CHAPTER 20
RESOURCE REQUIREMENTS FOR A CULTURAL TRANSFORMATION

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Chapter Objectives

- To present a template of the requirements for a cultural transformation
- To present the time frame for each step in the transformation
- To specify levels of responsibility for each step in the transformation
- To describe the outcomes of each step in the transformation
- To summarize the resource needs at each stage of the transformation
- To provide models to pay for the cultural transformation

20.1 Introduction

Top management's desire to promote a cultural transformation raises some important questions, for example:

- What is the time frame for a cultural transformation?
- What resources will be needed from the organization for a cultural transformation?
- What resources will be needed from a consulting firm for a cultural transformation?
- How much will the cultural transformation cost the organization in the first few years?

In this chapter we present a template for answering the above questions. This template will have to be modified for each organization; there will be significant variation between organizations in the answers to the above questions.

20.2 The Template for Cultural Transformation

Generally, the detailed fork model presented in Chapter 14 is implemented sequentially; that is, first the handle, then the neck, then Prong 1, then Prong 2, and finally, Prong 3. Consider each part of the fork model as a phase of the cultural transformation process. Different implementation strategies may be used based on the characteristics and needs of a particular organization. However, the fork model can also be implemented non-sequentially; for example, the Handle could be first, then the Neck, then Prong 3, then Prong 1, and finally Prong 2.

The following abbreviations are used throughout the **template**:

P President
EC Executive Committee
LC Lead Consultant
PDC Policy Deployment Committee
PIL Process Improvement Leader
PITM Process Improvement Team Member
LST Local Steering Team
CFPL Cross Functional Project Leader
CFTM Cross Functional Team Member

20.2.1 Phase 1: The Handle - Management's Commitment to Transformation

Step	Time Frame	Responsibility	Outcomes
Step 1: P identifies (or creates) a **crisis** to generate the energy for transformation	Early month 1	P	List of crises
Step 2: P creates a **vision** to generate the energy for transformation	Early month 1	P	Vision statement
Step 3: P initiates transformation using a crisis or a vision	Mid month 1	P	Publication of crisis and/or vision
Step 4: P contacts an **external expert** in the Deming and Quality Management(LC)	Mid month 1	P	Retain LC
Step 5: **Window of opportunity** for transformation opens	Mid Month 1	P	Communication with all stakeholders about QM
Step 6: P and LC collect data for transformation plan	Months 1 - 2	P LC	Results of "barriers against" and "aids for" study
Step 7: P and LC begin planning transformation	Month 3	P (support and review) LC	Transformation plan
Step 8: P forms the EC	Month 3	P LC EC	EC is formed
Step 9: LC trains	Months 4 -6	LC	Completion of

and educates EC and future QM experts ***OPTIONAL***: EC selects individuals to become QM experts by pursuing an MS degree in QM. These people study for 1.5 to 2 years and come online after the first review by the P (see step 34 of the detailed fork model in Figure 14.1). One QM expert per 500 employees.	Months 5 – 24	EC members QM experts EC members LC QM experts University program	training program with mastery by EC Completion of MS in QM by QM experts LC assists EC in selecting a university program
Step 10: Window of opportunity for transformation begins to close without action from EC	Month 7 and beyond	EC members LC	Communication with all stakeholders about QM process

20.2.2 Phase 2: The Neck – Management's Education

Step	Time Frame	Responsibility	Outcomes
Step 11: EC forms education and self- improvement groups	Month 8 and beyond	LC EC	1.EC prepares Executive Summaries 2.EC role plays 3. EC uses System of Profound Knowledge to create win-win scenarios
Step 12: EC establishes a life-long process for education and self-improvement	Month 11 and beyond	LC EC	LC develops a learning and self improvement plan for each EC member
Step 13: EC working with LC to resolve individual issues which create barriers to transformation	Month 11 and beyond	LC EC	EC resolves concerns with QM via "inventory" tool used by LC

