



**Introduction to the
Five Pillars of Organizational Excellence**

by

H. James Harrington

CEO

Harrington Institute

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Introduction to the Five Pillars of Organizational Excellence



INTRODUCTION

“No person or company should be content to stay where they are, no matter how successful they now seem to be.”

Stephen R. Covey, Ph.D.

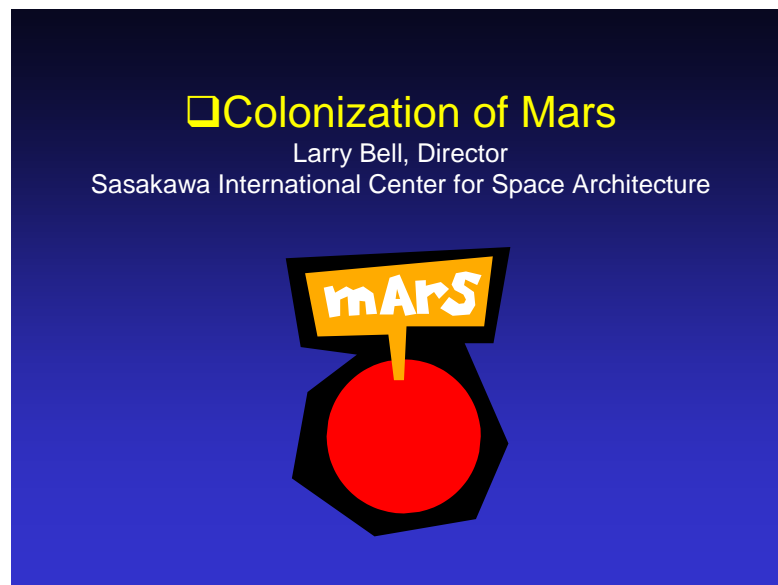
Author

Seven Habits of Highly Effective People



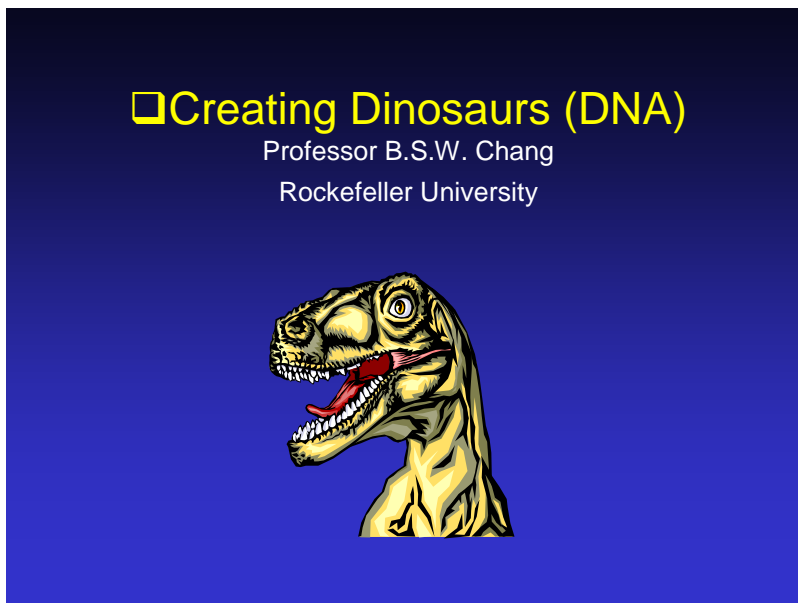
Good is no longer good enough. To survive in today's competitive environment, you need to excel. To excel, an organization needs to focus on all parts of the organization, optimizing the use and effectiveness of all of its resources. After years of working with all types of organizations using many different approaches to improve performance, we have come to realize that there are only five things that need to be managed in order for an organization to excel. We call these five key elements "The Five Pillars of Organizational Excellence." All five must be managed simultaneously. Top management's job is to keep all of them moving ahead at the same time. To concentrate on one or two of them and let the others slide is a surefire formula for failure.

