

Texas Stamper Succeeds with **Harvard** **Management** **Tool**

Adoption of the Balanced Scorecard, a management tool developed at Harvard Business School, has steered ITD Precision toward success in financial, quality, operational and cultural realms.

BY WALI ALAM



An ITD Precision official reviews ITD Scoreboard results with employees. The Scoreboard, updated monthly, keeps all company personnel apprised on Balanced Scorecard progress in four facets of company business: financial, quality, operations, and learning and growth.

ITD Precision, a family-owned metal-stamping company established in 1946, has plants in Houston and Harlingen, TX, and employs 80 people. Though a proponent of a Texas-style “whatever-it-takes” attitude, ITD has successfully employed management techniques and principals developed at the Harvard Business School. This approach to management is embodied in the Balanced Scorecard, which has been implemented by such large companies as Mobil, Cigna and Wells Fargo. Developed by Robert Kaplan and David Norton of the Balanced Scorecard Collaborative (www.bscoll.com) in association with Harvard, the Scorecard has been the critical management tool used to effectively steer ITD Precision toward success in financial, quality, operational and cultural realms.

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Management Tool

This chart provides a graphical representation of parts produced at ITD Precision and is used as part of the company's Balanced Scorecard management tool.

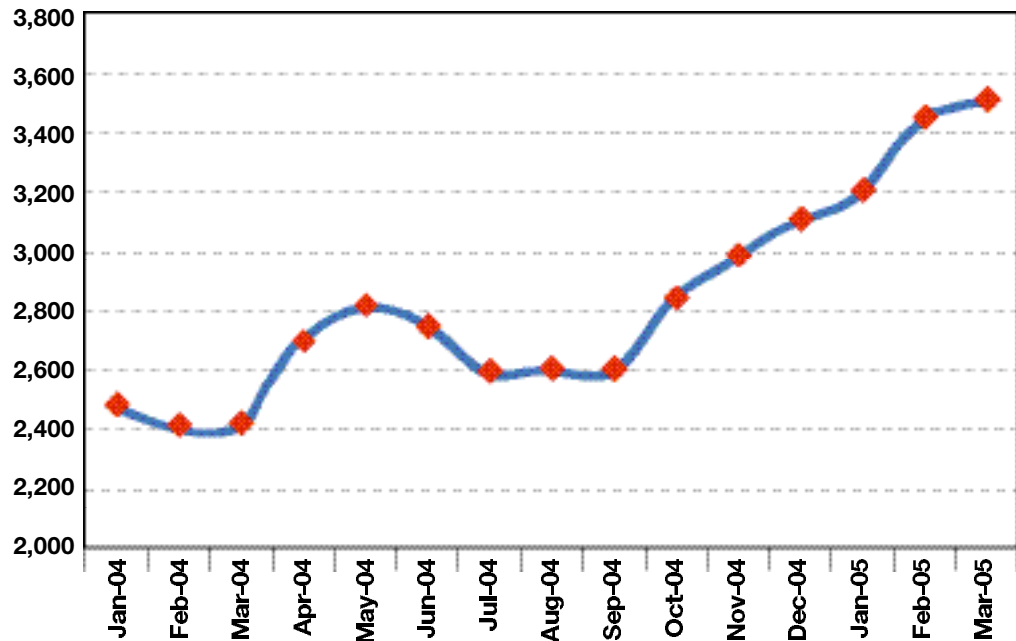
While consulting with ITD and its conversion from ISO 9002:1994 to ISO 9001:2000, Bill Tofte, ITD vice president and quality-management representative, told me that the latest ISO requirements created more of a "management system" than strictly a "quality management system." Simultaneously, he also discovered the Balanced Scorecard, a system that parallels several elements of ISO 9001. What Tofte ultimately wanted was a single management system that embedded the elements of ISO 9001. Success at ITD has proven that ISO 9001 and the Balanced Scorecard are complementary systems.

What's the Balanced Scorecard?

Most quality-management systems require establishment of quality objectives, measurements and targets for those objectives, and corresponding corrective actions where quality objectives are not met. Similarly, the Balanced Scorecard helps a company establish a broad set of objectives, measurements, targets and initiatives in various areas, helping "balance" all of the important factors leading to success. Where performance is lacking, initiatives or other corrective actions are implemented.

The Balanced Scorecard system forms the PDCA (Plan, Do, Check, Act) process-improvement cycle for ITD's entire business. Upper management establishes certain financial, quality, operational and cultur-

Total Output
Tons Received, Processed, Removed, Shipped
Three-Month Running Average



al objectives (Plan), executes administrative and manufacturing activities (Do), then periodically compares performance to targets (Check), then, where performance is lacking, initiates corrective action (Act). In the same way the company inspects metal stampings, officials periodically check company performance to see if it is "out of tolerance," then determine initiatives or other changes to get back on track.

Features Four Facets

The Balanced Scorecard in place at ITD focuses on four facets of company business: financial, quality, operations, and learning and growth. The ITD Scoreboard, updated monthly, keeps all company personnel apprised on Scorecard progress within these facets.

