SAQI
The South African Quality Institute

e - Quality Edge
bringing quality information to South Africans since 1996

Tel: +27 12 349 5006
Fax: +27 12 349 1232
www.saqi.co.za

No 212 • August 2017

CONTENTS

Welcome to the August edition of our e Quality Edge

In this month's edition our lead article focuses on the final module of the SAQI certificate in Quality Management module where we took our full course delegates on a journey of Lean Manufacture to finish off their program. This is followed up by the second in our series of articles by our IT special interest group that looks at Standardisation of IT Governance and Service Management. We have reprinted an interesting article from our New Zealand friends at BPIR that asked the question "Is the customer really always right?"

We are advertising the upcoming IAQ forum in Bled, Slovenia taking place in October this year and encourage participation in this the second World forum held by the IAQ

SAQI National Quality Week will soon be upon us in November and we are encouraging our member organisations to participate by expanding on our theme of Quality is.

Terry Booysen's article looks at liability insurance as an essential component of an organisation's risk mitigation toolbox and Richard Hayward then explains how the Pareto Principle is helping our children succeed.

Paul Harding
SAQI MD

Lean Manufacturing Simulation Game

By Jacques Snyders SAQI practicing member

SAQI ORBIT MP5© Shuttle Simulation Game

The motto "Failing to Plan, is Planning to Fail" is something, we at the South African Quality Institute believe in very strongly. That same philosophy is applied when developing training programs focused on the adult learner. We also believe in giving value to our clients and our delegates enrolling into our Level two to Level four training programs. For this reason, we aim to continuously improve our training programs and methods of training so that you the client can feel that you have received the best training available.

This was the situation during our final training module of the Level four certificate program for Quality Management in early August. More than six months of planning went into the development of a realistic production simulation game, specially designed for the "Lean Manufacturing Module", the last module of the five modules in our Level four program. We used new laser technology to produce the component parts but applied the old Meccano® principles for the assembly process.

This classroom simulation game was designed around a Space shuttle model, aptly named SAQI Orbit MP5© which simulates a very realistic production line layout. The MP5 stands for the five Management Principles of:

- Logistics Engineering
- Process Engineering
- Industrial Engineering
- Quality Engineering
- Production Engineering

A number of different variants of the shuttle were designed to enable full flexibility of production and component complexity. Defective parts were also put into the system to encourage Quality Control functions to be established during the production process. The Japanese principles of 5 "S" were applied to the production line to encourage maximum efficiency.

The delegates were tasked to develop the most efficient production process without compromising on quality for assembling the shuttles, and as a team were set a production volume target of 16 shuttles in 30 min. The target set was not achieved in the first round and the delegates realised they needed to apply the knowledge gained and understand the purpose of the various Lean Manufacturing Tools they had been taught. After further deliberation the delegates were not only able to apply the tools to the simulation games, but were also able to see the effectiveness of applying the tools and realized the improvement which these Lean Tools (Based on the Toyota Production System) can have on a production process.

Feedback and comments from the delegates were very positive, and complementary. The delegates not only enjoyed the practical application of theoretical knowledge, but commented that the game actually simulated problems that some of them were actually experiencing in their own companies. The delegates felt that they can now; more confidently implement these tools in their own organization. In this age of the Fourth Industrial revolution there are many computer based simulation games that are available but this "hands on" application seemed to bring home the reality of the pitfalls of setting up an efficient production line activity.

SAQI's Strategic plan for the shuttle simulation

Following the success of our pilot SAQI MP5© Shuttle Simulation Game, we are already working hard on our 2018 strategy. One of our possible focus areas is for the Shuttle Simulation game to be used as an education model in our SAQI Quality in Schools program. The Simulation game could be used to develop a much needed interest at South African high school level for the various types of engineering careers. The simulation game can be used

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effectively to demonstrate the principles of industrial engineering, quality engineering, logistics, production and supply chain management principles. It could also be used by organizations as part of their student development programs, so that the new engineering students have a better understanding of other functions commonly found in industry today. We will keep you up to date on the future developments of our Shuttle simulation game.

Congratulations to our Level 4 class of 2017

It is with great pleasure that SAQI would like to congratulate our 2017 delegates, exiting our Level 4 Quality Management Program. For some, it was a 3 year journey with the SAQI team, and we are very proud of our class of 2017. We would like to wish our Level 4 delegates all the best for the future, and hope that you will use your new found knowledge to improving the Quality in your own organizations. The delegates completing the full program are shown with the facilitator Jacques on the right of the photograph.