The world is different today than it was yesterday and it will be still more different tomorrow than it is today. We live in a business environment that is traveling at near-light speed. The things that were impossible yesterday are being done today and they will be obsolete tomorrow. Science fiction writers are having a difficult time dreaming up something that is outside the reach of our abilities to accomplish. Pages from science fiction novels are being cut and pasted into science textbooks. For example,



❑ Colonization of Mars

The most comprehensive plans to date have been created by the University of Houston's Sasakawa International Center for Space Architecture (SICSA), under Larry Bell's direction. To create a foundation for sustainable Mars program growth, Bell's program has gone beyond developing a roadmap for creating the first colony; it has set up a formal training program for the first generation of space architects. Bell feels that colonizing Mars will be relatively easy. The major problem he has is convincing NASA that chemical propulsion is obsolete. He told *Popular Mechanics Magazine*, "We need a launch vehicle about eight times bigger than the shuttle. I happen to believe the systems we are using are dinosaurs. We have to move beyond chemical propulsion."



❑ Creating Dinosaurs

Until recently we believed that, over the centuries, critical genes would be damaged or missing due to deterioration to the point that it would be impossible to reconstruct the original animal. Recently Belinda S. W. Chang, a professor at the Rockefeller University in New York City, solved the missing DNA problem by building an artificial gene. It is believed to be identical to one that existed in the eye of an archosaurus, the "ruling lizard" of 240 million years ago. The statistical analysis methods that she used in

determining the DNA sequence of the ancient rhodopsin gene opens a whole new frontier in reconstructing ancient genes.



□ Synthetic Humans

Within the next few years biomedical engineers will clear their final technological hurdle and hardwire sensors directly to the nerves. A typical example of the work going on in this area is at Sandia National Laboratories in Albuquerque, N.M., where a chip has been developed that will synthesize the eye's retina. This holds the promise of restoring sight to thousands of people.

□ Altering Gravity (Super- Conducting Disc)

Dr. Ning Li, Researcher
University of Alabama



□ Altering Gravity

For years, “antigravity and gravity shielding” has been a favorite subject of the science fiction writer, but the professional physicists have turned their back on the concept, feeling it is impractical. The first step in tearing down these beliefs was accomplished by Ning Li, a former University of Alabama researcher, who was the first to successfully construct a super-conducting disc, which is essential in creating a gravity-altering force.

□ Teleportation

Ping Koy Lam
Australian National University



- Teleportation

James Kirk's instruction to Scottie, "Beam me aboard, Scottie," may be a reality in the future. Teleporting massless photons is now a reality. Transporting a single atom is the next exchange. Last summer Ping Koy Lam at the Australian National University reached a major milestone in this objective. He successfully transported a beam of light.

We need to start thinking differently. The word *impossible* needs to be stricken from our vocabulary. Thinking outside of the box is not good enough; we need to tear down the walls of the box and build a wall-less culture.

Our workforce is becoming more mobile. Organizations are cutting back by outsourcing all but their core capabilities and competencies. Business offices are shrinking as increasingly large numbers of people are working out of their homes. No organization can afford to do that one-of-a-kind job with their own people, when consultants can do it faster, better, and at reduced risk.

Times have changed and our thinking about the way we manage our improvement activities has to change. Good is not good enough. Only our very best will attract customers in today's competitive environment. Producing excellent products will not "cut the mustard" today. We have to excel in all parts of our organization. Piecemeal approaches like TQM, Six Sigma, CRM, etc., have to give way to a holistic view of the organization and its improvement efforts. You have to have an organization that WOWS the customer, not just satisfies them. Customers need to rate the total organization as *outstanding*, not just as *very good*.

Customers remember your organization's name under two conditions and under two conditions only.

- First, if you produce an extremely poor product or service
- Second, when you produce an exceptional product or service that really sets them back on their heels and makes them say, "Wow! That was a great experience."

If you just meet their requirements, you do not build customer loyalty. Your customers can be attracted away from you if your competition undercuts you by a few cents. You have to have an organization that radiates excellence in everything it does.

