LEADERSHIP AND PUBLIC RESPONSIBILITY
AS ENCOMPASSED BY
THE 1991 MALCOLM BALDRIGE NATIONAL QUALITY AWARD

by

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Submitted to the Sloan School of Management
in Partial Fulfillment of
the Requirements of the Degree of
Master of Science in Management

at the

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MASSACHUSETTS INSTITUTE
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ABSTRACT

The Malcolm Baldrige National Quality Award was established in 1987 by an act of Congress to recognize American companies that have reached a high level of quality excellence. Firms are measured by criteria in the following seven categories: Leadership; Information and Analysis; Strategic Quality Planning; Human Resource Utilization; Quality Assurance of Products and Services; Quality Results; and Customer Satisfaction.

This thesis closely examines the topic of Public Responsibility, as defined in the Leadership category of the 1991 Malcolm Baldrige National Quality Award, by providing illustrations of best practices currently exhibited by two American firms, Johnson & Johnson and Federal Express Corporation, and their employees. In-depth interviews were conducted with line and staff managers at both organizations to gather information on current practices which fall under the scope of Public Responsibility.

The evidence gathered supports the thesis that achievement of quality excellence in Public Responsibility is attained when two separate and distinct achievements have been firmly established within a firm. These two achievements are (1) a clear, focused community service effort, which has its roots in a clearly articulated corporate mission statement and (2) a robust source of educational tools, methodologies, and measurement systems needed for successful implementation of a quality-driven business strategy.

Thesis Supervisor: Gabriel R. Bitran
Title: Nippon Telegraph and Telephone Professor of Management
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I would like to acknowledge the help of the managers at several firms who helped make this thesis a fantastic, enjoyable learning experience. I met and spoke with several people at Polaroid, The Stanley Works, Johnson & Johnson, Ethicon, and Federal Express Corporation, who were completely unselfish with their time and knowledge. Further, I sincerely appreciate the guidance and encouragement given by my thesis reader, Professor Michael Useem of the University of Pennsylvania, and my thesis advisor, Professor Gabriel Bitran of the Sloan School.

Special thanks go to several friends, especially Alice, Ann, and Bruce, who convinced me that one page at a time was an achievable target. I also thank Arthur and "Ma," who provided me with unlimited financial resources to travel from one place to another to conduct the priceless interviews that are the foundation for the illustrations which follow. And last, but certainly not least, I am very happy to say thank you to Virginia Gifford, of the Sloan Computer Center, who has given me endless support on this project from beginning to end.
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CHAPTER ONE
INTRODUCTION

Objective of the Thesis

The objective of this thesis is to highlight selected best practices in public responsibility in American businesses today that can be used as a guide for firms that want to amend their approach to the topic in ways that exemplify achievement of quality excellence. The criteria for public responsibility are those that are defined by the 1991 examination item under the leadership category of the Malcolm Baldrige National Quality Award.

Background

The Malcolm Baldrige National Quality Award was established in 1987 by an act of Congress to recognize American firms companies that have reached a high level of quality excellence. "It was hoped that this award would spur U.S. industry toward the pursuit of quality, ultimately leading to a competitive advantage in domestic and global marketplaces."¹ Interest in the Baldrige Award has grown rapidly since its inception. In 1990, 180,000 requests for applications were received by the U. S. Department of Commerce; 97 applications were completed (45 manufacturing

firms, 18 service firms, 34 small businesses).

As part of the 1990 first stage review process, the senior management (now senior executive leadership) item of the leadership category of the application is scrutinized. Experts agree that the culture of a firm, as established by executive management's vision, is the driving force behind a quality excellence culture. Hence, it is critical to a firm's achievement of quality excellence that the leadership category set the tone for what is to follow in the remainder of the application. The public responsibility examination item accounts for 20% of the possible points attainable in the leadership category and is, therefore, key in raising a firm's total points earned in this Category to an above average level. Other categories of the examination are: Information and Analysis; Strategic Quality Planning; Human Resource Utilization; Quality Assurance of Products and Services; Quality Results; and Customer Satisfaction.

Plan of the Thesis

This thesis takes a first hand look at best practices in public responsibility as exhibited by two firms, Johnson & Johnson and Federal Express Corporation. It presents what each firm has achieved in public responsibility and how they have achieved their successes. General reviews of the firms' accomplishments and strategies in this are
complemented with specific examples of individuals' contribution to the firms' achievement of public responsibility.

This thesis was developed as part of a group project in which best practices highlighting the following Baldrige Examination Items were analyzed: Senior Executive Leadership and Public Responsibility (Leadership Category); Strategic Quality Planning Process (Strategic Quality Planning Category); Employee Involvement (Human Resource Utilization Category); Commitment to Customers, Complaint Resolution for Quality Improvement, Determining Customer Satisfaction (Customer Satisfaction Category). Each of these topics are the subjects of other theses prepared under this project.

Chapter Two presents the general methodology undertaken in researching best practices in public responsibility. It includes an in-depth explanation of the public responsibility examination item and its role in the leadership category. Chapters Three and Four represent the core of the thesis and present findings of two firms' achievements in Public Responsibility. Chapter Five gives an interpretation and analysis of what the findings indicate. Finally, Chapter Six presents the implications
for firms that wish to use these examples as a guide for improving their public responsibility achievements.
CHAPTER TWO

GENERAL METHODOLOGY

Formation of the Thesis Group

Students in the Sloan Master's, Fellows, and Management of Technology Programs met under the supervision of Professor Gabriel Bitran to discuss a thesis project which would provide a study of best practices in achievement of quality excellence in areas directly drawn from the Baldrige Award Examination Categories and/or Items. In the previous academic year (1989-90), a similar group thesis project was undertaken to analyze all seven Baldrige Award criteria and provide additional questions to supplement firms' self-assessment processes in the achievement of quality excellence.

As part of the current (1990-91) year's effort, three students worked on topics under the Leadership Category. John Pfeffer and Kurt Wiese have written a thesis entitled Leadership--The Malcolm Baldrige National Quality Award, which explores the senior executive leadership examination item and highlights best practices at Cadillac and IBM/Rochester. I concentrated on the public responsibility item and have focused on the best practices of two firms, Johnson & Johnson and Federal Express.
Methods of Study

My investigation of the topic began with a development of a thorough understanding of the Baldrige Award. The first step was in-depth study of the 1991 Application Guidelines and of the thesis, Leadership and the Malcolm Baldrige National Quality Award, written by Andrew J. Atkinson and Teresa A. Wahlert as a part of the previous year's group thesis project. This self-study was supplemented by thesis group study sessions, in which each of the Baldrige Categories was analyzed. I also worked individually with Gabriel Bitran to fully refine my understanding of the indicators and spirit of the Public Responsibility topic.

Based on my familiarity with the specifics and the spirit of the topic, I developed a set of fundamental issues which should be addressed in researching best practices in public responsibility and formulated a preliminary set of investigative questions. To provide a strong foundation for my investigative framework, I conducted site visits to Maritz Motivation Company\(^2\) and IBM/Rochester (a winner of the 1990 Baldrige Award) with other members of the thesis.

\(^2\)Maritz Motivation Company is a privately held, performance improvement company based in St. Louis, Missouri. Maritz's managers consult to companies on continuous quality improvement and are experts on the Baldrige Award. Maritz had sent sixty (60) of its consultants through the intense three day Malcolm Baldrige Examining School as of January, 1991.
group. I visited Motorola, Inc., a winner of the 1988 Baldridge Award. I also attended a presentation on quality achievements and processes by Cadillac Motor Car Company (a winner of the 1990 Award) given as part of the Sloan School's Quality Workshop.

To achieve a broad understanding of social responsibility and philanthropy as they might be related to public responsibility and the Baldridge, I spoke with Don Davis, former Chairman and Chief Executive Officer of The Stanley Works (New Britain, Connecticut), and Marcia Schiff, Executive Director of The Polaroid Foundation (Cambridge, Massachusetts) at length. Both organizations are nationally recognized for their outstanding leadership in community service.

