

# Customized Solutions *for* Performance Improvement

## Sustainable Profits Over Quick-Fix Solutions

BY NORMA S. SIMONS

**R**ising cost of products and services continues to put many organizations under pressure as they strive to improve efficiencies, satisfy customers and provide reliable products at competitive prices. Improving productivity and increasing quality remains a top-of-mind issue for most executives. Pressure to increase productivity has often resulted in a “quick-fix” mentality, where CEOs become addicted to the latest management fad, thinking that it will resolve the company’s problems. The focus on improving operations in some cases has been dramatic, but many companies have not been able to translate the short-term gains into sustainable profits.

The process of choosing an improvement program is arduous, and selecting one program over another does not always guarantee the optimal outcome. Business leaders need a practical framework to guide managers in using the right tools to achieve operational performance and implement the company strategy. In today’s environment, this strategy has to be more fluid and the organization needs to be wired so that it can respond faster than the competition.

Figure 1 shows a diagram connecting performance initiatives to company strategy. It is important that each company use a template enabling an understanding of the direction of the

organization, current performance and the selection of the right initiatives that drive bottom-line results. Without this template, the focus is on implementing a methodology rather than on implementing a strategy.

### STEPS TO ESTABLISH CUSTOMIZED SOLUTIONS

#### 1. Develop the strategy

Senior management develops the products and services needed for respective customers. This management strategy needs to be communicated in operational terms so that the direction of the company can be easily understood. As an example, consider a hypothetical company (Acme Corp.) that plans to increase growth of its revenues by 10% over the next three years.

#### 2. Develop Key Indicators

Key indicators developed by Acme’s top management make the strategy actionable and ensure that the direction of the business is clear. Measures selected should be leading indicators. For example, Acme Corp. develops a “dashboard” with the following indicators:

1. Reduce production cost.
2. Improve responsiveness to the customer (delivery performance).
3. Improve product quality.
4. Improve efficiency.

Selection of these indicators is based on the current performance of Acme Corp. and the areas of focus for achieving stated strategic objectives.

### 3. Identify Metrics for Business Units

Each business unit now develops concrete metrics to support the indicators. For example, the Commercial Business Unit (CBU) within Acme selected delivery performance as one of the leading indicators and found that they had an average on-time delivery performance of about 70%. The unit manager understood that this result relied heavily on use of premium freight. Other metrics monitored included customer complaints, internal rework and cycle time.

### 4. Determine Performance Gaps

Once the metrics, or scorecard, for the business unit are established, results become clear. Data demonstrate current trends and identify weaknesses. A focus on delivery performance by CBU showed that parts were sent to the shipping area late because of delays in the rework area.

### 5. Establish Priorities

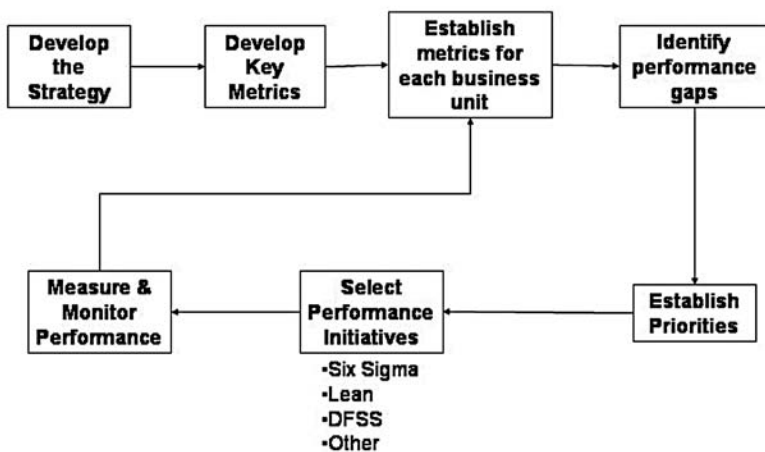
At this point, it is important to identify improvement opportunities that affect the performance gaps identified. In so doing, we ensure that the areas for focus are linked with the strategy and that the appropriate resources will be provided. For example, data show that Acme part No. 0410 had the highest number of occurrences of rework and a Pareto Chart for the causes focused on paint defects as the leading issue for rework (Fig. 2).

From this information, the CBU manager must now select an approach for improvement.

### 6. Select Performance Initiatives

Choosing the appropriate initiative requires committing time and resources, communicating to the organization what is being done and stating reasons why a particular approach was selected. Figure 3 provides a brief outline on how to select the right approach. Every organization should have a Quality Management System (QMS) in place as a foundation to ensure standardization and consistency of processes. With the QMS comes an understanding and use of process management, and requires the entire organization to become process-focused with the ability to manage processes to improve internal and external customer satisfaction. This concept provides the foundation for selecting the right initiative.

For incremental improvements, teams can work with a structured problem-solving methodology (Team Problem Solving) that provides a quick and easy approach to solving frequently occurring problems. In cases where problems are chronic, a more elaborate approach might be necessary. At this point, Six Sigma and the use of the DMAIC (Define, Measure, Analyze, Improve and Control) approach become important in being able to reduce long-term variation. In other instances, where processes need redesign because of technological changes, market shifts or more aggressive customer requirements, the Design for Six Sigma approach is used. For Acme's CBU, the DMAIC approach was used (Fig. 2).