For the last fifty years, the quality professional, management professional, and the consultant have tried largely unsuccessfully to impose improvement systems on business, government, and academia. Look what they have tried to impose:

- ❑ Quality Control failed
- ❑ Total Quality Control failed
- ❑ Zero Defects failed
- ❑ Total Quality Management failed
- ❑ Process Reengineering failed
- ❑ Six Sigma is failing, and
- ❑ ISO 9000:2000 added little real value

The question is, “Why do we have great spurts of success and then these sound improvement systems slink back into oblivion?” They are a lot like the old doll that gets put back in the dark corner of the closet when the new doll is found under the Christmas tree.

These exercises in futility stem from applying improvement initiatives, like bandages, to an organization when what's really needed is fundamental organizational change. Treating symptoms usually doesn't affect a cure; it just prolongs the agony.

We believe that the reason these approaches have failed was because we made the initiatives “separate activities,” which were applied to the organization, and what was really needed was total organizational transformation. It is a lot like giving a person who has pneumonia, just an aspirin for his/ her headache thinking it will cure the disease. Or like going on a 1,200 calorie diet to lose 20 pounds and then going back to your old eating habits, where you quickly gain back 30 pounds. (Take it from me, I know.)

Our business focus has continually changed.

- ❑ 1970s – the focus was on people
- ❑ 1980s – the focus was on teams
- ❑ 1990s – the focus was on processes
- ❑ 2000s – now the focus is on knowledge and adaptability

In keeping with this changing focus, the approaches to performance improvement have changed.

- ❑ ISO 9000/14000 – process driven; lacks business focus
- ❑ Total Quality Management – process driven with statistical analysis and teams that are customer-focused
- ❑ National Quality Award – quality driven plus results
- ❑ Six Sigma – problem-solution driven with a focus on the customer
- ❑ Total Improvement Management (TIM) – performance driven/total organization driven sales, marketing development and personnel, as well as production. It included organizational change.
- ❑ Organizational Excellence – performance driven including processes, projects, organizational change, information technology, resource, and knowledge management

“Only 5 percent of the organizations in the West truly excel. Their secret is not what they do, but how they do it.”



The following gives a point score to the effectiveness of these approaches to improve organizational performance.

<input type="checkbox"/> Casual – no recognized system	0 points
<input type="checkbox"/> ISO 9000/14000 – minimum requirements	200 points
<input type="checkbox"/> Six Sigma – problem focused	400 points
<input type="checkbox"/> TQM – “womb to tomb” quality and teams	500 points
<input type="checkbox"/> National Quality Award – results based	600 points
<input type="checkbox"/> TIM – combined quality, reliability, performance and results	700 points
<input type="checkbox"/> Organizational Excellence – five pillars	1000 points

“You can win the National Quality Award with 600 points out of a maximum of 1000 points. That’s 60% of the way to the goal.”



You may ask the question, “Where are we today?” A survey conducted by HI Europe for Dow Corning provides us with the 2003 status. It included 69 executives from a wide range of industries in the Americas, Europe, and Asia. This survey revealed that TQM was the most important business innovation for these organizations over the last three years. Although Six Sigma has received a lot of press over the past eight years, it did not rate in the top three most important business innovations. The top three in order are:

- TQM
- Process Engineering
- Supply Chain Management

“We want to operate far more efficiently. We want to operate at a new level of excellence.”

Robert J. Herbold

Past COO

Microsoft

Organizational Excellence is designed to permanently change the organization by focusing on managing the five key pillars of the organization. Each of these five organizational pillars is not new by itself. The key to Organizational Excellence is combining and managing them together. We call the methodology that provides a holistic approach to improving the organization’s performance, “Organizational Excellence,” which is supported by five pillars that must be managed simultaneously. (See Figure 1.) The five pillars are:

- ❑ Pillar I - Process Management
- ❑ Pillar II - Project Management
- ❑ Pillar III - Change Management
- ❑ Pillar IV - Knowledge Management
- ❑ Pillar V - Resource Management

