ALIGNING THE DOWN-SIZED ORGANIZATION FOR HIGH PERFORMANCE

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INTRODUCTION

The Quality Management Group (QMG) at the Los Alamos National Laboratory provides expert support to the Laboratory's diverse programs, projects and facilities. Organized as an internal consulting group, the QMG furnishes comprehensive quality management services to requesting organizations throughout the Laboratory. Based upon the needs and expectations of the requester, these services range from classical quality control to regulatory compliance (e.g. implementation of 10 CFR §830.120) to process characterization and improvement, customer relationship management, information gathering and metrics.

Until early 1996 when a new management team took charge, the QMG consisted of approximately 45 full-time equivalents. Approximately half of these resources were deployed to customers throughout the Laboratory and were funded directly by their customers. The other half of QMG personnel were centrally located with the core QMG organization and were funded indirectly from the Laboratory general and administrative fund.

During this period, deployed QMG personnel were placed throughout the Laboratory based upon informal agreements between QMG management and the customer. There were no mechanisms in place for customers to clearly and formally state their expectations. Neither were there any channels through which QMG management collected input to determine whether customer needs were being satisfied.

Within the core organization, tasks were assigned to QMG staff and teams based upon the Laboratory Quality Officer's judgment and the ability to obtain funding from the Laboratory general and administrative fund. No formal systems were in place to identify needs, characterize performance, or measure success.

In late 1995 a confluence of stark events disrupted the status quo and served notice upon the QMG that the prior comfortable operating environment had changed fundamentally and dramatically.

DOWNSIZING

In September 1995 the Laboratory Director announced a downsizing effort targeted to reduce the Laboratory's cost of doing business and thereby improve its competitiveness. The downsizing effort was targeted on support organizations--Laboratory divisions, groups, programs, and projects chartered with operating the administrative infrastructure within which Los Alamos' technical programs function. Almost universally supported out of the Laboratory general and administrative fund (which is raised by taxing the technical programs), these organizations provide the environmental, occupational health and safety, human resources, facility engineering, security and safeguards, business operations, and quality management support upon which the Laboratory relies to conduct its daily operations.

The downsizing process continued apace, and without going into unnecessary detail regarding its implementation, it is sufficient to relate that its effect upon the QMG staff was profound. At the conclusion of the process, approximately 25% of the QMG staff had been separated from the
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organization through a combination of early retirement incentives, a voluntary separation program, and ultimately an involuntary reduction in force.

It is important to note at this juncture that the downsizing process, while relentless and deep-cutting, was by no means arbitrary or random. Within the QMG and throughout the Laboratory’s support organizations, managers worked closely with their organizations’ customers to justify their downsizing decisions on a performance basis. An alarming byproduct of this process within the QMG was the loudly voiced dissatisfaction of many customers with QMG personnel, products, and services. This input was accompanied by a general expression of loss of confidence in the relevance and value of QMG activities supported from the Laboratory general and administrative fund.

Following closely on the heels of the conclusion of this process, a new QMG management team took charge.

AFTERMATH

The new management team inherited an organization racked with fear, uncertainty, and distrust. Employees did not understand the process by which the downsizing had been conducted and had no confidence in the veracity of the information used to arrive at downsizing decisions. Mistrust of management and fellow employees resulted in turf-protecting, survival mode behavior on the part of individual members of the staff.

This volatile state of affairs was exacerbated by the conflicting messages being received by QMG members from their customers and Laboratory senior managers. On the one hand, the driving force behind the downsizing effort had been to substantially reduce the level of effort devoted to support activities such as quality management. This message had been clearly received from senior management prior to commencing the Laboratory-wide downsizing effort, and the entire process had been driven by this goal. Customers, however, especially in the weapons manufacturing community, continued to clamor for additional support resources to meet their projects’ needs.

