

Profit through Quality Some Critical Success Factors

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Common concerns for every business are profitability, customer satisfaction/retention and employee engagement. An effective, overarching strategy is achieving and maintaining Total Quality at all levels of the organization. While the term “total quality” has been considered an obsolete concept by some, it is as current and vital as ever.



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What is total quality? The simple answer is “**Business Excellence**”. A more detailed answer is the *application* of time-tested quality philosophies, policies, methods and tools to all types of manufacturing, distribution and service industries; including all elements within those businesses. Its GOAL is to do things better, smarter, faster and more cost-effectively. Its RESULTS, when properly applied to *all aspects of a business*, are superior profitability, customer satisfaction/ retention and employee engagement.

Any “current” methodologies such as “Six Sigma,” “Lean”, “Kaizen”, “5S” and ISO 9000 or awards like the Malcolm Baldrige National Quality Award, Business Excellence Awards, etc. are really descriptors of Total Quality and/or elements of it. Even the critical success factors described in Jim Collins’ book “Good to Great” are essentially elements of Total Quality. As the bard would say, “What’s in a name? That which we call a rose by any other name would smell as sweet ...” - Shakespeare, Romeo and Juliet, Act II, Scene II

Quality has many definitions, such as “measures of excellence or state of being free from defects, deficiencies and significant variation” (BusinessDictionary.com). ISO 8402 standard defined it as “the totality of features and characteristics of a product or service that bears its ability to satisfy stated or implied needs.”

When we think of quality on a personal expectation level, it encompasses many things beyond satisfaction with the actual product or delivered service. Additional expectations might include timeliness, courteousness, communication, accessibility, reliability and more. Overall value, which incorporates price and cost-of-use, also impacts our view of the quality received. Regardless of the precise definition, we all know quality when we see it and react accordingly when we do not.

Another factor to consider is that quality applies to “internal customers”, within our organizations, as well as external customers. Failure to recognize this can result in unnecessary expense, frustration and the inability to ultimately meet end-user expectations. The latter often results in lost customers.

Cost of Poor Quality

Overall, increased operating costs and lost potential revenue can dramatically and adversely affect the bottom line profits. Sometimes this is measured by the “Cost of Poor Quality” (PONC).

Interestingly, many companies fail to see the pattern of costs associated with internal and external quality failures. In some cases, it is just viewed as the cost of doing business, or so ingrained; it is considered a “normal” part of the business process.

An example of this is the regional bank that budgeted \$2,000,000 for the “reconciliation” department. They finally realized that these costs were NOT inevitable but were mostly the cost of poor quality. By utilizing a total quality management approach (aka Business Excellence); they eliminated over 80% of these costs. In some large companies, the cost of poor quality has been estimated in the billions (with a “B”). Regardless of the size of your company, you will find that your profit usually can be greatly increased through quality improvement. The diagram here illustrates the many chronic problems, and the associated costs, that are often submerged within the company’s operations.



What Does It Take to Achieve Profit Through Quality?

Well there are many levers that influence this. Let's start with the foundation This is **management leadership**. In an overall sense, the top management must make it apparent by word and example that quality applies to everything we do. It must be clear to each department head that he or she is responsible for developing and nurturing the quality process in their area of responsibility. Mutually set objectives between top management and the department heads should reflect this expectation. Leading by example cannot be overstated. Albert Schweitzer said it well: “Example is not an important way to lead; it is the only way.” There are many very specific actions that can help demonstrate leadership.

Close to the Customer

One of the first and most important steps toward achieving total quality is to define our internal and external customers and identify their needs and requirements. In case someone wonders “what are internal customers?” ... the answer is the person or department that receives the output of your work process. External customers are obvious ... they are the ones who pay the bills!

Regardless of the nature of the customer, it is important to get close to them, understand what they want and determine if they are receiving it. There are numerous tools and methods that help foster this closeness and promote remarkable results.

