

THE PIVOT PALETTE

A quarterly publication of PIVOT Management Consultants



Quarter 1, 1998

MISSION

Be a premier provider of management consulting services to industry in the high technology, manufacturing / design, services, healthcare, education and government fields.

Be the best partner a business leader can have to help accelerate the move along the path of continuous quality improvement and quality system enhancement, rethinking and changing the way our client's business is done internally and for the marketplace and industry our client serves.

Implement operational improvements across all functions and levels of our client's organization to achieve improved strategic and marketplace position, delivering value added measurable results.

Provide a positive, rewarding, collaborative work environment within PIVOT that fosters personal growth, fulfillment and success for our associates, suppliers and clients.

VISION

Together we will. . .

Work to fully understand the requirements of our jobs, the requirements of our clients and the systems that support us.

Provide error free services, analysis information, education and skills training on time to our clients.

Practice ethical, honest and fair behavior in our interactions with clients, associates and suppliers. We will not promise anything we cannot honestly deliver.

Inspire trust and respect by our clients, associates and suppliers, through PIVOT's proven commitment to our mutual success.

Have fun!

WORLD-CLASS

BEST PRACTICES, BEST RESULTS

What does world-class mean? Is there a standard definition? Among the various definitions one usually senses a focus on speed, cost and quality - the three staple competitive factors today; coupled with elements of customer satisfaction, supplier partnerships, employee empowerment and increasingly, information systems that facilitate knowledge exchange.

Industry Week's recent Census of Manufacturers identified a listing of broad initiatives that companies deem important to achieving world-class status. The Census also identified performance benchmarks and found that companies or facilities deemed at or nearest to world-class also attained the best manufacturing metrics as they voraciously pursued best practices.

Some of the broad initiatives were:

- Formal continuous improvement program
- Quality management programs
- Cycle time reduction
- Flexible cross-functional workforce
- Agile Manufacturing strategies
- Planning/scheduling systems
- New information technologies
- New process equipment/technologies
- Self-directed/empowered work teams
- Reengineered production processes
- Multifacility optimization
- Supplier rationalization
- Maintenance optimization
- Strategic outsourcing

Performance benchmarks identified included:

- Finished-product first-pass yields from 99-100%
- Significant improvements to first-pass quality yields
- Scrap/rework costs less than 1% of sales
- Less than 10 ppm customer reject rate on shipped products
- Cycle time less than 25 hours
- Cycle time reduced more than 50% in last 5 years

- Customer-order lead-times less than 5 days
- 100% on-time delivery rate
- More than 25 annual inventory turns
- More than 52 annual work-in-progress turns
- Productivity levels of \$250,000 or more per employee
- Productivity increases of greater than 20% in 5 years
- Significant manufacturing cost reduction last 5 years
- Plant-level return on assets greater than 15%

Core practices identified included three categories:

- 1. Customer Focused Practices:**
 - Customers participate in new-product development
 - Integrated cross-functional customer service
 - Continuous replenishment programs for customers
 - Customers interact with production employees
 - Enterprise integration with customers
- 2. Supply Practices:**
 - Supplier certifications
 - Suppliers evaluated on "total cost," not unit price
 - Key suppliers deliver on a JIT basis
 - Suppliers involved early in new-product development
 - Suppliers replenish inventory on a continuous basis
 - Supplier rationalization
 - Suppliers contractually committed to cost reduction
 - Enterprise integration with suppliers
- 3. Manufacturing Practices:**
 - Safety-improvement programs
 - Proactive environmental compliance programs
 - Total Quality Management
 - Predictive or preventive maintenance
 - Quick changeover techniques
 - JIT/continuous-flow production
 - Focused factory production systems
 - Competitive benchmarking
 - Cellular manufacturing
 - Cpk process-capability measurements
 - Agile manufacturing strategies

Next issue: 'Key challenges to success'

HERE COMES OUR ANNUAL REPORT

Time to say Thank You to all our clients and Associates for making 1997 another successful year. We look forward to another good year through your continued support and referrals.

