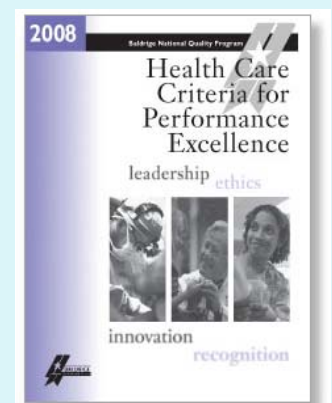


Louisiana Quality Foundation Baldrige Criteria as a Model for Risk Management

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2007 Malcolm Baldrige Recipients



Copyright: Ron Sachs/Consolidated News Photos

Health Care Recipients

Year	Recipient	City	State
2002	Sisters of St. Mary (SSM) Health Care	St. Louis	Missouri
2003	Baptist Hospital	Pensacola	Florida
2003	St. Luke's Hospital	Kansas City	Kansas
2004	Robert Wood Johnson University Hospital	Hamilton	New Jersey
2005	Bronson Methodist Hospital	Kalamazoo	Michigan
2006	North Mississippi Medical Center	Tupelo	Mississippi
2007	Mercy Health System	Janesville	Wisconsin
2007	Sharp HealthCare	San Diego	California
2008	Poudre Valley Health System	Fort Collins	Colorado

Note. The Table was created from (NIST2007a-2008 Award Recipients')

Other Recipients

Year	Recipient
2008 Education	<p>Iredell-Statesville Schools K-12 public school system Budget: \$160 million Workforce: 3,416 (includes 1,661 faculty and 1,254 staff) Location: Four central offices and 35 schools in Iredell County, N.C., including 19 elementary schools, seven middle schools, five high schools, two alternative/at-risk schools and two early colleges.</p>
2007 Non Profit	<p>City of Coral Springs The City is 23.93 square miles with 54% of the land designated as residential land use. On October 1, 2006, approximately 131,257 residents called Coral Springs home, making it the fourth largest city in Broward County and the 13th largest in the State of Florida.</p>
2005 Education	<p>Jenks Public Schools The 11th-largest school district in Oklahoma, Jenks Public Schools (JPS) serve 9,400 students, pre-kindergarten through 12th grade. The district has an annual budget of \$48 million and operates nine schools on five campuses, as well as its own transportation, maintenance, print shop, warehouse, food service, and technology operations. The staff includes 665 educators (teachers and certified staff) and 575 noneducational professionals.</p>

Biases

- Baldrige Criteria is a framework or Model to manage an organization and yield high performance and long-term sustainability
- There is no reason why you should ignore **Opportunity and RISK**
 - Ford and Toyota and GM, Crysler, etc.

LEARNING OBJECTIVES

- Exposure to the use of the Baldrige Criteria as a business model
- The role of Leadership (Category 1) in Risk Assessment and Strategic Risk Thinking
- Review of Criteria questions
- Evaluate Risk from “System” Failures
- The effect of Strategic Thinking and Systems on Risk Assessment

Introduction

- Beyond self-assessment:
The Baldrige criteria offer a comprehensive, systematic business model for managing a health care organization toward high performance and sustainability



Introduction

The Criteria are **not** proscriptive

But...

they provide the right prescription for
what ails your health care organization!

Why the Baldrige Business Model?

Provides a **Structure** !!!

Focus on Results and Creating VALUE !!!

Systems Perspective !!!

Embodiment of Business Graduate School

Focus on the Future !!!

Solid theory –Performance Management !!!

It's free...well, sort of...!!!

Brings in all the good stuff !!!

Provides an organizational focus !!!

Albert Einstein

“We cannot solve the problems that we have created - **with the same thinking that created them.**“

Assessing Risk
“System Failure”



CORE VALUES & CONCEPTS

- Visionary Leadership
- Patient Focused Excellence
- Organizational and Personal Learning
- Value Workforce Members and Partners
- Agility
- Focus on the Future
- Managing for Innovation
- **Management by fact**
- Social Responsibility and Community Health
- Focus on results and creating value
- **Systems perspective**

Baldrige Criteria for Performance Excellence (CPE)

1. Leadership
2. Strategic Planning
3. Focus on Patients, Other Customers, and Markets
4. Measurement, Analysis, and Knowledge Management
5. Workforce Focus
6. Process Management
7. Results / Outcomes