Along with this apparent dichotomy between Laboratory policy and customers’ needs came another message from many of QMG’s most important customers, namely that QMG services were far too expensive and that QMG personnel either were insufficiently qualified or insufficiently focused on customer needs to provide value to customer projects. There was also feedback from customers indicating a perceived lack of commitment on the part of QMG management to take customer issues into account when deploying personnel.

Overall, morale had reached an all time low in the group, and the ability to maintain constructive interactions among employees, managers, and customers had eroded almost completely. Lacking this foundation of civil interaction, any form of teaming was completely beyond the grasp of the organization.

As a management team we felt it imperative to act quickly to address these issues. We decided to first attempt to clarify what the specific issues were through a series of formal interactions with employees and customers. The first such interaction involved a Laboratory-wide survey on employee issues. When QMG results were extracted from the Laboratory-wide data, we found that the three lowest satisfaction issues for our employees were

- **trust in management** - employees felt that management had isolated itself from the workers, did not understand the workers’ needs and expectations, was secretive, and was pursuing a self-serving agenda.
- pay for performance - there was widespread dissatisfaction in this arena ranging from serious discontent with the annual performance assessment and salary management processes (in previous years all QMG employees had been given identical performance assessments and the same annual "performance" raise.) Management's poor performance (or lack of will) in dealing with substandard performers was also called into question.

- communication - employees perceived a complete breakdown of communication throughout the group. There had been virtually no communication between employees and management, to the extent that the previous management team had no idea where (physically) many of its deployed employees worked or what their job tasks were. Owing to the mistrust rampant in the organization, employees largely declined to communicate with each other, choosing instead to isolate themselves and protect their turf. And formal interactions with the customer were virtually nonexistent.

Direct interviews with all of the employees substantiated the results from the Laboratory-wide survey and identified various additional issues. Among these were an overall organizational sense of low self esteem and powerlessness. A large fraction of the quality management professionals in the group felt unappreciated by management and their customers and believed they couldn't make a difference for the Laboratory. This was particularly the case among the core elements of the group.

Interviews conducted with all of our customers, on the other hand, identified a complementary set of problems. Overall, customers perceived three major problems:

- high cost of QMG services - customers felt strongly that QMG labor rates were far too high and that there was poor accountability between hours worked and hours charged. QMG rates were also not prorated to reflect the actual cost of its deployed personnel, resulting in the most junior trainee's rates being identical to that of our most senior quality engineer. Finally, the system allowed unannounced, eleventh hour, rate adjustments that retroactively raised QMG labor rates without customers' prior knowledge or concurrence.

- inconsistent knowledge and training of QMG staff - various customers pointed out that there appeared to be no fundamental body of knowledge against which QMG personnel could be assumed to be competent. Hence, there was wide variation in the abilities of QMG staff and no apparent effort on the part of the home organization to address these deficiencies or provide a consistent program of training, qualification, or certification.

- insensitivity of QMG management to customer issues - customers felt that QMG management was more concerned with placing "bodies" in their organizations than with matching the appropriate personnel to the customers' expressed needs. Numerous examples were cited in which the QMG reportedly provided trainees to fill senior customer quality-management positions. In other cases, deployed QMG resources refused to consider customer needs or concerns and unilaterally forged ahead developing inflexible, monolithic quality programs that only served to further alienate customer personnel.

As a result of these issues various customers had already abandoned QMG as the source of their quality management support. Others were in the process of arriving at that decision. Consequently, as a new management team we faced the stark prospect of large scale customer flight from a demoralized, unmotivated organization.
STRATEGIES FOR SOLUTION

It was clear from the above customer and employee results that a major rebuilding effort would be necessary to transform the existing organization into one that could successfully deliver on its commitments and have some influence over its destiny. We agreed that the process needed to begin with a highly focused planning effort.

The planning effort upon which we subsequently embarked was simultaneously protracted and exceptionally intense. The major emphases of the effort were 1) to understand in depth the customer and employee input we had gathered; 2) to identify common themes and threads in the data; and 3) to develop a set of guiding principles or priorities for addressing the underlying issues. As a management team we probably spent no more than a week in this effort. We produced no extensive action plans or resource loaded schedules, although we have since documented the outcomes to share with our employees.