We started the year as Jim Schaming, partner, moved to Everett, Washington, to open our first out of state office. Interestingly though, he has been spending most of his time here in Los Angeles to share his expertise with a client. Apart from continuing working with clients on ISO 9000, we started our first project with D1-9000. Keeping with our initial focus to take industrial quality practices into healthcare, we offered the first two and only seminars on ISO 9000 in the health care industry in conjunction with the San Gabriel Section of the American Society for Quality. Also, as we had expected, as companies are getting certified to ISO 9000 and installing quality management systems, they are beginning to think TQM again and now we are back into companies help them build on their quality foundation. Team building and culture change is still something companies are struggling with and we are being called back to assist companies in this direction.

The best news to us this year has been that companies that turned us down a year or two ago, either invited us back in on the same project after having tried someone else, or provided us with referrals since their own experiences with someone else were not as fruitful. We thank them for recognizing our strengths - *Delivering Results*.

We are not stopping with the many states where we currently have projects. We are now receiving inquiries from countries such as Greece, Israel, Thailand, India and New Zealand.

We salute you all as we face the thrill and the challenge of managing our growth and continue to do what we do best - work in joint teams, implementing change strategies, delivering results.

Thank you!

ISO 9000 IN THE HEALTH CARE INDUSTRY

Hospitals, private practices and special service providers are slowly beginning to adopt the ISO 9000 series standards. A hospital, a private practice, and a surgery center have already taken the lead and become certified. A home health care unit and a therapy center have recently started on their pursuit of certification to ISO 9001. Yet many others still have not heard of the international standards. Awareness is building though.

We offered the first two seminars in the United States held on the subject of ISO 9000 in the health care industry. This has certainly

built some awareness. The last issue of the Health Care division of the American Society for Quality also carried an article on the same topic. We are certain that as in other industries, ISO 9000 will start gaining widespread adoption in the health care industry - primarily because it is voluntary, is non-prescriptive, and because it provides a structured approach to quality improvement. It also forms the foundation for Total Quality Management. Lastly, customers, suppliers, and board of directors, all understand ISO 9000.

BOOKLET PUBLISHED: HOW DOES ISO 9000 APPLY TO THE HEALTH CARE INDUSTRY

To help people in the health care industry, PIVOT Management Consultants has recently published a booklet with the above title. It explains what ISO is and how the 20 elements apply to healthcare. It provides examples to help the reader get a good first introduction to ISO 9000 in the health care industry. The booklet is available from PIVOT for \$7.50 and may be ordered by calling 909-985-9294.

OUR CONSULTANTS - QUICK PROFILE

Lauri Cory has been working in the quality field for over twenty years as engineer, manager and consultant. Her varied experience includes educator/trainer in TQM, SPC and MRP-II and quality system auditing; design review; development of quality and program plans; creation of all quality system supporting documentation; quality problem resolution and root cause analysis; TQM and SPC applications. She also has performed extensive design and implementation work of final acceptance quality systems to meet the requirements of various standards: MIL-I-45208A, MIL-Q-9858A, ISO 9000, QS-9000 and D1-9000 which involved many lower tier specifications as well. She has trained clients in ISO 9000/QS 9000 Internal Quality Auditing principles and techniques.

In her corporate background, she has been responsible for developing quality systems, managing supplier quality programs and improving MRP processes, implementing procurement quality programs, failure analysis and corrective action, conducting quality system compliance audits and reducing quality defect rates.

Ms. Cory holds a BS in Computer Science from California State University at Fullerton and has been a long time Member of the American Society for Quality.

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THE BALANCED SCORECARD

Traditionally, performance measurement systems have consisted primarily of financial measures like return on assets and earnings per share. Operational measures, on the other hand, have typically been missing . . . although they have become important over the last decade with the increased focus on quality, employee empowerment and customer expectations. Financial measures tell us about past performance and running the organization based on those is like driving a car by looking in the rear view mirror. Such performance measurement systems do not include operational, quality or customer satisfaction measures . . . and what we measure is what we get and what we improve!

Some years ago a year-long research project with 12 companies, at the leading edge of performance measurement, led to the development of a new performance measurement system that gives top managers a fast but comprehensive view of their business. Termed the 'balanced scorecard,' it includes financial measures that tell the results of actions taken. In addition, it complements those financial measures with three sets of operational measures that have to do with customer satisfaction, internal processes and the organization's ability to learn - activities that drive future financial performance. The diagram below illustrates how the balanced scorecard provides comprehensive information at a glance.