Baldrige Focus on Outcomes

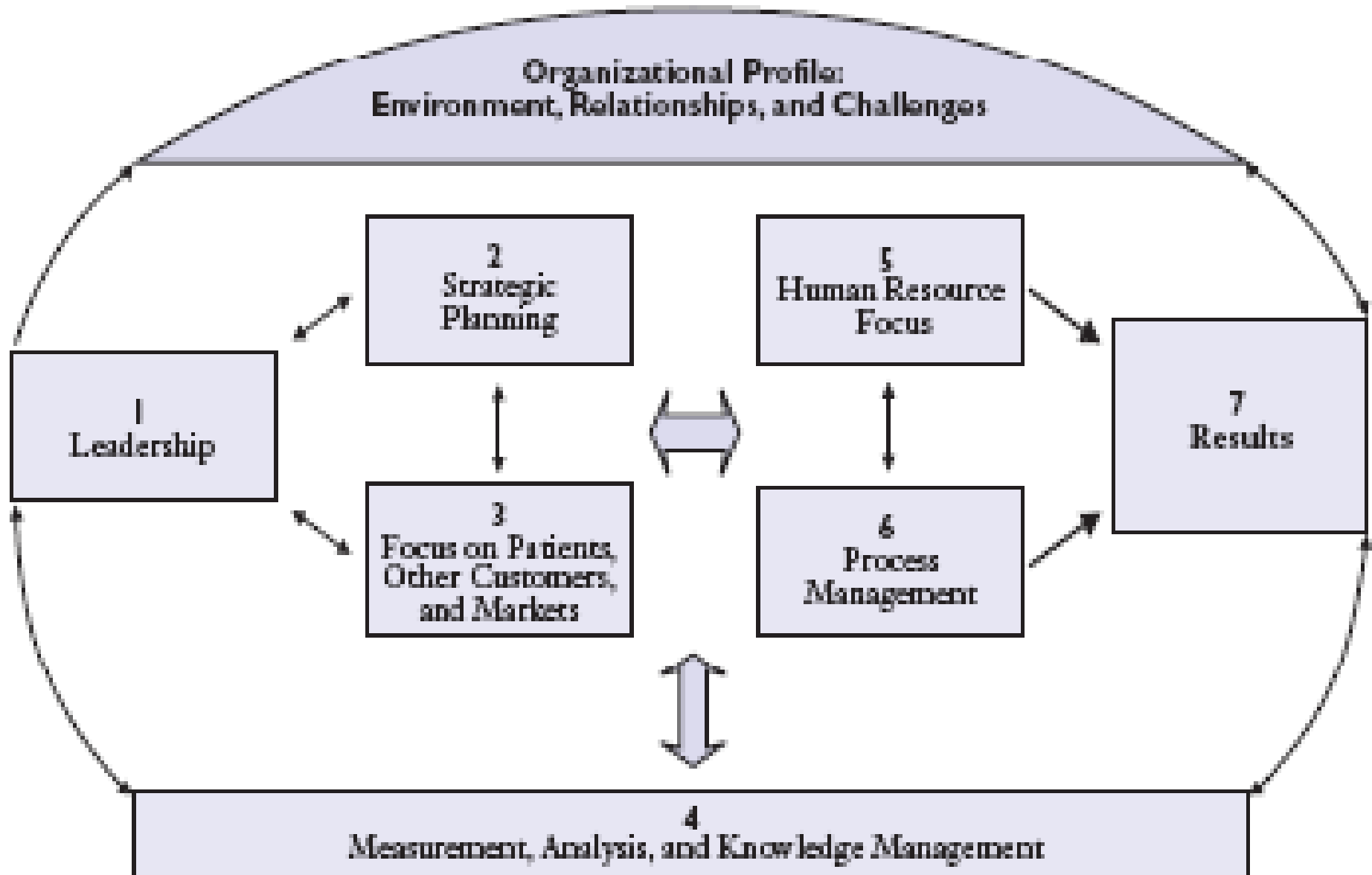
Results – Category 7

- | | | |
|----------|---------------------------------------|----------|
| 1 | Health Care Outcomes | 2 |
| | Customer-Focused Outcomes | 3 |
| | Financial and Market Outcomes | |
| 4 | Workforce-Focused Outcomes | |
| 5 | Process Effectiveness Outcomes | |
| 6 | Leadership Outcomes | |

CPE was a strong influence in the creation of Institute for Healthcare Improvement (IHI)