So we say to our first pioneering delegates who have now completed all fourteen modules leading up to our SAQI certificate in Quality Management, "*Hamba kahle, goodbye, totsiens*".

For more information about the SAQI Quality career path development training programs contact vanessa@saqi.co.za or Jacques@saqi.co.za

Orbit-MPS

Welcome

We welcome Angel Chiloane to the SAQI team.

She will assist with the day-to-day running of the Institute.

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Standardisation of IT Governance and Service Management

By Thea Wentzel & Dr Alastair Walker

Can you imagine a day at work without your laptop, tablet or smart phone, or a business meeting without mention of an information technology item on the agenda? IT has indeed become part of the bottom line of all organisations. Not only is it necessary to ensure reliable IT networks and systems, companies also need to assure stakeholders that they can have confidence in the organization's governance and use of IT.

Governing information technology requires a combination of direction and control at the strategic, tactical and operational levels within the organisation. The guiding principles of the **ISO/IEC 38500** standard address responsibility, strategy, acquisition, performance, conformance and human behaviour. Incorporating these principles in decision making about IT will drive the efficient and acceptable use of IT within an organisation. Further development of this standard is the focus of the 'governance of Information Technology' workgroup of the JTC1/SC40 sub-committee.

IT service management is moving towards an environment where information technology services blend seamlessly. **ISO/IEC 20000-1** specifies requirements and provides guidance for a service management system designed to manage service capabilities in an integrated way with a shared vision. Workgroup 2 of the JTC1/SC40 sub-committee focuses on furthering the development of this standards family.

Many organisations use a combo of ISO 20k requirements and ITIL practices. While ISO/IEC 20000-1 specifies the minimum set of capabilities needed for a functioning management system to support the service lifecycle (the 'What'), ITIL provides valuable details about the implementation and ongoing management of the service management processes (the 'How'). The relationships between the standard requirements and best practice guides of the bespoken service management combo have now been formalized as part of the ISO/IEC 20000 series.

Lastly, this newsletter includes details of the JTC1/SC40 sub-committee's workgroup that focuses on the development and support for the ISO/IEC 30105 standards family that specifies the lifecycle process requirements performed by IT enabled service providers of outsourced business processes. ISO/IEC 30105 furthermore serves as a process assessment model for organizations providing ITES-BPO services.

Focus areas of standardisation

The focus of this sub-committee of JTC1/SC40 is to develop standards, tools, frameworks, best practices and related documents for IT Service Management and IT Governance, including areas of IT activity such as audit, digital forensics, governance, risk management, outsourcing, service operations and service maintenance.

The work presently covers:

- Governance of IT, including the development of the ISO/IEC 38500 series standards and related documents.
- Operational aspects of Governance of IT, and interfaces with the management of IT as well as the role of governance in business innovation.
- All aspects relating to IT service management.
- All aspects relating to IT-Enabled Services primarily within the focus of Business Process Outsourcing.

WG 1 Governance of Information Technology

The scope of this workgroup covers the governance of IT, including the development of the ISO/IEC 38500 series and related documents.

The most prominent member of this family of standards is **ISO/IEC 38500**. This standard provides guiding principles for members of governing bodies of organizations (which may comprise owners, directors, partners, executive managers, or similar) on the effective, efficient, and acceptable use of Information Technology (IT) within their organizations.

In addition, it provides guidance to those advising, informing, or assisting governing bodies. They include:

- executive managers;
- members of groups monitoring the resources within the organization;
- external business or technical specialists, such as legal or

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accounting specialists, retail or industrial associations, or professional bodies;
- internal and external service providers (including consultants);
- auditors.

Amongst the other five standards in this series, helpful references when dealing with the concerns raised in ISO/IEC 38500 are ISO/IEC 38501, the implementation guide, ISO/IEC 38504, guidance for principles-based standards in the governance of information technology as well as ISO/IEC 38505, governance of data.

WG 2 Service management

This workgroup focuses on the development of the ISO/IEC 20000-1 service management system (SMS) standard. Note that the scope is not limited to the field of information technology, it is also valuable to other business sectors not specifically involved in IT.

This standard specifies requirements for the service provider to plan, establish, implement, operate, monitor, review, maintain and improve an SMS. The requirements include the design, transition, delivery and improvement of services to fulfil service requirements.

