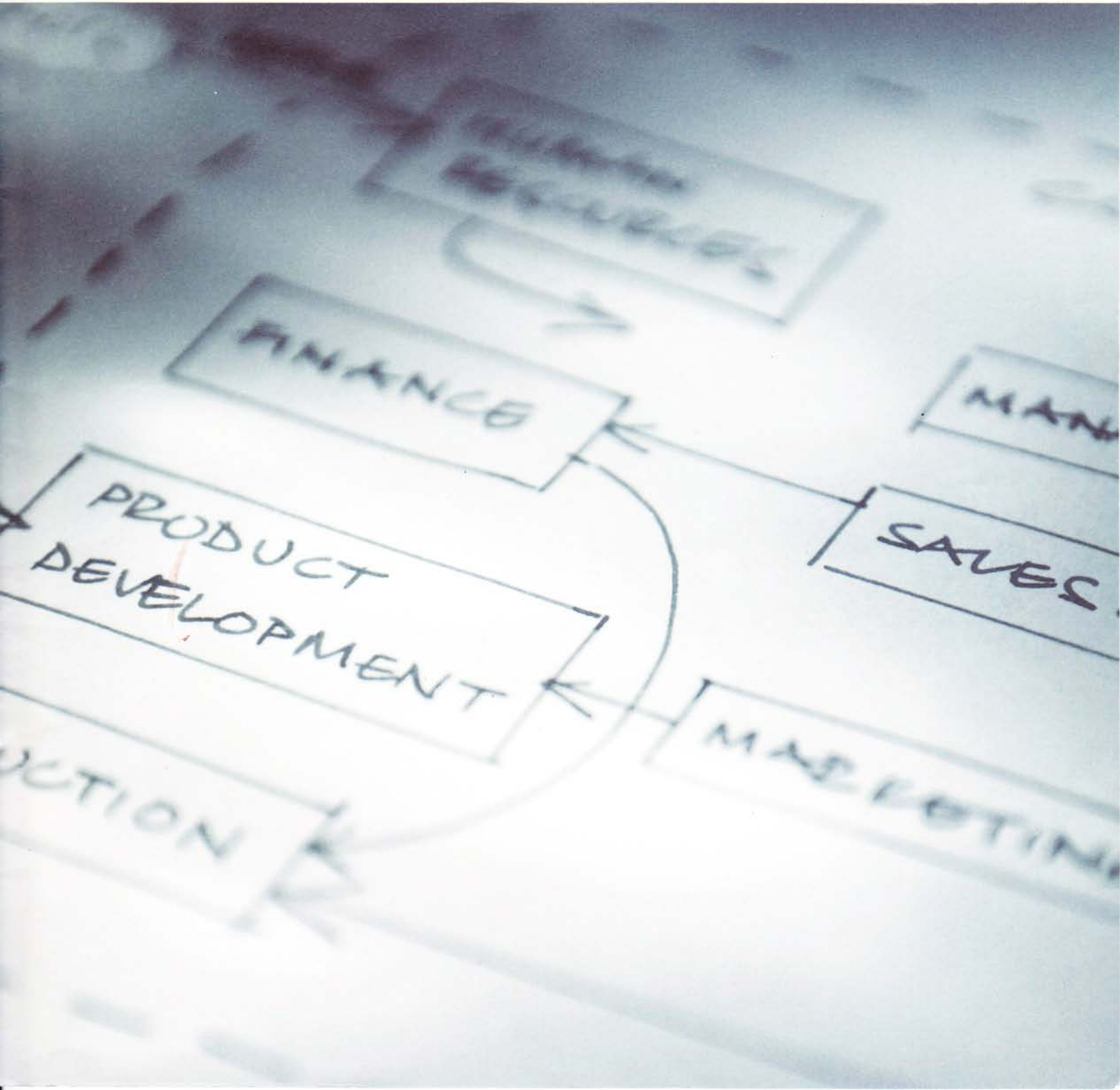




RESEARCH REPORT

# A Leadership Prescription for the Future of Quality

A Report from The Conference Board Quality Council



## The Conference Board Mission

**The Conference Board** creates and disseminates knowledge about management and the marketplace to help businesses strengthen their performance and better serve society.

Working as a global, independent membership organization in the public interest, we conduct research, convene conferences, make forecasts, assess trends, publish information and analysis, and bring executives together to learn from one another.

The Conference Board is a not-for-profit organization and holds 501 (c) (3) tax-exempt status in the United States.

## Trusted Insights for Business Worldwide

Drawing on both our own economic and management expertise and the hard-won insights and wisdom of our members, The Conference Board offers a unique forum for addressing today's most pressing business issues. Our cross-functional approach and global reach provide our network of leading executives with an enterprise-wide perspective on the challenges they face in their organizations, their markets, and their communities.

Leadership & Strategy

Governance & Ethics

Citizenship & Sustainability

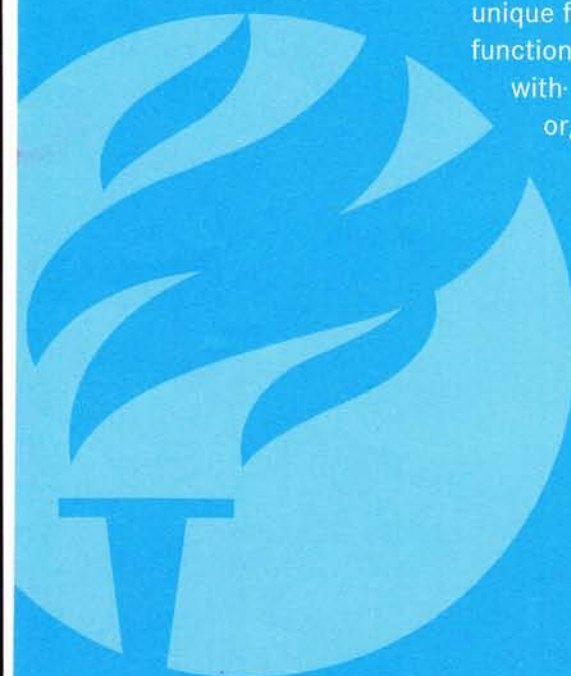
Economics & Finance

Human Resources, Talent  
Management & Diversity

Operations & Business Processes

Marketing & Communications

For more information visit [www.conference-board.org](http://www.conference-board.org)



# A Leadership Prescription for the Future of Quality

A Report from The Conference Board Quality Council

RESEARCH REPORT 1443

by Toddi Gutner with Mike Adams



## Contents

4	<b>Key Findings</b>
5	<b>Summary: The Importance of Quality across the Organization</b>
5	Having an Impact in Recessionary Times
9	<b>The Quality Quandary</b>
12	<b>Key Trends: Transforming the Future of Quality</b>
12	Globalization
13	Customer Sophistication
13	Talent Management and Leadership Issues: Knowledge Transfer is Critical
15	Environmental Concerns and Social Responsibility
16	<b>How Quality Leaders Meet CEO Challenges</b>
18	<b>Strengthening Quality Practices to Meet Emerging Trends</b>
18	Commit to Strengthen and Build Customer Intelligence
18	Improve Operational Excellence and Speed to Market
18	Build the Next Generation of Customer Advocates
21	<b>The Quality Professional as a Business Leader</b>
21	Become a Catalyst for Change
21	Facilitate Change Management
21	Adopt New Skills
23	<b>Conclusion</b>
23	Glossary of Terms
24	About this Report
24	About the Author
25	The Quality Council
26	Appendix: Survey Results
29	Appendix Table 1: Practices Used To Address Challenges
30	Appendix Table 2: Future Intent with Quality Practices

## Key Findings

- Once a critical part of the manufacturing process for more than three decades and transactional processes for two decades, practitioners believe the quality function is now at a crossroads.
- The role of the quality officer is evolving. While many still see their role as one of cost reduction by implementing defect and waste reduction strategies and continuous improvement efforts around satisfying customers, a growing number view themselves as more of a macro-leader, directly connecting their quality practices to business trends and top-line growth. They can be revenue-generators and revenue protectors, as well as cost-cutters—vital roles in holding the line in a down economy while positioning the organization to take advantage of growth opportunities during a recovery.
- Many companies have already moved the quality professional from the back end of managing the production process to the front end including understanding the customer. This is especially true in the services sector.
- While trends of globalization, customer sophistication, talent, and environmental concerns greatly affect the economy, quality practitioners and CEOs surveyed recognize that global economic trends and financial risks add to their views of major challenges which include profitable growth, excellence in execution, customer loyalty and retention, and top-line growth.
- Quality professionals today must commit to strengthen and build customer intelligence, improve operational excellence, systems thinking, and speed to market, and build the next generation of customer advocates. To address these challenges, that are even more critical in a downturn, practitioners need to better use established tools and techniques.
- Today's quality leader needs to avoid these common pitfalls:
  - Emphasizing process over results
  - Misaligning limited resources by working on lower-value items
  - Diluting key measures that drive action aligned to bottom-line results
  - Implementing measures that drive conflicting or bad behavior
  - Delegating quality leadership to departments, leading to lack of responsibility
  - Acting as if quality is a destination rather than a sustaining, cultural norm
  - Dismissing past knowledge versus evolving lessons learned into continuous improvement
  - Deploying quality without context and expectations

## Summary: The Importance of Quality across the Organization

### Having an Impact in Recessionary Times

What if, with relative minimal investment, your company was able to save between 20 and 30 cents of every dollar it earns or increase revenues or market share by like proportions? This isn't a rhetorical question, but rather the quality leader's job. By eliminating waste—the ineffective and inefficient use of any resource, physical or human—companies save money and improve their bottom line. From quality practices, companies understand what the customer wants and in some cases, anticipate what the customer will want in the future. From that understanding, innovation is born. These are desirable goals of all C-suite executives and stakeholders, especially in a down economy.

U.S. corporations realized these goals when they embraced the teachings and tenets of quality leaders in the 1980s. It was impossible to deny the impressive growth and sustainable success of the Japanese companies that had eagerly instituted quality practices, most notably, in the automobile industry where U.S. companies are faced again with cost and quality issues, if not outright survival, today. With the birth of the Malcolm Baldrige Quality Award in 1987, launched to showcase the best of American management practices, it seemed that the pursuit of quality and its practices had secured a place of merit within corporate America. For a while, the focus of the quality leader and the strategic needs of the business were one and the same: To improve the quality of the enterprise through improved management.