During the winter and spring of 1991, I conducted in-depth interviews with managers at Johnson & Johnson (both Johnson & Johnson Quality Institute and Ethicon, Inc., a Johnson & Johnson operating company) and Federal Express to study and illustrate best practices in public responsibility. Of the seven people from whom I gathered most of my data, six are staff managers, one is a line manager. All of the staff managers at Johnson & Johnson were former line managers at two of the firm's operating companies. The staff managers at Johnson & Johnson are
responsible for providing their expertise in quality systems and methodologies to operating companies. The line manager at Ethicon (a Johnson & Johnson operating company) is responsible for managing supplier relationships within a quality framework. The staff managers at Federal Express are responsible for public relations and community services functions within the firm.

Description of Leadership and Public Responsibility

The Leadership Category

"The Leadership Category examines how senior executives create and sustain clear and visible quality values along with a management system to guide all activities of the company toward quality excellence. The senior executives' and the company's quality leadership in the external community and how the company integrates its public responsibilities with its quality values and practices are also examined."\textsuperscript{5}

Examination items included in the leadership category are: senior executive leadership; quality values; management for quality; and public responsibility.

The senior executive leadership item evaluates leadership, personal involvement, and visibility in developing and maintaining an environment for quality excellence. The quality values item looks at the company's quality values, how they are projected in a consistent

\textsuperscript{5}Atkinson, Andrew J. and Teresa Wahlert, Leadership and the Malcolm Baldrige National Quality Award, p. 12, \textsuperscript{6} 1990.
manner, and how adoption of the values throughout the firm is determined and reinforced. The management for quality examination item describes how the quality values are integrated into day-to-day leadership, management, and supervision of all company units.4

The Public Responsibility Examination Item

Public responsibility is detailed in the 1991 Application Guidelines as follows:

"Describe how the company extends its quality leadership to the external community and includes its responsibilities to the public for health, safety, and environmental protection, and ethical protection, and ethical business practice in its quality policies and improvement activities.

Areas to Address:

a. how the company promotes quality awareness and sharing with external groups. Groups may include national, state, community, trade, business, professional, education, health care, standards, and government organizations.

b. how the company encourages employee leadership and involvement in quality activities of organizations mentioned above.

c. how the company includes its public responsibilities such as business ethics, public health and safety, environmental protection, and waste management into its quality policies and practices. For each relevant and important to the company's business, briefly summarize:

(1) principal quality improvement goals and how they are set;

41991 Application Guidelines Malcolm Baldrige National Quality Award, p. 6.
(2) principal improvement methods;
(3) principal indicators used to monitor quality; and
(4) how and how often progress is reviewed."

The Spirit of Public Responsibility

The spirit of the public responsibility examination item identifies the extent to which companies are involved in educating and sharing quality knowledge with the public. Sharing quality strategies with others is a more advanced concept than many companies have faced. Public responsibility dictates that a firm teach its potential labor force, industry competitors, and other members of the business community the strategies it has adopted in achievement of quality excellence; it is not simply charity, social contribution, or community service.

\[5\text{Ibid, pp 6 and 7.}\]
CHAPTER THREE

JOHNSON & JOHNSON

An Introduction to Johnson & Johnson

Johnson & Johnson is the world's largest and most diversified health care company. Today's Johnson & Johnson was founded as a partnership in 1885 by brothers James Wood and Edward Mead Johnson, who were later joined in the business by another brother, Robert Wood Johnson.¹ Operations commenced a year later in New Brunswick, New Jersey, and the company was incorporated in 1887. What started out over 100 years ago as a single entity with a scant 14 employees has grown to a worldwide family of 175 companies⁷ with more than 83,000 employees operating in 55 countries.

The Goals at Johnson & Johnson

Johnson & Johnson has clearly articulated its business goals. Rather than abbreviate them, they are presented here as they were in the company's 1989 Annual Report.

"Excelling in the '90s. Johnson & Johnson's goal


Johnson & Johnson corporate and its operating subsidiaries are referred to as the Johnson & Johnson Family of Companies (the Companies), both colloquially and in Company literature.
is to be the best and most competitive health care products company in the world. To do so, we want to excel in several ways:

- Leadership Brands. Our goal is leadership in every market, in every business, in every country in which we compete.

- Better Value. Our objective is to be the best-cost producer in every business so we can produce meaningful products that contribute to well-being while providing good value for money spent.

- Excellence in Science and Technology. We are committed to making substantial and increasingly productive investments in research and development.

- Organizational Development. We want to create an environment that allows our people, our most important asset, to contribute to their maximum potential.\(^8\)

It is important for the reader to understand that these goals are not just words on paper, but in the author's experience, a living embodiment of the company's commitment to its stakeholders: customers, employees, community, and stockholders. In speaking with various managers at Johnson & Johnson, I came to understand that the goals are understood and supported by employees throughout the Family of Companies. In fact, a majority of operating companies have acknowledged their support of Johnson & Johnson's vision by developing their own, similar, credos. These documents are signed by executive management of the operating firm and are displayed along the corridors at the

Johnson & Johnson headquarters.

In positioning itself to achieve the goals mentioned above, Johnson & Johnson has trained its people in leading-edge technology and quality methodologies. The results not only benefit Johnson & Johnson, but the communities which surround the companies as well.

A Continuing, Strong Tradition of Community Service

From a window which overlooks the railroad tracks at one of its New Brunswick headquarters buildings, the company's commitment to the community is clearly visible. After World War II and through the 1960s, when many businesses began to flee inner cities around the country, Johnson & Johnson made a commitment to remain downtown as part of the community. The original buildings which housed the company's operations are still in use by others today. Management modestly acknowledges that the historic buildings have been donated to civic and public agencies which were in need of facilities.

The company has a strong history of community service. This commitment is not merely one of philanthropy. It is one of continual involvement with, and sensitivity to, the people and the city of which it is a part.
A life-long New Brunswick resident and owner of a local small business, Eugene Gonzales, has personally witnessed the tremendous positive effects of Johnson & Johnson's commitment to the city. Mr. Gonzales gave me a ride from New Brunswick to the airport the day I visited Johnson & Johnson, and was happy to talk about the city. He took me on a tour through various New Brunswick neighborhoods that fell into ruin and were revitalized as part of the company's involvement in the "New Brunswick Tomorrow" urban revitalization effort of the 1970s. The entrepreneur talked about Mr. Burke and the fact that he (Burke) believed in staying where the Company started. That means a lot to New Brunswick residents like him. He feels "...J&J has done a lot" to help New Brunswick.

Johnson & Johnson does not operate in a vacuum. For the company, it's the other extreme. It has become a leader for other firms who want to become effective members of the community. For instance, Johnson & Johnson serves as a benchmark company for other leading U.S. firms on several community service-related issues, such as the United Way

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10 James E. Burke retired from his position as Chief Executive Officer of Johnson & Johnson in 1989 and had been with the company for almost four decades.

Campaign and internal company-run blood drives.

In discussing the company's social responsibility, Jules C. Parrella, Director of Quality Management at Johnson & Johnson Quality Institute\(^{12}\) succinctly stated, "...we wind up involved."\(^{13}\) Mr. Parrella sees the company's extensive social responsibility and the fact that others benchmark Johnson & Johnson, as a natural evolution of the leadership position that the company has assumed in the community. Thomas J. (Tom) Smith, also a Director of Quality Management at Johnson & Johnson Quality Institute, emphasizes that assumption of a leadership role in the

\(^{12}\) The Johnson & Johnson Quality Institute (QI) provides staff and executive management support for Johnson & Johnson companies worldwide. Headquartered in New Brunswick, with operating arms in Zurich, Switzerland, and Sao Paulo, Brazil, the QI is an educational consulting arm of the Company. Functionally, it operates under the corporate Operations Technology unit.

The QI serves as a resource for Total Quality Management efforts for all operating subsidiaries worldwide. Within the QI, Directors of Quality Management serve as liaisons to operating companies on issues of quality strategy and methods. Designated staff members are experts in Malcolm Baldrige Quality Assessment, Supplier Quality Management, Business Process Quality Management, Statistically Based Continuous Improvement, and benchmarking and teach these methodologies and programs to trainers in the Family of Companies for further dissemination throughout Johnson & Johnson.

Additionally, the QI has "Johnsonized" the Baldrige criteria and made it their own by transforming the Baldrige Examination Categories into the Johnson & Johnson Fundamentals. The eight Fundamentals embrace the seven Baldrige Categories but have been expanded to add an explicit goal of Continuous Improvement.