Administrative personnel can view the ITD Scoreboard and see how their particular department is performing.

"Through the ITD Scoreboard, all of our employees have become aware of how their activities affect overall company performance," says Scott

Hays, GM of ITD's Harlingen, TX, plant. "In the end it is our people who make the difference. No processes work completely independent of others. It is a joint effort. Each month, several continuous-improvement meetings are held in both ITD plants, both intra and inter-departmental. With our Scoreboard, we can see if the improvement initiatives are working."

At ITD, here is how the four facets are approached.

Financial—Like all metal stampers, to ITD, financial health is the ultimate objective. Profitability, liquidity and growth are highlighted in the ITD Scorecard.

"In the past, we avoided discussing profit with plant and office personnel, yet in today's environment all employees must understand that turning a profit is an absolute necessity," says Mike Tofte, ITD president. "At regularly held Scoreboard meetings, profit is at the forefront, and employees learn what role they play in its attainment."

ITD measures net profit per part shipped, which, since January 2003,

has risen more than 500 percent.

Quality—As required by ISO 9001, organizations, as a means of continuous improvement in customer satisfaction, must establish quality objectives and targets, and measure their performance against those objectives. ITD monitors its PPM, on-time delivery and customer satisfaction.

“The Scoreboard puts quality in perspective,” says Michael Tofte, customer-service manager. “Quality initiatives that will not achieve greater customer satisfaction and cannot ultimately be linked to financial success are not considered.”

ITD has reduced its PPM by more than 93 percent since January 2003.

Operations—The level of financial health and customer satisfaction a company achieves is merely the result of various manufacturing and administrative processes. ITD has established objectives and related measurements related to tooling construction, stamping production, die maintenance, e-coating, quality assurance, distribution and scheduling, each of which has aggressive targets of achievement.

Learning and Growth—Because ITD managers are manufacturing-oriented, it was difficult to come to grips with the learning and growth perspective, and management, through a Scoreboard meeting, realized that changes were needed. ITD recently has hired a training and safety manager and has undertaken management-training programs.

“Our culture, training, people, etc., create the climate for operational improvement,” offers Bill Tofte. “Our manufacturing and administrative processes determine the level of quality and service for our customers; and our customers purchase our products and ultimately determine our financial success. It’s all a very clear set of cause-effect relationships.”

Balanced Scorecard in Practice

Establishing dependable measurements in the metal-stamping business was a key challenge for ITD. Determining meaningful output units was critical, yet difficult because product mix and manufacturing methods vary significantly. How can there be a single output measurement for both a 400-ton press and a 45-ton press? After much examination, it became apparent that ITD was actually a metal processor, not a manufacturer of metal stampings per se. As a result, ‘tons of metal processed’ is its primary output unit. Many of ITD’s measurements are six-month running averages, the use of which smoothes out product mix and accounting spikes.

Die maintenance is another area of the ITD operation that has benefited from the Scorecard.

“Because die maintenance in our toolroom is such an integral part of our operation and such a significant cost center, we must measure our performance in that area,” explains Scott Wells, vice president of operations. “We finally came up with ‘tons of metal removed’ as our output unit.”

Responding to such a measurement, ITD, from January 2003 to January 2005, reduced its die-maintenance cost from \$146 to \$120 per ton of metal removed.

“We are still looking at effective ways to measure our performance in regard to new tooling construction,” Wells adds.

Incentive to Succeed

The pinnacle feature of ITD’s Scorecard is its performance incentive plan. Objectives are weighted, then every six months ITD’s performance in relation to its targets is measured and an overall performance percentage determined. For example, 100-percent attainment of 100 percent of the targets would mean 100-percent overall performance. Using this percentage and a

percentage of net profit, ITD distributes its performance bonus.

“I really understand why profit is so important to the company now, and I see how I make a difference,” says Maria Carino, ITD press technician, commenting on the Scorecard’s benefits. “The performance incentive plan is great. When the company succeeds, I do, too.”

Ties Quality, Financial, Manufacturing Goals

“As quality management representative, I tried to focus the company on achievement of quality objectives, but as vice president, I knew that quality, as important as it is, cannot be isolated from the company’s financial and manufacturing goals,” recalls Bill Tofte. “After a short period of study and training, I knew that the Balanced Scorecard was the tool we needed to drive the company toward continuous quality improvement, operational excellence and financial health. Like most managers, we struggled with development of a clear strategy. In fact, we did not have a clear idea of what a corporate strategy is or should be. After a time we learned that strategy is simply an ordered set of objectives. The Balanced Scorecard delivered the ‘order’ to our objectives.”

Mike Tofte agrees.

“With the Balanced Scorecard, we now have a formal strategy, just like larger corporations, that can be effectively communicated to our employees, customers and other stakeholders,” he says. “The degree to which everybody is on board and pulling in the same direction has obviously increased. In addition, we now have a framework in which we can analyze important cost decisions from equipment purchases to improvements to our training program. Before, we spent countless hours examining the pros and cons of a decision. It is not only simpler now, but we have more confidence that we are making the right choices.” MF