What we had when we finished was a simple set of four guiding principles and a mutually agreed upon commitment to ensure that all of our efforts toward reconstituting the QMG would focus in at least one of these four areas. The four foundation elements against which all future efforts to improve the group would be (and still are) measured are

- **Focus the entire organization in all aspects of its work** on the customer. We must understand who our customers are and honestly work with them to achieve the results they need. We must partner with them to understand and characterize the work; to execute our tasks efficiently and effectively; to anticipate their needs; and to gather and act on their feedback.

- **Shift the financial basis of the organization to a market-driven model.** Abandon the prior inflated labor rate and tie realistic rates directly to the cost of the resource provided. Commit to rates that remain unchanged throughout the performance period. Equally important, slash the organization's dependence on overhead funding (the Laboratory general and administrative fund) and move existing efforts into the direct-funded realm.

- **Rebuild trust and develop an engaged, involved staff.** As our most precious resource, bring the employees back into the loop and help them succeed in making QMG a world-class performer. Support reasonable performance assessment and reward processes. Ensure the opportunity for employees to continue to grow professionally and provide a rational framework within which this growth can occur. Rebuild the bridges of interdependence among employees, managers, and customers. Foster teamwork and honest, open communication at all levels.

- **Develop effective business practices to support the customer-focus, financial-model, and human-resources imperatives.** Provide the process and operational infrastructure necessary to implement the new models. In short, run the organization as a business that relies on a committed staff to ensure delighted customers and generate a positive cash flow.

Although only four in number, these principles cut across all of the customer and employee issues identified in the preceding section. They serve as a road map and a litmus test for every improvement initiative that the management team considers. As such they help us concentrate our efforts in the high pay-back regime and keep our attention and resources focused on the critical problems at hand.
INITIATIVES

The initiatives described below represent some of the actions taken by the authors to address the problems that beset the QMG in early 1996. These initiatives were mounted over a period of approximately 16 months (beginning in May 1996), and many represent ongoing efforts. We discuss these initiatives below within the context of the guiding principles described in the preceding section.

Except for isolated instances among the deployed QMG staff, the level of customer focus at the beginning of this initiative was essentially zero. Deployed QMG personnel often acted as institutional policemen constructing ever more complex structures of rules and criteria with which their “customers” were expected to comply. Customer goals, expectations, constraints, and commitments typically were not considered in this environment, often resulting in bitter, antagonistic relationships. The general attitude was that the customers were too unsophisticated (or too irresponsible) to have a voice in the process.

The non-deployed core QMG resources were generally even less aware of customer issues, to the extreme that in many cases they were completely unaware of who their customers were. Funded from the general and administrative fund, there existed no specific tie to any customer entity, and consequently many core resources pursued pet projects “for the good of the Laboratory” that had no identified sponsor or champion and no clear mechanism for assessing value. In the rare event that non-deployed resources actually performed a service for a specific customer, the vagaries of overhead funding ensured that productivity was low and the delivered product was of variable quality.

In order to regain control of the situation, we decided to mount various initiatives to instill an ethic of customer focus throughout the organization. Recognizing that the first step was identifying who our customers are and what (precisely) are our commitments to them, we decided to institute a comprehensive customer-service-agreement process throughout the organization.

Contracts for customer focus. Simply stated, the customer-service-agreement process requires every QMG employee who performs work for another organization to have a formal, written service agreement in place before the work begins. The service agreement follows a standard format and addresses issues that must be well understood between the QMG and the customer. Most prominent among these is a detailed, written statement of work for the task. The agreement also spells out in detail the financial arrangements between the QMG and the customer organization. It specifies by name the QMG personnel to be supplied; quantifies the duration and level of effort to be provided; and commits to specific labor rates for the duration of the project. It further authorizes the identified QMG personnel to bill their time against a specified set of customer financial codes.