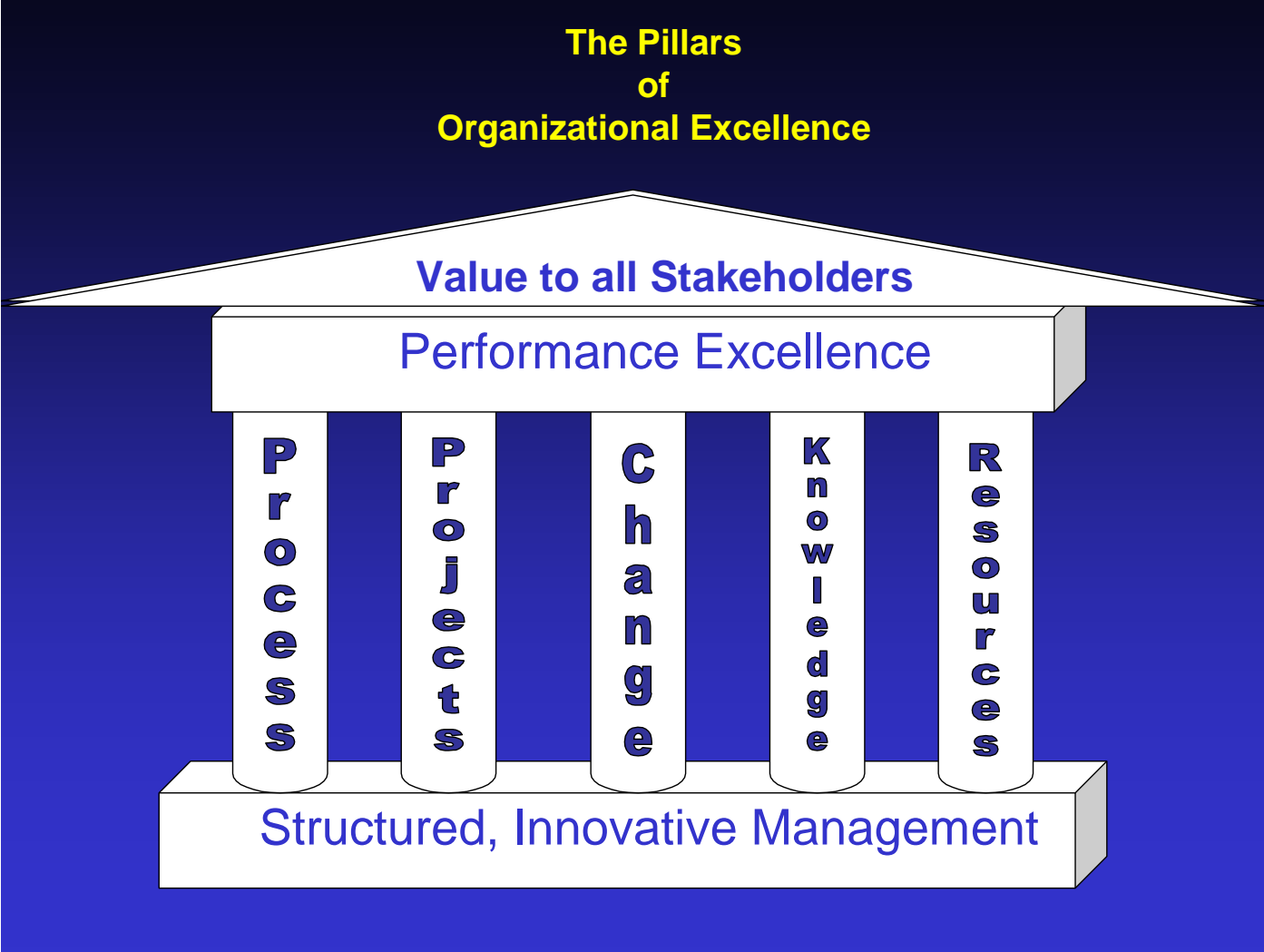


Figure 1. The Five Pillars of Organizational Excellence

- We need to manage our **processes** and continuously improve them for they are the way we do business.
- We need to manage our **projects** for that is the way we obtain major improvements in our processes and today, most organizations are doing a very poor job of project management as demonstrated by the high failure rate of projects.
- We need to manage the organization so that it is prepared for the chaos that it is being subjected to due to the magnitude and quantity of **changes** that must be implemented.
- We need to manage the organization's **knowledge** which is the organization's most valuable asset. (It is the organization's knowledge that gives an organization its competitive advantage, as technology can easily be reverse engineered and transferred to any place in the world almost overnight.)
- We need to manage our **resources** and assets for they drive our business results.

