

Firmwide Quality: Pursuing the Highest Standards

Most firm leaders are well aware that they need to evaluate and adjust firm practices and strategies for the long-term survival of the firm. The difficulty many face right now is how to keep the firm going for the next week, month or year.

By Steven J. Isaacs and Karen L. Newcombe



fter 15 years of pursuing their goal to become the first consulting engineering firm to win the Malcolm Baldrige National Quality Award from the National Institute of Standards and Technology, Freese and Nichols, Inc. of Ft. Worth achieved success. What does the award mean for its business, and why should your firm consider similar pursuit?

Consulting design firms who have made it through the recession are now trying to determine what the new landscape looks like. CEOs of these firms that FMI spoke with during the first quarter of 2011 say that their current questions include:

- What is our competitive advantage now?
- How have our clients' needs changed?
- Where is the money going to come from?
- Who are our competitors today and in the future?
- How do we keep our best people and find new best people?
- What methods can we use to identify and correct cost and schedule deviations before they happen?
- Where will we be in five days, five months, five years?
- Who is going to lead us forward?



When Cindy Milrany, chief financial officer at Freese and Nichols, Inc., a consulting engineering firm in Ft. Worth, Texas, received a phone call last November from U.S. Secretary of Commerce Gary Locke, she knew that Freese and Nichols had answered all of these questions to the highest standards in the United States. Secretary Locke was calling to tell her that Freese and Nichols had become the first consulting engineering firm to be awarded the Malcolm Baldrige National Quality Award.

WHY PURSUE SUCH A RIGOROUS PROCESS?

The firm's 15-year journey on the Malcolm Baldrige quality path began in response to a previous time of turmoil for the A/E/C industry: the early to mid-1990s. The recession of 1989–1991 marked a point in time when the technological

and communications revolutions emerged from the halls of defense and scientific institutions and began their widespread impact in the business world.

We asked Milrany how Freese and Nichols decided to pursue the Malcolm Baldrige award in the first place. The firm could see changes all around it in the early 1990s, and by the middle of the decade, the impact became fully apparent.

“1995 was not a good year for our firm. This was the first year in the firm's history that we did not make any money — we lost 1.5% of revenue,” she said. “Texas was flourishing and Freese and Nichols works primarily with municipalities within the state. Right up through the end of the 1980s, these clients would send RFPs to a group of firms that they knew were qualified to do the work, as they had traditionally done. During the 1990s, we began to see municipal RFPs going online so anyone could get them. At the same time, national

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firms began moving into the area, and firms from outside our geography began pursuing work in our area. Competition heated up, and we began seeing projects awarded to these national and outside firms. By 1995, we had that first year where we lost money. Obviously, we needed to look around and do something different — the firm had to change.

“Bob Herchert, our CEO at that time, was on the board of Texas Health Resources, a health care provider in Texas. He heard Clayton Fitzhugh, a former Baldrige examiner, make a presentation about using the Baldrige criteria to manage

their health care business. Hercher tasked Clayton to come and consult with Freese and Nichols to improve our business practices. Clayton brought criteria to us and made (the Baldrige Award) come alive for Freese and Nichols.”

The Baldrige award criteria fall into seven areas:

- Leadership
- Strategic Planning
- Customer Focus
- Measurement, Analysis and Knowledge Management
- Workforce Focus
- Process Management
- Results

Each category contains a set of questions that the firm must answer effectively in order to qualify. This means reviewing every practice and operation the firm has in place and adjusting or adding new practices where necessary — a valuable process every firm should employ on a continuous basis, whether following the Baldrige criteria or not. Meeting Baldrige criteria is a tremendous task — most firms do not achieve their award for 10 to 20 years or more. Freese and Nichols knew that if the firm did not change, it would not survive for the long term. The key, Milrany explained, is picking a starting point and building up over time, so that the new processes become an integral part of daily operations.

“That first year, when we had lost money for the first time, we had only one key focus: profitability. We built up our program from that base. Clayton brought an extremely disciplined strategic planning process and, as a former Baldrige examiner, he put everything in a perspective that was less daunting to us. The strategic plan is deployed to all our operating groups, and each of them has defined actions that go into their operating plans. The plan is deployed down to the operating groups and then further down to the individuals who are really the implementers. We review the plans every other month, so the action plans stay on target. We are very systematic about following the strategic plan. One of the Baldrige criteria is about measurement, and we are very proactive in monitoring performance: We compare to a balanced score card to see how we’re doing and how we can improve.

“Over the years the plan evolved to have three legs: management, technical skills and marketing. Sales is not a natural fit for engineers, so to meet the criteria, we added a definitive sales process for them that guides their actions in marketing and business development.

