

The Elephant in the Room – Corporate Performance Management Issues and its Reinvention:

Going Beyond Lean Six Sigma and the Balanced Scorecard

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Abstract

This paper describes some elephant-in-the-room common-place business policies that can result in very detrimental behaviors. Described also is a business system that addresses these issues:

- **Red-yellow-green scorecards** can lead to resource draining fire fighting, where problem-identified resolutions are often not long-lasting.
- **Variance to metric goals** can lead to playing games with the numbers and unhealthy behaviors.
- **Lean and Six Sigma projects** can lead to reported silo process improvement benefits, which do not positively impact the big picture; e.g., we saved 100 million dollars but nobody can find the money.
- **The balanced scorecard** alignment of metrics to strategies can lead to very subjective and unstable metrics that are a function of leadership and economic-environmental changes.
- **Traditional metric reporting** such as a table of numbers, stacked bar charts, and pie charts are not predictive and have a similar decision-making view as to driving a car by only looking at the rear view mirror; i.e., an unhealthy behavior.
- **Sarbanes Oxley (SOX) and other organizational controls** are expensive and often do not prevent significant problems from occurring in the future.

Integrated Enterprise Excellence (IEE) is a corporate performance management (CPM) system that Chief Performance Officers and others can use to address these elephant-in-the-room issues and orchestrate organizations toward achievement of the three Rs of business; i.e., everyone doing the Right things, doing them Right, at the Right time.

Organizations have gained much from Lean and Six Sigma improvement efforts; however, these efforts did not prevent our financial crisis from occurring. Lean Six Sigma, Total Quality Management (TQM), and other process improvement efforts have helped organizations improve; however, these efforts often occur in silos, where the benefits are not felt at the big picture executive level. Because of this, when financial times get tough Lean Six Sigma programs often find that their efforts are being downsized and that both Black Belt and Master Black Belt process improvement practitioners are being laid off.

Lean conference presentations often describe how all company associates in a spirit of organizational improvement need continually to identify and resolve waste-reduction problems; i.e., overproduction, waiting, transportation, inventory, over-processing, motion, and defects. Even though there can be significant benefits from these efforts, Lean practitioner conversations at those same conferences can be describing how their organization eliminated much operational waste only to find that executive management decided to close their facility.

One might ask why executive management would close a facility if such a great job was done reducing waste. The reason is that a hunt-for-areas-to-improvement approach can lead to much silo improvement effort without major emphasis being given to improve the true Theory of Constraints (TOC)¹ bottleneck. For example, process improvement efforts should be focusing on improving sales process, the system constraint, if manufacturing has the capability of producing significantly more products than are currently in demand. A business example of a company that won many Shingo Prize accolades for their Lean efforts but continues to have serious financial problems is Delphi.

Lean Six Sigma deployments can also have issues in that these efforts often evolve into a hunt for projects-to-execute system, resulting in the Lean Six Sigma steering committee members pounding their chests in Tarzan-like fashion proclaiming how much were saved through the completion of these projects. However, in many deployments organizations are finding that 100 million dollars was reported in savings but executives at the top of the organization in the big-picture world cannot seem to find the money.

To describe this strategy graphically, consider furniture refinishing, where the beauty of the furniture is equated to the company's financial success. For this analogy, much effort can be spent polishing a handle (e.g., Lean kaizen event), sanding a leg (e.g., Six Sigma project), and sanding a furniture side (e.g., TQM project); however, the furniture still does not look good.

What one needs is a system that assesses the whole business and then targets high potential improvement projects that benefit the system as a whole; e.g., we use rough 60 grit sandpaper first over the entire furniture and then use finer grit sandpaper over time. This strategy is illustrated in Figure 1, where emphasis should be given to addressing the step-five constraint instead of initially spending much effort improving the other steps. Lean Six Sigma and other improvement techniques are not a business system. The tools of Lean and Six Sigma are powerful; however, there could be an even more powerful use of these tools in a business system framework so that there is a transition towards achievement of the 3 Rs of business; i.e., everyone doing the Right things, and doing them Right, at the Right time.