Fast forward twenty-plus years. The dot-com boom, acceleration of technology applications, and double digit growth in the new millennium provided distractions that took the emphasis off the impact of quality to keep pace with market demands. Even though the importance of quality cannot be denied—without it a company cannot remain competitive—there are several trends that are forcing quality practitioners to once again redefine and communicate their value to the business world.

Perhaps most striking is that today, it is no longer enough to have a perfect product or service. "It is an assumed requirement for success in the marketplace," says Paul E. Borawski, executive director and chief strategy officer of the American Society for Quality (ASQ). What seems to have happened is that quality is so believed to be embedded in corporate processes that, in some cases, it is taken for granted. But the reality is that perfect or near-perfect quality doesn't happen by accident. Instead, companies use complex systems, processes, standards, and continuous improvement tools to achieve their quality goals. It is critical that short-term cost cutting and the dynamics of the economy not divert attention from the contribution that the quality function makes to the long-term sustainability and competitiveness of the organization.

These processes and practices that define the quality professional's role—focusing on the customer, implementing operational effectiveness, and integrating organizational and personal learning into the company's agenda—haven't changed, says Harry Hertz, the director of the Baldrige National Quality Program, an educational outreach program with a presidential award to recognize outstanding achievement. In fact these processes have become more critical in a challenging economic environment.

What else has remained constant are the tools which worked effectively to help U.S. companies regain their competitive edge in the 1980s. Indeed, Philip B. Crosby's mantra "do it right the first time," Joseph M. Juran's quality trilogy of planning, improvement, and control, W. Edwards Deming's 14-point strategy and problem-solving methodologies (including Six Sigma methods) to reduce defects, waste, costs, and more strongly align to the customers' requirements are still the cornerstone of quality fundamentals today.

Unfortunately some corporate leaders may not be as familiar or experienced with quality metrics and strategies, or worse, having had a negative experience, may not fully appreciate what goes into systematically achieving and maintaining defect-free products and services and enterprise improvement. Consequently, senior executives may not fully appreciate what a quality leader does or how that person can help improve a company's top-line growth and profitability and better position it to seize opportunities during an economic recovery. Unlike the 1980s, when business leaders were hungry for all things quality-related to reduce waste, cut costs, and improve products and customer satisfaction, today's business leaders need convincing. "Some unfavorable impressions today are tied to failures around *how* quality practices were *deployed*, for example, teaching quality tools for tools' sake, rather than the purposeful and timely application of the practices with clear expectations to deliver business results," says Mike Adams, Vice President, Quality for Allegheny Energy, Inc.

Add to that the increased complexity of options quality professionals implement. With nearly 60 years of history and experience, complete with a multitude of different practices from benchmarking and process analysis to re-engineering, change management, and various Six Sigma and problem-solving approaches, it is incredibly challenging for the C-suite executives to stay current and apply these practices collectively as a team. While staying current is challenging enough in their respective functions, the CEO, CFO, CIO, CTO, et al, can accommodate changes due to shifting markets, globalization, and M & A activity by drawing on the skills sets from the quality practitioners for continuity and prioritization.

Even while the fundamentals and foundation of quality remain the same, the environment in which it needs to be implemented has dramatically changed. The world is transforming at a rapidly accelerating pace and the economic environment in 2009 and beyond demands greater agility and speed to market—two factors that speak directly to the role of the quality executive. Take for example, Samsung, which, according to ASQ's Borawski, says that an average product life cycle is now six months. When a product is obsolete in six months, that doesn't leave much time for quality's continuous improvement processes.

### W. Edwards Deming's 14-Point Strategy and Problem-Solving Methodologies

1. Create constancy of purpose toward improvement of product and service.
2. Adopt the new philosophy. Management must awaken to the challenge, must learn their responsibilities, and take on leadership for change.
3. Cease dependence on inspection to achieve quality.
4. End the practice of awarding business on the basis of price tag.
5. Improve constantly and forever the system of production and service, to improve quality and productivity, and thus constantly decrease costs.
6. Institute training on the job.
7. Institute leadership. The aim of supervision should be to help people and machines and gadgets to do a better job.
8. Drive out fear, so that everyone may work effectively for the company.
9. Break down barriers between departments.
10. Eliminate slogans, exhortations, and targets for the work force asking for zero defects and new levels of productivity. Such exhortations only create adversarial relationships.
11. Remove barriers that rob the hourly worker of his right to pride of workmanship.
12. Remove barriers that rob people in management and in engineering of their right to pride of workmanship.
13. Institute a vigorous program of education and self-improvement.
14. Put everybody in the company to work to accomplish the transformation.

Additional challenges facing the quality professional today also come from the impact of four primary trends that affect our economy now and in the future as identified by The Conference Board's Quality Council. These are:

- Globalization
- Customer sophistication
- Talent management and leadership issues
- Environmental concerns and social responsibility

The Quality Council members also revealed in a survey accompanying this report that profitable growth, excellence in execution, customer loyalty and retention, and sustained top-line growth are the major concerns that their CEOs find most pressing.

The ability to address and adapt to those primary trends affecting the economy, as well as showing C-suite executives how the quality tools can be used to address their own concerns and challenges, will mark how well quality leaders will be able to continue to make themselves relevant in the future. One might consider the quality profession at a watershed of sorts.

## Survey Highlights: Emerging Trends

In March 2008, The Quality Council surveyed its members on issues relating to the future of quality in corporate America (see Appendix I for survey results). A number of quality industry trends became apparent.

- Perhaps most telling is the Council's response to the current state of the quality function within the organization. Survey results show that in most cases quality is only "somewhat aligned and influential" when addressing business challenges. This highlights the gap between what quality professionals think they can offer the C-suite and what the C-suite expects of them. Clearly, there is room for improvement.
- Of the 35 quality practices identified in the survey, Council members cited most frequently that lean manufacturing tools and techniques will be "accelerated" in the next five to 10 years. Why? To help companies grow in an increasingly globally

In order to respond effectively to such forces of change facing our economy and address the concerns of the C-suite, quality professionals must use their established tools and techniques to meet the following challenges. They need to:

- **Commit to strengthen and build customer intelligence:** Accelerated product obsolescence and more sophisticated consumers make it imperative that companies know what their customer wants with increased speed and accuracy.
- **Improve operational excellence and speed to market:** There was a time that a low-cost product or service was enough for the consumer. Not anymore. Today products and services have to be better, less expensive, and brought to market faster than ever before.
- **Build the next generation of customer advocates:** Companies must focus on engaging the consumer to maintain and increase their loyalty. In a global economy, this requires more emphasis on systems thinking.

Not only must the profession itself adapt, but the quality leader must also change to become a more strategic thinker, skilled in new competencies to address these challenges. To be sure, the quality professional today must "get beyond the tools and become engaged in what is strategically important to the business," says Hertz.

competitive environment, it is more important than ever to minimize waste and maximize the opportunities for flawless execution. Lean tools are used to increase speed and eliminate non-value-added work.

- With regard to the effectiveness of quality practices, the majority of 24 practices identified in the survey that professionals use are considered "extremely effective" or "very effective." With the focus on understanding the voice of the customer, it is no surprise that customer surveys topped the list as an "extremely effective" practice. Interestingly, the Council also noted that linking quality to compensation is "very effective." While customer relationships are an important aspect of the quality discipline, they are a support activity for customer loyalty—the key to protected revenue streams. To that end, it is measurable and effective to tie quality to compensation.

“The only way to bring the talent and the expertise that the quality professions offer and to get the light [and recognition] they deserve is to step out of the quality straight jacket, take a much more holistic view and become engaged in the strategic decision-making process of the business,” adds Hertz.

While some quality leaders would rather not venture out into the challenges that line managers face, it may be that the future of these professionals lies with their own enhanced training and development. “They need to broaden their education and develop themselves in strategic planning,” says Hertz. There is no specific “quality” degree or specialty training similar to that found in other disciplines such as accounting, finance, marketing, or strategic decision making taught through some MBA courses.

#### Quality leaders today must:

- Be a catalyst for change
- Facilitate change management
- Adopt new skills such as:
  - Understanding how all pieces and processes fit together (Cycle time to improvement; overall systems thinking.)
  - Ensuring that business planning is tied to the company’s bottom line

It is the hope of the Quality Council that the thoughts outlined in this paper address the pressing questions of what is the future of quality and how quality leaders can best adapt to meet that vision.



## The Quality Quandary

Quality professionals believe that many, if not most CEOs, think quality is unprepared to adapt to new business and rapid change. The problem: This is only the perception—not the reality. Indeed, examples abound of the profit and sustainable growth companies have enjoyed as a result of effectively implementing different quality practices.

But what fuels that negative perception are the failures and missteps from years past. Many up and coming C-suite leaders will mention previous quality programs that may have been badly designed or implemented and point to them when faced with an opportunity to discuss quality as a useful business planning tool. Take Six Sigma training, for example. “When you train lots of people with green and black belts but the reason for doing it isn’t tied to what is strategically important to the business,” then you have a disconnect, says Baldrige’s Hertz.

These negative perceptions are tough to dislodge. There is also the lack of role clarity and the difficulty in understanding what a quality professional actually does at a company that is a challenge for the profession as well.

### Renewing Total Quality at Corning

Corning Incorporated, a \$6.2 billion specialty glass and ceramic company, would not have successfully turned itself around after the 2001 fallout of the fiber optic market without aligning its employees and quality program to the corporate operating priorities. Corning Incorporated experienced a fiber market that saw prices fall more than 50 percent and orders for optical components out of Corning’s photonics division drop 90 percent.

With the return of Jamie Houghton as CEO in April 2002, and subsequently, Wendell Weeks in 2005, the company embarked on a renewal of their 25-year-old Total Quality program. In 2003, the Performance Excellence program was launched as a means of putting “Quality in Action.” The renewed approach aligns improvement and innovation methods directly with the strategic needs of the businesses, while positioning employees and teams to achieve global operational excellence. This way of working tied the quality strategy and tools to the company’s financial objectives.

Another issue makes it tough to position the quality leader for the future; how quality professionals see their own role within the organization. Some see their job as implementing defect and waste reduction strategies, and some quality assurance and process improvement programs, among other more micro-type cost-focused tasks.

