The Five Pillars of Organizational Excellence
Oct. 2007

Dr. H. James Harrington
CEO, Harrington Institute Inc.
Pages from Science Fiction novels are being cut and pasted into science textbooks.
Colonization of Mars

Larry Bell, Director
Sasakawa International Center for Space Architecture

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Creating Dinosaurs (DNA)
Professor B.S.W. Chang
Rockefeller University
Synthetic Humans
Sandia National Laboratories
a chip synthesize the eye’s retina
Altering Gravity (Super-Conducting Disc)

Dr. Ning Li, Researcher
University of Alabama
Teleportation
Ping Koy Lam
Australian National University
transported a beam of light
IMPOSSIBLE
Don’t just think outside of the box.

Tear down its walls!
The Wheel
Circa 3500 B.C.

imagine a breakthrough that changes
Confusion Reigns Supreme

- Philip B. Crosby’s 14 Steps
- Dr. W. Edwards Deming’s 14 Points, or new and different 14 Points of “Profound Knowledge”
- Dr. Armand V. Feigenbaum’s 10 Benchmarks for Quality Success
- Dr. Joseph M. Juran’s Step-By-Steps Improvement
- Dr. Kaoru Ishikawa’s Six Categories for Transformation
Ford Motor Company
Quality Improvement Plan

• Slogan contest - “Quality and demand go hand-in-hand”
• Poster campaign - Ford and suppliers - pride in individual performance
• Monthly quality control publications - give credit for achievements
• Plant achievement awards
Ford Motor Company
Quality Improvement Plan (cont’d)

- Statistical quality control - to get products better than the best
- Management and employee training
- Supplier improvement
- Supplier training on SPC
Why Highlight Ford’s Improvement Process?

- These were improvement activities at Ford in the late 40s, as reported in a 1950 issue of Industrial Quality Control.
Improvement is not part of the game today--it is the game.
Organizational Excellence (OE) is the process of building an organization that EXCELS!
The Pillars of Organizational Excellence

Value to all Stake Holders

Performance Excellence

Structured, Innovative Management
THE FIVE PILLARS OF ORGANIZATIONAL EXCELLENCE

Process Management Excellence

I II III IV V

Book 1 of the 5-part series

H. James Harrington, Ph.D.
Two Approaches of Process Management

- Micro-level Approach
- Macro-level Approach
Micro-level Approach

- Continuous Improvement
- Ten to fifteen percent per year
- Area Activity Analysis
What AAA Does?

- Establishes agreed to efficiency measurements
- Establishes agreed to effectiveness measurements
- Establishes 4 way communication links
- Establishes performance standards
The AAA Puzzle
The Cascading Customer/Supplier Model

- Supplier
  - Agreed-to Requirements Inputs
  - Feedback on Performance
  - Feedback on Corrective Action/Improvements

- Customer
  - Agreed-to Requirements Inputs
  - Feedback on Performance
  - Feedback on Corrective Action/Improvements

- Supplier
  - Agreed-to Requirements Inputs
  - Feedback on Performance
  - Feedback on Corrective Action/Improvements
Performance Board

New Ideas

Performance Projects

Ideas in Progress

Improvement Plans

Photo of the team

- NWT names
- Area mission statement
- Customer list
- Board posting procedure
- Letters from customers
Macro-level Approach
A real breakthrough.
Macro-level Approach

- The **Fine** Methodology
  - Phase I. Define the major processes.
  - Phase II. Confine the major process.
  - Phase III. Refine the major process.
The Five Phases of the BPI Methodology

**PASIC**

- **Phase I**
  - Plan
  - Organizing for Improvement

- **Phase II**
  - Analyze
  - Understanding the Process

- **Phase III**
  - Streamlining the Process

- **Phase IV**
  - Implementation, Measurements and Controls

- **Phase V**
  - Continuous Improvement
Process Redesign

- 80 to 100 days for the future state design
- Cost and cycle time reduction 20% to 60%
- Quality improvement 40% to 100%
- Correct answer 60% to 80% of the time
Roller Skate Redesigned
Process Reengineering

- 9 to 12 months for the future state design
- Cost and cycle time reduction 60% to 90%
- Quality improvement 20% to 100%
- Correct answer 5% to 15% of the time
Reengineering Breakthrough

![Graph showing the progression of process reengineering over time with a cycle time scale and months scale. The graph indicates a significant increase in cycle time over 36 months.]
Roller Skate Re-engineered.
Benchmarking

- Often used in conjunction with Process Redesign and Process Reengineering
- 3 to 4 months for the future state design
- Cost and cycle time reduction 20% to 50%
- Quality improvement 10% to 150%
- Correct answer 5% to 15% of the time
Three Types of Breakthrough

- Benchmarking
- Process Redesign
- Process Reengineering

Cycle Time vs. Months graph showing breakthroughs over time.
“Processes define how we operate. Projects are the way we improve processes.”
“Corporate America spends more than $275B/Yr on Application Software Development Projects, many of which will fail due to the lack of skilled Project Management.”