The audience targeted includes:

- an organization seeking services from service providers and requiring assurance that their service requirements will be fulfilled;
- an organization that requires a consistent approach by all its service providers, including those in a supply chain;
- a service provider that intends to demonstrate its capability for the design, transition, delivery and improvement of services that fulfil service requirements;
- a service provider to monitor, measure and review its service management processes and services;
- a service provider to improve the design, transition, delivery and improvement of services through effective implementation and operation of the SMS;
- an assessor or auditor as the criteria for a conformity assessment of a service provider's SMS to the requirements in ISO/IEC 20000-1.

The remaining 9 members of the ISO 20k standards family elaborate related concerns and uses of the primary standard, including guidance on the application of service management systems (Part 2), a process reference model (Part 4), an exemplar implementation plan (Part 5) and a guide for the application of cloud services (Part 9). Guidance on the relationship between ISO/IEC 20000-1 and ITIL® was released as Part 11 in 2015, thus recognising the business value of the ITIL and ISO 20k combo.

WG 3 specification IT-enabled services / Business process outsourcing

This workgroup focuses on the development and support for the ISO/IEC 30105 family, specifying the lifecycle process requirements performed by the IT enabled business process outsourcing service provider for outsourced business processes. It defines the processes to plan, establish, implement, operate, monitor, review, maintain and improve its services.

ISO/IEC 30105 provides an overarching standard for all aspects of ITES-BPO industry from the view of the service provider that performs the outsourced business processes. This is applicable for any ITES-BPO service provider providing services to multiple customers through multiple contracts and in multiple industry verticals.

- It covers the entire outsourcing lifecycle and defines the processes considered to be good practices.
- It is an improvement standard that enables capability determination and improvement for service providers performing outsourced business processes. It also serves as a process reference model for service providers.
- It focuses on IT enabled business processes which are outsourced.
- It is generic and can be applied to all business process outsourced services, regardless of type, size and the nature of the services delivered.

Of the 5 parts in this standard, the most helpful entry point is ISO/IEC 30105-1 (Process reference model).

Summing up

In determining what is essential to fulfil the ISO/IEC 38500 requirements, it is important to recognise the distinction made between the management and the corporate governance of IT. Specifically, good governance is about effective leadership, accountability, decision-making and being strategically focus.

Ongoing improvement is essential to success. We start our journey at a point in time and work on improving the efficiency, effectiveness and quality of our services; as we get better we can deliver more and better value. Both ITIL and the ISO/IEC 20000 series have been developed to support a culture of continual improvement.

The work performed by JTC1/SC40 is vital in furthering the development of standards and enablers for IT Governance and Service Management.

ImproveIT Special Interest Group

Kindly contact improveit@saqi.co.za if you would like to know more about the workgroups mentioned in this newsletter.

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Is the customer really always right? A hotel company invests in its employees first

Originally posted on Blogrige by Dawn Marie Bailey

What if you turned the service philosophy "the customer is always right" on its head and considered your employees first? What would happen to your customer service? Employees first (or ladies and gentlemen first) is a consideration of two-time Baldrige Award recipient Ritz-Carlton Hotel Company, LLC, where inspired, engaged employees are considered one of the most critical investments, said Valori Borland, Corporate Director, Culture Transformation, at the Ritz-Carlton, speaking at a recent Baldrige Quest for Excellence conference.

"We know without a shadow of a doubt [that] you cannot have excellent customer engagement without having passionate advocates who work with you," said Borland. "We support. We invest. We grow. We develop. We want to inspire [employees] each and every day." She added that the two most important things you can say to an employee are "Thank you" and "That means a lot."

And in the hospitality industry, where the average rate of employee turnover is 80%, retaining employees, especially in ultra-competitive markets such as Miami and New York City, is a challenge. But Borland said the Ritz-Carlton averages an employee turnover rate of just 20%; "a lot of that comes back to culture."

Growth of the Culture

In the early 1980s, Borland said, the Ritz-Carlton started as three U.S. hotels and now has 140 properties in more than 30 countries. The growth is both in number and type: the Ritz-Carlton now offers properties that include destination clubs and year-round residences. The hotel company has had to evolve its culture and processes through different elements of the hospitality industry, different regions of the United States, and even different countries, she said.

What the hotel company attributes to its success to be able to grow and consistently deliver service excellence are four pillars: (1) the Gold Standards (made up of components: the Credo, motto, three steps of service, employee promise, 6th diamond, and 12 service values), (2) alignment across properties, (3) its human resources key processes, and (4) the delivery of unique experiences (e.g., global flavor and celebrity chefs), said Borland.