The service agreement addresses other aspects of the work as well. It provides a mutually agreed-upon algorithm for allocating incidental expenses among the customer and the QMG. It has provisions for gracefully terminating the agreement and has very specific change control provisions that govern how (and by whom) the agreement can be modified. The agreement further specifies (very explicitly) who will be responsible for supervising QMG resources deployed to the customer, the work rules that will be in effect, and the measures taken to ensure a safe work environment.

Finally, the service agreement specifies formal interfaces for collecting customer feedback throughout the project. As will be discussed in a succeeding section, this feedback, obtained through formal customer satisfaction surveys, is used in many ways to monitor how well QMG understands and meets the customers’ needs and expectations. Ultimately, these results drive the
employee performance assessment process and determine employee rewards such as annual salary actions and performance bonuses.

The customer service agreement is negotiated directly between the QMG project lead and the customer. A QMG contracting specialist assists with technical details (e.g., rates, productive hours, financial codes, etc.), but the primary responsibility for developing the substantive provisions (and especially the statement of work) lies with the QMG employee and the customer. This promotes the beginnings of a relationship of trust and understanding that is essential for establishing the customer-focus ethic. The service agreement is signed by the employee, a customer representative, and the QMG manager.

The service agreement process addresses many of the fundamental communications issues that plagued the QMG. It fosters open dialogs and negotiations among customers, employees, and management. It engages the QMG staff at an unprecedented level in defining their work and committing to excellent customer service. It formalizes our business processes and promotes a market ethic throughout the organization. And, most importantly, it establishes the foundation for a comprehensive customer relationship management system.

**Listening to customers.** The QMG *customer relationship management system* comprises a formal mechanism for ensuring excellent customer service within the context established by the customer service agreement. It utilizes a formal survey instrument to gather objective importance/satisfaction data from customer representatives. Data is gathered in the areas of quality of work, timeliness of work, responsiveness, quality of interactions, safety, satisfaction with business arrangements, and overall value. Further subjective input is gathered through the same instrument in the areas of general comments and specific concerns or issues.

We survey our customers using this instrument three or four times per year. We share results immediately and completely with the involved QMG employees and maintain a comprehensive database of customer satisfaction results that allows us very effectively to analyze long term performance and identify potential issues. Each employee also self-assesses their own performance using this instrument. Employees then work directly with customers to understand the feedback and to identify opportunities for more closely aligning employee performance with customer expectations. As in the case of the service agreements presented above, this approach engages the employees to become directly involved with ensuring customers’ needs are being met.

We also link the performance results obtained through the customer surveys directly to employee performance assessments, supplemental rewards systems, and salary actions. In order to promote trust and engage the staff, we chartered an employee team to decide how customer feedback results would be transformed into salary actions, performance assessment results, and other rewards and recognition. The result has been a highly relevant system that has the complete buy-in of the staff, thereby enabling us to utilize performance results to incentivize employees rather than punish them.

**Financial model.** Restructuring the QMG financial model consisted of two principal actions: rate normalization and establishing customer funding for QMG operations. As the first step, we rationalized the existing rate structure, discarding the single rate for all QMG resources and replacing it with a graded system under which labor rates are directly linked to employee costs. Under this system, rates charged customers for entry-level or junior quality specialists are significantly lower than rates for more senior QMG resources. This simple change immediately reduced the average cost-to-customer of a QMG quality specialist from $57/hour to $42/hour, a 26% reduction.

The second step in reworking the financial model involved establishing direct customer funding sources for all QMG operations. Consequently we aggressively moved away from existing funding drawn from the Laboratory general and administrative fund. requiring instead that all
activities identify a particular customer who was willing to provide direct funding for the work. Work that could not be so justified and funded was abandoned, thereby further reducing the QMG overhead and promoting enhanced customer focus.

