APQC

TWELVE PRACTICES FOR MEASURING CORPORATE QUALITY AT LARGE, DIVERSE ORGANIZATIONS

Insights from APQC research by Chris Gardner, Travis Colton and Michelle Cowan, APQC

Earlier this year, the American Productivity & Quality Center (APQC) talked to a series of large organizations to learn how they measure quality. Every organization interviewed expressed considerable interest in the topic, suggesting that the evaluation of quality at the corporate level is a widespread concern in today's market. Twelve common practices emerged from the research. These practices should not be considered best practices because of the small sample size in the study.

CONTINUED ON NEXT PAGE

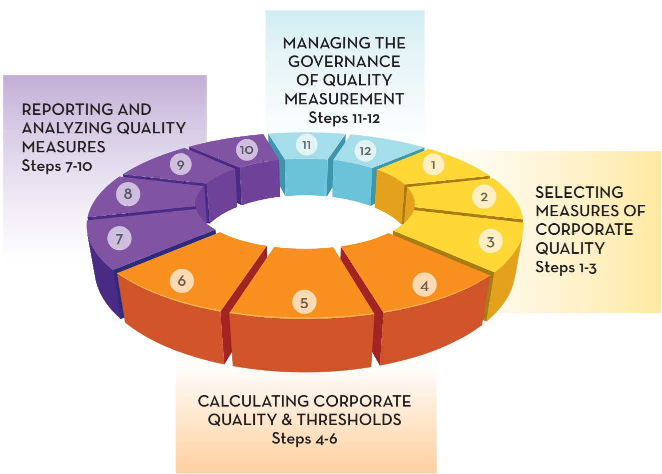
APQC

Researchers interviewed and collected data from nine organizations selected from multiple industries. Annual revenue for these organizations ranged from $4 billion to $32 billion, and each organization's structure comprises multiple business units and product lines.

The 12 common practices employed by the interviewed organizations are described below. All of the research participants admit that room for improvement exists and that they are continually seeking better approaches for monitoring and improving quality. The 12 practices fall into four rough categories: selection, calculation, reporting/analysis and governance.

Twelve Practices for Measuring Corporate Quality

AT LARGE, DIVERSE ORGANIZATIONS



SELECTING MEASURES OF CORPORATE QUALITY

1. **Use a suite of measures.** Eight of the nine interviewed organizations maintain a suite of quality measures at the corporate level. The number of corporate quality measures used ranges from two to five.

2. **Standardize the measures used across the organization.** All but one organization has attempted to develop some level of standardization in terms of measurement definitions and calculations. This means that all sectors within each organization collect, aggregate and report commonly defined measures.

3. **Drill down to the components of corporate metrics.** Instead of just relying on aggregated metrics at the corporate level, organizations are using the actual measure values (the mathematical components of final, complex metrics) as the core focus of the corporate quality system, recognizing the importance of individual context when evaluating corporate quality.

CONTINUED ON NEXT PAGE

CALCULATING CORPORATE QUALITY AND THRESHOLDS

4. **Set measurement targets at the corporate or business unit level.** The interviewed organizations use two predominant techniques to establish target goals for their corporate quality measures. The first technique is corporate-centric, with C-level leadership setting targets. The second is business unit-focused, with quality measure targets set at the business unit level (sometimes even at the individual program level) and rolled up to corporate. At first glance, the organizations where business units set their own targets seem to have more applicable, effective measures overall and more buy-in from employees. However, by delegating target-setting to the business units, organizations tend to lose some understanding of individual improvement initiatives, exhibit less alignment between business units, and weaken the connection between strategy and individual measures. Clearly, both techniques to establish measurement targets have benefits and disadvantages that organizations must strive to mitigate.

5. **Set green, yellow, and red performance thresholds.** Most organizations are using the green, yellow and red bands familiar to most quality functions to indicate satisfactory, marginal and unsatisfactory quality. There is really no common trend for determining the specific performance band ranges; a variety of methods are used.

6. **Develop a methodology to collect data from individual units/programs and report it concisely—but accurately—at the corporate level.** Six of the nine interviewed organizations calculate corporate quality metrics using individual data elements. In other words, the measurements are taken for individual units and departments and then rolled up to create composite measures at the corporate level. This helps executives understand overall quality quickly while also providing them with a deeper perspective on quality at the business unit level. The interviewed organizations tend to avoid averages in order to gain a more contextualized view of performance.

REPORTING AND ANALYZING QUALITY MEASURES

7. **Review measurement reports at least monthly.** Organizations tend to collect and review corporate quality measures at least once a month, and often more frequently. The consensus from interviewed quality leaders was that, if data were collected less often, they would lose the ability to identify and address issues early on.

8. **Collect data through an automated system.** Many organizations integrate the collection and reporting of

CONTINUED ON NEXT PAGE

corporate quality into existing enterprise systems, using technology that already supports other enterprise-wide initiatives and performance management activities.

9. **Make measurement transparent.** Through the reporting system and tools, users from anywhere in the organization should be able to view the quality measures for any program or aggregate group across the entire enterprise. Organizations that provide a high level of transparency for corporate measures—meaning that program/sector/corporate management can see the quality measures across all sectors and programs, not just direct reports—cited higher levels of buy-in and perceived value from all levels of staff.

10. **Employ reporting tools with drill-down capabilities.** In addition to transparency, five organizations also provide extensive drill-down and data-slicing capabilities in their enterprise quality reporting systems.

MANAGING THE GOVERNANCE OF QUALITY MEASUREMENT

11. **Choose to manage quality measurement either from a central location (corporate) or within the individual business units.** Similar to finding No. 4, roughly half the organizations have strong central quality functions that manage quality policy enterprise-wide. The other half of the organizations focus more strongly on sector-level management of quality measures.

12. **Do not base compensation on quality measures.** None of the interviewed organizations currently use corporate quality measures as a factor in compensation, and several vehemently opposed the notion.

CONCLUSION

Although these 12 practices cannot be considered "best practices," they do offer guidance for organizations trying to design quality measurement plans. Automated, transparent, granular systems seem to be the norm. And organizations split evenly between centralized and localized governance. To be successful, organizations take a rigorous, systematic approach to measures, reviewing them and acting on them on at least a monthly basis. These practices may be a good starting place for organizations that want to begin adapting and testing quality measurement methodologies.

ABOUT APQC: APQC is a member-based nonprofit and one of the leading proponents of benchmarking and best practice business research. Working with more than 500 organizations worldwide in all industries, APQC focuses on providing organizations with the information they need to work smarter, faster, and with confidence. Visit www.apqc.org.

Chris Gardner is Director, Performance Improvement, Travis Colton is Senior Project Manager and Michelle Cowan is Knowledge Specialist at APQC.