An organization can decide on its own key indicators. It can then determine goals and measures that would meet its needs to monitor progress in building its capabilities for the future. It can thus connect long term objectives with short term actions.

Here is an example of how the balanced scorecard links goals and measures:

Example (Electronics manufacturing organization)

Goals	Measures
Financial perspective	
Survive	Cash flow
Succeed	Quarterly sales growth and operating income
Prosper	Increased market share and ROE

Customer perspective	
New products	Percent of sales from new products Percent of sales from proprietary products
Responsive supply	On time delivery
Preferred supplier	Share of key accounts' purchases Ranking by key accounts
Cust. partnership	No. of cooperative engineering efforts

Internal business perspective	
Tech. capability	Manufacturing geometry vs competition
Mfg. excellence	Cycle time; unit cost; yield
New products	Actual introduction vs. plan

Innovation & learning perspective	
Tech. leadership	Time to develop next generation
Mfg. learning	Process time to maturity
Product focus	Percent of products that equal 80% sales
Time to market	New product introduction vs. competition

Apart from allowing managers to look at business from four different perspectives, the balanced scorecard brings together, in a single management report, many of the seemingly disparate elements and initiatives of an organization's competitive agenda: cross functional integration, customer-supplier partnerships, global scale, continuous improvement, team rather than individual accountability and managing for the long term while ensuring shareholder value.

The scorecard guards against sub-optimization ensuring that improvement in one area is not made at the expense of another. It puts strategy - and not control - at the center.

To learn more about this approach, you can read Robert Kaplan's book "The Balanced Scorecard".

Financial How do we look to shareholders?	
Goals	Measures

Customer How do customers see us?	
Goals	Measures

Internal Business What do we want to excel at?	
Goals	Measures

Innovation & Learning How do we continue to improve & add value?	
Goals	Measures

Balanced Scorecard: Four Perspectives

HIDDEN FACTORY - THE IMMEDIATE PROFIT ACCELERATOR!

Quality management has been all the rage over the past decade and continues to drive competitiveness today. However, people often get disillusioned with Total Quality Management and the excitement about ISO 9000 appears to have ebbed. Why so? I contend that this is because we have been focusing too much on the activities and the certificate rather than what it can do for the organization when improvements are implemented.

“Improvements?” you say. “Why, we have worked on flowing our processes, documenting our procedures . . . and all we have really done is create more work for ourselves. Sure, we have defined some of our processes, but we cannot really see any substantial benefits.”

Every place where we have implemented quality management, has had favorable benefits on elimination of the ‘hidden factory’ - the plant that exists to rework nonconform-

ing material, parts and products; the factory that maintains buffer stocks of certain kinds of protective inventory to cover for the unsatisfactory material, or to replace parts and products recalled from or rejected from the field, or to retest and reinspect rejected units. Let us not forget the unnecessary work we do because we fail to see the role of quality in support functions and processes such as purchasing or marketing.

Do you have a ‘hidden factory’ in your organization? Not sure? Think about all the times you have said, “If only I could do such and such the job would be so much easier!” Have you ever wondered why you continue practices which produce scrap? Have you ever wondered why you have bottlenecks and products do not go out on time? Have your suppliers ever complained about late or incorrect payments or invoices? Have you been getting a lot of suggestions from your suppliers, employees, or customers? Have

you ever thought that your company functions perfectly and there are no discrepancies in anything, no room for improvement? Then you have a ‘hidden factory’!

Getting rid of this ‘hidden factory’ or even reducing its size, cuts the non-value added costs that don’t provide returns. Yet, often we continue to focus on activities and perhaps, a certificate, fighting fires, fixing problems and meeting deadlines, waiting for customers to tell us that we better shape up or else . . .

The ‘hidden factory’ is the most immediately available profit accelerator available to most companies, yet we fail to take advantage and leverage quality management to convert this hidden factory to profitable output. *Do you have a costly factory hidden somewhere?*

Akhilesh Gulati, Partner

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Season's Greetings

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