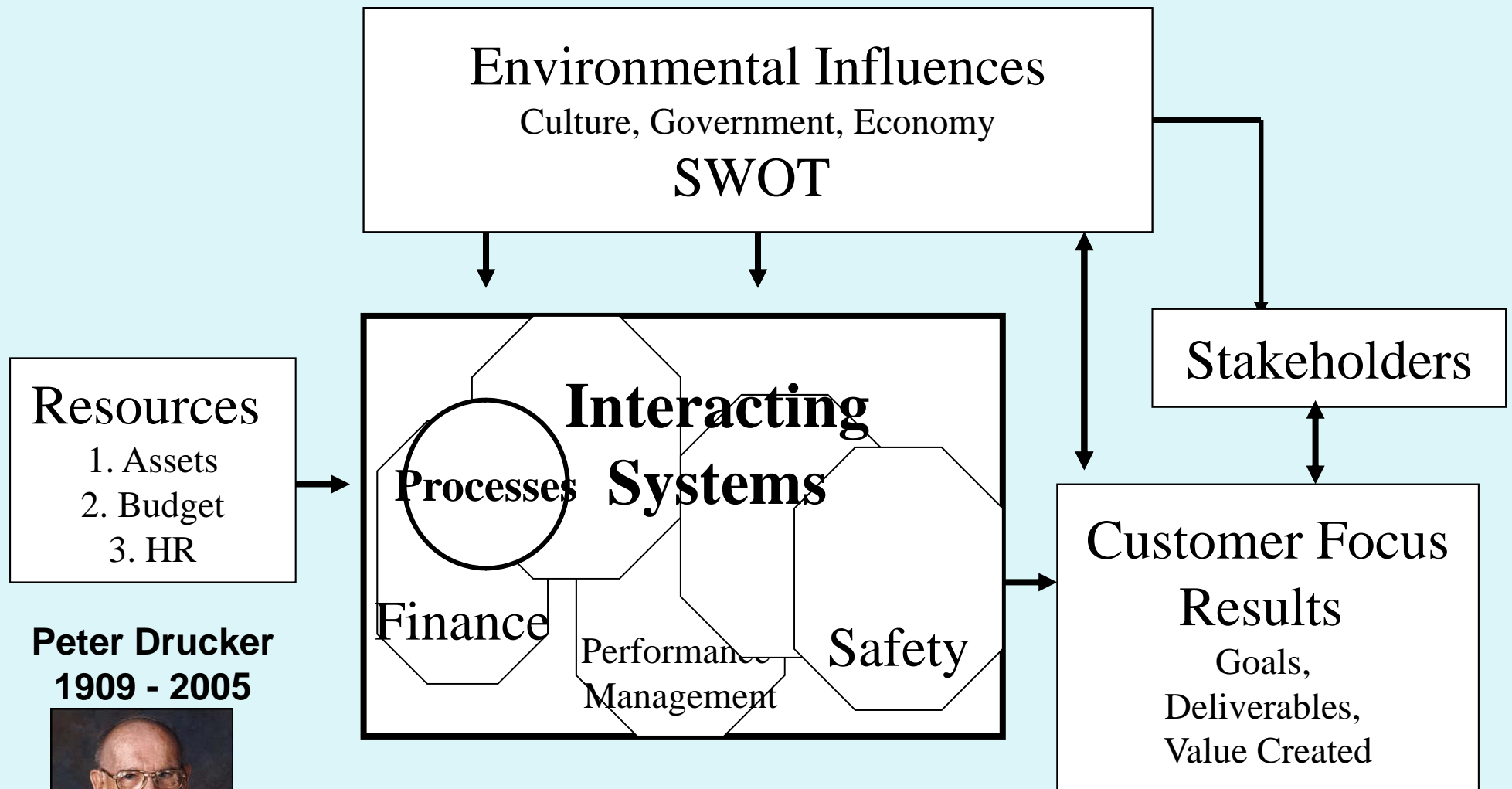
Baldrige Business Model?

Baldrige Health Care Criteria for Performance Excellence Framework: A Systems Perspective

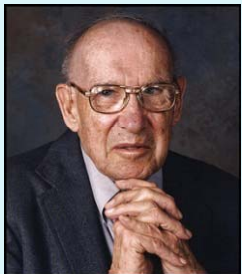


Business Systems & Processes

An Organization as an Adaptive System



Peter Drucker
1909 - 2005



What is Risk?

- “Risk is a measure of a future uncertain event or condition that, if it occurs, has either a positive or negative impact on achieving strategic objectives and all linked Action Plans and related Systems and Processes.”
- Risk is also defined as the combination of the probability of an event and its consequences.
- Risk is unavoidable and present in virtually every human situation.
- Risk also presents OPPORTUNITIES

Risk of Limited Recourses

- We live in a world of scarce resources.
- We must address the issue of RISK
- We can not afford waste or rework
(time , energy, effort, etc.)
- We must create “Learning Organizations” to improve our decisions making ability to **REDUCE RISK.**

(Source: Peter M. Senge, *The Fifth Discipline*, 2006)

How Does Baldrige Address Risk?

- 1. Structured** integrated and aligned approach to manage all FUNCTIONS, SYSTEMS, PROCESSES and the necessary RESOURCES.
2. There are specific questions that address risk.
3. There are specific questions that address ORGANIZATIONAL CHALLENGES

Structure, Alignment and Integration

Baldrige Criteria	ISO 9001:2000	SIX SIGMA
<p>The Baldrige model is <u>customer and process-focused</u>. It's all about identifying and continually <u>improving key organizational processes</u> in the best interest of delivery better value to the customer</p>	<p>The Quality Management System is a <u>process approach to developing, implementing and improving the effectiveness</u> of the organization and to enhance customer satisfaction by meeting customer requirements.</p>	<p>Six Sigma provides the <u>tools that measure and analyze processes & value</u> to the customer. Six Sigma validates the human, capital and financial resources to meet customer requirements.</p>

Structure, Alignment and Integration

Baldrige Criteria	ISO 9001:2000	SIX SIGMA
1 Leadership	Leadership Commitment	Senior Leadership
2 Strategic Planning	Quality Planning	Strategic Planning
3 Customer and Market Focus	Customer Focus	Voice of the Customer (QFD)
4 Measurement, Analysis and Knowledge Management	Measurement, Analysis and Improvement	10X Return on Investment
5 Human Resources Focus	Resource Management	Train the organization
6 Process Management	Product/Service Realization	Process Management
7 Business Results	Quality Objectives	Business Results

Baldrige Risk Alignment

P.2 Organization Profile

b.Strategic Context

- **What** are your KEY business, operational, and human resource **STRATEGIC CHALLENGES and ADVANTAGES?**
- **What** are your KEYSTRATEGIC CHALLENGES and ADVANTAGES associated with organizational SUSTAINABILITY?
- Thus, what **RISK** do these Challenges present?