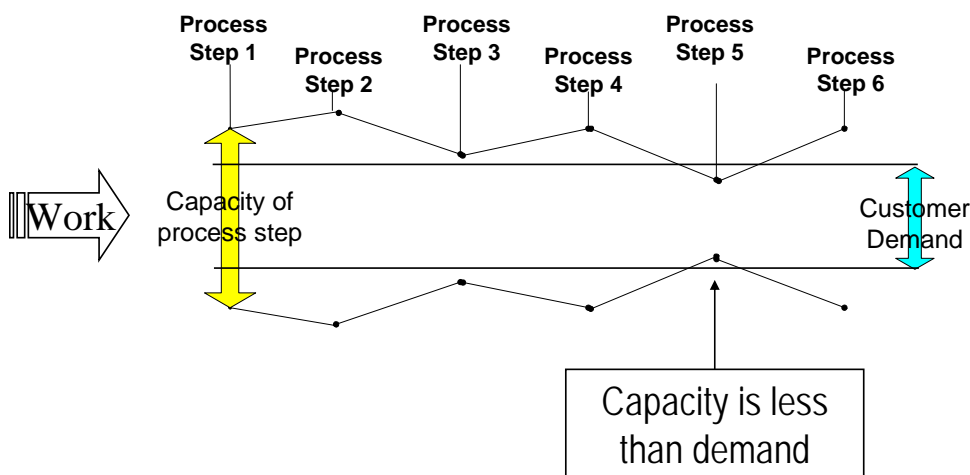


Figure 1: Identifying the overall system constraint

From Figure 8.1 *The Integrated Enterprise Excellence System: An Enhanced, Unified Approach to Balanced Scorecards, Strategic Planning and Business Improvement*, Forrest W. Breyfogle III, Bridgeway Books, 2008

To assess this need, let's examine our current financial crisis. Much has been said about how greed was a major factor that led to unintended consequences and our financial dilemma. In addition, many blogs from the Harvard Business Review (HBR) and elsewhere have placed blame for this crisis on business schools. Much money is being spent to stimulate the economy; however, I see that we have an overall enterprise business governance system problem. Considering this perspective, let's work to determine what should be done differently relative to our business management system so that the enterprise as a whole benefits and silo optimizations are avoided.

There are some elephant-in-the-room business management governance policies that nobody seems to discuss openly. However, off-line there can be much candid discussion about these issues. These topics and discussions can include:

- **Scorecards:** Red-yellow-green goal-setting and tracking scorecards often lead to playing games with the numbers and unintended consequences. In addition, the reporting of metrics as a table of numbers, stacked bar charts, and pie charts can be deceiving and lead to actions which do not truly fix problems and make long-lasting improvements.
- **Variance to metric goal tracking:** A policy to meet the quarterly numbers or else can lead to very unhealthy behaviors; e.g., Enron effect. These issues are getting more press because of executive bonuses at the same time that company stock seriously declined. We need to note that this type of meet-the-goal issues can be prevalent throughout a company.
- **Strategic planning and their deployment:** Strategic planning sessions often lead to statements that are to have measurements and activities aligned to them. This seems like a good practice; however, these strategies can significantly change over time because of leadership changes and economic climate/opinion changes. These changes can cause significant disruption throughout an entire measurement hierarchy. In addition, some statements are often so broad and encompassing that it is hard to get your arms around them when trying to actually implement them; e.g., we are to pursue a globalization strategy.
- **Improvement systems:** Many have claimed success and benefits through Lean and Lean Six Sigma program efforts. However, as noted earlier, executives are not often seeing the true benefits and often downsize the effort when times get tough. Many organizations have had made much success with their process improvement efforts; however, as noted earlier, Delphi won many Shingo Prizes for Lean and they are having significant financial problems. Often projects that are identified in silos can result in much resource-draining effort for their completion, which doesn't benefit the business as a whole; i.e., these improvement efforts are not a part of an overall business management system.
- **Control systems:** At the business level, Sarbanes Oxley (SOX) was created to address the accounting issues caused by business practices of companies like Enron, which led to the company's downfall; however, this system did not prevent our current financial crisis from occurring. Quality cannot be inspected into products and/or our business management system; i.e., we need to focus on moving toward everyone doing the right things, and doing them right, built into the system.

