For in-house trainers
Overview of Lean
Click here to learn more

QUALITYDIGEST

Measures of Performance Improvement

For every action, expect a reaction.

by Praveen Gupta

Corporations have been implementing improvement programs as far back as I can remember, at least since my first job at Motorola in 1981. I've noticed that more and more organizations—whether it's Motorola, Ford Motor Co., General Motors Corp., Delphi or smaller, privately-held companies—measure the success of their improvement inititatives in terms of adverse effects, be it on headcount or space reduction. The intent of their quality-improvement programs is reactive.

Should quality-improvement programs be reactive or proactive? When should a company start its improvement program? What should be the purpose of the improvement program? Should it even be a program? Should we implement improvement programs or processes to remedy problems?

After I reviewed the state of our industrial output, the following points came to mind:

- The automotive industry is shrinking.
- Electronics manufacturing is practically outsourced to China in its entirety.
- Software is somewhat outsourced to India.
- Health care hasn't hit bottom yet. It's still on its way to being outsourced and still costs too much.
- Airbus and the Boeing Co. are splitting the market.
- Japan, China and India are getting in the satellite business.
- The number of students in engineering, science and mathematics appears to be going down at universities.
- Math and writing skills are eroding early in schools.
- We have become technology-fanatic, physically active and mentally idle

There are lots of issues to be addressed and measured. Solving one problem at a time will take forever, so it's important to classify multiple problems and to look for common symptoms before performing a root cause analysis. We need to ask ourselves what we realistically need to do to turn around our industrial performance.

Would implementing lean tools fix the problems? Maybe. Implementing lean brings the cost of delivering services or goods in line with the expected margins, basically cost reduction through waste reduction. If companies make their operations lean and let some employees go, they sacrifice some functions unnecessarily and put themselves at risk. Lean may even get struggling companies on the path to extinction. Companies that get on the cost-reduction band wagon don't get off. This cycle continues until someone kills the company or acquires it to kill later. Exceptions to the rule require outstanding leadership.

Cost reduction mustn't be confused with performance optimization, which implies concurrently balancing multiple factors to achieve profitable growth. Corporations must visibly demonstrate simultaneous commitment to growth and profit with the same vigor. If a company commits to growth at any cost, it'll grow waste faster, too. On the other hand, a company that commits to profit without growth will eventually not be profitable at all. A corporation must analyze all value streams leading to growth and profitability, and then establish a strategy and an action plan to achieve growth profitably. That would include multiple factors affecting growth and multiple factors affecting cost. The following table lists various factors that must be addressed to achieve profitable growth:

Key Growth Factors	Key Profit Factors
Employee recognition	Supplier responsiveness

For companies that have outsourced manufacturing to meet some randomly established quarterly numbers, the probable

Ads by Goooooogle

Lean Manufacturing
Maps, Icons, Software & Templates Free (Trial + Maps + Quickstart)
www.evsm.com

Value Stream Mapping
Create and share electronic VSMs Free 30-Day Trial Software
www.iGrafx.com

Six Sigma DMAIC
Help Your Organization w/ Six Sigma Training & Certification: Skillsoft
www.skillsoft.com

Lean Manufacturing
Implementation strategies through bus. performance measurements
www.irc.caltech.edu

Lean Manufacturing
Gain modern Lean manufacturing results with WinMan ERP software
www.winmanusa.com

Advertise on this site

Customer service	Process-quality improvement (Six Sigma)
Idea management or innovation	Cycle-time reduction (lean)
Rate of improvement (Six Sigma)	Material costs
Revenue growth	SG&A cost
Extracted from *Six Sigma Business Scorecard* (McGraw Hill, 2003)	

outcome is continual outsourcing at higher rates. Sometimes, outsourcing is like giving up. It's like saying, "I can't fix it, and I can't handle the feeling of disappointment at my inability to solve the problem." Some outsourcing should be called "value sourcing." Similarly, a company that wants to implement lean will continue to lean its operations. The outcome of continual leaning can be compared to that of anorexia.

When implementing lean, companies utilize value-stream mapping. Thus the value of the success of lean initiatives is added to the company. The value of success is money saved and utilized toward growth and shared with participants. Typically, executives establish lean-like initiatives, save money, reduce the headcount and earn some bonus for their grand performance.

Our leadership should be measuring our performance in terms of business growth, job creation and return on investment for stake holders. They should be rewarded for profitable growth, not just for profits. Management that doesn't even look for real performance is "blind."

About the author

Praveen Gupta, president of Accelper Consulting*, helps clients in the areas of Six Sigma, performance improvement and innovation. He has authored several books, including* Six Sigma Business Scorecards *and* Six Sigma Performance Handbook*. He teaches as an Adjunct at College of Commerce, DePaul University. Praveen writes monthly for* Quality Digest's *"Inside Six Sigma" e-newsletter.*

Click here to return to the Quality Digest home page.

We value your feedback.
To comment on this article,
note the article title
and then click here.

Copyright © 2006 QCI International. All rights reserved.
Quality Digest can be reached by phone at (530) 893-4095.
Contact us via Contact Form