20.2.3 Phase 3: Prong 1 – Daily Management

Step	Time Frame	Responsibility	Outcomes
Step 14: EC selects initial PILs	Month 8	LC EC PILs	Selection of initial team leaders
Step 15: LC trains initial PILs	Month 8	LC Initial PILs	Train initial PILs in Tools and Methods for QI and Team Methods for QI
Step 16: Members of the EC evaluate the initial process improvement projects (daily management issues)	Month 8	LC EC Initial PILs	Initial projects selected
Step 17: EC members, in consultation with the team leader, select the initial process improvement team members. Experts train team members.	Month 8	LC EC members Initial PILs Initial PITMs	Teams are selected for each project Team members are trained
Step 18: Initial process	Months 8 and beyond	Initial PILs	QI story

improvement teams conduct daily management using the QI story format.		Initial PITMs	
Step 19: Over time, other process improvement teams are formed to improve daily management. Experts train new team leaders and members together.	Month 11 and beyond	EC members New PILs New PITMs LC New PILS New PITMs	QI stories New team leaders and members are trained
Step 20: LSTs coordinate daily management projects	Month 8 and beyond	LST members PILs	QI stories

20.2.4 Phase 4: Prong 2 – Cross-Functional Management

Step	**Time Frame**	**Personnel**	**Outcome**
Step 21: Members of the EC evaluate initial cross functional projects	Month 12 and beyond	EC members LC	Selection of cross functional projects
Step 22: Members of the EC evaluate the initial cross functional project leaders	Month 12 and beyond	EC members LC Initial CFPLs	Selection of cross functional team leaders
Step 23: Experts train initial cross functional project leaders	Month 13 and beyond	LC Initial CFPLs	Initial cross function team leaders are trained in: (1) QM Theory, (2) QM Tools and Methods, and (3) Team Methods for QM.
Step 24: EC members, in consultation with the team leader, select the initial cross functional team members. Experts train team	Month 13 and beyond	EC LC Initial CFPLs Initial CFTMs LC	Initial cross function team members are trained in (1) QM Theory, (2) Tools and Methods of QI, and (3) Team Methods for QI.

members		Initial CFTMs	
Step 25: Initial cross functional teams improve cross functional issues using the System of Profound Knowledge	Months 14 and beyond	Initial CFPLs Initial CFTMs	QI stories
Step 26: Over time, other cross functional teams may be formed to improve cross functional issues Other cross functional team leaders and members are trained by LC	Month 17 and beyond	EC LC LC New CFPLs New CFTMs	New cross-functional teams are formed Cross Functional leaders and members are trained in: (1) QM Theory, (2) QM Tools and Methods, and (3) Team Methods for QM.
Step 27: EC coordinates cross functional projects	Month 14 and beyond	EC CFPLs	QI stories

20.2.5 Phase 5: Prong 3 – Policy Management

Step	**Time Frame**	**Personnel**	**Outcomes**
Step 28: Conduct initial **Presidential Review**	Months 8 and beyond	P EC LC Selected PILS And PITMs CFPLs & CFTMs	Constructive critique of selected process improvement teams by the P
Step 29: Policy Setting: EC develops initial strategic objectives	Months 11 and beyond	EC LC	Strategic objectives
Step 30: Policy Setting: Policy Deployment Committee develops improvement plans	Months 13 and beyond	PDC LC	Improvement plans for all areas
Step 31: Policy Deployment: PDC communicates	Months 15 and beyond	PDC LSTs	LSTs receive and work on QI stories

projects to LSTs. Local teams conduct projects.		PILS and PITMs CFPLs & CFTMs LC	
Step 32: Policy Implementation	Months 15 and beyond	PDC LST PILS and PITMs CFPLs & CFTMs	Findings of QI stories are implemented
Step 33: Quality Feedback and Review	Months 19 and beyond	PDC LST LC	All QI Stories are reviewed by LSTs. Selected QI stories are reviewed by PDC and EC members.
Step 34: Presidential Review QM experts come on line in the QM process	Months 22 thru 24 Month 25 and beyond	P EC LC Selected PILs and PITMs QM experts	Selected QI stories are reviewed by the P QM experts facilitate system wide promotion of QM activities