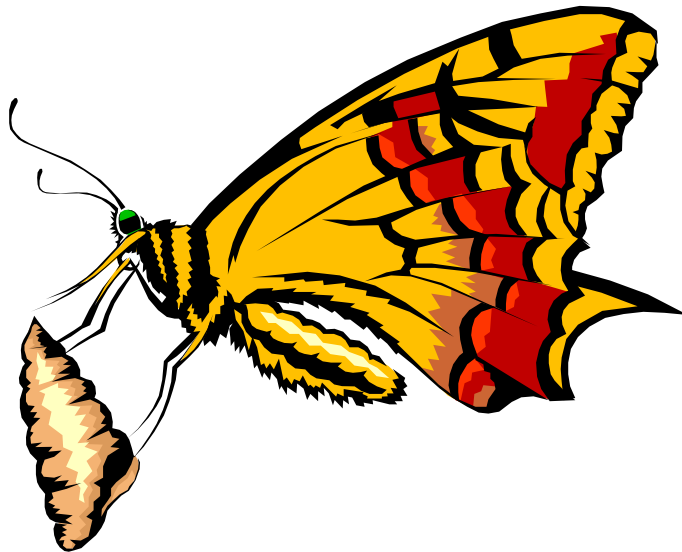
“These companies implement their results through effectiveness in developing and deploying management capital’s intellectual, technical, human information and other resources in integrating a company’s hard and soft assets.”

Armand V. and Donald Feigenbaum

Authors

The Power of Management Capital

By effectively managing these five key pillars and leveraging their interdependencies and reactions, an organization can bring about a marvelous transformation within itself. An organization will come out of its cocoon, which had been restricting its potential, and become a butterfly that will float on the winds of success and organization-wide self-fulfillment.



Organizational Excellence is designed to permanently change an organization by focusing on five important business pillars. Learning to manage them together is the key to success in the

endless pursuit of improved performance. This book is divided into five sections, one section for each of the five pillars.

SECTION I - PROCESS MANAGEMENT



“If you don’t have your processes controlled, their output is a matter of luck.”

The process management concept certainly isn't new to management professionals; it's the basis of most improvement methodologies.

Definition: A process is a series of interconnected activities that takes input, adds value to it and produces output. It's how organizations do their day-to-day routines. Your organization's processes define how it operates.

In order to manage a process, the following must be defined and agreed upon:

- ❑ An output requirement statement between process owners and customers
- ❑ An input requirement statement between process owners and suppliers
- ❑ A process that is capable of transforming the suppliers' input into output that meets the customers' performance and quality requirements
- ❑ Feedback measurement systems between process and customers, and between process and suppliers

- ❑ The process must be understood
- ❑ A measurement system within the process

These six key factors should be addressed when designing a process. However, the problem facing most organizations is that many of their support processes were never designed in the first place. They were created in response to a need without really understanding what a process is.

“Most individuals, teams, and groups within an organization will take the path of least resistance. Inevitably, over time, they will function at the lowest level of acceptability.”

William J. Schwarz

CEO

CEO Alliance and the Center for Inspired Performance

The Two Approaches to Process Management

There are two basic approaches to managing processes. They are:

- ❑ The Micro-level Approach that is directed at managing processes within a natural work team or an individual department.
- ❑ The Macro-level Approach that is directed at managing processes that flow across departments and/or functions within the organization.

Most of the work that quality professionals do is related to continuously improving our processes. Some of the tools we use include design of experiments, process capability studies, root cause analysis, document control, quality circles, suggestions, Six Sigma, Shewhart’s cycles, ISO 9000, just-in-time manufacturing and supplier qualification, among many others.

Management in excellent organizations requires each natural work team (department) to continuously improve (refine) the processes they use.

“If you (management) create an expectation of continuous product or service improvement, but fail to deliver on that expectation, you will see a build-up of fear and negative forecasting.”

Stephen R. Covey, Ph.D.