Yet a whole host of other quality experts see themselves in more of a macro-leader role. They work directly to connect their quality practices to business trends and top-line growth. “We make the connection with the CEO that we as quality professionals are also business people. We are not only a resource to reduce waste, but one that can also help with balancing cost and quality results and better align efforts to overall business performance, says Allegheny Energy’s Adams.

Throughout Corning’s 50 plants, Performance Excellence drove cost reduction improvements. At one optical fiber plant in Wilmington, NC, one process decreased its downtime by 90 percent, reducing costs nearly \$1 million. In 2007, Corning delivered total cost savings of \$215 million, or more than 3.5 percent of the total revenues. Gross margin hit a record high at 52 percent in Q1 2008, up from 19 percent in 2002 and the company reported record earnings per share of \$1.41. “Quality is not just a mechanism of practices and tools, but a powerful system in which a company can leverage through leadership setting stretch expectations,” says Don McCabe, Senior VP Manufacturing & Performance Excellence.

To be sure, quality has moved upstream from products and services to become an expected part of the customer experience, the overall company, and finally, the community. In the 1950s, the implementation of quality metrics solely targeted the manufacturing processes such as those in the auto industry. By the 1980s and 1990s, those quality practices had moved into the services sectors such as education and healthcare. It is not necessary to differentiate the role of quality in manufacturing and the role of quality in the service industries. The tools and techniques have the same intent but how and when you use them vary based on industry and sector. The practices used are dependent on the business priorities.

Increasingly, the quality function began bumping up against the marketing function and customer relationship management. Good quality became what the customer says it is and not just about a defect-free product. "Quality turned from defect-free to customer focus," says Borawski of ASQ. So instead of being stuck in the back of the manufacturing process, quality professionals began to use customer and employee surveys and focus groups to get close to the voice of the customer. These tools and techniques grew in importance with the shift toward customer focus.

## Mayo Clinic: Saving Lives, Improving Performance

Mayo Clinic started training its staff in the Total Quality Management (TQM) practices of Juran in 1991. "Four years ago leadership began a major effort to refresh and bolster our quality activities, with a portfolio of four energy vectors focused on high reliability: Infrastructure, Culture, Engineering and Execution," says Dr. Stephen J. Swensen, Mayo Clinic's Director for Quality.

One engineering effort, for example, was chartered to expedite the treatment of heart attack patients who are best treated with the life-saving intervention of balloon dilatation of the blocked artery to the heart. The process streamlining involved coordination of care between eight different departments and work groups. Door-to-balloon time is the time from patient arrival at the emergency room door to when the balloon is inserted in the artery. During this time the heart attack must be diagnosed with an electrocardiogram and blood work, the expert cardiac team assembled in the hospital, the patient transported, etc.

The goal is to reduce the door-to-balloon time as much as possible because for every 30 minutes of elapsed time before a cardiologist can perform the procedure, the death rate rises approximately 8 percent.

Using Lean and Six Sigma engineering tools, Mayo Clinic was able to reduce the door-to-balloon time substantially, to an average of less than 50 minutes. This was, in part, accomplished by decreasing the number of steps in the process from twelve to four. In U.S. hospitals, only 63 percent of patients have door-to-balloon times of 90 minutes or less.\* In 2007 another team successfully worked to spread this best practice throughout Mayo Clinic (which includes 22 hospitals in five states). "This is an iron clad case of where a systematic approach to improving quality practices makes a difference in performance and saves lives," says Dr. Swensen.

\* Nestle, DM, LH Haro, LG Stead et al: Achieving Door-to-Balloon Times of 90 Minutes or Less for ST-Elevation Myocardial Infarction: It Can Be Done! *Annals of Emergency Medicine*, Volume 52, Issue 4, Supplement 1, October 2008, Page S133.

More recently, quality has become a significant factor in companies that focus on customer experience such as the Ritz-Carlton Hotel Company and Starbucks. Many companies, like Allegheny Energy and Milliken & Co. have elevated the role of quality throughout the company.

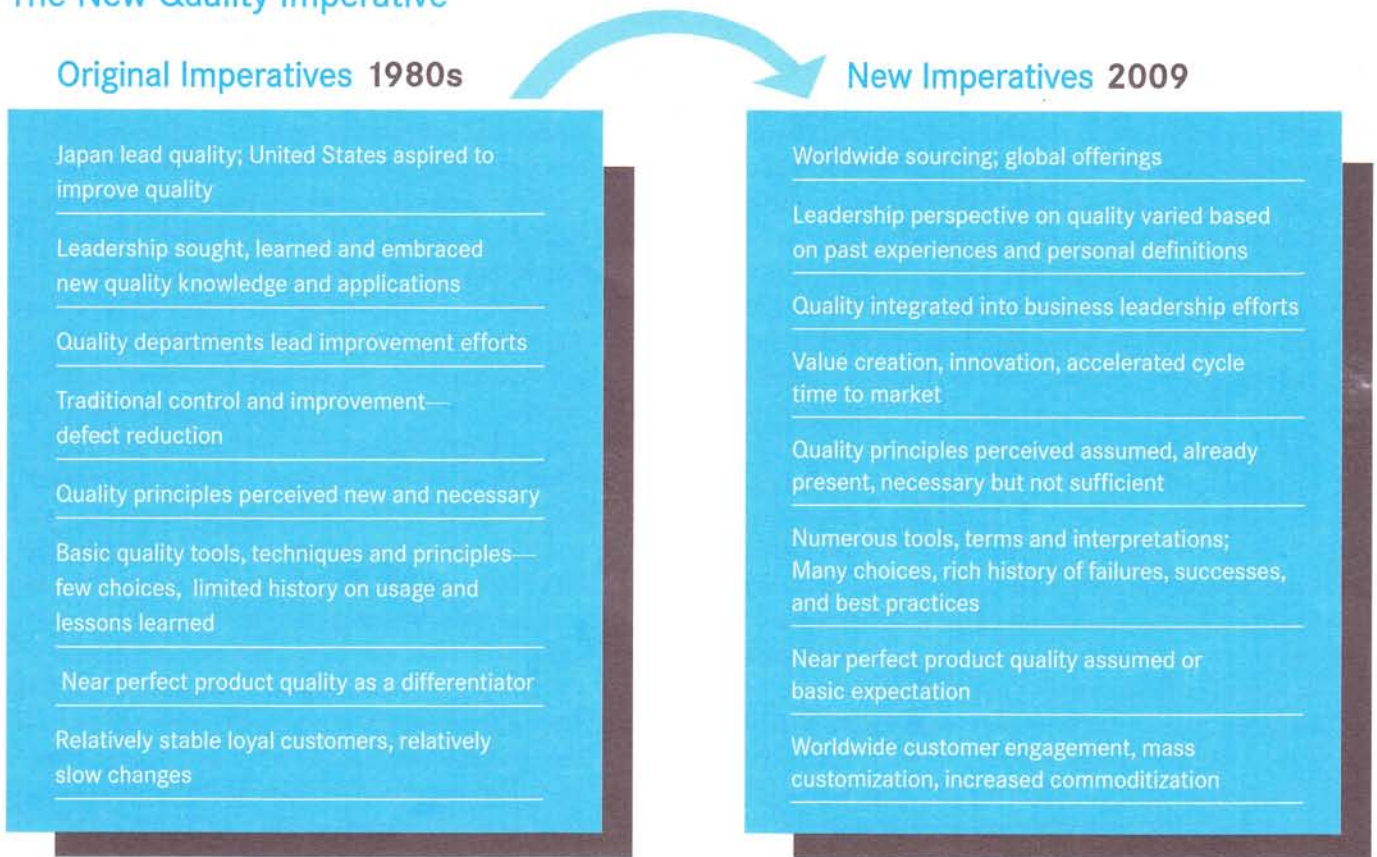
With negative perceptions, fuzziness of the job specifications, disparity in the expectations of the quality

professional, and the shift of quality practices moving up through the company, is it any wonder that the quality discussion has slipped from the corporate agenda over the last 20 years?

There is a new imperative that quality professionals and the C-suite must recognize to ensure the relevancy of the profession in the coming years.

Table 1

## The New Quality Imperative



Source: Mike Adams, Vice President Quality, Allegheny Energy, Inc.

## Key Trends: Transforming the Future of Quality

Quality's new dimension requires professionals to go beyond the core skills and practices that were used in the 1980s. They must develop and better use more strategic-thinking skills to adapt to the four key forces of change that are influencing organizational strategies and business results. These trends are:

- Globalization<sup>1</sup>
- Customer sophistication
- Talent management and leadership issues
- Environmental concerns and social responsibility

Identified by The Conference Board Quality Council, these trends effectively mirror the seven forces of change that are shaping the future of quality as reported in the 2008 ASQ Futures Study. Interestingly, similar to those defined by the Quality Council, all are examples of forces or trends that are outside the organization or company:

- 1) Globalization, 2) Social Responsibility, 3) New Dimensions for Quality, 4) Aging Population, 5) Healthcare, 6) Environmental Concern, and 7) 21<sup>st</sup> Century Technology.

### Globalization

The 2008 ASQ Future Study reports that globalization "dominates the future of quality and is the only force that has been listed on each of the previous four ASQ Futures Studies (1996, 1999, 2001, 2005).<sup>2</sup> Globalization touches every corner of the business world and has far-reaching implications for the quality professional who must manage increasingly global and complex platforms.

It wasn't long ago when companies were vertically integrated to make their products. In this scenario, production materials and talent were location dependent. Factories were located in close proximity to raw materials and the labor force that could operate the machines in the factories. Not anymore. Now, both are sourced on cost effectiveness and increasingly less location dependent. And consumers, once limited to buying from local sources, use the Internet to purchase products and services that best meet their needs.

Of course, managing quality on a global scale means creating new processes and programs to manage every aspect of global production. For example, managing a furniture manufacturing plant in a Chinese province and staffing it with people indigenous to that region will be much more culturally complicated for a U.S. company than if the plant were located in North Carolina.

Not only will the people management aspect be far different but the way in which things are done will differ dramatically. How will decisions be made? Locally or central to U.S. headquarters? What about the quality standards of the inputs that go into the product? Will they meet U.S. or Chinese standards of quality? Does the company train Chinese managers with U.S. strategies? What about the cultural differences between the two nationalities working together?

Of course, none of these questions are new. But, as the world flattens and more consumption comes from the emerging markets outside the United States and Western Europe, globalization requires quality professionals to think in a more innovative and collaborative way.