\(^{13}\) Personal interview with Jules C. Parrella and Thomas J. Smith, March 20, 1991.
community is something the company has always done. For Johnson & Johnson employees, community service is a way of life.

Dedication to local community is not unique at the New Brunswick headquarters, however. It is important to note that neighborhoods in which any Johnson & Johnson companies are located benefit from extensive community involvement too. For instance, when Johnson & Johnson operating company Chicopee moved from its Milltown, New Jersey, location, the vacated office building was donated to the United Way. Similarly, Chicopee's manufacturing facility was donated to the city of Milltown. These kinds of donations are made without fanfare or publicity and are simply as an extension of the company's commitment to the communities of which they are a part as embodied by the credo.

The Importance of the Credo

The Johnson & Johnson credo is famous because it speaks directly to the importance of ethics and values as an integral part of corporate operations. The credo was penned in the early 1940s by the company's third president, (General) Robert Wood Johnson.

\footnote{Ibid.}

\footnote{Full text of the Credo appears as Exhibit A.}
Our Credo

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality.

We must constantly strive to reduce our costs in order to maintain reasonable prices.

Customers' orders must be serviced promptly and accurately.

Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world.

Everyone must be considered as an individual.

We must respect their dignity and recognize their merit.

They must have a sense of security in their jobs.

Compensation must be fair and adequate.

and working conditions clean, orderly and safe.

We must be mindful of ways to help our employees fulfill their family responsibilities.

Employees must feel free to make suggestions and complaints.

There must be equal opportunity for employment, development and advancement for those qualified.

We must provide competent management and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well.

We must be good citizens — support good works and charities and bear our fair share of taxes.

We must encourage civic improvements and better health and education.

We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders.

Business must make a sound profit.

We must experiment with new ideas.

Research must be carried on, innovative programs developed and mistakes paid for.

New equipment must be purchased, new facilities provided and new products launched.

Reserves must be created to provide for adverse times.

When we operate according to these principles, the stockholders should realize a fair return.

Johnson & Johnson

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"General Johnson wrote a Credo that codified the Company's socially responsible approach to conducting business. The Credo states that the Company's first responsibility is to the people who use its products and services; the second responsibility is to its employees; the third to the community and environment; and the fourth to the stockholders. General Johnson and his successors in managing the business have believed that if the Credo's first three responsibilities are met, the stockholders will be well served."\textsuperscript{16}

The credo is not a static manuscript. It is a living document for Johnson & Johnson employees. There are two institutionalized processes for examination and modification of the credo. The first is the Credo Challenge. The second is the Credo Survey Process.

In the 1960s, the Credo Challenge began under the leadership of then Chairman Philip B. Hofmann. This process brings top company executives from around the world together, every three years, for close scrutiny of the credo. The Credo Challenge often raises issues related to the quality of leadership within and outside of the firm. Among other things, executives ask themselves if the company still believes in and practices the standards set by the credo. These executives put the credo to the test and make sure it is still timely and relevant. During the 1980s, for

instance, reference to the company's commitment to "mothers" was changed to "mothers and fathers," in recognition of changing child-rearing norms.

The power to change and challenge the credo is not one reserved for Executive Management. Through the Credo Survey Process every employee, worldwide, has an opportunity to rate how the company is living up to the credo. Built on the assumption that employees are customers of management and a management process, the company solicits frank commentary on how well it meets promises made by the credo, whether stated or implied.

Recent instances of critical changes at Johnson & Johnson brought about by the Credo Survey Process include subsidy of child care centers located in close proximity to company offices and the institution of an Employee Assistance Program. Less than two years ago, the following line was added to the credo: "We must be mindful of ways to help our employees fulfill their family responsibilities." Such an amendment is evidence of the company's recognition that employees, indeed, are customers of management.

A Revolution Afoot: Sharing Quality Strategies

A revolution is taking place in American business today. This revolution is the breaking down of barriers
which surround quality achievements. The credo provides a map which guides the company to build interactive relationships with its customers and employees. A significant portion of the relationships built by Johnson & Johnson and its employees are with other businesses in competing and non-competing industries. Jules Parrella, a Director of Quality Management at the Johnson & Johnson Quality Institute, feels an important by-product of today's quality movement is the over-riding principle of sharing information. This is something that simply would not have been done twenty years ago.

The concept of sharing such strategic information among companies is relatively new, but one in which Johnson & Johnson is at the leading edge of the curve. Johnson & Johnson is benchmarked with and against such firms as Kodak, Tennessee Eastman, N. A. Philips, and IBM on broad basis topics such as Total Quality Management at both the corporate and operating levels, and is "happy to share with them," notes Parrella.

It is important to ask why such a change in philosophy took place at Johnson & Johnson, and what allowed the

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18 Ibid.
company to move forward and take the lead in changing the ways in which corporations share information. The credo has allowed a rare kind of leadership to develop at the company.

Throughout its history, Johnson & Johnson has nurtured strong individual and corporate leadership. In turn, company leaders have provided clear examples that are held up for employees to emulate. Mr. Parrella feels examination of the leadership issue is critical in understanding why some firms have progressed further than others on this issue.\(^{19}\) Good leaders create an environment that encourages change. Leadership changes. Values Change. Direction of the company thus changes.

A relevant example of Johnson & Johnson's commitment to sharing information is the company's involvement in this thesis project. My first phone conversation with Mr. Smith was an extensive one about the company and the Quality Institute. It resulted in a subsequent day-long visit to the New Brunswick headquarters. The support did not end there, but extended itself in access to managers who are involved in projects as diverse as management of the Credo Survey Process and active participation in the American Society for Quality Control.

\(^{19}\)Ibid.
At Johnson & Johnson, the roots of employees' active involvement in sharing the details of quality achievements with others are embodied in the credo. Profiles of three Johnson & Johnson employees who share their knowledge of strategic quality issues and methodologies with colleagues in their own organizations, in those of competitors and non-competitors, as well as with various other groups and individuals, follow.

Profile: Shirley Blanche

Shirley Blanche is a Supplier Quality Manager at Ethicon, the world's leading manufacturer of surgical wound closure products, a Johnson & Johnson company which serves the professional segment of the health care industry. Ms. Blanche has worked at Ethicon for eleven years and holds a degree in Industrial Engineering. As Supplier Quality Manager, Ms. Blanche manages the process of supplier quality. Simply put, her job necessitates influencing people to bring about operating changes within a quality framework by encouraging them to use tools such as benchmarking and forming work teams to raise the level of quality at Ethicon's supplier firms. Ms. Blanche is

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20The information about Ms. Blanche's career and subsequent involvement in sharing quality strategies was gathered in two personal interviews. The first was with Tom Smith on March 20, 1991, and the second was with Shirley Blanche on April 9, 1991.

21Professional Companies, Johnson & Johnson 1990.
responsible for quality-driven, interactive supplier involvement with Ethicon. Her job, she says, "is to get people started and keep them moving."\textsuperscript{22}

In addition to her daily duties, Ms. Blanche is very active sharing her knowledge with other professionals who may benefit from it. For instance, she delivered a presentation on supplier certification at the Pharmaceutical Quality Control Conference, which was hosted by the American Society for Quality Control (ASQC) of New Jersey in February, 1990. She spoke at the 14th Annual International Good Manufacturing Practices (GMP) Conference, hosted by the University of Georgia's College of Pharmacology, in May, 1990, about supplier relationships in the pharmaceutical industry.

That's not all. Shirley Blanche was on the road again in November of that same year to speak to the American Association for Pharmaceutical Scientists on "Supplier Involvement." Similarly, Ms. Blanche gave a presentation entitled "Wave of the Future" to the Certified Purchasing Manufacturers Association of New Jersey, in which she addressed integration of quality practices into all aspects of supplier relationship management in order to achieve quality-driven business goals. Her involvement is typical

\textsuperscript{22}Personal Interview with Shirley Blanche, April 9, 1991.
of that of her peers at Ethicon and many other of Johnson & Johnson's operating Companies.