“On the technical side, we implemented a program of technical excellence teams to standardize the

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way we do all our technical work. The technical excellence teams ensure that each area maintains this consistency in its work. They also have an annual award program for innovation within the firm, as well as producing an annual Innovation Report for our clients.”

Just adding the Technical Excellence program has paid off for Freese and Nichols. It has received from one to three gold medals for engineering excellence from the Texas Council of Engineering Companies every year for the past five years.

MAKING IMPROVEMENTS TAKES TIME

None of these changes happens instantly. The firm is constantly examining, in a structured way, how it can better meet the Baldrige criteria, which means improving its processes.

“All the changes build on each other over time,” explained Milrany. “We have seen great benefit to the process all the way through.”

The Baldrige criteria book presents a set of questions about how your firm operates, and the process aims to bring the firm’s processes and culture up to the point where you are able to answer those questions effectively. For example, under the leadership category, there is a long list of questions to assess if the firm is embodying leadership with its staff and clients versus just having a set of policies that have no action associated with them.

“One of the leadership questions is, ‘How do senior leaders deploy vision and values through your leadership system to the workforce?’” said Milrany. “To respond to this question, we came up with several methods. Every year we produce a strategic plan, and we make up a brochure that explains to all employees where the firm is going and the key focus areas. Then we put the entire plan on our



intranet, available to anyone on staff. Our CEO Bob Pence goes to every office in January to roll out the plan, and he revisits every office in July for a tune-up session. Our leadership now actively disseminates the firm’s vision and values throughout the firm.

“We also use a firmwide meeting agenda template that has our mission and vision printed right at the top of the page, so that at every meeting you have the firm’s mission and vision in plain sight. This was all developed over time — we did not have an instant answer to how to deploy vision

and values throughout the firm, but these are two of the ways we answered the Baldrige criteria for this question.”

Much of this sounds like common sense, but many firms do not take the time to be as rigorous about looking at themselves and then defining what needs to be done, setting goals and applying them throughout the firm — then measuring the results.

MAINTAINING MOMENTUM OVER TIME

Fifteen years is a long time for a firm in our industry to sustain any one effort — most strategic plans or major projects do not last beyond five years. In today's climate of acceleration, three years is starting to seem more like a decade. Freese and Nichols faced some reluctance at the beginning. Evaluating and adapting needed changes across the breadth of the firm was a big commitment.

“As with any new initiative, there are detractors and we had a few,” said Pence, “although they were willing to move forward and see how it worked. One of the reasons for some of the initial reluctance is that the Baldrige criteria can be a difficult system to understand and most engineers just like to do engineering. Think of the difficulty of asking an ownership team to spend more overhead when the profit performance has been poor. It takes a real understanding that it takes money to make money and for them to realize we had problems that we had to resolve.

“One thing we realized was that any new process we adopted required up to three years for full integration until it became a normal way to do business, i.e., until we became unconscious experts. As a result, we did not take a broad approach, but rather instituted new processes over a period of time and allowed them to be integrated. One of the benefits is that combining each new process with an appropriate measurement and tracking system allowed us to see real results, and this built on the enthusiasm for the system. This is the main reason that we have been on the journey for 15 years. I feel that taking the time that we did provided better integration, more excitement within the firm, and kept things moving. It also deflected that old comment that this would be a ‘flavor-of-the-day’ type of initiative.”

Bob also pointed out the challenge of trying to set up the right kinds of measurements. “One of the lessons we learned was that not all measurements were good and we were very deliberate about canning those in a public way, letting the staff know that we didn't do good on that one. By using the Baldrige criteria, we were able to budget better and set achievable goals, which kept things positive.”

The firm's commitment to the process also survived leadership transition from CEO Bob Herchert to Bob Pence. The passion for this journey was one of the criteria the firm looked for in the selection of Herchert's successor, and there was no question that Pence was a believer.

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In any firm, changes that are obviously for the better generate enthusiasm, and that positive energy is reflected in the firm's culture and its work and filters out to clients. Everyone, both clients and staff members, would rather work with a firm that is changing for the better than one that is clearly stagnant, and that preference is reflected in Freese and Nichols' outstanding client relationships.

BUILDING CLIENTS FOR LIFE

Freese and Nichols has a strong ability to build long-term client relationships, retaining 42% of its key accounts for more than 30 years, and 71% for more than 10 years...The firm adheres to a Hedgehog Concept (the single thing that the organization aims to do well'): "Be the very best at client service, resulting in long-term mutually beneficial relationships."

—Baldrige Performance Excellence Program summary sheet

The goal of every professional service firm should be to build long-term client relationships: The cost of obtaining a new customer is considerably high, compared to the cost of obtaining new work from an existing client. Firms constantly seek not how to build, secure and extend their existing relationships, but where to find

new clients. Yet every man-hour spent on securing new clients is time when existing clients are not getting your attention. Section 3 of the Baldrige criteria is about customer focus, and the first question is about paying attention to your existing customers.

