

THE PIVOT PALETTE

A quarterly publication of PIVOT Management Consultants



Quarter 1, 1999

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!

TQM WORKS!

IT JUST TAKES PATIENCE

The results of a recent seven year long study found that TQM is not dead just because we haven't heard much from it lately! They discovered that a TQM program, in fact, improves a company's profitability, increases revenues, and reduces costs.

The study was conducted by Prof. Kevin B. Hendricks and Prof. Vinod R. Singhal of The College of William and Mary School of Business and Georgia Institute of Technology's DuPree College of Management, respectively, and the results were published in the November 1998 issue of Quality Digest.

They found that companies winning the Malcolm Baldrige awards at the state and federal levels consistently perform better at all significant financial measures when compared to control companies of similar size and similar economic, industry and competitive factors! Surprisingly, comparison of small TQM companies to their control companies were even better!

Some interesting aspects of the study:

- The study sample comprised nearly 600 award winners, 75% of which came from the manufacturing sector.
- All were publicly traded firms.
- Percent change in operating income was the primary performance measure they tracked (this is what most businesses are concerned about when embarking on any new initiative).
- Cost of TQM implementation was not found to be a factor at all.
- Operating income, sales, total assets, number of employees, returns on sales and assets - all improved by better than a two to one margin in most cases!
- Award winners stock price performance beat the S&P 500 index by 114 to 80 percent, translating to

an average market value creation of \$669 million.!

- Smaller companies outperformed their controls by an average of 63% in increasing operating income compared to 22% for larger companies.
- Smaller companies also showed a 39% increase in sales compared with larger companies' 20%.

This study found the link between quality and financial performance is strong and that improvement in non-financial measures leads to improvement in accounting based measures which we all traditionally use and understand. These are some of the same measures that have been considered by companies using the Balanced Scorecard, described in an earlier issue of PIVOT Palette, and in the Dashboard Approach, explained in this issue. Effective TQM implementation, thus, means focusing on:

- customer satisfaction,
- employee involvement, and
- continuous improvement.

As opposed to reengineering, TQM gains are more incremental than radical. Even after effective implementation, it still takes a couple of years before financial improvements become evident. This means that organizations must remain patient when implementing TQM. They should set realistic expectations and consider themselves successful when they achieve them. A realistic expectation would be to build a foundation of quality and build TQM into your systems during two or three years, then add another two years to see results. Despite negative publicity to the contrary, TQM does indeed pay significantly over the long term - it just takes patience!

BALDRIGE FOR HEALTH CARE & EDUCATION

Health care organizations can now apply for the Malcolm Baldrige National Quality Award and share best practices with health care providers around the country - thanks to the federal budget for fiscal year 1999 which allows for expansion of the award into health care and education. At PIVOT we stand ready to help organizations with training, preparation and documentation as they prepare to apply for the award.

LEAN THINKING

Over the past couple of years Lean Manufacturing has become the new buzzword. Reengineering and Benchmarking are now passé. Lean Manufacturing is heralding the current wave. At the monthly meetings of our local Section of the American Society for Quality, we see a surge in attendance whenever we have a session on Lean Manufacturing . . . or anything to do with Lean - Lean Manufacturing, Lean Management, Lean Enterprise . . . although there are people who have never heard of this as yet. When I spoke with one company about Lean Manufacturing they thought I was speaking of downsizing! What we really need is Lean Thinking - if we are to cross the manufacturing hurdle and incorporate these practices into the service and health care sectors. Lean Thinking can help us specify value, understand value-creating activities in a value stream, incorporate pull systems to prevent pile ups and facilitate smooth flow . . . leading to enhanced results in terms of increased revenues, reduced inventories, lower employee turnover, increased productivity and on-time delivery of product or service.

SUPPLY CHAIN MANAGEMENT MATTERS

Another area gaining ground over the last decade is that of Supply Chain Management. It seeks to integrate the whole process of moving product to market - from sourcing of the raw material to delivery to the ultimate customer. It also makes the task of quality management more challenging. It embraces internal operations like procurement, supply management, logistics, forecasting, production planning and customer service as well as external suppliers and customers. Implementing Just-In-Time processes, eliminating excess inventory, accurately aligning supply and demand are all examples of supply chain initiatives. Look for this to become the next edge for competitive advantage.