Baldrige Risk Alignment

Legal and ETHICAL BEHAVIOR

- (1) **How** do you address any adverse impacts on society of your products and operations? **How** do you anticipate public concerns with current and future products and operations? **How** do you prepare for these concerns in a proactive manner, including conserving natural resources and using EFFECTIVE supply chain management PROCESSES, as appropriate?

Baldrige Risk Alignment

Legal and ETHICAL BEHAVIOR

- (1) **What** are your **KEY PROCESSES, MEASURES, and GOALS for addressing risks** associated with your products and operations

Baldrige Risk Alignment

2.1 a. Strategy Development PROCESS

- (1) **How** does your organization conduct its strategic planning? What are the **KEY PROCESS** steps? **Who** are the **KEY** participants? **How does your PROCESS identify potential blind spots?** **How** do you determine your **CORE COMPETENCIES, STRATEGIC CHALLENGES, and STRATEGIC ADVANTAGES** (identified in your Organizational Profile)?

Baldrige Risk Alignment

a. Strategy Development PROCESS

- (2) **How** do you ensure that strategic planning addresses the KEY factors listed below? **How** do you collect and analyze relevant data and information pertaining to these factors as part of your strategic planning PROCESS?
- your organization's strengths, weaknesses, opportunities, and threats **SWOT**

Baldrige Risk Alignment

a. Strategy Development PROCESS

- early indications of major shifts in technology, markets, products, CUSTOMER preferences, competition, or the regulatory environment
- long-term organizational SUSTAINABILITY, including needed CORE COMPETENCIES
- **your ability to execute the strategic plan**

Baldrige Risk Alignment

- **b. STRATEGIC OBJECTIVES**

- (1) **What** are your KEY STRATEGIC OBJECTIVES and your timetable for accomplishing them? What are your most important GOALS for these STRATEGIC OBJECTIVES?
- (2) **How** do your STRATEGIC OBJECTIVES address your STRATEGIC CHALLENGES and STRATEGIC ADVANTAGES? **How** do your STRATEGIC OBJECTIVES address your opportunities for INNOVATION in products, operations, **and your business model?**

Baldrige Risk Alignment

- **b. STRATEGIC OBJECTIVES**
- **How** do your STRATEGIC OBJECTIVES address current and future CORE COMPETENCIES?
How do you ensure that your STRATEGIC OBJECTIVES balance short- and longer-term challenges and opportunities? **How** do you ensure that your STRATEGIC OBJECTIVES consider and balance the needs of all KEY STAKEHOLDERS?

Baldrige Risk Alignment

5.1 Workforce Engagement

WORKFORCE and Leader Development

- (1) **How** does your LEARNING and development system address the following factors for your WORKFORCE and your leaders?
 - your organization's **CORE COMPETENCIES, STRATEGIC CHALLENGES, and accomplishment of its ACTION PLANS, both short-term and long-term**

Baldrige Risk Alignment

5.2 Workforce Environment

a. WORKFORCE CAPABILITY and CAPACITY

- (1) **How** do you assess your WORKFORCE CAPABILITY and CAPACITY needs, including skills, competencies, and staffing levels?
- (2) **How** do you recruit, hire, place, and retain new members of your WORKFORCE? **How** do you ensure your WORKFORCE represents the diverse ideas, cultures, and thinking of your hiring and CUSTOMER community?

Baldrige Risk Alignment

5.2 Workforce Environment

a. **WORKFORCE CAPABILITY and CAPACITY**

(3) **How** do you manage and organize your **WORKFORCE** to accomplish the work of your organization, capitalize on the organization's **CORE COMPETENCIES**, reinforce a **CUSTOMER** and business focus, exceed **PERFORMANCE** expectations, **address your STRATEGIC CHALLENGES and ACTION PLANS**, and achieve the agility to address changing business needs?

Components of Risk Management?

Process: • A systematic and sustained business process

Measure
: • Consistent metrics adopted in an integrated manner across the organization

Manage: • Focused on enabling management decision making and enabling exploitation of business opportunities

Disclose: • Enabler of meaningful and transparent disclosure to key stakeholders

Components of Risk Management?

- System Risk:**
- Systems View: Integrated adaptable inter-relate systems.
 - There is no simple cause and effect
-

- Material risks:**
- Analyzing & quantifying the organization's significant risks
-

- Value:**
- Balanced perspective on uncertainty, managing threats and capturing opportunities
-

- Stakeholders :**
- Focused on delivering the organization's key stakeholder needs and expectations
-

Related Risk Management Processes

Risk Management is often identified with Strategic Risk Management (SRM) or Governance, Risk and Compliance (GRC).

Common elements are:

- Process applied consistently across company
- Takes a proactive, forward-looking view
- Considers both risks and rewards
- Integrates risk management into business process
- **Assigns clear risk ownership**

Leadership is the Critical Driver

- The job of management is not supervision, but leadership. Management must work on sources of improvement
- Management rarely understands the organization's systems and mistakenly treats every fault or error as a special cause and works to "fix errors" and not the system that is the true source of the problem.