Profile: Thomas J. Smith

Tom Smith, now a Director of Quality Management at the Johnson & Johnson Quality Institute, joined one of the firm's operating company, Ethicon, in 1961. Mr. Smith held several line and staff positions at Ethicon over the years, and in 1983, his official role in supplier involvement began. In 1985, Ethicon committed itself fully to teaching its employees the latest in quality methodologies when the parent, Johnson & Johnson, introduced its corporate Quality Improvement Program. Tom completed Crosby's Excellence College in that same year and became a QES instructor. He began teaching QES to Johnson & Johnson employees and suppliers, as well. Eventually, his teaching role has extended into community organizations, such as the local Rotary and Chamber of Commerce. Appendix One is a copy of one of Mr. Smith's programs, as presented to the Somerset (New Jersey) County Chamber of Commerce, on March 5, 1991.

The ABC Chemical Company's Customer/Supplier Day is

23Johnson & Johnson does not teach QES as an educational program. Rather, they train trainers, as licensed by Crosby.


25"ABC" is a pseudonym for an actual Fortune 500 company, chosen by the author to disguise its identity.
part of ABC's Quality Conference, which is attended by customers, suppliers, and employees of ABC. The Customer/Supplier Day agenda covers topics measured in the Baldrige Examination, including: Leadership; Information and Analysis and Quality Planning; Human Resource Utilization; Quality Assurance of Products; and Quality Results. ABC made a call to Johnson & Johnson to find out if the company had an in-house expert who is aware of broad-based needs in customer/supplier relationships. They needed the help of someone who could critically observe their processes and teach them how to best improve their quality efforts. Tom Smith will be participating in the conference later this year to help ABC in its customer/supplier relationship improvement efforts.

Mr. Smith appreciates the importance of strong leadership, from the top of the company, in creating an environment for an effective quality-driven strategy. Sometimes, management fails because it does not change its processes. Management often becomes "intent on results and doesn't care about the process." Smith feels the best thing managers can do to create the necessary environment for change is to lead by example. Good, effective managers realize they cannot perform managers tasks for them, rather,

they help employees do what they (employees) do best.

As Smith sees it, a good manager is one who facilitates rather than dictates. In other words, the good manager is one who asks, "Do you think this will work?" rather than declares, "Do this." Mr. Smith thinks that when a managers puts themselves in the workers' position, they're wrong. A manager should "lead, coach, teach and facilitate." Ralph S. Larsen, Chairman and Chief Executive Officer of Johnson & Johnson, provides this type of strong leadership-by-example.

Profile: Ralph S. Larsen

Ralph S. Larsen was elected to his present position as Chairman of Johnson & Johnson in 1989. According to Tom Smith, "Ralph knows that the vision he has for Johnson & Johnson won't happen without him as a leader involved." Larsen is very vocal and very involved. At World Quality Day New Jersey, Mr. Larsen spoke to over 400 local, private and public sector leaders about the importance of

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27 Ibid.

28 Ibid.


30 Participants in "World Quality Day New Jersey" are employed by state and local governments, hospitals, and private businesses. There were 400 to 500 people in attendance.
leading a quality improvement process from the top of an organization. Larsen spoke candidly to the group about the Quality Improvement Process (QIP) that Johnson & Johnson has been undergoing for the last five years.

Larsen noted that key to the success in quality improvement and, consequently, leadership in the marketplace for Johnson & Johnson has been a shift in the emphasis from product quality to total quality. Mr. Larsen talked about the Johnson & Johnson Family of Companies as ones which are "bound together by common language: the language of quality." Larsen told the audience that quality is one of the core values of Johnson & Johnson, and spoke about his opinion that a "strong commitment...to quality is at [the] top of [the] strategy checklist." He cited the importance of the credo and referred to it as the "heart and soul" of the company.

Mr. Larsen then addressed the challenge of competition New Jersey businesses face and the need to track world-wide trends on the basis of price, high quality, and service (i.e. benchmarking). He cited the long-recognized need for

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31World Quality Day New Jersey (Videotape), East Brunswick, New Jersey, November 11, 1990.

32Ibid.

33Ibid.
local commitment and "partnering."\textsuperscript{34} Local agencies need to get help from experts within the community that can assist in achievement of quality goals. He stated, "Johnson & Johnson people are applying [the] tools of [a] Quality effort in these community organizations."\textsuperscript{35}

Clearly, Johnson & Johnson employees have received the message, not just in word but in deed from Mr. Larsen, that they should be out in the community, doing whatever they can to help others achieve quality-driven success. Larsen emphasized, again and again, the need for organizations to always have a "pervasive and intensive focus on quality."\textsuperscript{36} He encourages the participants to "utilize new methods to meet and exceed the needs of customers."\textsuperscript{37} The challenge for effective managers in building a quality focus is "to be a positive building force in [the] organization."\textsuperscript{38} Larsen's presentation was sincere and enthusiastic and ended with his encouragement that they (business leaders) "can make the commitment to excellence in New Jersey."\textsuperscript{39}

\textsuperscript{34}Ibid.
\textsuperscript{35}Ibid.
\textsuperscript{36}Ibid.
\textsuperscript{37}Ibid.
\textsuperscript{38}Ibid.
\textsuperscript{39}Ibid.
Summary

The illustrations presented in this case study highlight the commitment that Johnson & Johnson employees have made to learning all they can about quality and the seriousness with which they approach upon dissemination of that knowledge throughout the companies and to anyone else that may benefit from it. It is important to note that these people and their contributions are not unique. Throughout the Family of Companies, managers are getting out and doing the same thing that Shirley Blanche, Tom Smith, and Ralph Larsen do.

In those same companies, senior managers are committed to helping organizations in their local communities achieve quality improvement goals by sharing the tools that they have been taught. And at New Brunswick, Tom Smith's peers are leading seminars for managers at operating companies in the latest quality methodologies and taking their knowledge to public agencies and private businesses, competitors and non-competitors, and contributing it to the most effective extent they can.
CHAPTER FOUR

FEDERAL EXPRESS

The Origins of Federal Express Corporation

Fred Smith, a Yale University alumnus, incorporated Federal Express Corporation in 1971. Fed Ex was the first transportation company to assume complete control of packages for overnight delivery; there was no "middle man" to [whom] blame for error could be transferred. The technological capability to trace a package at any time, and management's commitment to provide such information to its customers in a timely and courteous manner immediately differentiated Federal Express from existing players in the market. The company originated the hub and spoke distribution system, used from the first day of operations in 1973 at its Memphis headquarters when eight packages were delivered, to effectively maintain control of packages from pick-up to delivery.40

Federal Express began as a tightly knit organization committed to timely, prompt, courteous service. With an overall cooperative team spirit and a constant eye on the goal to be the number one service provider in the marketplace, Fed Ex propelled itself to the forefront of the


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overnight delivery industry. The company now delivers "... almost 1.3 million items to 127 countries around the world each working day."41

The People/Service/Profit Philosophy

The company's business philosophy is embodied in its People/Service/Profit (PSP)42 doctrine. Fred Smith commented on the PSP philosophy statement at the 1991 Quality Excellence III Conference as follows,

"Putting People First in every action, every planning process, every business decision requires an extraordinary commitment from every manager...indeed, every employee. Our Service standard is total customer satisfaction: 100% on-time deliveries; 100% accurate information. Finally, the Profit goal is to improve profit margins to a specified level."43

In summing up the Fed Ex philosophy, the company "... believe[s] that if we place our PEOPLE first, they, in turn, will deliver impeccable SERVICE demanded by our customers and that PROFIT will follow."44

Achievement of the people goal is measured in the


42The phrase "People First" is commonly used throughout Federal Express in reference to the People/Service/Profit doctrine.


continuous improvement of a management leadership index score, which is tracked through the annual Survey-Feedback-Action Program (SFA).

"The SFA Program is comprised of the following:

1. Survey: An anonymous survey completed by all employees.
2. Feedback: A feedback session in which the employees in each workgroup use Quality improvement techniques to identify solutions to problems identified in the survey.
3. Action: An action plan which may serve as an ongoing Quality improvement plan for the People issues identified by the workgroup during the feedback session."

Employees definitely have ample opportunity to voice concerns about their treatment and overall career development through the SFA Program.

Community Service at Federal Express

Employee volunteer programs at the company tie in with the PSP philosophy as well. Wanda Martin, who works in Grants and Community Services at Federal Express, is convinced the genesis of the company's strong community service efforts comes directly from the People/Service/Profit doctrine. The doctrine, she says, "sets the mood of corporate giving."