TRUE COST OF QUALITY

Too often, we forget that the heart and soul of effective TQM, continuous quality improvement, and even in your every day, basic quality systems; be it ISO 9000 or whatever, is fire prevention! So often are we caught up in the fix it - get the product out the door mode - that we don't often think about how much simpler our jobs would be and how much less the cost to the company . . . if we only had the time to really find the root cause of that problem, and prescribe the kind of corrective action to truly prevent it from recurring. Wouldn't that be nice? The quality practitioner's dream come true. When you think about it, any quality system can be very effective if the organization, not just the Quality Assurance department, really cared about problem elimination and prevention instead of just incomplete actions to meet delivery schedules . . . today!

Philip Crosby and other quality gurus estimate the average cost of nonconformance for a typical manufacturing company in America where problem prevention is not normally practiced, at ~30% of sales! Just in case the reader is thinking, "That doesn't apply to me, I'm not in manufacturing," the average number for service companies is close to 50% of sales! Think what it would mean to your company's competitiveness, profitability and potential impact on market share if only a small portion of those numbers could be returned to the bottom line?

Your company's future in today's increasingly competitive climate and your job may depend on your organization's ability to not only put out fires but to prevent them! Knowing the true 'cost of quality' is critical! PIVOT can help you find out.

Jim Schaming, PE, Partner

ISO 9000 IN 2000

When the year 2000 arrives, there will likely be only one ISO 9000 process model, ISO 9001. A company will be able to designate and tailor the applicability of ISO 9001 to the products and/or services provided by that company. ISO 9002 and ISO 9003 will be eliminated. Like it or not, ISO 9001: 2000 will be the only choice, and companies will have to specify their lack of design and development activities, if appropriate. We will keep you updated on the evolution of the new document in upcoming issues of the PIVOT Palette.

If you have any comments/suggestions, please contact:
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TOOLS

PERFORMANCE MANAGEMENT - THE DASHBOARD APPROACH

In our last issue we described how leading companies the world over have been devising new tools for designing and analyzing strategic performance measures. We mentioned two tools that have gained widespread acceptance : the Balanced Scorecard (covered in our Quarter 1, 1998 issue), and the Dashboard Approach. In this issue we will cover the Dashboard Approach for strategic performance measurement. While traditional financial measures have told us the results of actions taken, operational measures help us examine activities the drive future performance. Both techniques categorize the measures under certain grouping important to the organization, such as: Growth Measures, Client Satisfaction, Quality, Business Management, Environmental Performance, Shareholder Satisfaction, Employee Satisfaction, Productivity, Control Effectiveness, Financial Perspective, etc. . . . allowing for strategic alignment throughout the organization.

Traditionally, spreadsheets have been the most common format companies have used to display their performance measures. However, in today's world where we need something with more visual impact, the dashboard approach is very useful. As the name suggests, the measurement system functions like a car's dashboard, which has several key measures, including a gas gauge, an odometer, an oil gauge, etc. The dashboard has indicators that show a number necessary to drive the car. The number indicates that certain things in the car are functioning properly. Similarly, the 'Performance Measures Dashboard' provides organizations with the information they need to monitor progress, to know if they are headed in the right direction, to know the temperature of the organization.

The Dashboard approach has been in use since 1989. We could use it for some of the measures we noted in the Quarter 1, 1998, issue of PIVOT Palette:

Customer perspective

New products	Percent of sales from new products
Responsive supply	On time delivery
Cust. partnership	No. of cooperative engineering efforts