Standish Group International, Chaos Report
Only 26% of Projects were successful (on-time/on-budget)

40% of all IT projects fail or are cancelled

$75 billion spent by US firms on cancelled projects

26% of projects will cost 190% of their original estimate

Over 60% of the projects do not produce the projected R.O.I.

Standish Group International, Chaos report
“In a 4 year period an application development organization of 100 developers can expect to spend more than $10 million on cancelled contracts.”

That’s $25,000 per employee per year.
Careful Selection Pays Off

“Management would not approve 1/3 of the projects, if they knew how long it was going to take & how much it was going to cost.”

“The best time to stop a project that you don’t know is going to be successful is when you start it.”

John Carrow,
CEO of Unisys Corp.

Wall Street Journal
11/14/2000
“World class organizations complete nearly 90% of their projects within 10% of budget and time estimates.”

“Organizations that establish enterprise standards for project management, including a project office, cut their major project cost overruns, delays, and cancellations by 50%.”

Gartner Group, August 2000
Ten Parts of Project Management

1. Integration Management
2. Scope Management
3. Time Management
4. Cost Management
5. Quality Management
6. Human Resource Management
7. Communications Management
8. Risk Management
9. Procurement Management
10. Organizational Change Management
The Five Pillars of Organizational Excellence

Change Management Excellence

I II III IV V

Book 3 of the 5-part series

H. James Harrington, Ph.D.
More Projects fail due to lack of change management than anything else.
Change is the law of life and those who look only to the past or present are certain to miss the future.

John F. Kennedy
Change Management

“Research confirms that as much as 60% of change initiatives and other projects fail as a direct result of a fundamental inability to manage their social implications.”

Gartner Group
The Magnitude of IT Driven Change

First-Order Magnitude
- Tasks Affected

Second-Order Magnitude
- People Affected

Third-Order Magnitude
- Structure/Culture Affected

<table>
<thead>
<tr>
<th>Culture</th>
<th>Technology</th>
<th>Structure</th>
<th>Technology</th>
<th>People</th>
<th>Tasks</th>
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Source: O’Hara, Watson & Kavan
People, Process, Technology

Organizational Change Management

Organizational Alignment

People

Technology

Process
Change Disrupts Expectations

4c's

C - Competence
C - Comfort
C - Confidence
C - Control
Disruption to the 4c's Produces

- Low stability
- High stress
- Declining Productivity
- Anxiety
- Fear
- Increased conflict
Change is a Process

Three Prerequisites for Change

1. Motivation
2. Vision
3. Implementation Architecture

Current State → Transition State → Future State
Business Imperative

- Top Priority
- Sense of Urgency
- Cost of Change < Cost of Status Quo
Clarifying the Vision: Purpose

Why is this change necessary?

What's in it for me?

Why is it important to my organization?
How We Can Help

• Provide change agents
• Provide OCM training on the 54 tools
• Define change risk
• Develop change maps
• Develop change management plans
Knowledge Management

“When a person dies, a library is lost.”
Knowledge Workers

- New hires require 2.5 months to be fully effective

- Knowledge management system will reduce it by 30%

- At a loaded cost of $200,000/yr that is $12,500

- The cost to keep them current is going up 20% per year

- Fortune 500 Knowledge Deficit
  - 1999 - $12 billion
  - 2003 - $32 billion
  - 1999 - cost to provide knowledge workers was $5000 each, it is now $10,400
An organization’s intellectual capital value is often greater than its physical assets by over 200%.
Knowledge Takes Two Forms

- Tacit knowledge (Soft) – undocumented intangible factors embedded in individual experiences
- Explicit knowledge (Hard) – documented and quantified
# KM Road Map

<table>
<thead>
<tr>
<th>ACBF’s Knowledge Management Road Map</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phase 0</strong></td>
</tr>
<tr>
<td>Requirement</td>
</tr>
<tr>
<td>Definitions</td>
</tr>
<tr>
<td>Activities</td>
</tr>
<tr>
<td>3. Prepare Project Plan</td>
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</table>
Resource Management

- People
- Materials
- Money
- Time
- Space
Some of the things that need to be considered in resource management are:

- Good Governance
- Staff Resources
- Product and Service Mix
- Suppliers and Alliance Partners
- Financial Status
- R&D
Boards need to be watchdogs, not lapdogs.
RESOURCE MANAGEMENT

- Outsourcing
- Empowerment
- Training
- Activity Based Costing
- Just-in-time
- Acquisitions
- Skills Inventory
- Product Planning
- Strategic Planning
Impact of Pushing/Pulling
Organization Charts
(Old and New Look)

Hierarchical Organization Chart
(Old Look)

Upside-Down Organization Chart
(New Look)
Preferred Organizational Model

<table>
<thead>
<tr>
<th>TOP MGT</th>
<th>MIDDLE MGT</th>
<th>FIRST LEVEL MGT</th>
<th>EMPLOYEES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RESOURCES</td>
<td></td>
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<tr>
<td>EXTERNAL CUSTOMERS</td>
<td></td>
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</tr>
</tbody>
</table>
Organizational Alignment

Strategy

Rewards System

People Practices

Structure

Process & Capabilities
METHODOLOGY

Customer-Centric Chain

Culture

Competitiveness

Competency

Capability

communications
Excellence can be attained if you.