20.2.6 Overall Time Requirements

The template shown above is one possible alternative that can help top management answer some of their questions about a cultural transformation. The template provides rough estimates for the time required to initially promote quality management in an organization in which top management is seriously committed to this goal. The model shows a minimum of 8 months to determine management's commitment to transformation; a minimum of 4 months to affect management's values and beliefs about business through education; a minimum of 4 months to produce results from daily management; a minimum of 6 months to begin cross-functional management; and a minimum of 17 months to begin policy management. The model shows a minimum of 2 years is required to pass through all phases of the fork model at least once.

Management's commitment to transformation has been demonstrated by passing through one cycle of the fork model. Future iterations of the fork model are on a one-year cycle. Hence, the handle of the fork model, discussed in Chapter 14, is utilized

only on an as needed basis. Management's education with respect to Quality Management continues indefinitely into the future. There is no fixed schedule for it; it happens when it is deemed necessary by a manager in need of training, the manager's supervisor, the EC, or the PDC. Likewise, daily management, cross-functional management, and the initial presidential review portion of policy management (step 28) continue indefinitely into the future. However, steps 29 through 34 of policy management take on a yearly cycle. For example, step 29 (Policy Setting – Strategic Objectives) takes approximately 1 month, step 30 (Policy Setting – Improvement Plans) takes approximately 1 month, step 31 (Policy Deployment) takes approximately 1 month, step 32 (Policy Implementation) takes approximately 6 months, step 33 (Quality Feedback and Review) takes about 2 months, and step 34 (Presidential Review) takes about 1 month.

20.3 Funding for a Cultural Transformation

20.3.1 Introduction

There are two situations under which cultural transformation efforts are funded in an organization. The first situation occurs when top management has a vision for transforming their organization from a financially based organization to a quality and financially based organization. In this case the energy required to fund the cultural transformation process is straight forward; a budget is developed and agreed upon by all key players. The second situation occurs when top management is faced with a significant crisis that has failed to respond to traditional financial tools, procedures, and methods. In this case, the crisis provides the energy to transform their organization from a financially based organization to a quality and financially based organization.

20.3.2 Vision Leadership Sweat Theory of Management

The vision leadership sweat theory of management (step 1 of Figure 14.1 in Chapter 14), was developed by Noriaki Kano, Professor Emeritus, Science University of Tokyo. It states that the leadership of an organization must have a vision for the future of their organization that is so compelling that it creates the energy (that is, they are willing to sweat) to move the organization from a traditional financial management paradigm to both quality and financial management paradigm.

20.3.3 Crisis Leadership Sweat Theory of Management

The crisis leadership sweat theory of management (step 2 of Figure 14.1 in Chapter 14), was also developed by Kano. It states that the leadership of an organization must be faced with a crisis of such significant proportions that it creates the energy to move the organization from a traditional financial management paradigm to both quality and financial management paradigm.

Unfortunately, most organizational transformations occur under the crisis leadership sweat theory of management. There are two possible funding mechanisms under this

theory: (1) budget the transformation without political problems or (2) budget the transformation with all manner of problems. Both funding mechanisms are described below.

20.3.4 Funding the transformation without political or old paradigm problems

In this scenario, a budget for the transformation process is agreed upon by all key players; top management (especially the CEO, CFO, and the COO), members of the Board of Directors, and union officials, to name a few. The budget is executed, and with top management's commitment and a guiding Quality Management theory, the organization will be transformed in 3 to 4 years.

20.3.5 Funding the transformation with all manner of problems

In this scenario, the source(s) of the resistance to transformation must be identified before remedial action and transformative action can be taken. A list of some potential sources of resistance to the transformation process within an organization is show in Table 20.1.