Author

Refining the process is an ongoing activity. If the refinement process is working as it should, the total process' efficiency and effectiveness should be improving at a rate of 10 to 15 percent a year. In most cases the project team focuses on the broad major problems that reflect across departments and reap this harvest within three to twelve months. At that time the project team can be disbanded and the process refinement activities turned over to the natural work teams (NWT) that are involved in the process. Area Activity Analysis (AAA) methodology, which is discussed in Section I, is the most effective approach to process refinement.

IBM reported that by focusing on their processes and working with their suppliers, “Between 1997 and 2001, the hardware reliability of our high-end servers improved by more than 200% while computing power increased by a factor of four.”

SECTION II - PROJECT MANAGEMENT

- ❑ **Only 26% of all projects are successful.**
- ❑ **40% of all IT projects fail or are canceled.**

Processes define how organizations function and projects are the means by which organizations improve those processes.

Definition: A project is defined as a “temporary endeavor undertaken to create a unique product or service.”

There are endless numbers of examples of poor project management. Two current examples are:

- ❑ NASA's Space Station Freedom originally was budgeted for \$8 billion; it is now up to \$32 billion and climbing.
- ❑ The 2004 Olympic Games that are scheduled to be held in Greece were 300% over budget one year prior to the opening.

Projects in most organizations are mission-critical activities, and delivering quality products on time is non-negotiable. Even in IT projects, things have changed. The benchmark organizations are completing 90% of their projects within 10% of budget and schedule. Information Systems organizations that establish standards for project management, including a project office, cut their major project cost overruns, delays, and cancellations by 50%.

Process Redesign and Process Reengineering are two of the most important projects that organizations undertake. These types of projects have a failure rate estimated to be as high as 60%. There are two main causes for these high-cost failures: poor project management and poor change management. IBM launched eleven reengineering projects that started from the way they manage internal information systems to the way they developed products and serve customers. IBM reported, "We have reduced IT spending by 31 percent for a total savings of more than \$2 billion. Since 1993, cycle time for large systems development has been slashed from 56 months to 16 months. For low-end systems, it's seven months - down from two years."

Why Projects Fail

Let's look at why projects fail.

- ❑ Failure to adhere to committed schedule caused by:
 - Variances
 - Exceptions
 - Poor planning
 - Delays
 - Scope Creep
- ❑ Poor resource utilization caused by:
 - Proper skills not available
 - Poor time utilization

- Misalignment of skills and assignments
- The portfolio of projects was not managed correctly:
 - The wrong projects were selected
 - High risk projects were not identified
 - Poor control over interdependencies between projects
- Loss of intellectual capital/knowledge capital:
 - Lack of the means to transfer knowledge
 - People leave the organization
- Not preparing the people who will use the output from the project (change management)

The Professional Project Manager

I liken project management to quality management; everyone thinks they know what quality is so anyone can manage quality. This same thought pattern applies to project management, but just as a quality manager is a special type of professional with very special skills and training, so is a project manager. Project managers require skill, training, and effective leadership specifically related to project management.

The Project Management Body of Knowledge (PMBOK) defines 69 different tools that a project manager needs to master. Few of the project managers that I have come in contact with over the past fifty years have mastered all of these tools. In today's complex world most organizations have numerous projects going on at the same time. Many of these projects are interlinked and interdependent. Their requirements and schedules are continuously changing, causing a chain reaction through the organization. As a result, the organization cannot afford to manage each project one at a time. They have to manage their portfolio of projects, making the proper trade-off of personnel and priorities.

This section focuses on how to use project management tools to effectively manage the organization's projects and to integrate them into the organization's total operations, which means the effective integration of projects, resources, and knowledge.



SECTION III - CHANGE MANAGEMENT

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

Gartner Group

We all like to think of us as change masters, but in truth, we are change bigots. Everyone in the management team is all for change. They want to see others change, but when it comes to the managers changing, they are reluctant to move away from their past experiences that have proven to be so successful for them. If the organization is going to change, top management has to be the first to change.