Care more than others think is wise.

Risk more than others think is safe.

Dream more than others think is practical.

Expect more than others think is possible.
Organization Excellence can be explained by focusing on any one of the five parts, but when all five become interrelated – watch out! Great things happen. Profits, market share, morale, customer satisfaction, and stock prices soar.
On Track to a Better World
Thanks for your attention. Do you have any questions?
Have a quality day with a high degree of reliability.
A real breakthrough.
The Three Purposes of Business Planning

Directions

Expectations

Actions
## Business Planning Elements and Timing

<table>
<thead>
<tr>
<th>PURPOSE</th>
<th>11 OUTPUTS</th>
<th>TIME FRAME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direction</strong></td>
<td>Visions</td>
<td>10 - 20 years</td>
</tr>
<tr>
<td></td>
<td>Mission</td>
<td>Open-ended</td>
</tr>
<tr>
<td></td>
<td>Values</td>
<td>Open-ended</td>
</tr>
<tr>
<td></td>
<td>Strategic focus</td>
<td>5 years</td>
</tr>
<tr>
<td></td>
<td>Critical success factors</td>
<td>3 years</td>
</tr>
<tr>
<td><strong>Expectations</strong></td>
<td>Business Objectives</td>
<td>5-10 years</td>
</tr>
<tr>
<td>(measurements)</td>
<td>Performance Goals</td>
<td>1-5 years</td>
</tr>
<tr>
<td><strong>Actions</strong></td>
<td>Strategies</td>
<td>1-5 years</td>
</tr>
<tr>
<td></td>
<td>Tactics</td>
<td>1-3 years</td>
</tr>
<tr>
<td></td>
<td>Budgets</td>
<td>1-3 years</td>
</tr>
<tr>
<td></td>
<td>Performance Plans</td>
<td>3-12 months</td>
</tr>
</tbody>
</table>
Typical Management Solutions Services

- Activity-based Costing
- Assessments
- Balanced Scorecard
- Benchmarking
- Business Planning
- Business Process Improvement
- Capability Maturity Model
- Capacity Building
- Change Management
- Cultural Transformation
- Funding/Grant preparation
- Governance Improvement
- ISO 9000 & 14000 Systems

- Knowledge Mgt.
- Lean Manufacturing
- Management Development
- Organizational Restructuring
- Portfolio Program Mgt.
- Project Financing
- Project Appraisal and Mgt.
- Quality Nation - Plan/Implement
- Six Sigma
- Supply Chain Mgt.
- Supplier Relations
- Total Improvement Mgt.
- Total Quality Mgt.
Four Major Objectives

1. Align the NWT’s activities and measurements

“If you tell people where to go, but not how to get there, you’ll be amazed at the results.”

General George Patton
Four Major Objectives

2. Team spirit

“As a spirit of teamwork invades the organization, employees everywhere will begin working together toward quality - no barriers, no factions, ‘all one team’ moving together in the same direction.”

Peter R. Scholtes
Four Major Objectives

3. Develop the individual

“I believe the real differences between success and failure in a corporation can very often be traced to the question of how well the organization brings out the great energies and talents of its people.”

Thomas Watson Jr., Past President of IBM
Four Major Objectives

4. Align improvement activities

“Through teamwork and group activity many of the difficult organizational problems of coordination and control can be solved.”

Douglas McGregor
“Area activity analysis has proven to be an extraordinary useful methodology for aligning work groups’ improvement activities with the needs and priorities of the organization and its customers.”

Dave Farrell
Sr. Manager,
Ernst & Young
AAA is not just for Big Companies

“The most important resource in the quest for excellence is people, and in this regard, the smaller companies play to the same set of rules.”