Table 20.1
Force Field Analysis of Aids and Barriers to Cultural Transformation

Force Field Analysis	
Aids to Transformation	**Barriers to Transformation**
Exceed customer requirements.	Inability to change the mindset (paradigms) of top management.
Improve the organization's image.	Inability to maintain momentum for the transformation.
Increase market size.	Lack of uniform culture and management style.
Increase market share.	Lack of long-term corporate direction.
Improve employee morale.	Lack of effective communication.
Create a common mission and strategy.	Lack of discipline required to transform.
Create a cascading system of objectives and metrics that cascade throughout the organization.	Fear of scrutiny by supervisor.
Improve communication.	Fear of process standardization.
Standardize processes.	Fear of loss of individualism.
Create best practices.	Fear of rigidity.
Improve the physical environment.	Lack of financial and human resources.
Resolve problems before they become crises.	Lack of training and education.
Bridge responsibility gaps.	Lack of management commitment.
Improve the documentation of processes, products, and services.	Increased workload
Improve the design of processes, products, and services.	Traditional performance appraisal system that holds the individual accountable for system problems

Improve manufacturing and delivery of service.	
Produce uniform products, at low cost and suited to the market (improve quality).	
Increase profits.	
Exceed customer requirements.	
Agility (Hoshin Kanri)	Clumsiness
Peer pressure	
Adequate resources	Inadequate resources
High Emotional Quotients of stakeholders	Low Emotional Quotients of stakeholders

The above aids for transformation, as well as the above barriers to transformation, create a dynamic tension that makes funding a cultural transformation challenging. The old paradigm resists the new paradigm.

Some methods for funding the transformation in a problematic climate include, but are not limited to: (1) the Chief Executive Officer commits funds for the transformation, (2) non-C-suite managers fund transformative efforts within their sphere of influence using their existing budgets, (3) the Chief Executive Officer and the Chief Financial Officer agrees to pay for the transformation out of the enhanced revenues and/or decreased costs generated by the existing Quality Management process; either formal or informal in structure.

High Level of Commitment: CEO Commits Funds for the Transformation. Total commitment of top management, not just support, is required for a successful cultural transformation. Cultural transformation is like eggs and bacon; the chicken is supportive, but the pig is committed. Top management must be the pig, not the chicken! In this model, the CEO, in conjunction with the V.P. of Process Improvement and the Chief Financial Officer, develops a budget for the cultural transformation, and then, cascades it throughout the organization using the dashboard. This means that the column in the dashboard devoted to the projects and tasks (column 5 in Table 20.2) required to improve processes are planned for in the budget. These projects and tasks are monitored in monthly operations review meetings by the CEO(Presidential Review in the Policy Management prong of the fork model in Figure 14.1 in Chapter14).

Table 20.2
Generic Dashboard

Mission Statement:				
President		**Direct Reports**		**Potential Lean Six Sigma Projects/Tasks**
Objectives	**Indicators**	**Objectives**	**Indicators**	
Objectives must be achieved to attain the mission statement.	One or more indicators show progress toward each objective.	Area objectives are established to move each indicator in the proper direction.	One or more area indicators show progress toward each area objective.	Lean Six Sigma projects are used to improve and/or innovate processes to move indicators in the proper direction.

Medium Level of Commitment Option: Non-C-suite Managers Fund Transformative Efforts in Their Sphere of Influence. This is a high risk option! Any localized efforts at cultural transformation can be quickly undone by policies caustic to the cultural transformation emanating from the C-suite, or by mobility of management. One manager wants the cultural transformation, does a great job, gets promoted, and his/her replacement does not want the cultural transformation. This is why the energy for the cultural transformation must come from the CEO, with approval from the Board of Directors.

Low Level of Commitment Option: CEO and the CFO a\Agree to Pay for the Transformation Out of the Enhanced Revenues and/or Decreased Costs Generated by the Existing Quality Management Process (Risk Sharing). Three models exist for **risk sharing** of **Lean Six Sigma** projects in the low level of commitment option; they are: the time based sharing model, the budget risk sharing model, and the gain sharing model. All three of these models are problematic because the client organization has "no skin in the game." This creates an asymmetry in the interest level of success for each Lean Six Sigma project. A project can be easily undermined by one or more managers in the client organization, who for reasons of their own, do not want a successful project. Table 20.1 shows several barriers to the cultural transformation process.