Change is inevitable and we must embrace it if we are going to be successful in this challenging world we live in. In Section III we will discuss the change management system that is made up of three distinct elements. They are:

- ❑ Defining what will be changed
- ❑ Defining how to change
- ❑ Making the change happen

Most of the books written to date about change management have been theoretical in nature. They talked about black holes, cascading sponsorships, and burning platforms, but that is only the last phase of the change process. Most organizations do not understand or follow a comprehensive change management system. An effective change management system requires that the organization step back and define what will be changed. By that, we are not talking about reducing stock levels, increasing customer satisfaction, or training people; we are talking about the very fundamentals. Which of the key business drivers need to be changed and how do they need to be changed? That means that you need to develop very crisp vision statements that define how the key business drivers will be changed over time. This requires that the organization have an excellent understanding of what its business drivers are and how they are operating today. Then the organization must define exactly how it wants to change these key business drivers over a set period of time. Once the organization has defined what it wants to change, then it can define how to change. During this stage the organization looks at the more than 1100 different improvement tools that are available today, determines which tools will bring about the required changes to these key business drivers, and schedules the implementation of these tools and methodologies. This schedule makes up a key part of the organization's strategic business plan.

The last phase in the change management process is making the change happen. This is the area where the behavioral scientists have developed a number of excellent approaches to break down resistance and build up resiliency throughout the organization. It is this phase that most change management books have concentrated on, but it is the last phase in the total change management system. This section of the book focuses on all three phases of the change management system, discussing in detail how to define what will be changed, defining how to change it, and how to make the change happen.

SECTION IV - KNOWLEDGE MANAGEMENT



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

Today, more than ever before, knowledge is the key to organizational success. In order to fulfill this need, the Internet and other information technologies have provided all of us with more information than we can ever consume. Instead of having one or two sources of information, the Internet provides us with hundreds, if not thousands, of inputs, all of which need to be researched to be sure you have not missed a key nugget of information. We are overwhelmed with so much information that we don't have time to absorb it.

To make matters worse, most of the organization's knowledge is still not documented; it rests in the minds and experiences of the people doing the job. This knowledge disappears from the organization's knowledge base whenever an individual leaves an assignment. This section of the book defines how to establish a Knowledge Management System designed to sort out unneeded and/or false information and capture the “soft” knowledge needed to run the organization.

With the almost endless amount of information that clouds up our computers, desks, and minds, a Knowledge Management System needs to be designed around the organization's key capabilities and competencies.

What is Knowledge?

Definition: Knowledge is defined as a mixture of experiences, practices, traditions, values, contextual information, expert insight, and a sound intuition that provides an environment and framework for evaluation and incorporating new experiences and information.

There are two types of knowledge: explicit and tacit.

Definition: Explicit knowledge is defined as knowledge that is stored in a semi-structured content such as documents, e-mail, voicemail, or video media. I like to call this *hard or tangible knowledge*. It is conveyed from one person to another in a systematic way.

Definition: Tacit knowledge is defined as knowledge that is formed around intangible factors embedded in an individual's experience. It is personal, content-specific knowledge that resides in an individual. It is knowledge that an individual gains from experience or skills that he or she develops. It often takes the form of beliefs, values, principles, and morals. It guides the individual's actions. I like to call this *soft knowledge*. It is embedded in the individual's ideas, insights, values, and judgment. It is only accessible through the direct corroboration and communication with the individual that has the knowledge.

Definition: Knowledge management is defined as a proactive, systematic process by which value is generated from intellectual or knowledge-based assets and disseminated to the stakeholders. In this section of the book we will discuss the six phases required to implement an effective Knowledge Management System (KMS). These phases are:

- ❑ Phase I – Requirements Definition (7 activities)
- ❑ Phase II – Infrastructure Evaluation (16 activities)
- ❑ Phase III – Knowledge Management System Design and Development (12 activities)
- ❑ Phase IV – Pilot (15 activities)
- ❑ Phase V – Deployment (10 activities)
- ❑ Phase VI – Continuous Improvement (1 activity)

One of the biggest challenges related to implementing a Knowledge Management System is transferring knowledge held by individuals, including processes and behavioral knowledge, into a consistent format that can be easily shared within the organization.