Donald E. Peterson
Past Chairman of the Board
Ford Motor Company
How We Can Help

• Develop Improvement plans
• Training on performance improvement tools
• Run improvement projects
• Install ISO projects
• Run BPI projects
• Improve Suppliers
• Set up process controls
• Set up measurement systems (KPI’s )
• ECT.
Typical Projects

- Process Reengineering
- Process Redesign
- New Information Technology
- Market Analysis
- Alliance Partnership
- Customer Future Needs Analysis
- Construction of buildings and roads
Executives

Real-time portfolio analysis

High Impact Variance & Exception Reporting

Balance resource supply & demand

Support the decision-making process

Evaluate and track performance across the portfolio

The PMOffice Advantage
Execs want to know:

- Schedule / actual
- Budget / actual costs
- Issue
- Quality
- Changes, issues
- Budget / actual
- Demand / supply
- Utilization
- Productivity
- Turnover rate

Strong execution is established through strong internal controls including: Billable head count, bill rates, time and materials, fix priced contracts, utilization, turnover...
How we help

- Train on the 75 project management tools
- Certify Project managers
- Provide Project Managers
- Set up and run project offices
The Change Management System

• Defining what will change.
• Defining how to change.
• Making the change happen.
The Emotional Response to a Positively Perceived Change

I. Uninformed Optimism (certain)

II. Informed Pessimism (doubt)

III. Hopeful Realism (hope)

IV. Informed Optimism (confidence)

V. Completion (satisfaction)

Checking Out
The Emotional Response to a Negatively Perceived Change

- Stability
- Immobilization
- Denial
- Anger
- Bargaining
- Depression
- Testing
- Acceptance

Time

Active

Edited from E.K. Ross
“High levels of knowledge earnings tend to be more strongly associated with market returns than either cash flow or net earnings…”

Professor Baruch Lev, Credit Suisse Asset Management
How Can We Help

• Install KMS
• Set up Communities of practice
• Design a plan to convert the organization from a Knowledge hoarding to a knowledge sharing Org.
Satisfying Employee Needs

- **Social Needs** -- These needs are satisfied by management contact, public recognition, demonstrated interest in the individual and his or her career and personal life.

- **Technical Needs** -- The skills required to perform a given task.
Types of People

1. **Planners** -- People that excel in taking an idea and laying out an approach to implement it.

2. **Networkers** -- People that establish excellent communication systems between groups.

3. **Doers** -- People that take a plan and implement it. They make things happen.

4. **Leaders** -- People that, through their charisma, appearance, or example, attract others to them.
<table>
<thead>
<tr>
<th>Personality Traits</th>
<th>Planner</th>
<th>Networker</th>
<th>Doer</th>
<th>Leader</th>
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<tbody>
<tr>
<td>Planner</td>
<td>Outstanding</td>
<td>Very poor</td>
<td>Good</td>
<td>Poor</td>
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<tr>
<td>Networker</td>
<td>Very poor</td>
<td>Outstanding</td>
<td>Poor</td>
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<tr>
<td>Doer</td>
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<td>Poor</td>
<td>Outstanding</td>
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<td>Lender</td>
<td>Very poor</td>
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<td>Outstanding</td>
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# Management Support Required vs. Job Performance Level

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<tr>
<th></th>
<th>Coach</th>
<th>Teacher</th>
<th>Boss</th>
<th>Leader</th>
<th>Friend</th>
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<td>Management Support</td>
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<td>Required</td>
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<td>Less than average</td>
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</tbody>
</table>

- **O** = Social support
- **X** = Technical support
- **X** = Social support
- **O** = Technical support

**Job Performance Level**
- **Does not meet req.**
- **Meets min. req.**
- **Meets req.**
- **Exceeds req. at times**
- **Always exceeds req.**
How Can We Help

- Org. Alignment
- Strategy Planning
- Process Design
- People Practices
- Rewards systems
- Employee development
- Outsourcing
- Ect..
Harrington’s 5 Rules

Rule 1
The 5 Top Priorities are the Customer, the Customer, the Customer, the Customer, and the Customer.
Harrington’s 5 Rules

Rule 2

The 5 Keys to Profit are Quality, Quality, Quality, Quality, and Quality.
Harrington’s 5 Rules

Rule 3

The Steps to Competitiveness are:

1. Provide the Customer with Output that Exceeds His Expectations
Harrington’s 5 Rules

Rule 3

The Steps to Competitiveness are:

2. Go Back to Step 1 but do it Better
Harrington’s 5 Rules

Rule 4

Leaders Work on the Process.
Employees Work within the Process.
Harrington’s 5 Rules

Rule 5

Be Better Today than You were Yesterday and Better Tomorrow than You were Today.
The Process Picture

Supplier
- Process
  - Add Value
  - Prevent Errors
  - Identify Errors
  - Correct Errors

Customer
- Measurement System
- Feedback
- Requirements
- Input

Feedback
- Requirements
- Output

Measurement System
- Feedback
- Requirements
Process Management

Typical Tools/Approaches

- Process Qualification
- Process Controls
- Problem Solving
- Six Sigma
- Continuous Flow
- TQM
- Natural Work Teams
- Process Reengineering
- ISO 9000/14000
- Information Systems
- TIM
- Process Redesign