To survive, much less thrive in this global economy where information travels at lightning speed and consumers increasingly demand more internal and external corporate transparency, collaborative innovation becomes especially critical.

<sup>1</sup> *CEO Challenge 2008: Top 10 Challenges - Financial Crisis Edition*, The Conference Board, Research Report R-1440-08-RR, November 2008. The report features an analysis of the matched sample of responses of 190 CEOs, chairmen, and company presidents who participated in The Conference Board CEO Challenge 2008 survey fielded in July and August, and then took the time to fill out the survey a second time in October, following the recent economic downfall emanating from Wall Street. Global economic performance and financial risk including liquidity, volatility, and credit risk were the fourth and fifth most pressing concerns in the October survey, but were not in the Top 10 list of concerns in the summer survey.

<sup>2</sup> *The 2008 ASQ Futures Study, The Seven Forces of Change Shaping the Future of Quality*, The American Society for Quality. Available at [www.asq.org/knowledge-center/2008-futures-study](http://www.asq.org/knowledge-center/2008-futures-study)

In response, “quality leaders must expand the notion of management systems to include global supplier networks,” says Borawski of ASQ. He also suggests that U.S. companies need to become more open-minded about integrating new ideas. “We think that because we do things a certain way and it is good for us, then it must be good for the rest of the world,” he says. And that isn’t always the case. Quality professionals must also create standardized approaches that have cultural flexibilities built into them. In these ways, the quality leader can add value in the global company and economy. And quality professionals need to keep open minds for innovations that can, and will, surface anywhere in the world.

### Customer Sophistication

Quality professionals are uniquely poised to take advantage of the increasing consumer expectations that require near perfect quality as the minimum entry point into the marketplace for any product or service. Why? Because understanding who the customer is and what he or she wants is an area of expertise in which quality leaders are already skilled and can easily provide to top company executives. Quality tools such as benchmarking, quality function deployment, and customer surveys are readily available and get the information that companies need to stay close to their consumers.

In fact, many companies, such as the Ritz-Carlton Hotel Company, have moved the quality professional from the back end of managing production processes to the front end of understanding the customer and then designing and providing a unique consumer experience. It is that custom-built, one-of-a-kind experience that will reign supreme in the marketplace and provide the experience differentiation that will instill brand loyalty among customers.

### Talent Management and Leadership Issues: Knowledge Transfer is Critical

Baby boomers aren’t going anywhere soon, but they are aging. Currently, one-quarter of older adults aged 60 and up are in the labor force and that percentage is only expected to rise, according to the American Council on Education.

But the aging population isn’t just a U.S. phenomenon; it is taking place in such diverse geographies as Europe and Asia as well. That means up-and-coming leadership talent worldwide will likely be in short supply and a battle for the best and the brightest will continue.

So what is the connection between talent management and leadership issues to the quality function’s role? One critical aspect is knowledge transfer within an organization. While the knowledge of individuals on the job is essential to get the work done most companies still have no plan for the management and transfer of knowledge, and even fewer factor cross-generational challenges into business strategy.<sup>3</sup> The best way to efficiently transfer knowledge is by developing effective knowledge transfer processes—a quality professional’s expertise.

In organizations, effective and sustainable knowledge transfer is complex, and involves the development of continuous and dynamic processes. It is imperative to make knowledge reside in the process and not in a single person. To that end, it is incumbent upon the organization to insure that the institutional memory, the experience and knowledge of longtime executives that is unique to an organization is effectively transferred to the new leaders. Not all knowledge, of course, has equal value, so it is also critical to understand exactly what information needs to be imparted. For the first time in history, four generations are working side by side in organizations. How exactly does this play out?

Consider the email etiquette between a leading baby boomer (60-plus) and a Gen Yer (born after 1980). The former carefully constructs a polite message complete with proper introduction and salutation while the latter often uses phrases such as “C U later” to convey his or her salutation with equally cryptic words throughout the message. This difference in the way employees communicate as well as the way in which they work—Gen Yers don’t necessarily value where work is done, only that it gets done—raises significant quality control issues. Quality professionals need to help provide answers to questions such as: How can quality processes and metrics be implemented and employees fully engaged among a far-flung workforce with many individuals in a location of their own choice?

<sup>3</sup> *Bridging the Gaps How to Transfer Knowledge in Today’s Multigenerational Workplace*, The Conference Board, Research Report R-1428-08-RR, July 2008.

## Being Customer-centric at the Ritz

The Ritz-Carlton Hotel Company focuses on delivering excellent service among a very diverse population. While all their customers may be in the same financial class, they all want to be treated differently. A family man may want all the attention paid to his children, while a professional businesswoman may prefer to have her mini bar stocked with caffeine-free soda rather than regular soda products prior to her arrival. "Part of creating a customer-centric culture is treating the customer the way they see themselves," says John Timmerman, VP of operations for Ritz Carlton's 75 hotels worldwide.

To achieve that goal, the company conducts monthly, quarterly, and annual surveys using the Baldrige-based systematic benchmarking surveys. These are one of the many tools the company uses to ensure its extremely high level of customer engagement scores. Indeed, Ritz-Carlton rated in the 91st percentile in customer engagement against the Gallup Organization database.\*

Among the dozens of quality practices used throughout the company, each employee attends a mandatory two-day orientation when hired and then annual re-certification thereafter. Senior leaders attend monthly performance reviews which carry the same importance as sales and financial goals. The company also links incentive compensation to employee, customer, and financial performance.

Within the hotels, each employee from housekeeping to the front desk has an automatic authority to spend \$2,000 to solve a customer problem—no questions asked. Another practice is to provide ongoing training to hotel employees to study customer behavior and record guest preferences and problems in a company database. If a customer prefers feather pillows, or eats all the apples in the fruit basket provided in the room, those observations are recorded so that the next time that guest arrives at any Ritz Carlton hotel, he or she will receive feather pillows and extra apples without asking.

In addition, each of the company's 40,000 employees has a mandatory daily 15-minute meeting with department colleagues prior to the work day. In the brief meeting, the employees and the department's strengths, weaknesses, opportunities, and threats (SWOT) are reviewed. Every day, each team reviews one of the company's 12 service value steps of quality (which everyone carries listed on a card) and discusses efforts of an employee who has done something exemplary to satisfy a customer. These stories, called WOW stories, are published and reported throughout the company. "When it comes to customers, feelings are facts we have to manage," says Simon Cooper, the president of Ritz Carlton.

It is such attention to customer feelings that has brought the Ritz-Carlton Hotel Company a number of awards, including the Luxury Institute's #1 rating for the best customer experience, Consumer Reports number 1-ranked luxury hotel in all areas (value, service, upkeep and problem resolution) and a number 1 ranking in JD Power's GSI 2007 and 2008 Study, among other awards.

## WOW STORY OF THE YEAR

### The Ritz-Carlton, Buckhead

One WOW story comes from The Ritz-Carlton, Buckhead in Georgia and is an innovative example of how we can all enliven Service Value No. 6—"I own and immediately resolve guest problems." A couple and their son booked a weekend stay at the hotel. During their visit, their son was in awe of all of the tour buses that line up outside of the hotel during the busy summer entertainment season.

The family had a great stay, but when they checked out of the room and left the hotel, they discovered that their son had misplaced his favorite stuffed bear, "Sting," that he made at the retail store Build-A-Bear. The couple called the hotel's Manager on Duty to report the missing bear. Hope Nudelman, Director of Meetings and Special Events, and the Manager on Duty searched every department for the bear, but the stuffed animal was nowhere to be found. Hope went to the hotel's retail shop to see if she could find a similar bear, but none of them matched. Hope promised the guests that she would continue looking for the bear.

She never found it, but decided to take it upon herself to resolve the situation. So, she drove 45 minutes to the nearest Build-A-Bear store, and made the young guest a new "Sting." She even bought a guitar for the bear since the child loves music. She sent the new stuffed animal to the guest's home with the following note:

*Dear (guest's name),*

*I am sorry I ran away from you. I saw the tour buses outside of the hotel and I wanted to see what it was like to be at a concert. I had a great time. The lead singer even gave me this guitar. I hope you were not worried. Next time I will call home. While I was away, I met this really nice lady and she helped me get home. She gave me a bath and now I am nice and clean. I feel brand new—in fact, I even look it. I missed you and I am glad I am home.*

—Sting

So first class to Hope for working tirelessly to satisfy a guest! We can all look for unique, personal ways to engage our guests. If we do so, we'll enliven The Ritz-Carlton Mystique and create a situation where guests "simply can't imagine a world without Ritz-Carlton."

\* Gallup is a well-known and respected source of third-party research. 90th percentile is usually considered best-in-class for a multiple location (e.g., chain) in performance level (higher level for a single unit).

Source: John Timmerman, VP, Operations, Ritz-Carlton Hotel Company.

## Environmental Concerns and Social Responsibility

Environmental concerns are part of the larger trend toward corporate social responsibility. The well-known adage—*doing well by doing good*—is becoming an imperative for all organizations to incorporate in their business plan. It's not just good citizenship, it's good business that drives bottom-line results. Indeed, consumers are requiring companies take protective action to save our planet if they are to buy their products and services. This all-encompassing mandate starts from the call for increasing the amounts of recycled materials as inputs into production and reducing the amount of energy used to produce a product to decreasing corporate carbon footprints and implementing "green innovation" techniques.

As consumers insist on more transparency in corporate practices, they will increasingly use this information to make purchasing decisions. Quality leaders are the linchpin in giving the customers what they want. They can provide the tools, techniques, and processes to companies to help them meet the increasing standards that consumers require. If management decides on an environmental goal to meet, quality professionals can engineer a system to reach that goal and measure the results. Management systems like the ISO 14000, the environmental management systems standard, can help achieve those goals.

## How Quality Leaders Meet CEO Challenges

Aside from the global forces of change that every industry must address, there are certain challenges that are specific to senior leadership. Each year, business leaders from around the world identify their most critical concerns in The Conference Board CEO Challenge. In the most recent 2008 edition, the top 10 challenges that CEOs cited in a souring economy included Excellence in Execution, Consistent Execution of Strategy (by top management), Sustained and Steady Top-Line Growth, Customer Loyalty and Retention, and Profit Growth, among others.<sup>4</sup>

The Quality Council also surveyed its own members and asked what their CEOs found to be relevant issues to the long-term success of their organizations. Similar to the CEO Challenge, the Council found that Profitable Growth, Excellence in Execution, Customer Loyalty and Retention, and Sustained/Steady Top Line Growth were among the top concerns of their senior executives.