The first option is the **Time-Based Sharing model**. This model requires an external process improvement vendor because the top management of the organization is not willing to commit to the budget necessary for creating an internal Quality Management team. This option penalizes the process improvement vendor for not meeting the project deadline, assuming the delay was due to the project vendor and not the client, and rewards the process improvement vendor for providing the deliverables within the project deadline.

The second option is the **Budget Risk Sharing model**. This model also requires an external process improvement vendor because the top management of the organization is not willing to commit to the budget necessary for creating an internal Quality Management team. This option rewards the process improvement vendor if the project comes in under budget (called a performance bonus), and punishes the process improvement vendor if the project goes over budget, and the project needs to continue. In this case, the process improvement vendor may agree to discount their ongoing hourly fees by Z% for the duration of the overrun. But, they also agree to a maximum budget overrun beyond which no additional monies are owed to the process improvement vendor, but the work will continue until the completion of the project.

The third option is the **Gain Sharing model**. This model also requires an external process improvement vendor because the top management of the organization is not willing to commit to the budget necessary for creating an internal Quality Management team. This option has a cost/benefit model that defines how long the payback period is after process improvement efforts cease, and maintenance efforts continue. One way to keep the benefits estimates realistic would be to reward the contractor with a percentage of savings/revenues beyond, say, Q% of the guesstimated savings/revenues. Another way to keep the benefits estimates realistic would be to reward the contractor with a percentage of the average savings by computing the before average monthly costs/revenues minus the after average monthly costs/revenues of the process, for an agreed upon number of months, say the first year after the process improvement has been functioning. Of course, management could also penalize the contractor should the benefits come in less than expected. The gain sharing option can be extremely advantageous to the provider of process improvement efforts, depending on the potential of the project and the percentage of savings negotiated in the payback period, assuming fair accounting by the client organization's CFO.

We propose a gain sharing model that is based on the following assumptions. First, we assume an open and honest relationship between the provider and the client organizations. Second, we assume decent data for the computation of all savings or revenues. Third, we assume a contractual percentage of the first year decreased savings or increased revenues. Fourth, we assume a stable system after process improvement efforts.

An example of the gain sharing model shows a process that generates valid data. Further, the process before improvement efforts is stable, normally distributed , and predictable into the near future. It has an average monthly mean cost of $997,035 and a monthly standard deviation of $87,558. The process after improvement efforts is stable, normally distributed , and predictable into the near future. It has an average monthly mean cost of $101,751 and a monthly standard deviation of $10,025.

So, Monthly ($Costs_{Before}$ – $Costs_{After}$) = $997,035 - $101,751 = $895,284/month.

If saving are computed as the difference between the before and after average monthly costs, for the first year after the process improvement, the yearly savings would be $10,743,408 (or 12 x $895,284). If the contractual percentage of decreased revenues or increased savings is ten percentage points, then the provider of process improvement services will receive a onetime payment of $1,074,341. This amount is likely much greater than a typical consulting fee for this engagement would have been, even under an extremely high fee contract.

Another variant of the gain sharing model is based on a “1 in X” projects option. This option assumes the client–vendor relationship begins with at least “X” projects, where X is 2 or more projects. In this option, (X-1) projects would be budgeted for by the client organization at an agreed upon hourly rate or an agreed amount total cost, and the remaining project would be performed by the vendor using one of the above gain sharing models.

20.4 Summary

This chapter presents a template for answering questions about the time requirements and resources to promote a cultural transformation in an organization. Each application of the template requires the user to modify it for his or her organization. The time and cost structure is largely a function of the effort the organization devotes to the cultural transformation process versus the effort required by the cultural transformation vendor. Finally, this chapter discusses several models for paying for the cultural transformation.