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46Personal Interview with Wanda C. Martin, March 26, 1991.
Corporate Neighbor Teams (CNTs), begun in 1983, typify many of the community service activities that originate out of the company's Memphis headquarters, as well as Fed Ex offices around the country, today. There are eleven employee-managed CNTs which focus their volunteer efforts with established community agencies in the following areas: High Tech; Arts; Children/Youth; Education (Adopt-A-School); Handicapped; Health; Senior Citizens; Junior Achievement; and United Way. An example of how a team may jump into action was given as follows: members of the High Tech team might be called upon to help ramp up computer services or data systems at an agency or school, drawing on their professional expertise to modernize office operations as needed.48

As of the mid-1980s, all eleven senior officers at the company adopted one or more CNTs to serve as team advisors. There is only one team, The Federal Express Pilots' Wives Association, that operates without the guidance and input of a senior management advisor.

47The Corporate Neighbor Team program was cited in A New Competitive Edge: Volunteers From The Workplace, published by VOLUNTEER--The National Center, 1986. VOLUNTEER is the only national voluntary organization that exists solely for the purpose of promoting and supporting more effective volunteering.

Employees volunteer through these organized teams and on their own. In an effort to keep up-to-date of employees' community service activities, in 1986, the company requested that employees complete a "What Are You Doing?" survey. This survey polled employees on the community service activities in which they are involved. The results then become part of a permanent record of overall employee volunteer activities. Martin estimates that twenty five to thirty percent of Federal Express' 94,000 world-wide employees volunteer in their communities on at least an annual basis.

As a company, Fed Ex is very active in volunteerism. The company "is a charter member of the Corporate Volunteer Council of Memphis... and is represented on the Council on Foundations Committee on Corporate Grantmaking and the Advisory Committee to the National Council on Corporate Volunteerism."49

Sharing Quality Strategies at Federal Express

Efforts to share quality strategies as part of its community service efforts take place in two ways at Federal Express. The most recent effort is the company's Quality Forums, held weekly at the Memphis headquarters, for an

49Worth Remembering, the Federal Express Corporation's 1988 Social Responsibilities Review, p 32.
audience limited in size to twenty eight. The Quality Forums highlight the steps undertaken in Fed Ex's continuous improvement efforts, which preceded the company's receipt of the Malcolm Baldrige National Quality Award in 1990.

An older, richer effort is that by management and other professionals to go out into the community and speak to interested groups and businesses on quality issues, either pro-actively or by request. As Martin puts it, "for some reason, Fed Ex is set apart by [the] People First philosophy ... businesses are interested in tapping into that."50

The Federal Express Speaker's Bureau

Throughout Federal Express, there's a belief that any time employees have the resources and the time available, they have an obligation or "need" to service the community.51 The most direct route through which Company employees share their knowledge of quality systems and methodologies, and other business topics as well, is the Speaker's Bureau. Exhibit B is a copy of the Federal Express Speaker Request Form.

50Ibid.
51Ibid.
Exhibit B

FEDERAL EXPRESS SPEAKER REQUEST FORM

CONTACT INFORMATION

Organization Name: _______________________________________________________

Contact Person: __________________________________________________________

Telephone & Fax Numbers: ________________________________________________

Address: ______________________________________________________________

City/State/Zip Code: ______________________________________________________

EVENT INFORMATION

Date of Appearance: ______________________________________________________

Name of Organization: ____________________________________________________

Location of Event: _________________________________________________________

Time Scheduled to Speak: _________________________________________________

Time Allocated for Speech: ________________________________________________

Meeting Theme/Topic: ____________________________________________________

AUDIENCE INFORMATION

Type of Meeting: __________________________________________________________

Audience Size & Description: _____________________________________________

Name, Title, Co. Name of Other Confirmed Speakers: _______________________

_____________________________________________________________________

Describe the topic(s) you'd like FedEx speaker to cover: ______________________

_____________________________________________________________________

We agree to cover FedEx speaker's travel & expenses: Yes ___ No ___

Please sign and date: ___________________________ Date: _____________________
There are five Speaker's Bureaus, one in Memphis, the others regional. Fifteen to twenty people service requests in Memphis. About ten people service requests for each of the regional (Eastern, Western, Central, and Southern) Bureaus. Since it's creation in 1986 in direct response to public inquiries for detailed information about the company’s business philosophy, the Bureau has serviced over 500 outside requests for speakers.

Most of the requests which come through the Speaker's Bureaus are encompassed under the subsequent broad-based headings: customer service; leadership and management philosophy; information technology; marketing; and quality efforts. The function of the Speaker's Bureau is to facilitate those outside requests, track down a member of management who is familiar with the particular issue of interest, and convince that employee to make a presentation to the outside group. Managers at every level of the company fulfill requests that come into the Speaker's Bureau. Fred Smith, Chairman, Chief Executive Officer, and founder of the firm, is no exception.

Profile: Fred Smith

A poignant illustration of management taking the message of its quality efforts and strategies to the public is a recent appearance that Fred Smith made at First Chicago
Bank during the first quarter of 1991. He talked about the
importance of Fed Ex's People First philosophy and how that
has enabled the company to meet and exceed many of its
quality goals. In this speech and many others like it,
Smith addresses the critical need for open communications
in the employee-management relationship; the
importance of widespread internal reward and recognition systems; the
need for accurate and reliable quality measurement
systems; and most importantly, the empowerment of every
employee "to do what has to be done in the name of customer
satisfaction."  

Summary

The illustrations presented in this case study
highlight the commitment that Fred Smith and other Federal

52 The Guaranteed Fair Treatment Procedure (GFT), Fed Ex's
in-house avenue for airing grievances which gives employees
the right to appeal any eligible issue through a process of
systematic review by progressively higher levels of
management, is one way Senior Management listens to their
employees. Every week, Fred Smith, Jim Barksdale (Chief
Operating Officer), James Perkins (Chief Personnel Officer),
and two Senior Vice Presidents (on a rotating basis) review
grievances under the Executive Review step of the GFT
Procedure.

53 Federal Express' internally developed quality
improvement program focuses on 12 Service Quality Indicators
(SQIs), which are tied directly to customer expectations and
measured against a 100 percent service standard. The Company
has set up cross-functional teams for each component in the
SQI.

54 Smith, Frederick W., "The Malcolm Baldrige Award: Our
License to Practice," an address given at First Chicago Bank,
Express employees have made to developing a quality-driven culture from the company's inception. A great deal of emphasis is placed on people at the firm. The People First philosophy embodies that spirit. The Guaranteed Fair Treatment Procedure and Survey-Feedback-Action Program have been put in place to ensure that achievement of quality excellence in human resources management not only be maintained, but continuously improved.

The company's focus on people does not end within the structure of Fed Ex itself, but is carried out to others through nationally recognized community service efforts. The Federal Express Speaker's Bureau provides an established, well-run resource from which interested parties may draw to learn more about the way Fed Ex does business. This sharing of quality strategies, through the Speaker's Bureau, absolutely positively embodies the spirit of public responsibility.
CHAPTER FIVE
INTERPRETATION AND ANALYSIS

How These Approaches to Public Responsibility Differ

At Johnson & Johnson, the approach to public responsibility is different from that observed at Federal Express in two ways. First, at Johnson & Johnson, the process of sharing quality strategies seems virtually divorced from its community service and philanthropy efforts. This is not the case at Federal Express, where the Speaker's Bureau, the company's main resource for outsiders who wish to learn about quality efforts, is a part of the Grants and Community Services division. The second distinction is the breadth of people with whom quality strategies are shared. Johnson & Johnson and Ethicon employees make presentations to industry competitors at conferences and in one-on-one meetings. There is no evidence, in the research done for this work, that Federal Express shares its know-how with its competitors.

Johnson & Johnson

Employees at Johnson & Johnson and its operating company, Ethicon, have become experts in their given fields in order to (1) impart the knowledge to others in the firm and (2) to fulfill the requirements of their jobs, which have been structured around full employment of various
quality methodologies. Once these two challenges have been attained, Johnson & Johnson go out and share their knowledge with other business people, whether in competing industries or not. The philosophy at Johnson & Johnson is that it is to their advantage to help competitors learn the latest in quality strategies and methodologies, so that all consumers may benefit from pharmaceutical and related health care products derived from state-of-the-art quality processes.

