivers with access to efficiency data. The initiative fed data into an algorithm that offered drivers suggestions on how to make their delivery route more efficient. To avoid data overload, the data were explained in ways that were relatable for drivers and supervisors were limited from seeing overly complex data. This reduced delivery routes by 6 to 8 miles on average, with one employee using it to cut over 30 miles from his regular route. By 2020 it had saved UPS around 100m miles and 10m gallons of fuel a year.

*OOM tools used:*



- ∞ *Equipping employees with information*
- ∞ *Giving workers autonomy*

## Exhibit 15: How the SAS institute incentivised employees to cut costs

After the 2008 global financial crisis, when many tech firms were introducing mass layoffs, a US analytics software firm called the SAS institute avoided doing so by motivating employees to reduce frictional costs. Its founder and CEO, Jim Goodnight, told employees in early 2009 that there would be no layoffs that year but called for employees to proactively help save costs. **This contributed to productivity increasing within a year so extensively that 2009 became one of the firm's top 3 most profitable years since its foundation in 1974.** The firm's CEO has estimated staff turnover to be between 3 and 4% a year, far below the industry average of between 17% to 25%. **An external assessment suggested that this was saving the firm up to \$100m per year, money which could be diverted from recruitment and training to productive, long-term investment.**

*OOM tools used:*



- ∞ *Using incentive schemes*
- ∞ *Giving workers autonomy*

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## Exhibit 16: How B&Q combined company-level and targeted variable pay incentives to motivate workers

Multinational home improvement retailing firm B&Q has experimented with various incentive structures. In 2003, it decided to move from a profit-sharing scheme to a store-team bonus scheme. Under the new scheme, employees received a fixed payment of 3% of salary every six months if company profit targets were met. There was also the potential to earn a further 6.75% linked to store and company performance, plus a smaller lump sum if customer satisfaction levels improved. The latter metric was measured by quarterly interviews of sample customers to produce a customer service index for each store.

Stores were ranked in a league table that was recalculated monthly based on sales and stock-loss performance. If company profitability was 105% of target, staff in the top performing stores received the full 6.75% in addition to a guaranteed 6% annual profit-sharing payment, while staff further down the ranking might receive 2.25% plus the yearly profit-related payment. B&Q's rewards manager noted that the new scheme was designed partly to ensure that employees cutting costs would be directly rewarded. **This introduced a more sophisticated variable incentive regime that combined overall metrics with more targeted ones, and the potential for greater payouts: the maximum variable bonus rose from 12% under the old profit-sharing scheme to 15% through the new layered targets.**

*OOM tools used:*



∞

*Using incentive schemes*



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