With these challenges keeping CEOs up at night, it is the aim of the quality professional to show senior management that they have just the practices, tools, and techniques that the senior leaders need to address these concerns. They range from statistical tools and applications to broader systems and cultural issues. "Currently, the C-suite may not be fluent nor necessarily need to know many of the quality practitioners' tools and therefore may not connect the organizations' bench strength in these quality skills and competencies with its business performance," says Allegheny Energy's Adams.

Given the concerns of senior management, it is clear that the following quality tools and practices can and should be used to achieve strategic business results.

**Profitable Growth** Obtaining and maintaining profitable growth is a known result of implementing quality practices. Quality approaches have impact on both increased revenue and reduced cost. Both deliver profit. When quality is high, customer satisfaction is assured, and loyalty goes up. Wowed customers tell others. And products well designed to respond to customer needs are welcomed in the marketplace. When companies squeeze out costs, reduce waste and defects, the benefits are clear: Increased profitable growth. Lean, Six Sigma and various

combinations are two of the more popular tools that quality practitioners use to accomplish continuous improvement which ultimately leads to profitable growth. And increasingly companies are looking to quality management practices to reduce the risk of catastrophic events that can virtually wipe out a company's profits.

**Excellence in Execution** One of the traditional skills of a quality leader is to be able to know how to put standard systems in place, how to measure against that system and how to improve the performance over time. To do that, quality leaders use several tools such as process management, benchmarking, balanced scorecard, root cause analysis and systematic improvement to be able to align business processes with results. If a company is going to have a strategy that beats the competition, then that organization needs to know who is better and how they do it; that's benchmarking and quality leaders know how to capture that data.

**Customer Loyalty and Retention** Knowing what the customer wants is a basic hallmark for which a quality professional is known. It only follows that when a customer gets what he wants, he is more likely to buy the product or use the service. Loyalty and thus retention become a more likely outcome. Moreover, satisfied customers tell others, and word of mouth marketing is hard to beat. Quality professionals make it their business to focus on the customer and use tools such as benchmarking, customer surveys, and customer metrics to keep their finger on the pulse of what will keep the customer happy and ensure that the customer is linked to processes that use this input.

**Top-Line Growth** When senior executive teams think of how quality professionals can help them, they usually go straight to the cost-cutting side of the equation. While that of course helps to increase profits, there is the other side of the equation, to build revenue as well as protect revenue streams. The quality practitioners' skills are often overlooked in the process. Because the quality leader knows what the customer wants through tools such as surveys, he is in an excellent position to acquire more customers for the company as well as increased dollars from existing customers.

<sup>4</sup> CEO Challenge 2008 Top 10 Challenges—Financial Crisis Edition, p. 5.



## Innovative Quality Management at Milliken & Company

Ten years ago, there were nine textile companies with more than \$1 billion worth of business. Today, there is one—Milliken & Company. Their dedication to quality in production, along with innovation excellence, are at the foundation of the company's ability to survive and even thrive in today's global competitive marketplace. Such focus on quality has brought the company both a Malcolm Baldrige National Quality Award and the Japanese Total Productive Maintenance Excellence Award, the only company in the world to win both.

What is Milliken's secret? The company has created a proprietary daily management system, called Milliken Performance Solutions (MPS) that provides common language, processes, and goals that everyone throughout all plants in a company follow. This allows a company to transfer employees and managers between plants. With approximately 40 physical locations in the United States and more than 11 locations internationally, the ability to do the same work more effectively and efficiently is a competitive advantage.

To that end, Milliken's MPS has had real financial results. For example, in 2007 at one of the company's U.S. plants, there was *one* breakdown among 160 machines (with an estimated age of 25 years old and run time of 6.5 days per week). Compare that

with 2001, just before the company implemented MPS, when the same plant had 10-12 breakdowns per week. Consider some of these additional improvements at that same plant between 1995 and 2007: Fixed cost per unit fell by 83 percent; defects reduced by 93 percent; number of associates and managers fell by 44 percent and 48 percent, respectively.

This plant is just one example. Company-wide, between 1999 and 2007, Milliken & Co. reduced internal defects by 60 percent; external claims fell by more than 40 percent and process reliability improved by 30 percent. In 2007, the company completed more than 1,500 individual projects with an average savings per project of \$20,000; this is a typical year-over-year improvement since 1999. What's more, Milliken has increased its return on invested capital more than 40 percent. "With MPS in place, I don't have to drive quality on a day-to-day basis as management typically has to do," says Joe Salley, CEO of Milliken & Co. "I have more of my time freed up to work with the strategic positioning of the company."

It is such financial results that prompted Milliken to establish a new consulting group, Milliken Performance Solutions, in 2007 which aims to help other companies improve quality and safety.

## Strengthening Quality Practices to Meet Emerging Trends

Quality practitioners need to use their well-established practices and tools to meet the challenges facing senior leadership today, but there are areas in which companies and the quality professional must do better than they have done in the past. The challenge of the quality leader is to be able to commit to strengthen and build customer intelligence, improve operational excellence and speed to market, and finally, build the next generation of customer advocates—all critical issues to survive in a down economy and to be poised to take advantage of new opportunities presented by a turnaround.

### Commit to Strengthen and Build Customer Intelligence

In today's global economy where resources are scarce and product life cycles are getting shorter and shorter, "companies can't afford to be wrong often," says Borawski of ASQ. With continual mistakes, such as misjudging what the consumer wants, resulting in a failed product or service launch, a company won't survive. "Whoever gets it right first is going to win the lion's share in the marketplace," he says.

A traditional strength of the quality profession is to understand the customer and translate that information into requirements for a product or service and then measure performance against those requirements. In the global economy, markets and customers are much more diverse with a wider spectrum of requirements, needs, and wants.

### Improve Operational Excellence and Speed to Market

When executives think of the quality department, they immediately think of the ability of this discipline to continuously improve the manufacturing of a product or the delivery of a service. But achieving these results is no longer enough. The enterprise must be more agile, leaner, more efficient, and faster than ever before.

Indeed, in today's state of mass customization, quick capture, analysis, understanding, and acting on customer intelligence are key to rapid fire improvements and delivery to market. Add to that the customization dimensions necessary for cultural, language, and infrastructure issues and the result is increased complexity. Random management practices in these environments are dangerous—system approaches, system measurements, and systematic process management are critical to successfully tackling such complexity and bringing solutions into focus.

### Build the Next Generation of Customer Advocates

Many of the original quality leaders have either retired or have senior business leaders who may not truly understand the value of basic quality principles and practices. Some organizations may assume these principles and practices are already in place. This may be because these new executives have fragmented exposure to and understanding of the tenets of quality or because of weak communication as to the value quality brings to business.

The truth is, in many companies it is "the quality professional who reminds everyone else that the purpose of the business is to satisfy the customer," says Borawski. At one business strategy meeting he attended at a Fortune 100 company, there were 1,000 post-it notes on a wall. "Not one had the word customer printed on it," he says. The quality professional in the meeting pointed out that oversight.

The quality leader is the voice of the customer. To be able to preserve the quality culture, it is imperative to involve all employees in the quality practice not just the practitioners themselves.

## Cisco Systems: Quality Starts at the Top

**Cisco Systems** is a good example of a company that is committed to strengthening and building its customer intelligence. In fact, Cisco won The Data Warehousing Institute's Best Practices Award for 2008 in the area of customer intelligence. This award is designed to identify and honor companies that have demonstrated excellence in developing, deploying, and maintaining business intelligence and data warehousing applications. To that end, Cisco Systems uses this customer-centric information to attract, enhance, and improve customer relationships.

Cisco Systems starts at the top where CEO and Chairman John Chambers still spends 60 percent of his time in front of customers. "Listening is as important now as it was at our inception," says Chambers. "There is a market transition taking place today that is driven by consumer participation, innovation, collaboration, and social networking—all of which are the result of an increasingly empowered and informed customer. This transition is driving what we refer to as Cisco 3.0. This is our ability to listen to and collaborate with our customers in order to take customer intimacy to an entirely new level. To anticipate our customers' needs in the future, we will have to listen, respond, and adjust to feedback like never before," says Chambers. The leadership is backed up with process and practices such as an annual customer satisfaction survey that Cisco has deployed for the last 14 years.

This annual survey, which is at the heart of company's intelligence strategy, gathers feedback from all Cisco customers with some 100,000 responses from all markets and geographies. The survey process is ongoing through the year which allows the company to continually gather fresh data and achieve better alignment to quarterly reporting periods. Not only does Cisco engage their sales team and partners in the process, but they also link customer satisfaction to the variable compensation for all employees including executives (excludes sales). This reinforces the message that "the customer gets to vote." Indeed, by setting clear targets and tying them back to compensation Cisco has seen consistent improvement in its customer satisfaction scores.

Once all the data is collected, Cisco Systems is able to segment and analyze the feedback from customers and then partners with Walker Information, a consulting firm, and use regression analysis to determine what matters most to customers. Information is integrated into the company's business process to give employees just-in-time information so they are able to use the data in their everyday decisions.

One example of the company-wide satisfaction programs in place is the *Low-Score Follow-Up Program*. If a customer turns in a low satisfaction score, a Cisco employee has 21 days to make contact with that customer. All information is captured on an online system which is extremely useful when it comes to ease of use, visibility, and accountability. The online system allows the company to drill down on key issues such as why the customer is dissatisfied, what attributes of the product are causing most difficulty, how long the user has been working with the product, and suggestions on how to improve from the customer. After three years of using the *Low-Score Follow-Up Program*, it is considered one of the most valued programs in the field. Research shows that if a customer has a low follow-up score in year one, the company sees an increase in loyalty of 16 percent in year two, and in some geographies a 29 percent improvement in loyalty measured by repurchasing patterns.\*

So how does loyalty translate into bottom line growth? Cisco has developed data models to link loyalty to financial outcomes. They found that a 10 percent increase in loyalty equals a 4.4 percent increase in revenue.