Federal Express

At Federal Express, however, the emphasis on sharing quality strategies is placed on businesses outside of the overnight express delivery industry. There does not seem to be an effort to impart the quality methodologies employed at Fed Ex with competitors, either by request or pro-actively. Now that the Quality Forums have begun at Federal Express, as required when a firm wins the Baldrige Award, the company will probably share its knowledge with industry competitors, as these gatherings are open to the public.

What Has Caused These Differences?

Industry Standards

There seem to be two factors which have led to these differences. First of all, industry differences seem paramount in the varying approaches to sharing quality strategies and methodologies. The health care industry is
much more critical to individuals' well being than is the overnight express delivery industry. As consumers of the express delivery industry, we were taught by a very effective marketing campaign that urgent delivery of packages was imperative. Only in extraordinary circumstances do lives depend on the delivery of packages through an overnight service provider such as Federal Express.

The fact that the quality of human lives is affected with every product that Johnson & Johnson (and its competitors) create and sell makes the industry-wide proclivity for high standards very important. The health care industry is heavily regulated; ethical pharmaceutical firms all profit when efficient, effective means for product development and marketing are discovered. Leading firms in the industry have codes of ethics similar to that of Johnson & Johnson and are committed to doing whatever they can to make sure that any products put into the human body are beyond reproach. These facts, combined with the Johnson & Johnson's stated goals of bind the industry leader, make it natural for the firm to impart its knowledge to others.

Time

The second cause for such differences is really a subset of the first, and that is time. Federal Express
created an industry which has been in existence for only twenty years. Many of the innovations the firms created, such as the hub and spoke system, have been adopted by other participants in the express delivery industry, as well as by other, more general competitors, commercial and private airlines. Despite this and other innovations, two decades is simply not time enough to create a permanent, lasting mark within an industry, which was a permutation of existing delivery industries already in existence, even if its a self-created one. Perhaps as time moves forward and the overnight express delivery industry matures, more competitors will enter the field that are somehow less of a threat to Fed Ex than its current competitors, sharing of quality strategies within the industry may become more common.

Johnson & Johnson created an industry which initially focused on providing sterile operating rooms and bandages. Over the last ninety six years, the industry has branched out in several directions. With almost a hundred years under its belt, the company has succeeded, sometimes more successfully than others, under several operating strategies, and has quite a history to look back on and learn from. Johnson & Johnson has been at the leading edge of several different kinds of health care innovations, many of which had life improving benefits for their customers, as
well as those of competitors. The urgency of such innovations, as well as the recognition of its peers that Johnson & Johnson has earned such a leadership role, have combined to make the Company's efforts to share its quality strategies a natural consequence.
CHAPTER SIX
IMPLICATIONS FOR PRACTICE

The evidence gathered supports the thesis that achievement of quality excellence in public responsibility is attained when two separate and distinct achievements have been firmly established within a firm. These two achievements are (1) a clear, focused community service effort, which has its roots in a clearly articulated corporate mission statement and (2) a robust source of educational tools, methodologies, and measurement systems needed for successful implementation of a quality-driven business strategy.

These tools, methodologies, and measurements systems may be imported or internally developed, however, it is critical that employees and operating units within the firm are able access them to keep themselves abreast of state-of-the-art quality methodologies. Only when a firm has made a real commitment to both of these, and the senior executive leadership takes an active role in such activities, can the ultimate goal of public responsibility, sharing and teaching quality strategies to those outside of the firm, be achieved.

Specific suggestions for managers who want to work
further on the public responsibility examination item follow:

- read and learn the Application Guidelines for the Award;
- if possible, attend information workshops given by Baldrige winners;
- contact Baldrige winners and ask what their public responsibility achievements are and how they attained them;
- learn all you can about specific quality methodologies;
- actively participate in local, regional, and national organizations that stress the development of quality excellence cultures, such as the Association for Manufacturing Excellence and the American Society for Quality Control;
- find out if there are local firms who have formed networks to learn and share their knowledge of building a quality excellence culture, using the Baldrige, or other, process. If one exists, join. If one does not exist, start one.
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Lester Thurow, MIT Sloan School  March 15, 1991
Thomas J. Smith, J&J Quality Institute  Various
Wanda Martin, Federal Express  March 26, 1991
Sally Davenport and Anne Manning, Federal Express  Various
Shirley Blanche, Ethicon  Various
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54
APPENDIX ONE

WINNING WITH QUALITY

THOMAS J. SMITH
Johnson & Johnson Quality Institute

March 5, 1991
Ortho Pharmaceutical Corp.
Route 202, Raritan, NJ
• interdependent relationships in industrial buying and selling can create handsome benefits.
• cooperation is the best strategy for developing these relationships.

• new players with cooperative buyer–seller relationships are taking away our customers.
• buyer–seller interdependence offers the best unexplored opportunity for gaining competitive advantage.

• the opportunity for competitive advantage is now!

• there are many personal forces working against good buyer–seller relationships and
• there are many organizational forces working against good buyer–seller relationships;
• the Mandate Team is the solution to this puzzle.
Creating the Right Conditions

CREATING THE RIGHT INTERNAL CONDITIONS

CREATING THE RIGHT CONDITIONS FOR SUPPLIERS

THE MANDATE TEAM IS THE FIRST STEP
Focus on:
The customer and supplier quality relationship

The Executive
Responsible for creating the vision for the future, and the conditions for success.

The management
Responsible for continuous improvement of the systems that bring people and resources together more effectively.

The Workers
Responsible for doing the best possible job, given the vision, and systems prevailing.
CREATING THE RIGHT INTERNAL CONDITIONS

Vision

A sense of purpose has to be displayed through a clear mission statement. John Sculley, CEO of Apple, said: "The new age leaders will lead not with toughness but with powerful ideas" (Sculley and Byrne, 1987). This clarity can only come from an executive that has worked through very clearly what this idea is, i.e. of the nature of purchasing in the organization. Xerox, Motorola, Tektronix, Ford and Chrysler are typical of the companies who have made public their vision for purchasing–vendor relationships. Gerald Greenwald, Chairman of Chrysler Motors said that the new goals for the office of procurement and supply are: zero defects, 100% just-in-time delivery from suppliers, control of commodity prices, participation in the company's 30% per unit cost-cutting program, and a continuation of sound long-term relationships with the suppliers (Purchasing, 1987). Chrysler are even creating the physical embodiment of their vision in the Supplier Office Park site, which will take up 65 acres of the 503 acre Chrysler Technology Center. This is really working it through! And this has been recognized by their being awarded the 1987 Medal of Professional Excellence by Purchasing magazine.

Every executive who intends to change purchasing policy, fundamentally needs first to exercise the creativity of everyone in purchasing, by considering their views and taking into account the picture of the future they would like. They then need to exercise their own imagination in a bold way, which does not just replicate the past with some hitech knobs on it. And they must be courageous enough to publish their vision in such a way that everyone in the company knows that there is a new objective which is realistic and meaningful, and not just another "flavor of the month" illusion. However, before any of this can happen, a fundamental activity must take place—and incur activity. Top management must look regularly at themselves and ask: "How capable are we of delivering this?" No organizational change will work without the people at the top also changing. This is axiomatic, and yet it is ignored time and again, as major change ideas frequently emanate from the top whilst often only minor change, if any, occurs at the top.
Ethics

The way an organization behaves as a whole is a reflection of the conscious versus unconscious orientation of the top layer of management. Putting aside the truly immoral behavior of some of the more iconoclastic participants in the Stock Market revolution, companies need, nevertheless, to look at their own practices.

It has not just been the Lockheeds and the Tobishas of this world who have been guilty of serious misconduct getting business in the past: malpractice exists in many different forms. Sometimes it occurs because the suppliers are inefficient and unprofessional, and use bribes to get business they do not deserve—instead of using that money to invest in their own operation to improve it. This is only slightly worse than spending millions of dollars on marketing to push a product which simply is not good enough, instead of investing in modifying it to really meet consumer needs. Sudden rushes of advertising and promotion ought to make us anxious about the quality and utility of a particular product. At other times, business may go to the organization which does deserve it on pure merit, but which perceives that they will not get it without greasing palms. This attempt at bribery seriously offends the ethical buyer, and can damage the relationship irreparably.