– W. Edward Deming, *Out of the Crisis*

Organizational System Risk

**System Failure
is a major contributor
to RISK**



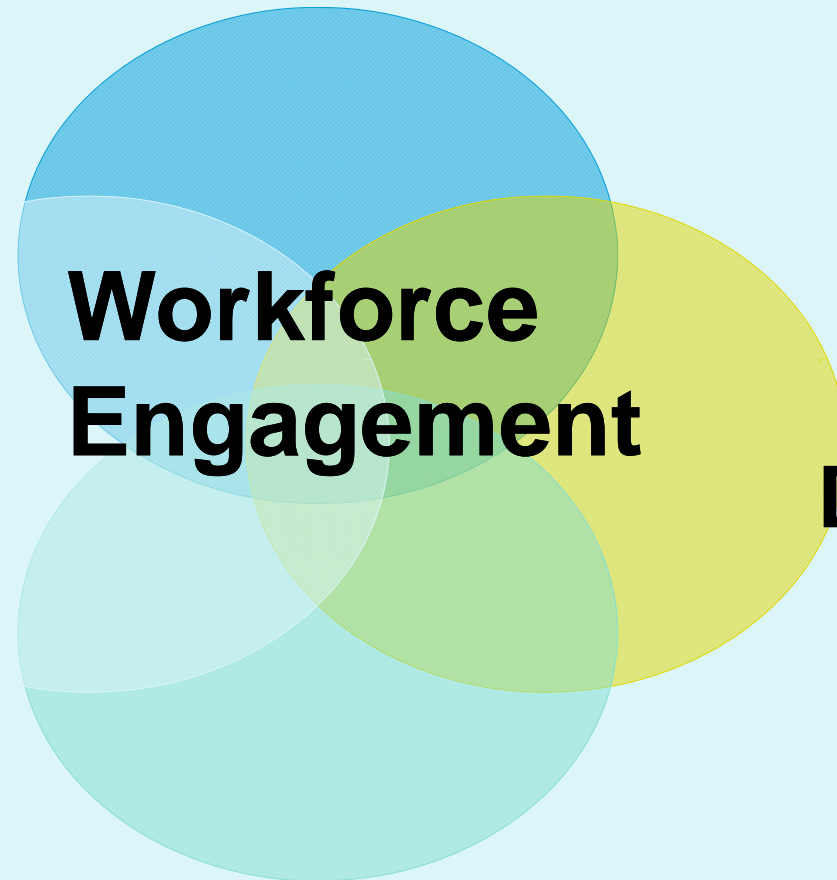
Executive Research Key Findings

- Most companies are making some progress
- Greater board and CEO involvement
- More awareness across organizations
- Faster adoption outside of North America
- Few companies have progressed to “advanced” level
- Slower progress than originally expected

Strategic Risk Continuum

Strategic Thinking

**Strategic
Development**



**Strategic
Deployment**

Strategic Learning

Organizational System Risk

Organizational systems failure is a major source of risk.

To improve organizational efficiency one strategy often used is “resource sharing” within and across systems.

A major source of system failure that is often overlooked in risk assessment which is the sharing resources

The Baldrige Criteria requires leadership address the allocation of all types of resources.

Systems Theory & Systems Thinking

- The unhealthiness of our world today is in direct proportion to our inability to see it as a whole
- Systems thinking is a discipline for seeing whole. It is a framework for seeing their interrelationships rather than things, for seeing patterns or change rather than static “snapshots.” Systems thinking principles as span the physical and social sciences, engineering and management. (Peter Senge)

Structures & How We Think

- Systems thinking is a discipline for seeing the “structures” that underlie complex situations, and for discerning high and low leverage change.
- Systems thinking, is the cornerstone for the learning organization because it provides a conceptual framework for all Peter Senge’s “5” learning disciplines.
- **Systems Thinking is necessary to identify and understand RISK !!!**

Interrelationships vs. Linear

- The essence of the discipline of systems thinking lies in a shift of mind: seeing interrelationships, rather than linear cause and effect chains, and seeing processes of change rather than snapshots. The practice of systems thinking starts with understanding a simple concept called "feedback" it shows how actions can reinforce or counteract (balance) each other.

Risk - Seeing Circles Of Causality

- Reality is made up of circles, but we see straight lines.
- Here in are the beginnings of our limitation as systems thinkers.
- Our language shapes perceptions.
- **What we see depends on what we are prepared to see**

- Photo Source: <http://images.google.com/images?hl=en&um=1&q=systems theory+photos&sa=N&start=20&ndsp=20>



Risk Assessment and Systems Thinking?

Systems thinking offers a valuable new perspective on our most persistent organizational problems and our role in them.

One of the major points that systems thinking makes is that everything-and everyone-is interconnected in an infinitely complex network of systems. When we begin to see the world and one another-through this “lens,” we start seeing our circumstances in a new light, taking more responsibility for our own role in problems, and identifying more effective ways of addressing recurring difficulties.

Why Strategic Thinking?

- Innovative business leaders and most strategy experts do not regard strategy as planning **but rather as thinking**
- In a world of dynamic and unexpected change, the challenge is to try to foresee the future in a meaningful way in order to create action plans for the realization of a detailed long term strategy

Strategic Thinking, Planning and Strategic Management

For an organization to be effective at achieving goals and efficient in using resources, eliminate waste.