Cindy Milrany explained how this question led Freese and Nichols to develop a new practice for the firm: "As we worked our way through the process, we initially won the Texas Award for Performance Excellence in 2007. When you submit for these

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awards, you get feedback reports from them containing list of things that you need to work on. When we got the Texas Performance Excellence Award, one of the things the report said that we needed was a structured process in place to check our differentiators over time and see what they should be in the future.

"The way we responded to this was by holding a client panel. Now we think we know what differentiates us in the marketplace. But we invited municipal clients to come in and we asked them 'What will change over the next 10 to 15 years, and how will it change us as a firm?'

"Many firms think their clients don't have time to do these kinds of activities, but that is a misperception. Our clients loved this and wanted to help us get better, and they enjoyed the opportunity to be with their peers from other municipalities. They were flattered that we invited them to give us advice and valued their opinions and did not see it as an imposition at all."

CEO Bob Pence is also proud of how the firm's corporate university has attracted client participation, further increasing the link between them. "We've

had Freese and Nichols University for 10 years, and in late 2001 we offered the opportunity to our municipal clients to come to our classes. We have now had several thousand visits to F&N University by client staff members.”

HOW HAS THIS PROCESS CHANGED THE FIRM'S CULTURE?

An energized, strategic culture is one of the strongest generators of momentum for a firm. At a time when businesses across the board are dealing with increasing complexity — navigating a transformed marketplace, building new strategies, retooling the business model for the future, managing risks that didn't exist 10 years ago — a responsive culture gives a firm resiliency and agility. The strategic culture is rooted in the commitment to be a learning organization. Thoughtful planning about what a firm needs in order to create a strategic culture and the strategies it breeds is one of the first essential steps towards reinvention.

“The biggest change we've gone through over time has been in conjunction with a tool we use to analyze our culture, the Competing Values Framework,²” said Milrany. “This tool shows you results in the forms of clan, market, hierarchy and adhocracy, and measures respectively, collaboration, competition, control and creation. The first time we ran it, Freese and Nichols rated very high on clan, meaning we had a strong family culture. As a matter of fact, it was too high — we were too internally focused. The world was changing, and we had to become more externally focused and more market-focused. In the old days, work just came in because we were competent and we were local and trusted. As competition grew, we needed to know more about client needs and learn to understand them.

“Using the Competing Values Framework, we assessed what our preferred culture would be: a more market-focused culture. We are still strong on family and clan, but we have become very client-oriented. Our mantra at Freese and Nichols, our Hedgehog Concept, is that we want to be the very best at client service, resulting in long-term, mutually beneficial relationships. Everyone in the

world has these things in his or her plan, but who else lives it? Our plan has permeated throughout the firm; even the administrative staff members know who their clients are within the firm and work at providing the best service to them. By the time the Baldrige examiners left, they joked they could not stand to hear one more person talk about Freese and Nichols' Hedgehog Concept.”



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THE RESULTS? MEASURABLE VALUE TO THE FIRM

For the past four years, Freese and Nichols has achieved revenue growth between 12% and 16%, outperforming the industry benchmark in 2009 by 10 percentage points.

—Baldrige Performance Excellence Program summary sheet

Few firms showed positive revenue growth during the recession; even fewer of those firms operated within a limited geographic market serving primarily one client type, and even fewer were successful by serving municipalities, which have been hard-hit for tax revenue. By engaging in a structured self-evaluation and revamping of the firm well in advance of the recession, Freese and Nichols not only managed to survive the recession, but also had two of its best years in 2009 and 2010.

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“In a quality-based industry like the AEC industry,” Pence said, “it is difficult to understand why more firms are not engaged in the Baldrige Award process. We hope to give back to other engineering firms the benefit of our experience and help them get started on this path.”

Cindy Milrany agreed and elaborated on the numbers that she sees: “The practical value of the Baldrige award is that we have outperformed the industry average for the past 10 years. Recently we have begun outperforming the top quartile. As we were going through the recession, we grew 15%. The rest of the industry was, for the most part, suffering.”

The firm’s ability to measure and analyze data is also part of the Baldrige criteria. It now has an almost immediate read when a negative variance appears on a project, and the project manager can take corrective steps before the project goes too far over budget to recover. This led the firm to evaluate and change its preparation of project managers for their roles.

BUILDING A BETTER PROJECT MANAGEMENT SYSTEM

“When I meet CFOs from other firms they laugh at me, because we track so many things they say they couldn’t possibly do it,” said Milrany. “We began to analyze negative variances very closely, and at some point we realized they were tied to our project management practices, or perhaps the lack of them. We did not have a project management certification program; we just promoted people. As the firm started growing and we were adding more project managers all the time, many of them were not prepared to manage.