\* Cisco measures loyalty based on a model provided by Walker Information, a research vendor. It is an index based on derived importance of both attitudinal and behavioral commitment to Cisco. The following is a step-by-step process of how Cisco measures loyalty: 1) In year 1—if a customer registers a low score, which qualifies for customer to be followed according to the company business rules, then the record is flagged for a follow-up; 2) All flagged records are noted so that Cisco can compare customer's starting loyalty; 3) The record is dispatched for follow-up via email notification and tracked via a web tool; 4) The account/service team conducts the actual follow up and actions documented on a web tool; 5) Year 2: Customer is re-invited to annual CSAT Survey process; 6) If a reply is provided, we compare loyalty of Year 1 vs. loyalty in Year 2. Since Cisco categorizes by geography and market segment, the company can categorize program performance by these segments.

## Speed to Market at Johnson & Johnson

Johnson & Johnson (J&J), the \$63.7 billion (2008 revenues) global health care products company, is meeting the complex challenges of improving operational excellence and speed to market. With more than 250 operating companies and 120,200 employees in 57 countries, improving operational excellence is a tall order. But using quality improvement methods [known as Process Excellence] throughout J & J franchises helps the company significantly reduce its new product development cycle times and thereby accelerates speed to market.

For example, Ethicon Endo-Surgery, a J&J company that develops and markets advanced medical devices for minimally invasive and open surgical procedures, had insufficient capacity to meet strategic planning needs for new products. The operation was also plagued by a great deal of rework and unnecessary steps. There was also the need to improve how the voice of the customer fit into the development process. Once the J & J Process Excellence

tools and methods were employed, Ethicon Endo-Surgery slashed its new product development time by approximately one year.

As a result, it saw a 60 percent reduction in new product cycle time and a 45 percent increase in new product capacity. This led to nine additional product launches, \$25 million in avoided headcount cost and \$211 million in incremental revenue over the two-year period between 2004 and 2005. "Our efforts around quality, or process excellence, have evolved with the business," said Dominic Caruso, Vice President, Finance, and Chief Financial Officer, Johnson & Johnson. "These programs are not simply about achieving cost-savings. They must make our businesses stronger and enable us to create value for our shareholders. Our franchises' efforts are having an impact on the bottom line with reduced development cycle times, more efficient product launches, and increased customer satisfaction," he says.

# The Quality Professional as a Business Leader

Not only must the quality professionals' role in the organization change if their function is going to be relevant in the coming years, but they will also need to acquire new skills if they wish to help guide their corporation through these tumultuous times.

## Become a Catalyst for Change

For quality leaders to support the increasingly complex organizational challenges, they must be an "outside insider." In other words, they must be able to command the prerequisite skills and competencies of the original quality leader, and be aware of more than what is going on in the quality department alone. They must see the big picture, organizationally. To that end, they need to think strategically and be proactive in areas where change is necessary.

## Facilitate Change Management

Not only must the new quality leaders be a catalyst for change, but because they are an expert in the change process they must be the facilitator of those changes. "Better may not be enough in a world of rapid change. Transformation may be required," says Borawski who argues that in some cases, in order to survive a company might have to transform into something entirely different from what it had been.

Additionally, quality professionals must improve upon their own practices. To that end, they must harness new ways of collecting customer feedback and use it effectively to drive business improvement, work toward upgrading the business in complex environments where collaboration, virtual teams, and alignment are much more challenging; and finally be more influential among senior leadership.

## Adopt New Skills

Whether or not a quality professional wants to actually move into the executive ranks, it is imperative that he or she take a more holistic view of the quality function and understands how all pieces and processes fit together in. To improve components, the entire system needs to be considered.

Another critical skill that must be acquired is the ability to ensure that business planning is tied to the company's bottom line and top-line growth. In the past, quality professionals had been guilty of not relating processes and practices to the company's strategic direction. While it is known that the quality department can help increase profit and revenue through reducing waste, cycle time, and understanding the customer, quality professionals don't always make the connection to the overall strategic direction of the business.

Finally, today's quality leader must learn from failures or missteps of the past and ensure the executive leadership team adopts practices that embed criteria for success:

- Emphasizing organizational results over process
- Aligning limited resources by working on highest value items
- Accurately translating customers needs and supporting requirements and delivery processes
- Elevating key measures that drive action aligned to bottom line results
- Implementing measures that drive behaviors aligned to customers and profitability
- Embedding quality accountabilities and responsibilities into executive leadership
- Recognize that quality practices evolve dynamically with the market and organizations' priorities
- Evolving lessons learned into continuous improvement
- Deploying quality with context, expectations, and follow up

## Manage-by-Fact Mindset at Allegheny Energy

**Allegheny Energy, Inc.**, a \$3 billion electric utility with approximately 4,500 employees, was on the brink of bankruptcy in 2003, caught up in the deregulated trading business frenzy that followed Enron-like acquisitions.

Paul Evanson, Chairman, President and CEO and former president of Florida Power & Light, took over the challenged company with the aim of overcoming the short-term financial troubles and also transforming the company into a high-performance organization. Having come from a company with high-quality skills and realizing best-in-class results, expecting increased quality at decreased costs was a given.

Paul brought quality leadership into the executive ranks of the organization to give the leadership and employees a “manage-by-fact mindset” and a robust operating discipline.

“We have just one person purposefully leading the quality effort to ensure it is driven by the business. He works closely with the leadership team to inculcate quality thinking and rigor into their plans. There are support systems to execute the plans to achieve expected results in areas of safety, financials, customer sat, operational excellence, environmental, and employees,” explains Evanson.

Allegheny’s focus on safety has resulted in a 60 percent reduction in injuries overall with an 80 percent improvement in its transmission and distribution business that elevated the company to first quartile performance. This was accomplished project by project, addressing root cause by root cause with field personnel who delivered results such as reducing dog bites by 62 percent,

slips, trips and falls by 50 percent, and repeat injured people by 65 percent. While the goal is to have a zero injury work environment, an additional outcome of these teams has been a savings of workers’ compensation costs of near \$1million to contribute to a portfolio of efforts to reduce costs.

With an over 41 percent reduction in O & M expenses since 2004, external customer satisfaction remains in the upper quartile from surveys of both the American Customer Satisfaction Index and TQS Research, a company that specializes in business-to-business research among the largest energy users in the United States and Canada. Internal customers’ satisfaction from an annual employee engagement survey reflects year-over-year improvement.

Operational excellence improvements are targeted at reducing forced outages at the power plants (down 31 percent) and improving the cycle time, the time it takes to bring them back on line when they go down, by 35 percent.

While Allegheny uses many of the traditional quality tools and Six Sigma as its basic problem solving methodology, it implements systematic improvement efforts with concentration on careful project selection, business alignment to the balanced scorecard, and just-in-time training of appropriate analytical tools and techniques to solve the problem and deliver timely results. This technical training supplements training on leadership, change management, project management and performance management, all necessary for sustainable results.

## Conclusion

The quality executive is a revenue-generator and revenue protector, as well as a cost-cutter—vital roles in holding the line in a down economy while positioning the organization to take advantage of growth opportunities during a recovery.

Ideally, business and organizational leaders must naturally apply quality tools and techniques to drive their business. The customer demands it. A culture must be created where the tenets of quality are embedded in the organization's

DNA and that they are designed to meet the business challenges while delivering predictable, sustainable business results in good economic times and in bad. To achieve these goals, quality professionals must continue to acquire skills that allow them to become strategic business partners to their company's senior leadership team. The result: More engaged employees, more loyal customers, better bottom line performance, and improved top-line growth.

## Glossary of Terms

**Balanced Scorecard:** A management system that provides feedback on both internal business processes and external outcomes to continuously improve strategic performance and results.

**Benchmarking:** A technique in which a company measures its performance against that of best in class companies, determines how those companies achieved their performance levels and uses the information to improve its own performance. Subjects that can be benchmarked include strategies, operations, and processes.

**Change Management:** Organized, systematic application of knowledge, tools and resources of change that provides organizations with a key process to achieve their business strategy.

**Customer Metrics:** Measures of customer satisfaction, value, and loyalty.

**ISO 14000:** An international environmental management standard that ensures all operational processes are consistent and effective and will achieve the stated environmental objectives of an organization.

**Lean Six Sigma:** A methodology that maximizes shareholder value by achieving the fastest rate of improvement

in customer satisfaction, cost, quality, process speed, and invested capital. The fusion of Lean and Six Sigma is required because Lean cannot bring a process under statistical control and Six Sigma alone cannot dramatically improve process speed or reduce invested capital.

**Process Analysis:** Quantifying the process capability from data.

**Re-engineering:** A breakthrough approach for restructuring an entire organization and its processes.

**Root Cause Analysis:** A breakdown of a factor that caused a nonconformance and should be permanently eliminated through process improvement.

**Six Sigma:** A method that provides organizations tools to improve the capability of their business processes. This increase in performance and decrease in process variation lead to defect reduction and improvement in profits, employee morale and quality of products or services. Six Sigma quality is a term generally used to indicate a process is well controlled.

**Systematic Improvement:** A philosophy or attitude for analyzing capabilities and processes and improving them repeatedly to achieve customer satisfaction.

## About This Report

The information contained in this report is the result of an intensive day and a half working session of the The Conference Board's Quality Council. In preparation for this session, the 17 members of the US Quality Council were asked to answer a 12-question survey. (Appendix I and II). During the working session, the Council members used results from this survey as a springboard, shaping the paper through rigorous discussion.

## About the Author

**Toddi Gutner** is an award-winning business journalist who has covered the financial markets, retirement, career and small business issues for *Businessweek* and *Forbes* magazines since 1990. She is currently a contributing writer for the *Wall Street Journal* and continues to write, both in print and online for several other business publications including *Businessweek*. Prior to becoming a journalist, Ms. Gutner was an economic analyst at a private consulting firm in Washington, D.C.

Ms. Gutner wrote this report with the help and guidance of **Mike Adams**, co-chair of the Quality Council of The Conference Board, is vice president, quality of Allegheny Energy. His experiences range from unit advisor to Florida Power & Light in receiving the Deming Prize in 1989, the first non-Japanese company to be awarded the prize, ASQ senior member, previous Baldrige Foundation Director, Baldrige examiner, USA Today/RIT Quality Cup judge, and previous director of global performance excellence for Microsoft.