All this demonstrates a lack of respect for other people in organizations in the manufacturing chain, a morality distorted by rationalization, and, most damagingly for both parties, a lack of service consciousness towards the end user who, after all, is the final arbiter of their fate. An example of moral leadership was quoted admiringly by a businessman at one of the Conference Board Meetings in 1975 (a respected United States business institute which holds off-the-record meetings for business leaders): “The highest code is something like that expressed by Erwin Miller of Cummins Engine who called his top management together, after the American Airlines illegal contribution was disclosed, to reiterate his policy of ‘100% adherence to 100% honesty, even if we lose by it’...’” (Silk and Vogel, 1976).
Creating the Right Internal Conditions

Resources

Top management commitments to a change in policy must be made visible. The three components of visibility are:

A clear plan and a development budget. If these are not published (see the Chrysler example above), then do not expect the new policy to be taken seriously.
Time must be made available for the new initiatives.
Interest has to be displayed by the executive consciously and with a proper process, both before and after the change initiative. A very important part of this is the communication process. Very often in its need to make sure that the marketplace and shareholders know what the new aspirations are, and that the suppliers are made aware of the planned preferred supplier approach (the external communications), so much the company not forget to get the \textit{internal} communications right. This point is emphasized by Jim Sierk, who guided the very successful supplier reduction effort at Xerox, in a very thoughtful response to an early draft of this work that was sent to him. He wrote: “it is essential that a large-scale massive communication program occurs up front . . . The CEO has to be part of that process.”

Management will need to see that there are new norms in place, and know that their own performance will be judged on this. Too often they are put in a double bind by their executives, who demand that new policies be carried out, but then continue to reward or punish on the old criteria. For example, in General Motors it is still being reported in some plants that meeting the production schedules comes first, even though quality is proclaimed to be the top priority. This really unsettles the supervisors. On the other hand, Ford rewards managers for teamwork.
So, having pulled the development group together around the vision, and with the appropriate conditions, the next step in coming to be perceived by suppliers as willing to help them meet their needs, lies quite simply in using the mandate team to understand what those needs truly are. Again, this is easier in organizations at the pioneer phase, but much harder to determine in organizations which are in the rational/scientific phase—hence the need for the mandate team. Managers within such organizations often find it difficult to describe their firm’s true needs because of the way the structure lowers their consciousness, so it is no wonder that outsiders buying from or selling to them find it near impossible to describe their needs.

For the customer firm wishing to influence key suppliers it is doubly important to keep trying. Just as quality guru Phil Crosby says that “zero defects” is more a journey than a destination, so must the buying firm keep seeking an ever-better understanding of the needs of key suppliers in order to maintain continuous improvement. Happily, the very process of seeking actively to understand the supplier’s true needs will give off very clear signals to the supplier that the buyer is at least interested in those needs—and nothing is more likely to begin to reduce uncertainty and to begin to induce cooperative behavior. This also applies when searching out customer needs, as every skilled salesperson knows.

This kind of inner-directed search by the customer firm to understand the selling party’s needs will only occur if the customer firm believes, at the general management level, that such behavior is in their own interests. They must understand this point so well that they will invest in resources and the organization to make it happen, as there is no better way to illustrate strength of purpose than by letting “justice be seen to be done,” especially in a complex relationship involving multiple functions on both sides. It is also true that any deliberate attempt to “appear” to be interested in the other party’s needs is foredoomed to failure because (a) deception, even by default, is simply not the right way to do business, and (b) no one has a memory good enough to be a successful liar for very long. So, justice will be seen to be done only if both sides’ needs are met and the opportunities developed together.
CREATING THE RIGHT CONDITIONS FOR SUPPLIERS

I feel that the initiative for developing the buyer-seller relationship must be taken by the buying firm. The customer firm must explicitly provide for the meeting of all needs which the supplier can legitimately expect, and they must train and/or motivate all their personnel involved to treat these needs seriously and to deal with them as promptly as they would their own firm's.

Offer Early Involvement—it Pays

The supplier must have access to product design as early as humanly possible in the design process to assure optimal use of any special skills or processes they can contribute. For specially designed products, the epitome of this would mean placing the production business by means of direct negotiation before prototype development.

Be Prepared to Reward

Product design and manufacturing process must be open to modification where there is a benefit to be gained, even when the immediate benefit is only to the supplier. Here is a prime opportunity to follow the advice of Confucius by enhancing the benefit (to the supplier) of this important interdependency, rather than acting only when there is a clear and present benefit to yourself within that action. Here the mandate team can play an important strategic role in this effort because it can provide the forum within which such considerations can be weighed. It is in the best position to make an informed evaluation of any potential risks or costs, and to judge whether or not they should be undertaken purely to support the special relationship involved. For example, the mandate team could decide whether to design a manufacturing enabler into a component which would ease a supplier problem, but would not produce a cost-reduction. This would be a clear relationship-enhancement decision.

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At the IBM plant in Boulder, Colorado, which produces sophisticated disk drives and other products, it was determined that, as part of an overall program to instill pride in all phases of the operation and its products, the very best component sources should be identified and sourced with newly conceived parts before the end product was fully designed. This would allow maximum opportunity for including the supplier’s best ideas in the final product, be they feature ideas, process ideas, or be they aimed at cost reduction or product improvement, all of which would tend to improve the likelihood that “their” product will land the consumer sale.

This naturally required several steps quite foreign to the traditional market determined placement of this production business:

(a) The customer had to decide precisely which supplier was a “world-class” best for each component. This required a new form of soul-searching—and evaluation of the longer-term aspects of their relationships with the candidate suppliers. It also demanded something unusual—that they trust their own judgment in reaching these conclusions without letting the market help them.

(b) The customer had to develop a very clear picture of how much they were willing to pay for components sourced this way—and remember that the components in question had not been designed yet. This was accomplished by having product engineering produce a conceptual sketch which identified parameters, such as envelope, attachment, inputs and outputs. Then assumptions were made regarding materials and processes sufficient to establish an estimate of the most-likely cost on the competitive market for such components.

(c) The customer then had to negotiate the placement of their production volume requirements on a permanent basis, without any test of the price the open market would place on such a component. It is little wonder that the customer’s buyers were often the ones who most resisted this bizarre approach to industrial buying. It deprived them of their customary feel for the market, and it forced them to trust their own judgment, both in selecting the “best” source, and in negotiating a resolution of many commercial issues, including price, after declaring that they wanted to place the business with this particular supplier.

The payout of this associative approach to sourcing lies in the fact that advantageous product and process ideas of the suppliers are being incorporated at the outset, rather than later, or never, depending on the difficulty of later changing the product to incorporate these ideas. And the delivered cost of new components sourced in this collaborative fashion are costing IBM 7–10% less than their most aggressive internal estimates. This type of success is being repeated in a number of the more thoughtful firms around the world (not just in Japan) and is the reward for what is basically an act of faith.
Consider the Implications for your Supplier

Schedule and delivery requirement processes should interact with the supplier before customer production decisions are made, to ensure that benefits accruing to both parties collectively are properly compared with the costs to both parties collectively—before taking action. Because the natural inclination of the customer firm is to look after their own needs first, and maybe only, there is a predisposition to adjust the production schedule to meet a customer or market change without considering the impact on suppliers. The only natural limit to this is the physical limit to the supplier's ability to respond in time. The costs generated within the supplier to support these abrupt schedule changes are far too often ignored by the customer operation—if they can get away with it. In the short term, then, the customer has managed to meet their own needs by doing great violence to the needs of the supplier.