Senior Leaders should spend 40% of their time in strategic thinking

Without this commitment it is unlikely RISK will be identified or managed

Strategic Thinking

Leadership is responsible for creating a “thinking” culture of innovation and change to facilitate Strategic Planning

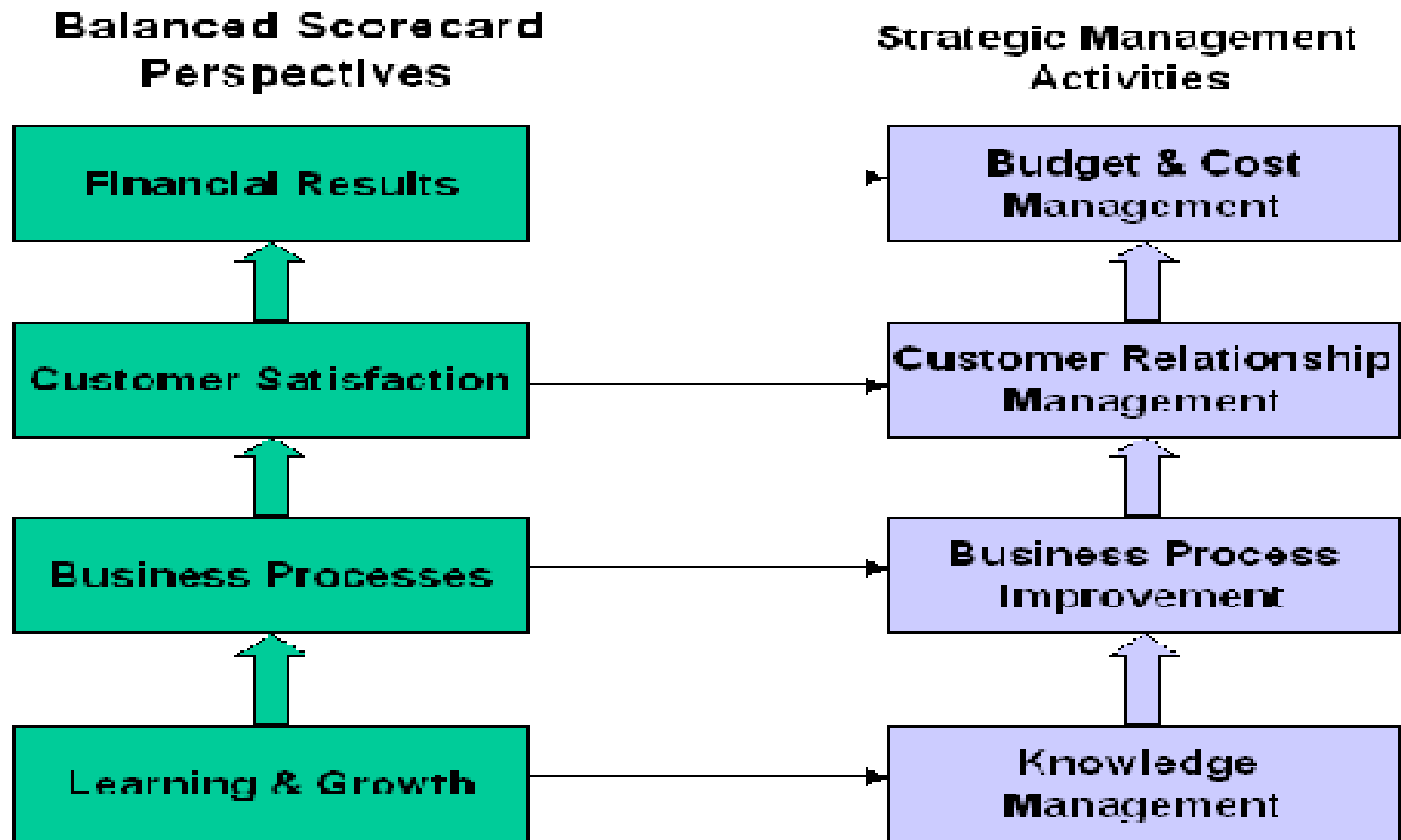
Examples of strategic thinking in your organization?