## The Quality Council

The Quality Council of The Conference Board is comprised of executives from companies known to be leaders in performance excellence and quality. Member firms come from a broad range of industries representing multiple sectors aligned to the Baldrige categories. The forum provides a means to transfer information and share insights and practices for the benefit of the members and their organizations. Quality Council members who contributed to this report include:

**Mr. Mike Adams**

Vice President, Quality  
Allegheny Energy, Inc.

**Mr. Lloyd O. Barker**

Director of Corporate Quality  
Alcoa

**Ms. Janet Crutchfield**

Senior Corporate Director of Quality  
The Ritz-Carlton Hotel Company, L.L.C.

**Mr. Kirby Drysen**

Senior Director, Corporate Quality  
Cisco Systems, Inc.

**Ms. D. Jane Farthing**

Managing Director, Connected Thinking for Excellence  
PricewaterhouseCoopers LLP

**Mr. Anre Garrett**

Staff Director, Enterprise Quality  
FedEx Corporation

**Mr. Hiten Ghosh**

Vice President, Chief Quality Officer  
Hughes Network Systems

**Ms. Mary Griep**

Director, Lean Six Sigma Quality Operations  
3M Company

**Ms. Janet M. Hinman**

Director, Corporate Quality  
Corning Incorporated

**Mr. Michael J. Jesrani (Mike)**

Director  
Quality Management Process  
Corporate Headquarters  
IBM Corporation

**Mr. S. Craig Long**

Vice President, Milliken Performance Solutions  
Milliken & Company

**Mr. George Maszie**

Director, Corporate Lean Six Sigma Operations  
Xerox Corporation (retired)

**Mr. William B. McBee**

Vice President, Total Customer Experience & Quality  
Technology Systems Group  
Hewlett-Packard

**Mr. Karl F. Schmidt**

Vice President, Business Improvement Services  
Johnson & Johnson

**Ms. Cassie Stern**

Vice President, Customer Care - North America  
Nokia Inc.

**Mr. Stephen J. Swensen, M.D. (Steve)**

Director for Quality  
Mayo Clinic

**Mr. John Timmerman**

Vice President of Quality and Program Management  
Ritz-Carlton Hotel Company

New Members:

**Mr. Chuck Chada**

Vice President, Strategic Initiatives  
Corporate Lean Six Sigma Operations  
Xerox Corporation

**Ms. Teri Ivaniszyn**

Director of Operational Excellence for Strategy  
and Business Process Improvement  
FPL Group

**Mr. John Sicilia (JD)**

DoD CPI Deployment Director  
DUSD-Business Transformation  
Office of the Secretary of Defense

From The Conference Board:

**Ms. Cindy Moy**

Council Coordinator  
The Conference Board

**Mr. Robert M. Parent**

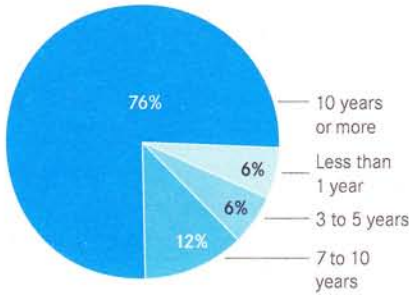
Council Program Director  
The Conference Board

## Appendix: Survey Results

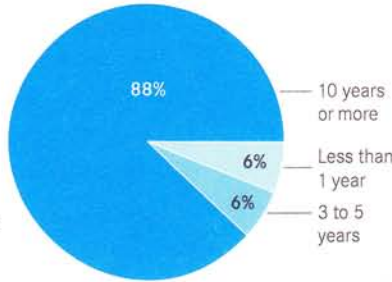
### Demographics

Most council members have extensive experience in the Quality field.

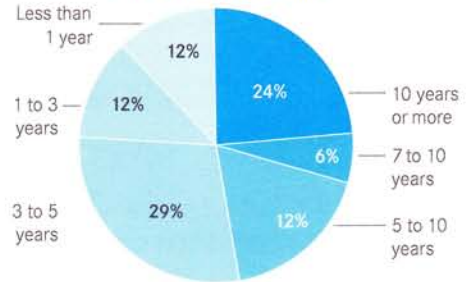
Time with Current Company



Total Years as Quality Professional



Time in Current Role

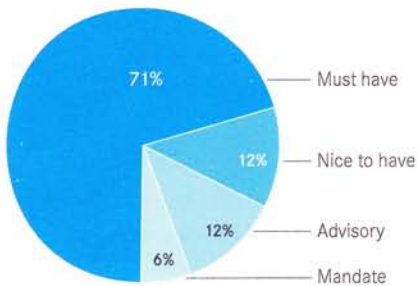


Number of responses = 17

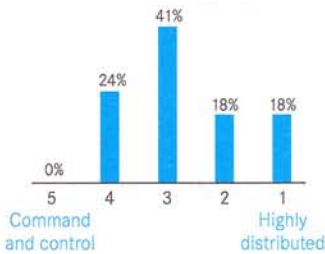
### Business Environment: Senior Management

Most believe Senior Management views Quality as a "Must Have" in their organization.

Senior Management's View of Quality's Role



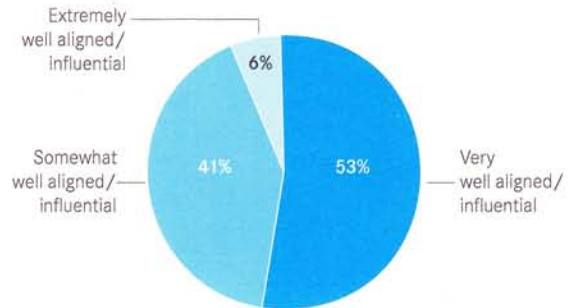
Senior Management's Leadership and Decision-making Style



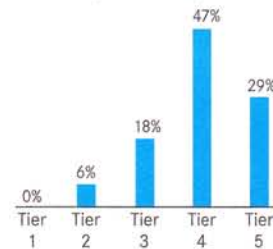
Number of responses = 17  
Data shown is the percent mentioned.

### Business Environment: Quality's Influence

Quality is "very well" or "somewhat" aligned and influential when addressing business challenges, corresponding with the quality maturity level most organizations indicate achieving.



Quality's Maturity Level



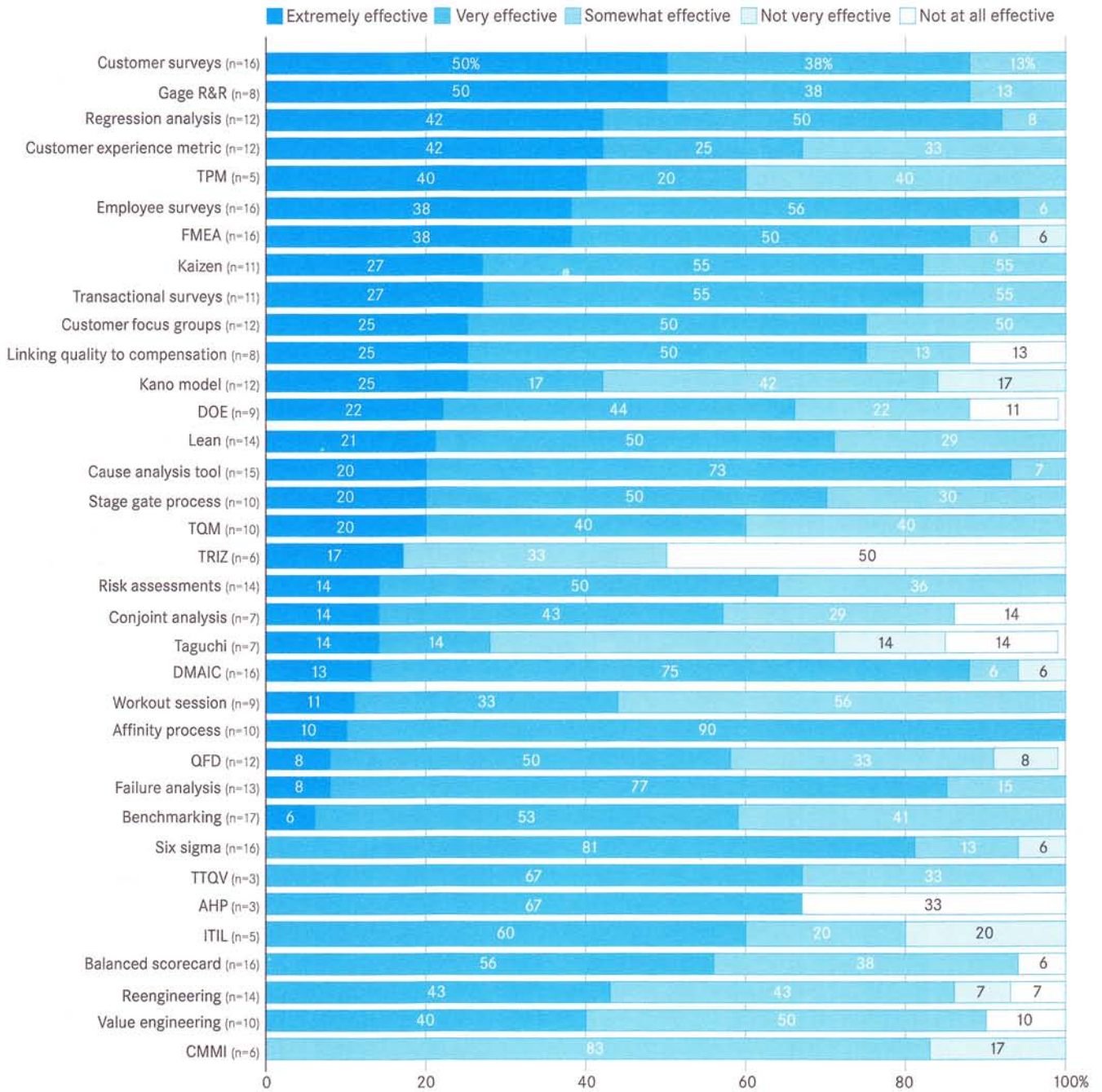
Source: Baldrige Quality Program - Criteria for Performance Excellence

Number of responses = 17  
Data shown is the percent mentioned.

Appendix: Survey Results (continued)

Effectiveness of Quality Practices

The majority of quality practices in use are considered “extremely” or “very effective,” with the exception of TRIZ.