But, as we observed before, those "costs of violence" must find their way into the price paid by the customer firm, and ultimately into the price asked of the real consumer. Enlightened customer firms recognize this, and endeavor, out of their own long-term interests, to ask their key suppliers to advise more than simply whether or not they can physically manage to perform the newly desired schedule. They endeavor in some way to include the disruption and cost impacts on their suppliers in the original decision regarding how best to accommodate the given customer or market development. The supplier's preferences will not always prevail, but at least in these more progressive firms, the supplier has been heard and their needs considered in the decision process. They can thus better accept any disappointment which may follow, knowing that their customer firm was considering both sets of needs in attempting to satisfy the final consumer. This kind of preventive maintenance, performed on the relationship itself, is a prime responsibility of the "world-class" buyer.
Solve Problems Together

Supplier problems must be seen as joint responsibilities and resolved just as quickly as problems of the customer’s own manufacturing operations would be resolved. This requires that resources of both the buyer and seller be brought to bear on “our” problems in a way which produces the most efficient use of “our” resources—that is, the collective resources of both parties. This follows the “greater good for the greater number” idea, where the two parties collectively represent the greater number. In some manufacturing chains it should be possible to extend this idea upstream towards Mother Earth and downstream towards the consumer—always with the intention of increasing the likelihood that the consumer will choose “our” product and thereby reward all of “us.”

Fairness Pays Off in the Longer Term

Supplier margins must be considered in the original and in the ongoing agreement on pricing. It is productive (and fair to the other parties in the manufacturing chain) to expect all supplier margins to be slim when the marketplace demands, so long as all supplier margins are allowed to recover when the opportunity exists. There is no long-term advantage to any customer in the chain from keeping their supplier margins below a level which meets the supplier’s investment/return needs. Xerox Reprographics considers this a key element in their long-term strategy.

Keep the Key Players in the Picture

The key suppliers must have knowledge of coming events which could affect their contribution to this associative relationship in any way—or which could affect the meeting of any of their now recognized needs. In short, the key suppliers must be treated as though they were important manufacturing departments of the customer firm. This is likely to happen only if the buyer is clearly accountable for managing the relationship, sufficiently aware of the need to communicate, has the skills to do so, and is plugged into coming events through the mandate team.
In the Communications Sector of Motorola, which is pursuing a program to achieve an associative relationship with its key suppliers, an interesting body has been established to guide the effort. This body is called the “Partners for Growth Advisory Board,” and consists of general management from 15 key suppliers, ten Motorola general managers, and ten Motorola purchasing managers.

At an early meeting, these 35 advisory board members brainstormed a number of questions regarding the relationship between all key suppliers (about 400) and Motorola, such as “how can Motorola break down any remaining obstacles to the partnership feeling we desire between suppliers and ourselves?” The answers tended to focus on suggestions, such as “get key suppliers involved in early design development” and “establish preferred suppliers (loyalty, trust, qualified, etc.).” After brainstorming several questions separately and collectively and producing some 160 ideas, each member determined what they considered to be the top ten in each category. These votes were aggregated in descending order, thus identifying the ten most appealing ideas in the collective view of all 35 members. The focus question was “what can you suggest Motorola do which would cause key suppliers to want to do things for Motorola which they don’t do for their other customers.” Those who are inclined to be cynical about the behavior of suppliers when they have the opportunity to influence the policies of the key customer (as this board does) might expect the No. 1 rating to go to “allow higher profits”—which in fact came in dead last; or “progress payments on product/programs” which came in 43rd out of 48 on this question. Instead, the action deemed most likely to cause suppliers to want to do things for Motorola which they don’t do for their other customers turned out to be:

“give preferential problem-solving to preferred suppliers in:

—payables
—engineering
—quality

—inventory
—schedule
—any problem they raise.”

In the Motorola example above, the general managers of those “best” supplier firms, in each of the 15 most significant commodities, were saying that the behavior which would most motivate them to give preferential treatment to a customer was that customer’s extension of preferential treatment to them whenever they raised a problem at any of the touch-points between the two firms. Or to repeat once again that most profound insight, they were affirming that any customer’s ability to influence them was largely determined by their perception of that customer’s willingness to help them meet their own needs.
Develop Opportunities Together

The final step for the customer firm which wants to be perceived as interested in the needs of key suppliers, is to create specific and explicit mechanisms for drawing out supplier contributions in product design, manufacturing processes, quality/reliability and communications processes between all related functions. The creating and leadership of these mechanisms should normally fall to the responsible buyer with management support from all disciplines he or she needs to involve.

(a) Value analysis and value engineering are good beginning steps, but probably not as full-time departments. It is usually more productive to establish ad hoc structures, temporarily involving the actual decision-makers, while addressing the commodities they control. This is another ideal use of the mandate team which, after all, is composed of the people who know the target commodity best. The supplier should usually create a mirror structure of decision-makers at their end, with their sales representatives responsible for its creation and leadership.

(b) Technology-sharing can be especially productive where both parties feel fully committed to a long-term associative relationship. Given the premise that all costs reach the customer, it is counterproductive to expect a second party in the manufacturing chain to consume resources in developing or adapting an emerging product or process technology, if anyone else in that chain could pass it over to them at less cost to the whole chain (again, Confucian interdependence at its best).

(c) Supplier ideas should be rewarded and specifically encouraged by allowing them, at least temporarily, a wider than usual share of margins wherever their ideas create a better benefit to any one in the chain (sometimes the benefit accrues a step or two later in the chain). Nothing sparks creativity better than prompt recognition and a visible, valuable reward. This may well represent the corporate equivalent to the individual's prime need for recognition of self-worth.
For some years Ford Motor Company has operated a program to encourage new productivity and cost-reduction proposals from machinery and tooling suppliers. In essence, any idea submitted by a supplier is circulated to ensure that it does not duplicate any other under study. When seen as truly new and unique, the proposal is assigned a serial number and pursued for feasibility. There is no attempt to negotiate the prices put forward for any machinery or tooling in the proposal needed to implement the idea. It is understood that Ford will buy that machinery or tooling only from the firm who originated the proposal, and at the price requested, if the equipment to be purchased generates savings sufficient to meet the hurdle of Ford’s internal return-on-investment rate. This concept has produced many equipment purchases without competitive bidding and has brought forth many cost-reduction ideas Ford would not otherwise have enjoyed.

In one case, a supplier of precision stamping dies noticed a problem Ford was having with a gear assembly encased in a die casting. He proposed that it be redesigned as a stamped assembly, but Ford engineers were doubtful of the durability of such an agreement. Being confident that Ford would buy the necessary tooling from him at his price if it proved feasible and profitable, the supplier built up an expensive set of tools at his own cost and made up several samples for engineering to test. The samples proved his point and Ford bought the production tooling from him at a price well above normal. Even at the inflated price, the savings to Ford were well within their return-on-investment hurdle rate and this was an idea they would not otherwise have had at all. Truly a win–win conclusion, based on the suppliers perception that Ford would be willing to meet their needs.

A history of mutually satisfactory experiences such as the above helped. Ford developed the Simultaneous Engineering approach to capital equipment purchasing which can shorten the tooling cycle for a new model by as much as a year.

In summary, the supplier should increasingly be seen as a voluntary member of the customer family. The buyers, then, should be seen as a prime resource to the supplier with responsibility for ensuring that all customer disciplines can and do play their part to cause this associative relationship to recognize and deal with the needs of both parties. The buyer also must be seen by all other customer disciplines (mandate team members) as responsible for ensuring that the supplier continues to meet their needs—and should have a say in determining which suppliers will be designated as “preferred.” The rights, privileges and responsibilities which accrue to the supplier in the associative relationship, are in many ways mirror images of the same rights, privileges and responsibilities which exist on the customer side. This is by no means a soft or
generous condition we are describing. It is rather one in which both sides vigorously pursue their own interests, but in a mutually supportive way which at times makes two plus two equal more than four.

The posture we urge both buyer and seller firms to adopt is, in fact, quite self-interested because it is the posture which has been shown to lead to the greatest benefit for the firm adopting it, given a sufficiently long-term view and consistent behavior. Buyer and seller were not among the five prime inter-dependencies seen by Confucius in the simpler times of 500 BC, but they would surely qualify in today's much more complex and interconnected world. Bear in mind that Confucius said both parties would do well to strive to enhance the benefit of the interdependence, rather than striving to enhance their own share of that benefit. This is another way of saying that, interdependence, if viewed positively, will lead to a beneficial creativity—rather than the divided spoils that is all that can be expected from a self-protective stance.

The firm that accepts the role of preferred supplier undertakes to earn preferential treatment by taking their best efforts and most valuable ideas to that preferred customer first. Cooperation blossoms where cooperation is reciprocated. So the supplier must take risks and make equal efforts along with their customer for that associative relationship to emerge; this chapter has been about creating the conditions which nurture risk-taking and creative goodwill.