To further buttress the QMG/customer relationship, we began immediately providing comprehensive monthly reports to every customer detailing costs and progress. These reports keep all parties focused on the critical cost/benefit issues associated with each project and allow QMG quality specialists and customers to jointly identify and resolve potential variances early in the process.

Building trust. As a management team we recognize that the QMG can only succeed to the extent that it maintains an engaged, involved staff. A key prerequisite is a trusting relationship among all parties. We moved out on various fronts to begin to establish this relationship.

To counter the widespread feelings of isolation and powerlessness expressed by the vast majority of QMG staff, we initiated a program of one-on-one meetings with all employees. Under this system, the QMG leader or deputy commit to meet individually with each employee at least once every six weeks. Meetings are always conducted at the employee’s work location rather than at the QMG central offices. The agenda for the meeting is set by the employee and may vary from reviews of accomplishments, to tours of the work area, to discussions of special issues of importance to the employee. The QMG leader and deputy alternate meetings with each employee, keep careful notes for each meeting, and accept explicit action items based upon issues identified. These meetings also afford us the opportunity to familiarize ourselves with the employee’s work environment and stay on top of any potential safety issues associated therewith.

We also completely revamped the mechanisms used to communicate en masse with the QMG staff. Based entirely on employee feedback, we totally revamped former system of weekly, unstructured, poorly-attended staff meetings. In their place we established a series of bimonthly vehicles specifically targeted to meet employee-identified needs. On odd-numbered months the QMG leaders host an all-hands meeting designed to communicate issues of interest to the entire organization to the employees. The meeting is highly structured and is not permitted to last more than 90 minutes. Its agenda (published in advance on the organization Intranet), has segments for safety (Safety First!), rewards and recognition (Bragging Rights), teaming (Team Time), business issues (Business Matters), and a segment that alternates between professional development (Tech Talk) and focus on a particular customer (Customer Connection). Detailed employee satisfaction surveys after each such meeting indicate that the staff finds these meetings energizing and useful.

On even numbered months we hold a series of three mini-meetings, each focused on a particular segment of the QMG staff. These meetings are also limited to 90 minutes but are structured fundamentally differently from the all-hands sessions to ensure maximum opportunity for employee input and interaction. Consequently, we choose a theme for the month’s mini-meetings (e.g. “quality ethics,” or “cost of quality”) and one of the leaders then facilitates an open discussion among the employees present. As a result we can learn of emerging issues early and promote organization-wide approaches to solution. We obtain detailed feedback on each mini-meeting as well to ensure that our communications goals are being met and to identify opportunities for tuning the system.

At every opportunity we attempt to meaningfully empower employees. A practical example involves our approach to employee professional development. Previously, employees who desired to obtain specific training, purchase professional tools such as books or software, or attend professional meetings were required to plead their case before the QMG leader, who would then decide whether to grant (and fund) the request. The system was replete with factors that eroded trust, alienated employees, and promoted dysfunctional behavior. Because money to fund requests typically ran short at the end of the year, many employees would rush to be the first to make a
request, and there were serious questions about whether many of these proposals were justifiable. As in any system in which an authority figure dispenses oversubscribed resources, there were continual allegations of favoritism.

The new leadership team replaced this broken approach with a new system whereby each QMG employee is given a professional development budget (of $5,500) at the beginning of each year. It is entirely up to the employee to administer this budget—as long as the worker does not exceed the allocation, she is empowered to decide how to spend it and requires no approvals from QMG management. As an organization we raise the funds for these accounts through an overhead charge to all of our customers. We have been extremely pleased with the level of responsibility shown by our employees in allocating these funds and have been very impressed to find that the employees have identified innovative ways to spend their professional development allocations that provide extra benefits to the organization as a whole. For example, ten employees pooled a portion of their allocations to fund a series of quality-related professional development videos that they present weekly to the entire QMG (and Laboratory).

Finally we have made extensive use of employee teams to make decisions and define processes that previously would have fallen into the domain of the QMG leaders. Thus employee teams defined the processes and criteria for employee performance assessments and salary actions. Other employee teams have tackled broken administrative processes logging phenomenal successes. One such team, for example, reduced the cycle time for making travel arrangements 100-fold. As leaders we commit to support team recommendations with real resources.