Executives need to step up to the plate and improve their management system so that there is healthy policy integration with scorecards, strategic planning, business improvement efforts and control so that the business as a whole benefits and there is no playing games with the numbers. A business system to address the above issues and accomplish these objectives is the Integrated Enterprise Excellence (IEE) System^{2, 3}. In the IEE system, strategy is not step one but step five of a nine-step process, as shown in Figure 2.

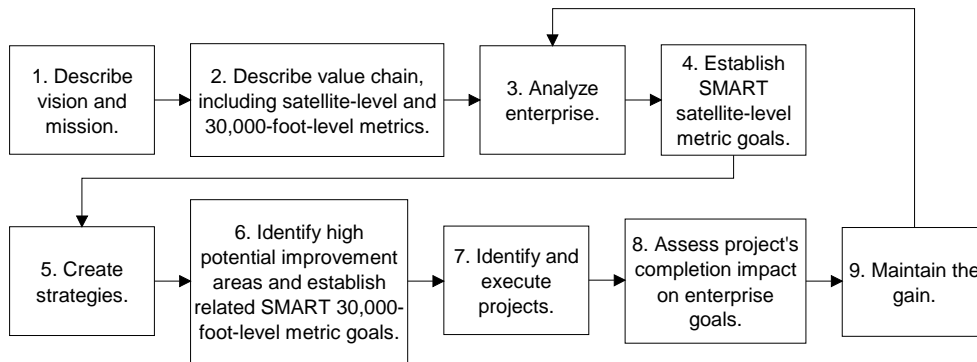


Figure 2: Aligning projects with business needs through EDMAIC roadmap for project selection and P-DMAIC or DMADV roadmap for project execution

From Figure 3.6 *The Integrated Enterprise Excellence System: An Enhanced, Unified Approach to Balanced Scorecards, Strategic Planning and Business Improvement*, Forrest W. Breyfogle III, Bridgeway Books, 2008

In Six Sigma and Lean Six Sigma deployments, project execution follows a Define-Measure-Analyze-Improve-Control (DMAIC) roadmap. In IEE, Lean and Six Sigma tools are truly integrated and follow a detailed documented step-by-step Project DMAIC (P-DMAIC) roadmap⁴. The overall IEE system is described in Figure 3, where the improve phase of the E-DMAIC roadmap, as determined from the analyze phase, pulls for design and improvement P-DMAIC roadmap projects that financially benefit the business as whole.

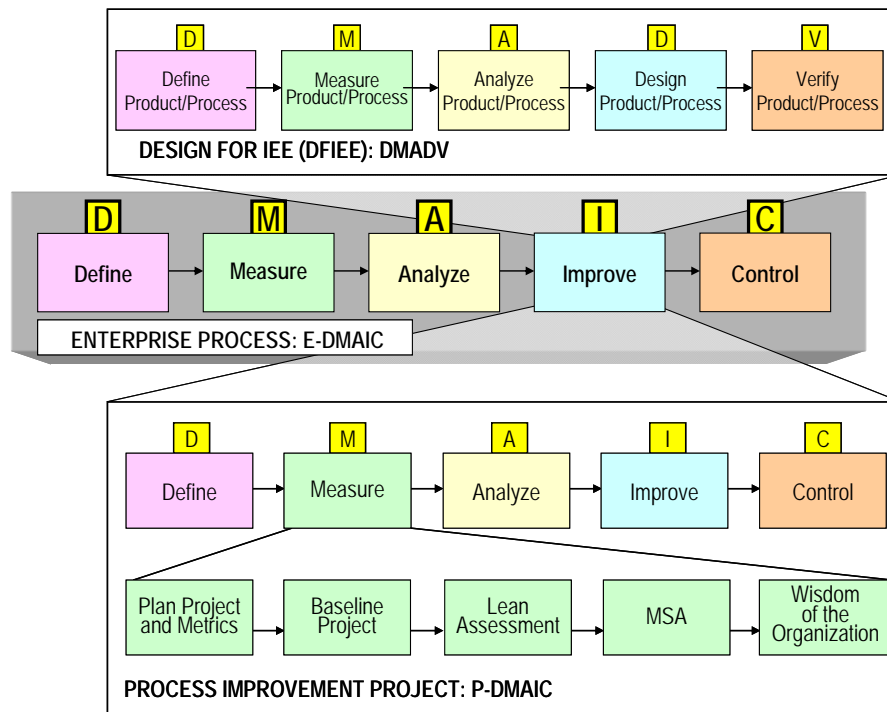


Figure 3: IEE high-level enterprise process roadmap with P-DMAIC process improvement and DMADV design project roadmaps