“Knowledge takes us from chance to choice.”

The true standard of success for knowledge management is the number of people who access and implement ideas from the knowledge networks. These networks bring state-of-the-art ideas and/or best practices into the workplace. This allows the organization to develop areas of critical mass that implement standards, and also provides access to everyone so they can make comments to improve those standards. Even the newest novice to the organization can look at the materials and make recommendations based upon personal insight, creativity, and experience.

A big challenge related to implementing a KMS is in transforming knowledge held by individuals, including process and behavioral knowledge, into a consistent technology format that can be easily shared with the organization's stakeholders. But the biggest challenge is changing the organization's culture from a knowledge-hoarding one to a knowledge-sharing culture.

SECTION V- RESOURCE MANAGEMENT

“Even the best ideas need resources to transform them into profit.”

Nothing can be accomplished without resources. Resources are at the heart of everything we do – too little and we fail, too much and there is waste – making our organization not competitive. Too many organizations limit their thinking about resources to people and money. These two are important, but they are only a small part of the resources that an organization needs to manage. This section looks at all of the resources that are available to an organization and how to manage them effectively.

Now, when we talk about resource management, we are talking about it in its broadest sense. It is all the resources and assets that are available to the organization. It includes stockholders, management, employees, money, suppliers, inventory, boards of directors, alliance partnerships, real estate, knowledge, customers, patents, investors, good will, and brick and mortar. It is easy

to see that when you consider all of the resources that are available to the organization, effective resource management is one of the most critical, complex activities within any organization.

Each of these resources needs to be managed in its own special way in order to become an excellent organization. The big question is, “How do you pull all these different activities and improvement approaches together and prioritize them?” In order to solve this question, we will present a very thorough, total involvement approach to strategic planning – one that involves everyone from the Chairman of the Board to the janitor, from sales to personnel, from Development Engineering to Maintenance. Yes, this is a total involvement approach to strategic planning; it is both bottom up and top down.

A total strategic planning process (business plan) has three main objectives.



Figure 2. The Three Purposes of Business Planning

There are eleven kinds of documents that are needed in a total, comprehensive strategic business plan. They are:

- Mission Statement

- ❑ Value Statements
- ❑ Organization's Vision Statements
- ❑ Strategic Focus
- ❑ Critical Success Factors
- ❑ Objectives
- ❑ Goals
- ❑ Strategies
- ❑ Tactics
- ❑ Budgets
- ❑ Performance Plans

Resource management cannot be an afterthought; all executive decisions must be based upon it. It requires a lot of planning, coordination, reporting, and continuous refining to do an excellent job at resource management. Too many organizations manage the operations by throwing more resources into the pot. They may be very successful with this approach as long as they have very little competition, but even the giants fall if they do not do an outstanding job of resource management. Just look at what happened to Big Blue.

ORGANIZATIONAL EXCELLENCE SUMMARY

“Being good is good. Being the best is great!”



When we look at the five pillars that must be managed to achieve excellence, we see common threads that run across all of them. For example,

- ❑ Communication
- ❑ Teamwork
- ❑ Empowerment
- ❑ Respect for one another
- ❑ Honesty
- ❑ Leadership
- ❑ Quality
- ❑ Fairness
- ❑ Technology

All of the key factors are built into the word “management.” It is all the things that turn an employee into an individual who owns his or her job, thereby bringing satisfaction and dignity to the individual for a job well done.

In today’s worldwide marketplace customers do not have to settle for second best. Overnight mail brings the best to everyone’s doorstep. The Internet lets your customers shop internationally so it is easy for them to get the best quality, reliability, and price, no matter who is offering it. Customers are concerned about the products they purchase, but they are equally or more concerned about dealing with organizations who care, who are quick to respond, and who will listen and react to their unique needs. This demands that, in order to succeed in the 21st Century, organizations need to excel in all parts of their business. You must have an organization that excels at what it is doing, but also is recognized by the stakeholders for its excellence in order to win today’s savvy customers.

“The essence of competitiveness is liberated when we make people believe that what they think and do is important – and then get out of their way while they do it.”

Jack Welsh
Past CEO
General Electric