Or,

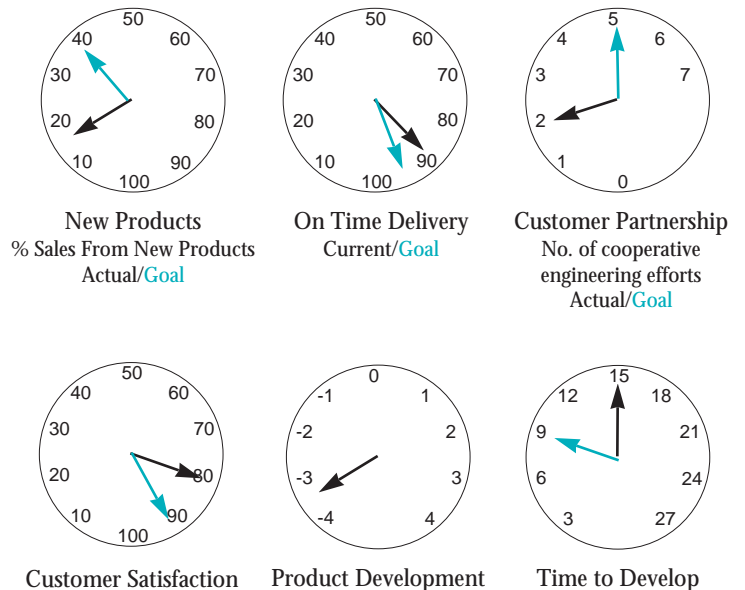
Cust. Satisfaction	Overall index
Products Development	Weeks behind/ahead
Tech. leadership	Time to develop next generation

So what are the elements of a dashboard? According to a Conference Board Report* "Case Studies in Strategic Performance Measures", 1997, the Dashboard has the following elements:

1. An index number, to represent the current situation.
2. A target index number - the desired goal.
3. Each index is calculated from a series of weighted indicators, which drill down into the company and underlie the key dashboard indicator (the underlying measures and their weights being determined by company executives).
4. Weighting may be done on an indexed scale of 1 to 100, or an alphabetic scale of A to E (or on any other type of tracking system useful to the company)
5. The framework should accommodate a situation where underlying measures can apply to more than one strategic dashboard measure.
6. The dashboard indicators may be color coded to indicate how close the actual measure is to the target goal - just as one would see in a car or a plane. For those who are technically savvy, a computerized dashboard model could be produced to enable the user to click on the prime box to uncover underlying measures.
7. The company's strategic performance measures may thus be collected continuously or on a less frequent basis.

The dashboard framework allows decision makers the opportunity to choose measures that contribute to key drivers of the company's success. It provides continuous visual feedback, and better control of key performance measures that lead to strategic achievement and to the financial measures that they currently use.

*Report may be obtained from: The Conference Board, Inc. (212) 759-0900



TPS: 'TIS THE PROCESS . . . SIMON!

A week or so ago, I heard some comments on the radio regarding the introduction of computers to children at all levels by the year 2000. The woman said that we should not introduce computers to school children until they are at least 10 years of age. By then they should have some deductive powers formed. It is true, she said, that we are impressed when we see young children navigating the internet so fast, clicking away, moving from one screen to the next, skipping between links, scanning and moving on. While they may be able to uncover a vast expanse of data from the internet search, it does not allow them to truly understand the nature of the data they have uncovered, how it got there, why is it important, etc. She said that, especially in those early formative years, it is important that they go through the learning process, instead of simply clicking on a button, exploring vast seas of data, without a clear understanding. It is very important for them to go through the *process* so that they can then create improved processes as they get to understand the fundamentals of learning and progress.

This thought struck home. Too often we have seen people seeking a result, without going through the process. They want an answer; they are not interested in how one gets there. And as we have all discovered, whether through our focus on SPC, or through the mistakes we have made because of our past focus on the end result only (ship correct parts by weeding out the defective ones, for example), if we take care of the *process by preventing defects*, we can produce far superior products and services at lower costs and higher profits. Without a clear understanding of how to get there, we would not be able to repeat the performance!

Examine why TQM and reengineering have not succeeded at many places. Companies were implementing TQM 'programs', not implementing it as a way of incorporating quality thinking throughout the organization.

Reengineering was seen as a panacea that would rid the organization of all its ailments. But when they saw the *process* they had to go through, the tremendous amount of work it

required, they concluded reengineering would not work!

We see the same thing with ISO 9000. Most organizations see it as a cost of doing business, as an exam to be passed, as a certificate to be attained and hung on the wall. Most miss the point that it is going through the *process* of creating a quality system and maintaining it that really adds value. It gets ingrained in the organization, improves communication and gives people an understanding of the processes - that is where the true benefits lie, not in the certificate alone.

Quality award programs do the same thing. Value is added by going through the *process* of preparing for the award - not just the attainment of the award.

You have heard the *KISS* principle: *Keep It Simple, Simon*. Here is a new one for you: *TPS - 'Tis the Process . . . Simon!*

Akhilesh Gulati, Partner

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