“Now we have a six-month certification program that teaches everyone the same practices so that we have standardized project management practices across the firm. We have a project management system on our intranet, and project managers must report their negative variances, whether they will recover them, and then how the variance came about: Was it due to a bad fee? Scope creep? Something else?”

“We now have a project management committee to look at how these variances come about and

adjust our project management practices in an ongoing manner, so that we have the best tools for project managers to use to keep their projects on track. They give a report to their clients once a month, and clients find it extremely helpful. We realize they are having tough times and we need to help them.”

The firm also takes advantage of executive development opportunities. Ron Lemons is now the second COO from Freese and Nichols to participate in FMI’s Chief Operating Officers’ forum, a peer group for the development of COOs from engineering and architecture firms.

WHAT’S NEXT?

Now that it has won the Baldrige award, what’s next for Freese and Nichols? The current award came in the small business category, and the firm is now restricted from applying again for five years. But it plans to continue with the process based on the feedback report it received: It now has a vision for what they will accomplish in the next five years. When the time comes, the firm expects it will have more than 500 staff members and will be applying in the service category.

What about the cost of all this? The firm feels that its strong financials speak for themselves, and the process has become business as usual.

“After being recognized by the award, we can’t apply again for five years. I’ll be darned if one of our owners didn’t suggest that we could use the money we saved from not chasing the award to do other things in the firm,” said Pence. “I said that the cost was insignificant for the application and the site visit, and that there isn’t much savings, since this is how we conduct our business now.”

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PREPARING FOR THE FUTURE MARKETPLACE

In the marketplace we face going forward, what worked for firms in the past is not always going to apply in the future. Municipalities across the country are burdened by their funding of entitlements as they also suffer from steeply reduced tax revenue. State and federal agencies lack the funding for overdue

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infrastructure repair and replacement projects. There is no more “business as usual.” Recent moves by the states of Wisconsin, Indiana and Ohio to push back the collective bargaining power of public employees are likely to spread into a battle that will affect the use of revenues and, therefore, the A/E/C industry.

While most firm leaders are well aware that they need to evaluate and adjust firm practices and strategies for the long-term survival of the firm, the difficulty many face right now is how to keep the firm going for the next week, month or year. The beauty

of following a structured outside process like the Baldrige is that it addresses every area of the firm deemed of key importance. Working through the firm’s systems one step at a time and implementing change over the course of years may seem daunting, but look at the results: Freese and Nichols was perfectly positioned not only to survive, but also to thrive during the Great Recession. We know the next economic downturn is out there on the horizon somewhere, and we all know the pace of change in the world will not diminish, nor will global competition for local work go away. How will your firm prepare? ■

Freese and Nichols is committed to sharing what it has learned with other firms. Freese and Nichols’ Baldrige application will soon be available to the public at the Baldrige website, <http://www.nist.gov/baldrige/>, and the firm would be happy to discuss its continuing journey. Contact Bob Pence, CEO or Cindy Milrany, CFO, at Freese and Nichols, 817.735.7300.

Steven J. Isaacs is a division manager for Architecture and Engineering Consulting Services at FMI Corporation. He may be reached at 925.934.7200 or via email at isaacs@fminet.com. **Karen L. Newcombe** provides research on trends, opinions and the future of the industry as well as writing and editing. She has worked in the A/E/C industry for 25 years and currently assists on various FMI projects. Email Karen at newk@writebank.com.

¹ The Hedgehog Concept was originated by Jim Collins in his book *Good to Great*. In his book, the hedgehog represents a business that knows what it does best and sticks to it.

² The Competing Values Framework is an instrument developed by Jeff DeGraff, Dean of Innovation at the University of Michigan.

The Malcolm Baldrige National Quality Award — Process and Criteria

How does your firm stack up in the areas of leadership, strategic planning, customer focus, measurement and analysis, workforce focus, process management and overall results?

Quest for Excellence is an annual conference hosted by the National Institute of Standards and Technology (NIST) that features best performance management practices from the Baldrige Award recipients. For information about the conference, visit:

http://www.nist.gov/baldrige/qe/about_quest.cfm

The official NIST page for the Baldrige Performance Excellence Program is located at:

<http://www.nist.gov/baldrige/>

To explore how your firm stacks up today against the Baldrige criteria, use the tools located here:

<http://www.nist.gov/baldrige/enter/new.cfm>

To download free PDF files of the appropriate Baldrige criteria for your firm, visit this link:

<http://www.nist.gov/baldrige/publications/criteria.cfm>