From Figure 3.1 *The Integrated Enterprise Excellence System: An Enhanced, Unified Approach to Balanced Scorecards, Strategic Planning and Business Improvement*, Forrest W. Breyfogle III, Bridgeway Books, 2008

IEE is a reinvention of traditional business management governance systems, utilizing the tools of Lean and Six Sigma in the execution of the 9-step IEE business management roadmap. The Enterprise process DMAIC (E-DMAIC) roadmap describes the use of Lean and Six Sigma tools in its step-by-step documentation⁵. A Chief Performance Officer can use this methodology in their Corporate Performance Management (CPM) system.

The E-DMAIC system provides the framework for:

- Edwards Deming's methodologies⁶ implementation
- Malcolm Baldrige award achievement
- Shingo Prize achievement
- ISO-9000 certification

The American Management Association (AMA) describes how one company benefited from [implementing IEE](#)⁷. This implementation is also described in a [video](#)⁸. Many [articles](#) have been written about various aspects of IEE⁹.

IEE provides a means of working the elephant issues out of an organization without generating a lot of workforce pain and anxiety.

IEE is described in greater detail in a white paper titled "[Corporate Performance Management: The Integrated Enterprise Excellence System](#)."¹⁰

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About the Author
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In a professional career spanning over a quarter century, Forrest Breyfogle has established himself as a leading edge thinker, a prolific author, an innovative consultant, a world-class educator, and a successful business executive. His work is documented in eleven books and over ninety articles on the topic of quality improvement.

A professional engineer, Forrest is also a member of the board of advisors for the University of Texas Center for Performance Excellence. He is the founder and CEO of Smarter Solutions, Inc., an Austin, Texas based consulting firm offering business measurement and improvement consultation and education to a distinguished list of clients worldwide, including BAMA, CIGNA, Dell, HP, IBM, Oracle Packaging, Sherwin Williams, Cameron, TIMET, and TATA. He served his country on active duty in the US Army for 2 years, and has played an active leadership role in professional and educational organizations. Forrest received the prestigious Crosby Medal from the American Society for Quality (ASQ) in 2004 for his book, *Implementing Six Sigma* (second edition). This award is presented annually by the American Society for Quality to the individual who has authored a distinguished book contributing significantly to the extension of the philosophy and application of the principles, methods, or techniques of quality management

He is a widely recognized authority in the field of management improvement and is a frequent speaker before professional associations and businesses. His earlier work in the field of management science has been widely acclaimed. A previous book, *Implementing Six Sigma*, sold over 40,000 copies and still ranks among the top Amazon books in Applied Mathematics/Engineering Statistics and Industrial Engineering /Quality Control.

He founded Smarter Solutions in 1992 after a 24-year career at IBM. The associates of Smarter Solutions specialize in helping companies throughout the world improve their bottom line and customer satisfaction through the implementation of techniques that are beyond traditional Lean Six Sigma and the balanced scorecard methodologies. His latest and most extensive work has been in the documentation of a new system of enterprise management, the Integrated Enterprise Excellence (IEE) system, in a series of four books. IEE provides a detailed roadmap that builds on and integrates the best practices of earlier disciplines like Six Sigma, Lean, TQM, PDCA, DOE, and TPS combined with innovative analytical tools to produce improvements at the highest level of an enterprise.

In addition to assisting hundreds of major clients in the wise implementation of improvement systems worldwide, Forrest has also developed over 300 hours of classroom instruction used to train executives, managers, and Black Belt practitioners to plan for, implement, and manage IEE systems. He also leads formal seminars and workshops worldwide.

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