"As we have grown and as customers adapt and evolve, and their needs have changed, we had to stay relevant," she said. "We have a commitment to quality. This actually came out of us going through the first Malcolm Baldrige assessment. We had to quickly be able to figure out how do we align and create consistent messaging." Borland said the Ritz-Carlton's original vision, written by former president Horst Schultz, was to create a world-class, luxury hotel company on the premise that we are ladies and gentlemen serving ladies and gentleman. That motto has not changed over the years.

She said, in the late 1990s, the employee survey revealed that the ladies and gentlemen wanted an internal statement of their beliefs, so employees and leaders, across global properties, held roundtables to seek feedback, and the employee promise was developed. As an employee, Borland said, "I was so blown away that they wanted me, along with my colleagues, to be a part of the writing and co-creating and collaborating [on the employee promise]. . . . When you involve your employees in the planning of the work that affects them directly, wow."

Borland said the 12 service values all start with the word "I"

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followed by an action word; for example, "I am proud to be Ritz-Carlton" and "I am creating." She said putting the "I" before the values indicates ownership and pride. She added that the service values support the mystique of the brand, as well as the emotional engagement of the Ritz-Carlton's ladies and gentlemen.

Recruiting, Hiring, Training

As a luxury brand, the Ritz-Carlton looks to serve the top 1% of the travelling market, a pretty specific niche, said Borland. So, the hotel company needs to recruit the same caliber of employees to be able to deliver to this market. She said the Gold Standards that encompass the Ritz-Carlton's values and philosophy are the foundation of the culture, but the employees make the magic happen.

"You can't just add on when renovating a building; you have to go back to the foundation, make sure it's solid, reinforce it before building out," she said. "To consistently deliver service excellence around the world is all about human resources—our systems behind the smiles. . . . How do we inspire and engage on a regular basis daily, at all times?"

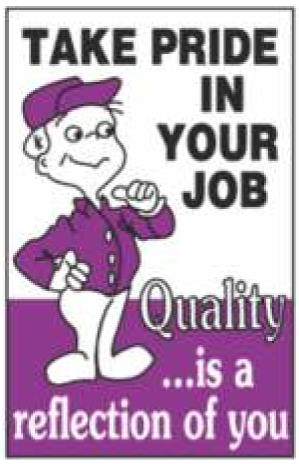
Prospective employees go through four to five interviews, with team members often involved in decisions, before they are selected to join the Ritz-Carlton, said Borland. The hotel company is not solely looking at skills and knowledge. "We are looking for individuals who possess the behavior and have the DNA of who we are already as a company," she said. "Can [the employee] consistently bring [the Credo] to life and energize it for every guest, every day? I cannot teach you to smile and to care and to be genuine and authentic." Before they can start their jobs, employees must complete two-and-a-half days of orientation training, which includes content from senior leaders, human resources, sales, marketing, finance, etc., about the Ritz-Carlton culture, said Borland. On their first day, the ladies and gentlemen receive their very own Credo cards. The Gold standards, of which the Credo are part, "are known, owned, and energized with every guest during every interaction at all times," she said.

After orientation, each employee receives a learning coach to guide them, and on his/her 30th day, each receives an operational certification. On the 31st day, another day of orientation, called day 21, allows coaches to check in with employees. Day 365 is celebrated, but it is also used as an "emotional rehire"; the employee is asked, "Are you still committed to being a part of this organization?"

Ladies and gentlemen at the Ritz-Carlton are empowered to handle service recovery for immediate employee resolution. Borland said employees have the tools and the training to make decisions. She suggests, "Allow them to run your business as if it's their own. You would be surprised as what that does accomplish. Some say if you give too much power to employees, they might give away or comp too much, but If you teach them, set the examples, and provide the guidelines, you may be surprised that they probably make better decisions" than others who are not on the front-line.

To ensure consistent messaging, across the globe in every Ritz-Carlton property, at the beginning of each shift, every day, 40,000 employees go through the daily lineup, which reinforces messaging about what's new, a featured topic, a value, a component of the brand, etc. On Mondays and Fridays, ladies and gentlemen share "wow stories": examples where they have gone above and beyond to deliver exceptional service to guests. "We are always asking how can we be better. What are we doing that really creates the brand loyalty?"

And for the Ritz-Carlton, that brand loyalty starts with the ladies and gentlemen of its workforce.