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Fig. 1. Process for linking strategy with performance improvement

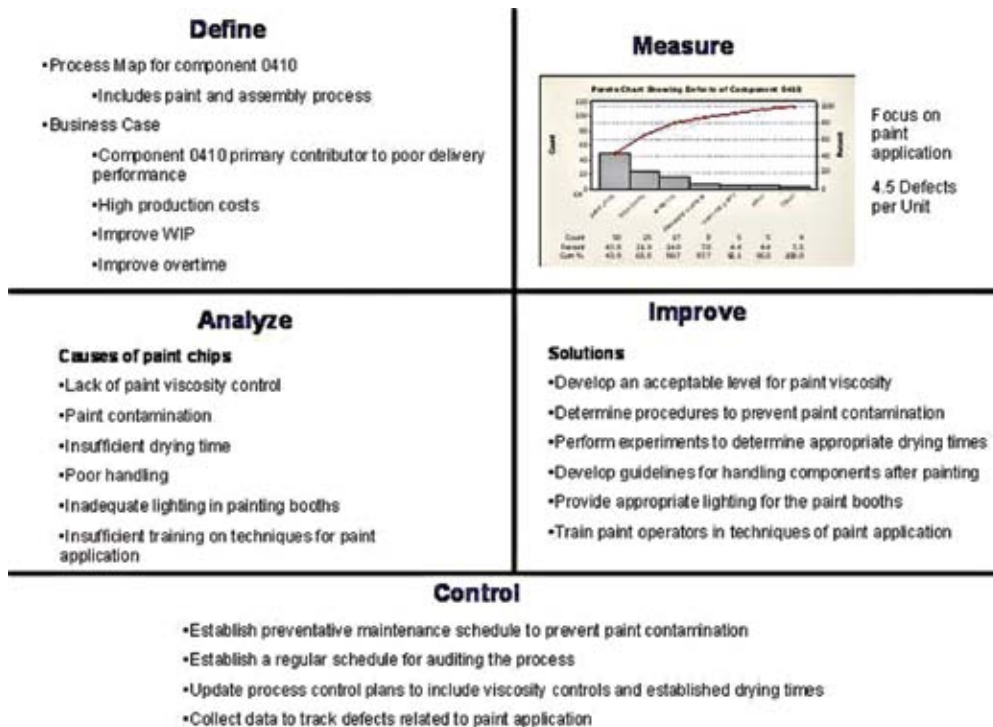


Fig. 2. DMAIC

### 7. Measure and Monitor Performance

It is important to monitor the progress of the improvement initiative at key milestones. For Six Sigma and the DMAIC phases, reviews are performed at the end of each phase. Review ensures that the project is on track and helps identify any barriers that might prevent the success of the project. This step not only keeps management informed, but also ensures that there is continuous and consistent communication throughout the company.

Once the process improvement initiative is complete, a follow-up mechanism ensures that improvement is realized and that the anticipated financial impact is realized. This requires careful evaluation of the metrics and the ability to work closely with the financial function from the beginning to ensure that the results identified concur with hard savings.

### SECURING SUSTAINABLE PROFITS

For our hypothetical CBU at Acme Corp., the Six Sigma project provided an average yearly cost savings of \$280,000. In addition, defects per unit were reduced from 4.5 to 0.4, allowing products to move faster through the assembly and paint process. Increasing the assembly rate ultimately had an impact on the on-time delivery performance of the business unit.

Process improvement initiatives may result in improved efficiencies and the elimination of waste, but may have no long-term strategic impact. Therefore, the focus needs to be on establishing a framework that requires an understanding

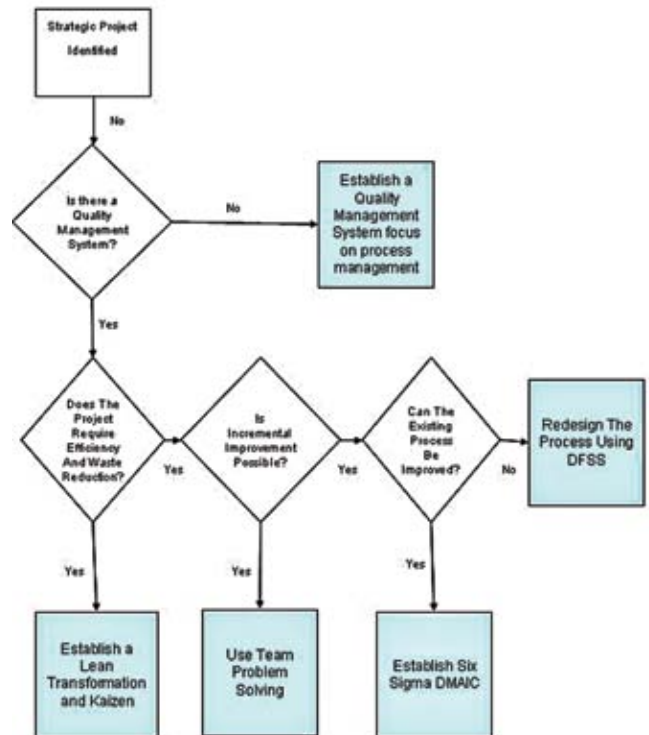


Fig. 3. Guidelines for selecting performance initiatives

of current company performance and the direction of the company. Value to the organization and the customer is then based on the ability to select an appropriate improvement method at the right time, implementing it in areas that will yield sustained bottom-line results, and ultimately contribute to the overall long-term growth of the company.



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