Risk Management and Strategic Thinking

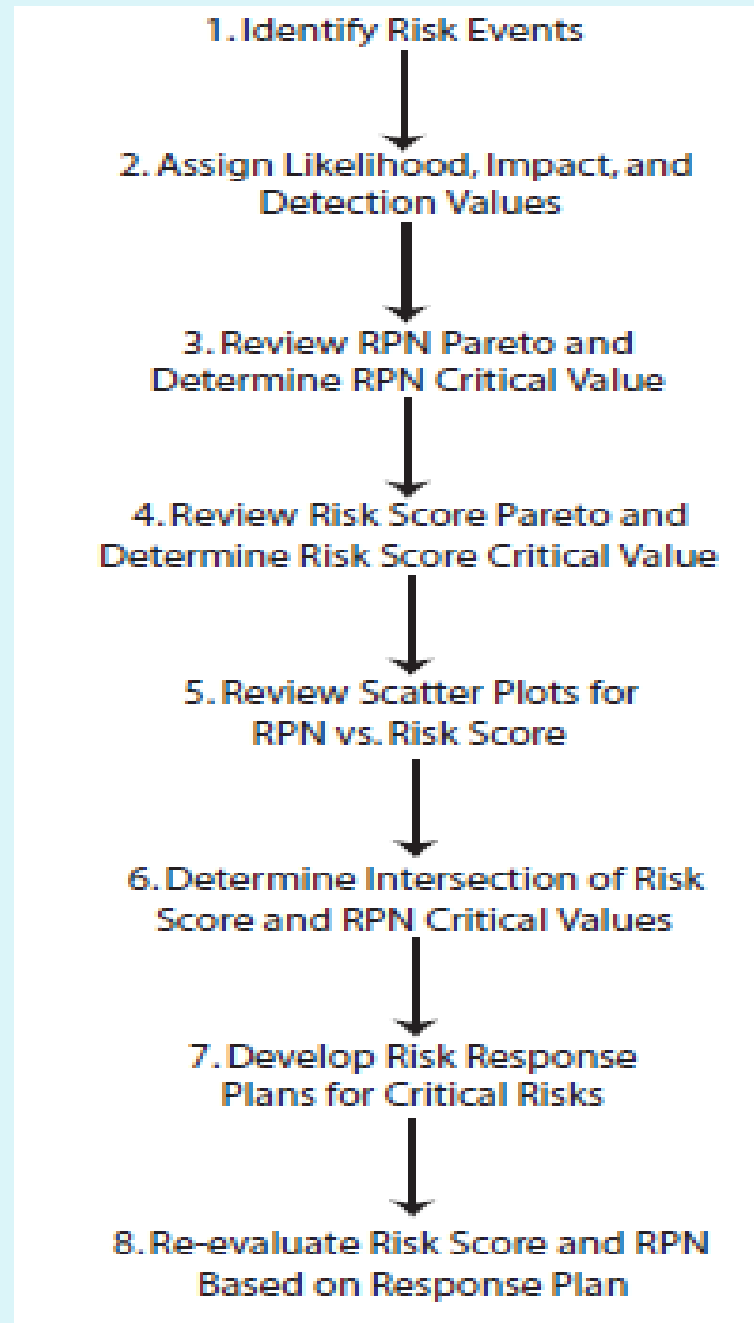
Risk management is a central part of any organization's strategic management. It is the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities

Balanced Scorecard Tool to Manage Risk (Kaplan & Norton)

Linkage Between Causes and Strategic Activities



Risk FMEA Tool



Risk FMEA Tool

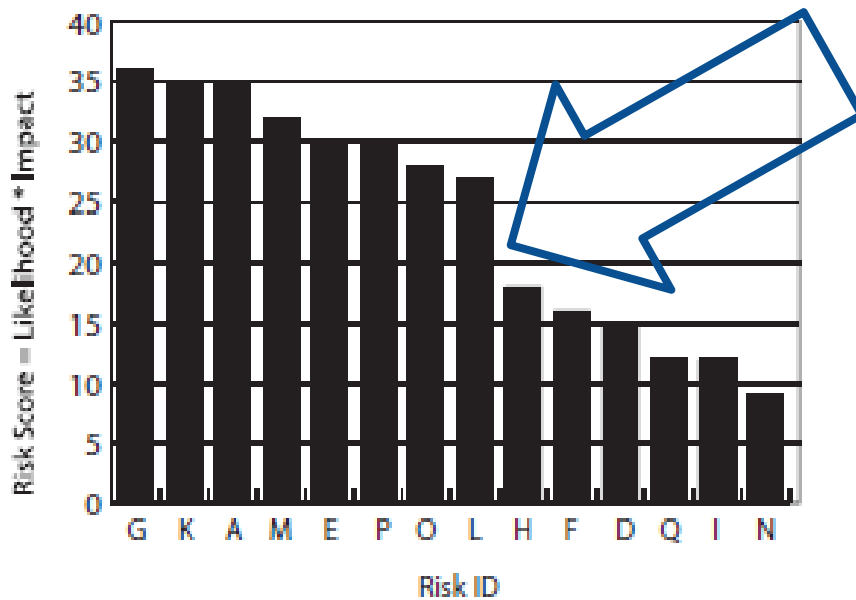
- The RFMEA technique was introduced as a way to systematically capture risk events, score them, and then respond to those that posed the most threat to achieving the goals (or project). Exhibit 7 is a small part of the RFMEA for two risk events. While shown in two sections, the columns actually extend across a single sheet. The actual RFMEA for this example project included a total of 45 identified risks.

Exhibit 7. Sample RFMEA Form with Example

Risk ID (or WBS #)	Risk Event (If., then ...)	Symptom	Likelihood	Impact	Risk Score	Detection	RPN
G	If hardware is not valid then need to redesign and reorder with delay of 12 weeks and cost of over \$100k.	During final test.	4	9	36	7	252
K	If prototype material is built wrong then delay to validation by min of 50 days and cost of rebuild of \$30k.	During fabrication by scrap reports.	5	7	35	9	315