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INTERNATIONAL ACADEMY for QUALITY

2nd World Quality Forum
of the International Academy for Quality

Dear Colleagues and Friends,

The International Academy for Quality (IAQ) is an independent, self-supported, non-profit, non-governmental organization that is administered by a collegial assembly of individuals who have been elected by their peers from among the most respected, active and experienced protagonists of quality in the world. In 1966 the IAQ was founded jointly by the three leading quality organizations of that time: the American Society for Quality (ASQ), European Organization for Quality (EOQ) and the Union of Japanese Scientists and Engineers (JUSE). The purpose of the IAQ is to promote the world-wide of quality philosophy, methods, and practice as a means to address and resolve issues facing governments and organizations, especially those problems that globally affect mankind. IAQ maintains relationships with major regional, not-for-profit quality organizations in the world. IAQ supports these organizations by: conducting dedicated topical research projects, providing keynote speakers for conferences, delivering symposia on focused topics of quality interest, and facilitating forums that encourage open dialog on quality-related subjects.

The 1st World Quality Forum (WQF) of the International Academy for Quality which was held in Budapest on October 26-27, 2015 could contribute very well to the "Corporate Identity" of IAQ. The 1st WQF Forum of IAQ provided a unique and invaluable input for the almost 300 participants from 55 countries and influenced the quality development in the whole world. The 1st WQF of IAQ could deliver a product that is worthy and has enduring value to the global quality community also for the coming IAQ events which are planned for every two years.

In 2017 the 61th EOQ Congress "SUCCESS IN THE DIGITAL ERA - QUALITY AS A KEY DRIVER" will be a joint effort of European Organization for Quality (EOQ) and the Slovenian Quality and Excellence Association as well as International Academy for Quality (IAQ) which will be held in Bled, Slovenia on October 11-12, 2017. One day after the Congress, on 13th October 2017 the **2nd IAQ World Quality Forum** will be held at the same place.

The International Academy for Quality invites you to the 2nd IAQ World Quality Forum "*Future Impact of Quality*" which draft program includes an opening keynote speech by **Noriaki Kano**, Japan and a closing keynote speech by **Gregory H. Watson**, USA/Finland as well as following 3 Panel Discussions.

In addition, 6 Streams (Sessions) including at present 19 high-level papers will be presented and discussed there. I hope many quality committed people will register and participate at this interesting and unique event.

Best regards,

Prof. Dr. Pal Molnar
IAQ President

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IAQ World Quality Forum Information

Program Organizer: **International Academy for Quality**
Hungarian National Committee for EOQ
Slovenian Quality and Excellence Association

Forum Chair: Prof. Dr. Pal Molnar, President of IAQ and HNC for EOQ
Nagyajtai u. 2/B, H-1026 Budapest, HUNGARY
Phone: +361 212 8803, **Fax:** +361 212 7638, **Mobile:** +3630 2862015, **E-mail:** info@eoq.hu

Technical Organiser: Albatros Bled Ltd.
Contact: Nina Bernard
Phone: +386 4 5780350
E-mail: nina@albatros-bled.com

Website: **http://www.eoqcongress2017.com/iaq/**
(including Registration & Hotel Booking form)

Forum Dates

2nd IAQ World Quality Forum: October 13, 2017

Official Congress Language

English

Programme Changes

The organizers cannot assume liability for any changes in the program due to external or unforeseen circumstances.

Registration Fees

Registration Type	Regular Registration	On-Site
Forum Participant	390 EUR	450 EUR
EOQ Congress registered Participant	290 EUR	390 EUR
EOQ Congress Registration for IAQ registered Participant	600 EUR	600 EUR

Forum registration fees include

- Welcome Reception on October 12 from 19:00 to 21:00
- Attendance to all Forum Sessions
- Forum Bag
- Protected Availability of the Forum Proceedings by Internet Link
- Lunches and Coffee Breaks on October 13

Program and Registration Fees for Accompanying Person

- October 10 or 13 from 9:00 to 18:00 - *Trip to Postojna cave and to Lipica Stud farm. Entrance fees included in the price* **100 EUR**
- October 11 from 10:00 to 16:00 - *Sightseeing of Ljubljana* **50 EUR**
- October 11 from 19:00 - *Gala Dinner* **90 EUR**

2nd IAQ Quality Forum Venue

Grand Golf
Address: Cankarjeva cesta 4 4260 Bled, Slovenia

Sponsor Opportunities Available

Sponsorships are available in many categories.
Please contact: Dr. Pal Molnar by molnar@eoq.hu

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SAQI National Quality Week

6th to 10th November 2017

By Paul Harding

Earlier this year SAQI announced its theme for our annual National Quality Week as:

Quality is................

Why Quality is?

Quality means different things to different people and our experience has shown that the word quality is often used indiscriminately to impress an audience without really understanding in what context the word is used.