Providing the business Infrastructure. To ensure that the group's new business systems and strategies perform efficiently and effectively, the management team has made a considerable investment in business infrastructure at various levels including processes, tools, and infrastructure planning. At the process level we have adopted standard business practices that have never before been used within the organization. Examples include WBS-based project management, cost accounting, effort reporting, zero-based budgeting, contract change-control, recognition and rewards systems (including performance-based salary management), and formal customer feedback and action tracking systems.

We have mounted an initiative to document all of our processes and publish them on the organization intranet. We have begun this effort with the processes that are closest to our employees, e.g., customer relationship management, salary management, and performance assessment. We continue with other administrative processes.

We have made a significant investment in software tools and databases to facilitate all aspects of our operations. Advanced Web-based tools now support our customer relationship management system, financial systems, assessments, surveys, and performance measures. Other tools support our project management, budgeting, and forecasting activities. We have made these tools available at no charge to other organizations throughout the Laboratory, the State of New Mexico, and the Department of Energy.

Finally, we continue to plan aggressively for further major enhancements to the business infrastructure. We have recently begun implementing a system for analyzing our quality specialists' training and experience against the ASQ Certified Quality Manager body of knowledge. Our plans call for this system to be available for generating customized training plans for every member of our staff.

We are also actively planning enhancements to our customer relationship management system that will result in complete integration of the system with the World Wide Web. When the infrastructure is complete each customer and every employee will have a personal Web site for interacting with the QMG. Customers will be able to complete satisfaction surveys, review and propose changes to
their service agreements, monitor project performance measures, and obtain financial and project management information through the familiar Web interface. Employees will monitor their performance against customer expectations, post professional information such as special skills or abilities, schedule one-on-one meetings, obtain access to QMG process documentation, and tailor training plans.

RESULTS

The measurable results of the above initiatives have been dramatic and far reaching. As cited above, over the first year QMG reduced its average rates to the customer by approximately 26%. The following year showed an additional 15% reduction so that presently we can compete very effectively even with external organizations. Even more importantly, we achieved these dramatic reductions in overhead without further reducing the staff, in fact over the past two years QMG staff has almost doubled in size and our dollar volume of business has tripled indicating an improvement in overall efficiency of approximately 50%.

Where previously QMG professionals were widely considered by customers to be poorly qualified for the customers' tasks, today we find that over 70% of QMG quality specialists receive the highest ratings from their customers. In addition, over the past year, only one quality specialist was rated by a customer as less than satisfactory.

QMG staff have shown a renewed interest in professional development, obtaining professional certifications as certified quality managers and certified quality auditors. This reverses a trend that was established over the previous eight years in which not a single certification was sought or obtained by QMG staff.

A renewed spirit of trust and teaming has begun to permeate the group. Although we still have a long way to go, QMG staff are cooperating on continuous quality improvement teams and pooling resources to accomplish objectives for the good of the group. Formal interactions have increased dramatically and are beginning to result in shared processes and tools.

The QMG has established itself as a leader within the Laboratory and Department of Energy in the area of customer focused operations. Our tools and processes, which we share freely, are used throughout the DOE complex. Even more significantly, these important capabilities that we have developed to make ourselves more competitive have created vast new markets for our services; QMG experts now assist diverse organizations throughout the nation in meeting the challenges of a rapidly changing business environment.

Finally, and most importantly, the experience of the past two years has helped our organization redefine itself as a dynamic, entrepreneurial organization that is in control of its own destiny. While there remain many challenges to be met and issues to be resolved, QMG leaders and staff can face them with the self confidence that derives from two years of concerted effort pulling together to make a difference. With this new attitude firmly buttressed by a string of measurable successes, the QMG is poised to enter the next millennium as a champion for organizational self reliance, innovation, and constructive change.