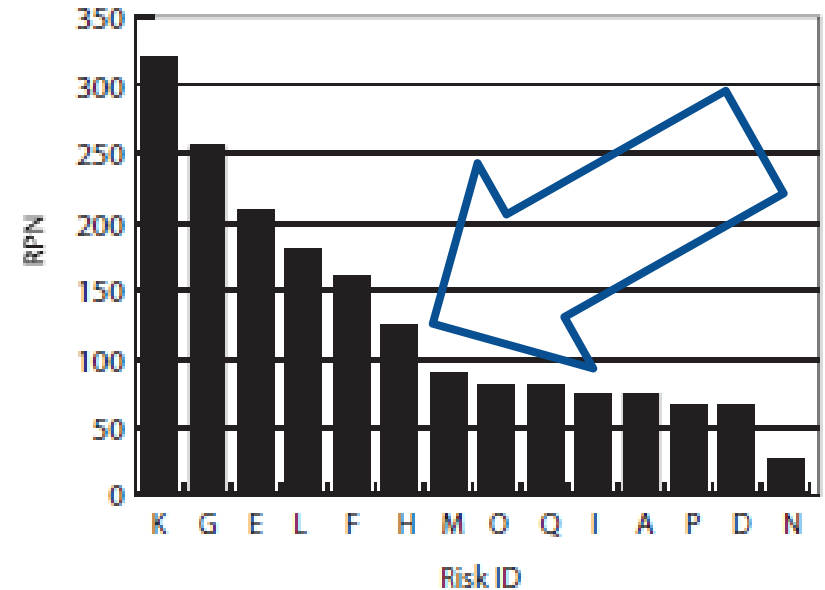
Pareto of Risk Score and RPN

Exhibit 8. Pareto of Risk Score Values



Critical Value
Cut Off = 20

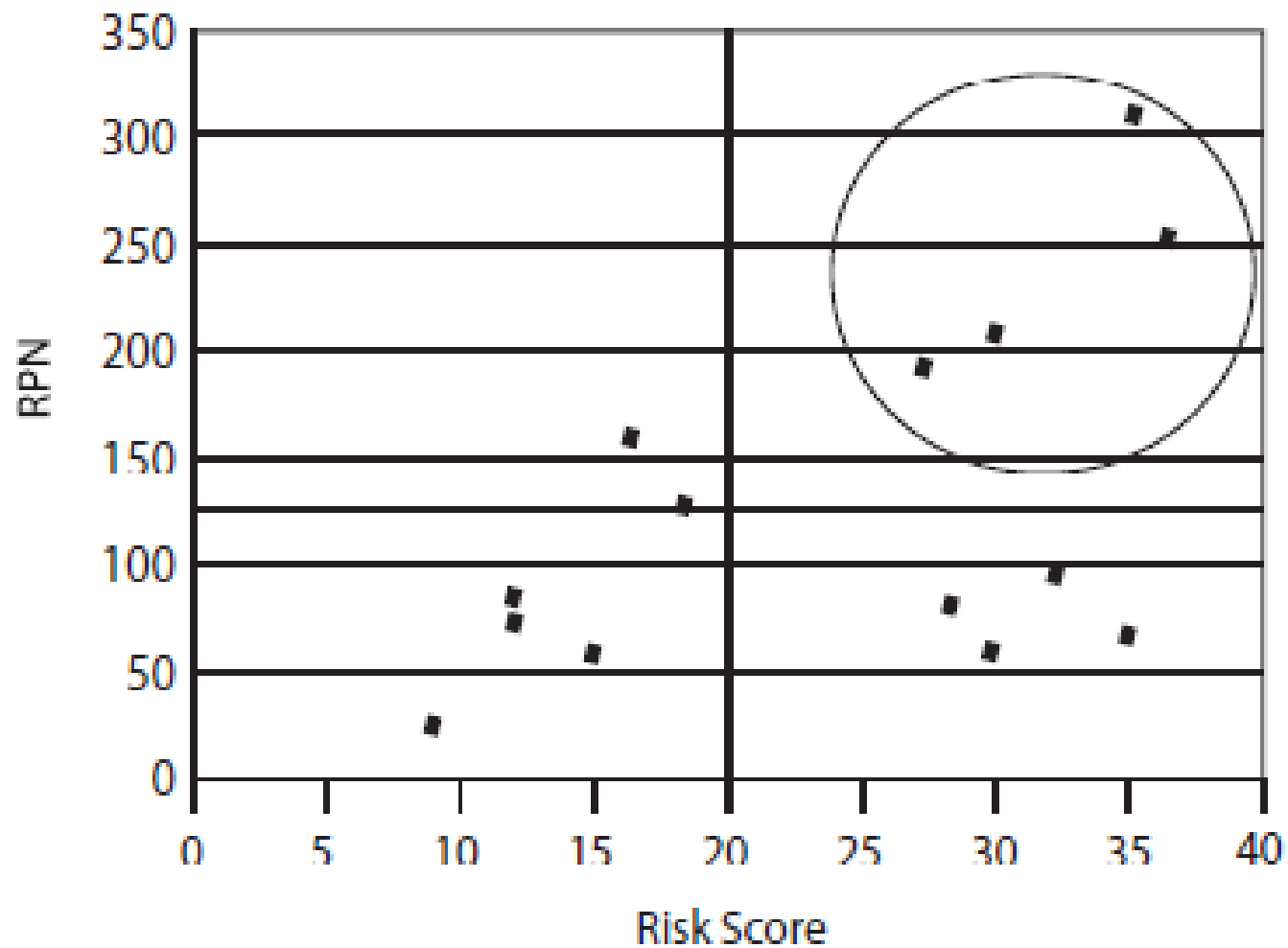
Exhibit 9. Pareto of RPN Values



Critical Value
Cut Off = 125

Identify Which Critical Risk to Address

Exhibit 10. RPN vs. Risk Score



Discussion

Understanding and Managing Risk