One of my all-time favourite definitions is from a previous ISO 8402 version:

> *"The totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs". In simpler words, one can say that a product or service has good quality when it "complies with the requirements specified by the client".*

Definitions from a Google search:

1. **How good or bad something is: (Cambridge English Dictionary)**
   - A shop advertising top quality electrical goods
   - The food was of such poor/low quality.
   - Their products are of very high quality.
   - I only buy good-quality wine.
   - The quality of the picture on our television isn't very good.
   - He's not interested in quality. All he cares about is making money.
2. **Oxford dictionary**
   - The standard of something as measured against other things of a similar kind; the degree of excellence of something.
   - 'an improvement in product quality'
   - 'these colleges provide a better quality of education'
   - A distinctive attribute or characteristic possessed by someone or something.
   - 'he shows strong leadership qualities'
   - 'the plant's aphrodisiac qualities'

What is quality? (CQI / IRCA)

Quality is about making organisations perform for their stakeholders – from improving products, services, systems and processes, to making sure that the whole organisation is fit and effective. Managing quality means constantly pursuing excellence: making sure that what your organisation does is fit for purpose, and not only stays that way, but keeps improving.

There's a lot more to quality than just manufacturing widgets without any defects or getting trains to run on time – although those things are certainly part of the picture.

What quality means for your organisation is ultimately a question for your stakeholders. And by stakeholders we mean anyone who has an interest in the success of what your organisation does.

Customers will be the most important group of stakeholders for the majority of businesses, but investors, employees, suppliers and members of our wider society are stakeholders too. Delivering quality in your organisation means knowing who your stakeholders are, understanding what their needs are and meeting those needs (or even better, exceeding expectations), both now and in the future.

Your definition of Quality

The above statement from the Chartered Quality Institute (CQI) in London clearly states what Quality means for your organisation is ultimately a question for your stakeholders.

SAQI again throws out the challenge to our members for National Quality Week.

Quality is ....

Please complete the sentence and send your themes and your roll out plans to celebrate SAQI's National Quality Week to:

vanessa@saqi.co.za

We will print the best responses in a later edition of our e Quality Edge after National Quality Week.

For more guidance visit our Twitter account @joinSAQI

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D&O Liability Insurance: An Essential Component of an Organisation's Risk-Mitigation Toolbox

By Terrance M. Booysen and peer reviewed by David Loxton (Partner: Dentons)

Directors and officers of all organisations are facing an increased risk of personal exposure. Their roles and responsibilities have become progressively more onerous in recent years, mainly as a result of new legislation and regulatory requirements, stakeholder pressure and increased governance and social responsibilities, as well as the complexity of trans-continental and macro-economic trading conditions.

In South Africa, the Companies Act 71 of 2008 ('Companies Act') contains strict provisions in respect of the conduct and duties of directors and officers, as well as specific provisions relating to liability for the breach of their duties. As such, directors and officers of all organisations are required to undergo the necessary training to understand and be able to act on all of the components of their organisation's *Corporate Governance Framework®, in order to ultimately mitigate all potential risks to the board, management and the organisation itself.

> *"We know that directors are embracing opportunities in IT investment, product innovation or emerging markets, but we've also seen that they're facing unprecedented regulatory and political scrutiny, mounting shareholder activism, a recessionary environment, intense competition for business and talent, and an irresistible rise in claims."*
>
> ***Source: AIG Insurance Organisation***

The law compels directors and officers to fulfil various fiduciary duties, including that they must act with a duty of care and skill, whilst placing the organisation's interests at the forefront of their efforts. Furthermore, the duties of directors and officers extend well beyond the common law and legislation.

The organisation's Memorandum of Incorporation (MOI), including the director or officer's letter of appointment, job description, board charters, delegations of authority as well as the organisation's policies give rise to many more potential areas in which directors and company officers ('officers') may be held to account if they do not fulfil their duties. The chances of wrongdoing, especially for newly appointed or inexperienced people in these positions are exponentially increased.

In addition, the King IV Report on Corporate Governance for South Africa, 2016™ (King IV™) contains recommendations that increase the accountability of directors and officers to conduct the affairs of an organisation in a manner that respects and promotes the interests of all stakeholders.

Occupying any boardroom, or senior management position -- by its very nature -- is a function which inherently involves risk and risk taking. It is therefore not surprising that increasingly, organisations are providing people in these positions with protection against claims for any breaches of their fiduciary and other duties towards the organisation. Indeed, by not providing D&O Liability Insurance ('D&O') to its directors and officers, an organisation runs the risk of actively disincentivising enlightened individuals from joining the organisation in the first place, let alone expecting them to take risks-for-reward, no matter how calculated, when their personal reputations and assets are at stake.

