

Thinking Managers

Despite the popularity of Six Sigma, Robert Heller of www.thinkingmanagers.com questions whether it is all it is cracked up to be.

Quality Management or Quality Company



I was struck recently by a quote in Business Week from Babson College management professor Tom Davenport: "Process management is a good thing. But...it always has to be leavened a lot with a focus on innovation and [customer relationships]."

Surely, though, customer care and the sustaining of both that relationship and the corporation's health and wealth with a stream of new products and processes always has been at the forefront of a company's policy?

Davenport believes that this might not be the case with many big companies (82% of the 100 largest US firms according to a survey conducted by the American Society for Quality) embracing six sigma as a management process.

Six Sigma is derived from Total Quality Management, or TQM, and both hold that every business process can be improved: you can always manage or produce more efficiently if you understand the process at work and calibrate where improvement can be made.

Once again, quoting Business Week: "The discipline was developed as a systematic way to improve quality, but the reason it caught fire was its effectiveness in cutting costs and improving profitability. That makes it a powerful tool – if those are a company's goals."

Going back to the 82%, if improving profitability is their primary goal, there is no doubt that six sigma is a useful tool, but unfortunately improving profitability by those means is subject to the law of diminishing returns.

A more robust approach is provided by The Excellence Model of The European Foundation for Quality Management (EFQM) who use the following nine questions as a basis for judging a company:

- 1) How well do all our leaders lead for us?
- 2) How well do we manage our people?
- 3) Where is the company going and how?
- 4) Do we have what we require [in resources] and make use of it the best we can?
- 5) How do we do things and guarantee customer focus before and after costs?
- 6) Are our people satisfied and do they want us to do well?
- 7) Do we have satisfied customers who are using us more?
- 8) What effect are we having on the outside world?
- 9) Are we achieving as much as possible?

The Thinking Managers website publishes The Thinking CEO internet business magazine, which includes an article by Derek Medhurst reporting the results obtained by award-winning companies which ranked high on the very demanding criteria applied by the EFQM. The studies conclude that if performance is measured before and after a company wins its first quality award, there is a very strong correlation with good results.

Over the whole post-implementation period the award winners showed improved outcomes over five years in five key performance areas where every company should wish to excel:

- Operating income was 18% up on closely matched 'control companies'.
- Total costs as a percentage of sales fell by 4.4% more.
- Capital expenditure as a percentage of sales rose by 31%.
- Asset growth was an amazing 44% greater than that of the controls.
- Even more astounding, total sales growth was 77% greater.

The last of those lines should definitely come first. Revenue growth is the Achilles Heel of the Six Sigma followers. Slashing costs and widening the margins won't lift the top line. And they won't lift the bottom line indefinitely either.

About the author: Robert Heller is one of the world's best selling authors on business management.