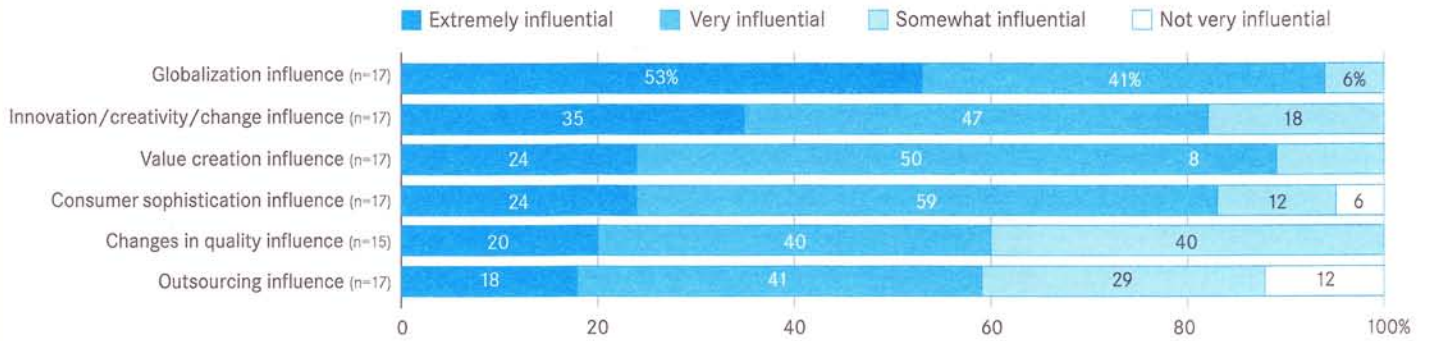


Source: The Conference Board © 2008

**Appendix: Survey Results** (continued)

**Degree Market Forces Impact Quality**

Globalization is the market force influencing the future of quality most.



Source: The Conference Board © 2008

Appendix Table 1

### Practices Used To Address Challenges

Numerous quality practices are consistently cited as being used to improve Excellence in Execution; Customers Surveys are used most across all challenges.

	Benchmarking	Six Sigma	TOM	Lean	OFD	DMAIC	Customer Surveys	Employee Surveys	Transactional Surveys	Focus groups	Reengineering	Work out Session	Regression Analysis	Risk Assessments	Gate R+R	Affinity Process	DOE	Quality to Compensation	Cust. Experience Metric	Failure Analysis	Stage Gate Process	Value Engineering	TRIZ	AHP	Conjoint Analysis	Kano Model	Balanced Scorecard	Kaizen	Rish Done	FMEA	TPM	CMMI	ITIL	Taguchi	TTOV
Profitable growth	9	12	4	12	8	9	8	7	6	9	5	3	7	9	6	5	6	3	8	8	7	7	3	2	4	5	7	8	9	3	1	2	3	1	
Excellence in Execution	10	12	4	11	7	11	13	10	6	8	7	2	9	7	6	7	7	3	6	12	7	3	2	1	4	7	10	7	10	4	1	1	2	1	
Customer loyalty/retention	12	7	5	5	4	7	14	8	8	11	4	0	6	6	2	4	2	4	11	6	3	1	0	0	3	5	9	3	6	5	0	1	1	0	
Sustained/steady top-line growth	8	9	3	7	1	2	10	3	5	7	3	1	1	5	1	1	3	2	8	3	5	1	0	1	2	2	6	3	5	2	1	2	0	1	
Stimulating innovation/creativity/entrepreneurship	9	7	3	4	4	3	9	5	5	9	5	1	2	2	2	4	4	3	8	3	7	2	2	1	3	3	5	4	4	0	1	0	1	0	
Finding qualified managerial talent	5	2	2	1	1	2	3	5	0	0	1	0	0	1	1	1	1	0	2	1	0	1	0	0	0	1	3	1	1	0	0	0	0	0	
Speed to market	4	6	2	6	3	2	3	3	3	3	3	1	2	3	1	1	3	2	1	3	5	2	1	2	2	3	3	3	5	0	0	0	0	0	
Speed/flexibility/adaptability to change	7	5	3	6	4	4	6	4	5	7	3	2	4	3	2	3	3	2	6	4	2	2	1	0	1	3	2	5	3	4	2	0	0	1	
Corporate reputation	7	4	3	1	2	2	8	5	2	7	1	0	2	3	1	3	1	1	5	2	1	0	0	0	1	2	2	2	4	0	0	0	1	0	
Consistent strategy execution	5	4	2	4	2	5	6	5	2	2	1	0	1	3	1	1	1	4	3	3	3	1	0	1	0	1	2	2	2	0	1	1	0	1	
<b>TOTALS</b>	<b>76</b>	<b>68</b>	<b>31</b>	<b>57</b>	<b>36</b>	<b>47</b>	<b>80</b>	<b>55</b>	<b>42</b>	<b>63</b>	<b>33</b>	<b>10</b>	<b>34</b>	<b>42</b>	<b>23</b>	<b>28</b>	<b>31</b>	<b>24</b>	<b>58</b>	<b>45</b>	<b>40</b>	<b>20</b>	<b>9</b>	<b>8</b>	<b>20</b>	<b>32</b>	<b>49</b>	<b>37</b>	<b>45</b>	<b>11</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>5</b>	

NUMBER OF MENTIONS PER PRACTICE

Source: The Conference Board © 2008

Appendix Table 2

## Future Intent with Quality Practices

Lean is the quality practice cited most frequently as needing to be accelerated over the next 3 to 5 years.

	<b>ACCELERATE</b> Working, and and need more of it	<b>CONTINUE</b> Seems to be working at current levels	<b>EMERGING</b> Could work, but need more data	<b>UNDERUTILIZED</b> Could work, but need to scale to be sure	<b>STOP</b> Does not work
Lean (N = 15)	73%	13%		13%	
Balanced Scorecard (N = 17)	53	35		6	6%
Kaizen (N = 13)	46	38	15%		
Linking Quality to Compensation (N = 12)	50	17	17	8	8
FMEA (N = 16)	44	50		6	
Risk Assessments (N = 16)	44	44		6	6
Cause Analysis Tool (N = 15)	40	60			
Value Engineering (N = 14)	36	29	21	7	7
Failure Analysis (N = 13)	38	62			
Benchmarking (N = 17)	35	65			
Regression Analysis (N = 15)	40	53			7
Customer Focus Groups (N = 15)	47	47		7	
Customer Experience Metric (N = 15)	47	33		20	
DOE (N = 13)	38	31	8	15	8
DMAIC (N = 16)	38	63			
Reengineering (N = 15)	40	47	7		7
Customer Surveys (N = 17)	41	53		6	
Six Sigma (N = 16)	31	63	6		
TRIZ (N = 10)	30	10		20	40
Employee Surveys (N = 17)	29	71			
QFD (N = 15)	27	33	7	20	13
Workout Session (N = 15)	33	27	27	7	7
Affinity Process (N = 12)	25	67	8		
Stage Gate Process (N = 13)	23	62	8		8
Gage R&R (N = 12)	25	42	17		17
Kano Model (N = 14)	21	43	29	7	
Transactional Surveys (N = 14)	21	71	7		
TPM (N = 10)	20	20	20	10	30
TTQV (N = 9)	11	33	22	22	11
ITIL (N = 8)	13	25	25	25	13
CMMI (N = 8)	13	13	25	38	13
Conjoint Analysis (N = 10)	10	50		20	20
Taguchi (N = 11)	9	36	18		36
TQM (N = 12)	8	58	8		25
AHP (N = 8)		25	13	25	38

Source: The Conference Board © 2008

**To Order Publications, register for a meeting, or to become a member:**

**Online**

[www.conference-board.org](http://www.conference-board.org)

**Email**

[orders@conference-board.org](mailto:orders@conference-board.org)

**Phone**

customer service at 212 339 0345

**BENEFITS FOR MEMBERS**

**FREE REPORTS** Download publications free of charge. Find this research report at [www.conference-board.org/qualitycouncilreport](http://www.conference-board.org/qualitycouncilreport)

**GO PAPERLESS** Update your member preferences to receive reports electronically. Just login to your account and click *Review Your Preferences*.

**PERSONALIZE** your preferences and get the information you want. Specify your areas of interest and receive only those publications relevant to you. Change your preferences at any time and get the valuable insights you need delivered right to your desktop.



The Conference Board  
845 Third Avenue, New York, NY 10022-6600

## THE CONFERENCE BOARD

The Conference Board, Inc.  
845 Third Avenue  
New York, NY 10022-6600  
United States  
Tel +1 212 759 0900  
Fax +1 212 980 7014  
[www.conference-board.org](http://www.conference-board.org)

[www.conference-board.org](http://www.conference-board.org)

The Conference Board China  
Beijing Representative Office  
7-2-72 Qijiyuan,  
9 Jianwai Street  
Beijing 100600 P.R. China  
Tel +86 10 8532 4688  
Fax +86 10 8532 5332  
[www.conference-board.cn](http://www.conference-board.cn) (Chinese)  
[www.conference-board.org](http://www.conference-board.org) (English)

The Conference Board Europe  
Chaussée de La Hulpe  
130, box 11  
B-1000 Brussels Belgium  
Tel + 32 2 675 5405  
Fax + 32 2 675 0395  
[www.conference-board.org/europe.htm](http://www.conference-board.org/europe.htm)

The Conference Board Asia-Pacific  
22/F, Shun Ho Tower  
24-30 Ice House Street, Central  
Hong Kong, SAR  
Tel + 852 2804 1000  
Fax + 852 2869 1403  
[www.conference-board.org/ap.htm](http://www.conference-board.org/ap.htm)

The Conference Board of Canada  
255 Smyth Road  
Ottawa, Ontario K1H 8M7  
Canada  
Tel +1 613 526.3280  
Fax +1 613 526 4857  
[www.conferenceboard.ca](http://www.conferenceboard.ca)



**Recycled**  
Supporting responsible use  
of forest resources  
[www.fsc.org](http://www.fsc.org) Cert no. SGS-COC-003568  
© 1996 Forest Stewardship Council



Printed and bound by Sheridan Printing Co., Inc., Alpha, New Jersey, an FSC-certified printer. This report is printed on Mohawk Via paper, which is 100% post-consumer waste fiber, manufactured with wind power, and is process chlorine free. The paper is certified by Green Seal and SmartWood for Forest Stewardship Council standards. No films or film-processing chemicals were used in the printing of this report.