While an organisation's compliance with the provisions of the King reports, the Companies Act and other relevant legislation may satisfy various governance requirements -- as well as provide a level of assurance to stakeholders -- such compliance may not necessarily alleviate the costs or risks involved when a claim is brought against a director for their breach of duty. Directors and officers themselves generally require additional levels of protection against allegations of poor governance; hence the critical importance of D&O.

What is D&O Liability Insurance?

In recent years, D&O has become a core component of corporate insurance. Essentially, it offers protection to directors and officers against legal claims for "wrongful" acts performed by them whilst performing their corporate duties, and protects their personal assets, as well as the assets of the organisation itself.

> *"Apart from pressures from the public, shareholders and political stakeholders, liability insurers and auditors are putting pressure on boards to better manage corporate governance issues . . . With accreditation and regular performance appraisals, insurers would be able to assess the risk of individual directors and reduce premiums for 'well managed' directors."*
>
> ***Professor Bob Garratt***

In this context, "wrongful" acts includes omissions, errors, misstatements, misleading statements, neglect or breach of duty by the director or officer, who may be personally sued by any number of complainants, including: shareholders (for insider trading and/or reckless behaviour); creditors (for misrepresentation of an organisation's financial health); competitors (for unfair trade practices); regulators where legal

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obligations have been breached, as well as employees, suppliers and customers.

Whilst D&O is conceptually fairly simple, in practice these policies may be extremely complex. The cover is highly specialised and contains various exclusions and extensions, which may be negotiated between the organisation and the underwriter.

Generally, D&O policies would cover legal costs and expenses incurred in defending an action brought against a director or officer of an organisation and would include reimbursement for civil damages, defense costs and costs awarded against a director, settlements and fines and penalties, where such matters are insurable by law.

D&O Liability Insurance and corporate governance

D&O and corporate governance are inextricably linked, since they affect, and are affected, by each other in various ways. For example, an analysis of an organisation's corporate governance forms part of the due diligence undertaken by D&O underwriters. On the other hand, increased legislation, regulation and focus on corporate governance around the world have led to the need for -- and development of -- more sophisticated D&O.

Whilst D&O offers a safeguard for directors and officers against claims for breach of their duties, it has also been criticised for potentially undermining corporate governance insofar as it may minimise the personal impact of shareholder litigation for the director or officer involved, and in so doing, diminish the effectiveness of one of the tools of management control. It may also be seen to eliminate a strong disincentive for illegal or unethical behaviour and even to facilitate the wrongful acts which are being insured against.

On the other hand, the arguments in favour of D&O cover are particularly strong. Without such cover, suitable directors and officers might not take on such positions, particularly in the environment of increased shareholder activism. To attract good directors, organisations are increasingly realising that D&O cover is an essential component of any remuneration package. In addition, directors and officers without cover may become unduly risk averse in the running of the business, which in turn may have unintended adverse effects on shareholder value. Eliminating the potential financial risk or effect of personal litigation is one way of ensuring that the actions of directors and officers are in line with the interests of stakeholders.

It should be noted that, while Section 78 of the Companies Act allows for D&O, it provides that an organisation *may not* relieve a director or officer of the duties imposed on them in certain circumstances, such as in cases of willful misconduct, or if the director or officer knowingly allowed the organisation's business to be conducted recklessly, with gross negligence, with intent to defraud any person, or in insolvent circumstances.

As part of their underwriting process, insurance companies will carefully scrutinise an organisation's corporate governance practices and risk-management safeguards, as well as other aspects relating to the running of the organisation. It is therefore essential that D&O cover is correctly structured within the context of good governance protocols.

* The Corporate Governance Framework® is a registered trademark of CGF Research Institute (Pty) Ltd.

For further information contact:

CGF Research Institute (Pty) Ltd
Terrance M. Booysen (Chief Executive Officer)
Tel: +27 (11) 476 8264 / **Cell:** 082 373 2249
E-mail: tbooysen@cgf.co.za
Web: www.cgf.co.za

Dentons Attorneys: South Africa
David Loxton (Partner)
Tel: +27 (11) 326 6257
E-mail: David.loxton@dentons.com
Web: www.dentons.com/en/south-africa

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Many of our readers are parents themselves or interact often with children. We have asked our education editor, a retired headmaster, to share thoughts on how to get Quality principles and practices instilled in young people.

By Richard Hayward

The Pareto 80/20 Principle: helping children succeed

Do you have a favourite jersey or cardigan? If you do, you might notice that you're inclined to wear it far more often than others. Our behaviour can be predictable in many ways. Research shows that a person is likely to wear 20% of the clothes in their wardrobe about 80% of the time. Further research has shown that a person is inclined to spend 80% of their time with 20% of their family and friends. In a classroom, a teacher spends about 80% of her time and resources on 20% of her students.

What's going on?! Is there an 80/20 rule about human behaviour?

JM Juran, one of the leading contributors to quality theory, maintained that there seemed to be such a rule. He had studied the research findings of Vilfredo Pareto, a 19th century Italian economist. Pareto had analysed that in Milan, 80% of the wealth was in the hands of 20% of its' citizens. (Aren't there similarities in our own 21st century South Africa?)

Applying the Pareto Principle – or 80/20 rule as it is commonly known - can help a child overcome learning difficulties. The principle is easy to understand and apply. The positive results can be astounding. Children in North American primary schools have used the principle to push up their Maths test marks and improve their creative writing skills.

Juran maintained that even though there might be many reasons for a problem, there are, “a vital few causes that create most of the problems.” Deal with those ± 20% vital few causes and then the “trivial but useful” remaining ± 80% other problems, will largely disappear. Focus on the few.

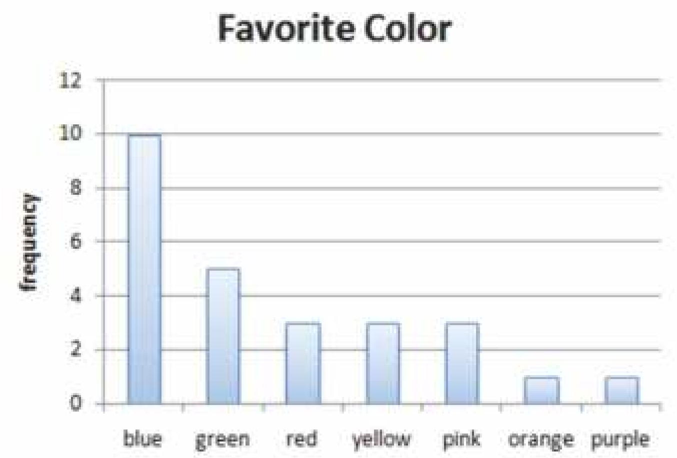
Imagine Tiny Tim who presents mom and dad with an horrific end-of-term report card. What's to be done? The family needs to pose a positive-in-tone question that invites possible solutions. A possible question could be:

What needs to be done to improve Tiny Tim's results next term?

Ask Tiny Tim himself, his teachers, family members and friends to suggest solutions. Record their responses. Get the respondents to answer individually. A problem can occur when a large group gets together to discuss an issue. Too often, a few people can dominate such a group discussion where their suggested solutions become the accepted ones. You want individual responses, not “group think.”

The collected answers will give you many suggestions on how to improve Tiny Tim's work. What you'll notice as you analyse the data, is that a few possible ideas will be mentioned by very many of the respondents. They are the vital few solutions that will contribute about 80% - if carried out - towards Tiny Tim's improved school report. Spend most of the time on the vital few. Concentrate on them; give less time to most of the other suggestions.

In the business and professional sectors, the Pareto analysis data is often put in a bar diagram format. The most frequently mentioned item is recorded on the extreme left while the others are put in descending order to the right. In the diagram below, the teacher had asked the 26 children in her Grade Four North American class to state their favourite colour. The findings were recorded thus by the children:



There are advantages of using the 80/20 Pareto Principle with children. Five familiar ones are:

1 Even a young child can understand the basics of the Pareto Principle.

2 The child takes ownership of what needs to be done because of their personal input into possible solutions.

3 There's less “telling” a child what needs to be done and more of “helping” a child to work out the solutions himself.

4 Time is better spent. Less time is spent on dealing with trivial or minor reasons for a problem.

5 As the school work improves, so does the child's positive self-esteem. In certain cases where a child could become ill-disciplined in order to cover up feelings of inadequacy, behaviour improves too.

Too many corrective actions are suggested by well-meaning others. Don't be overwhelmed by all the advice. Use the 80/20 Pareto Principle. Help a child to identify and focus on the few most important corrective actions that are needed. By so doing, you'll be helping a child succeed.

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B91	Introduction to Statistical Process Control (SPC)	3	R 5,160		2-4	13-15	
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B24	Knowledge Management	2	R 4,277	7-8			
B16	Internal Quality Auditing	3	R 5,160	27-29			
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