Supplier Involvement

Just as we need to get close to our customers, it is also important to know our suppliers and get them involved in the quality process. Again “suppliers” can be external or internal. Such a supplier is any person, group or company that is providing information, material product, or services, which affect the quality of the receiver’s output. The basic point to be made is that we need to know who our suppliers are, establish expectations, build a relationship, and communicate regularly. *Failure to recognize the vital role that the suppliers play will surely have an adverse effect on the business excellence journey and reduce company profits.*

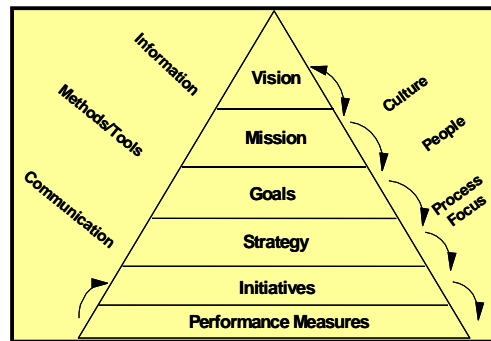
For external suppliers, a well-defined “supplier performance management (SPM) process” is very useful in achieving excellence in quality, delivery, responsiveness, overall cost effectiveness and continuous improvement. The degree of structure is directly related to the size of the organization, the complexity of the supplied materials/services and the impact of the materials/services on the receiving organization’s output.

Investment in a properly structured but *practical* SPM process typically represents one of the best investments a company can make. Not only are the pains associated with poor supplier performance avoided, the golden opportunities are pursued.

Education for Business Excellence

There are many concepts, methods and tools that equip all within the organization to contribute to the achievement of business excellence. Consider some examples:

- ❑ Leadership skills, including Lead the Business Model (see diagram on the preceding page)
- ❑ Effective problem solving and process management/”lean”
- ❑ Supplier performance management
- ❑ Performance excellence through people
- ❑ Customer satisfaction & improvement process



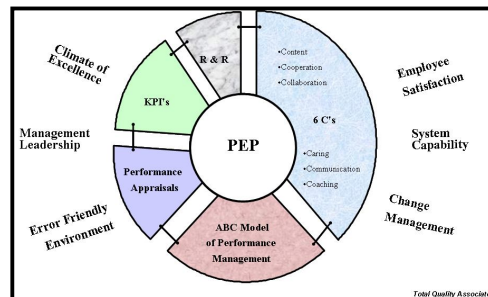
Note: for more information on this type of education see the workshops, presentations and white paper links at www.totalqualityassociates.org

Employee Engagement

The employees within an organization can make invaluable contributions to all aspects of business excellence. This is true for planning, implementation and continuous improvement. The basic rule to remember here is stated by legendary management guru Peter Drucker: “the individual worker knows better than anyone else what makes him or her effective ... even in routine work, the only true expert is the person who does the job.”

Great ideas for cost reduction, faster cycle times, waste elimination, improved facility layout and much more have originated with these folks. True, at times they may require help to break free from their existing paradigms or to learn various improvement tools. However, great improvement ideas are often not conceived or successfully implemented without the *engagement* of those in the trenches.

Achieving Performance Excellence through People (PEP) has many components. The model diagrammed here illustrates the many elements, which ought to be considered. PEP has not, and never will be, a single dimension approach. Two major steps can be taken here. First, learn about the various tools, methods and approaches that have been utilized over time, along with their success and limitations. Secondly, apply these to the appropriate degree for your organization, its culture and the nature of the workforce.



Process Driven Culture

A first principle of business excellence is that the quality of the output is a result of the process that precedes it. Therefore, if good quality output or improvement is desired, business processes must be in the center of the organization's radar screen. This applies to any process, such as the processes that produce:

- Material products of any type
- Information
- Distribution
- Delivered services
- Shorter cycle times
- Medical outcomes; e.g. infection free operations, dispensing correct medicine or even operations performed on the right body part!
- Transportation activities ... airlines, trucks, trains. You name it.

A real benefit of a process-driven culture is attacking the process, rather than people. An organization quickly identifies the process levers that can create performance excellence and add profit to the bottom line! Meanwhile, employee interactions become much more productive along with fewer "conflicts"!

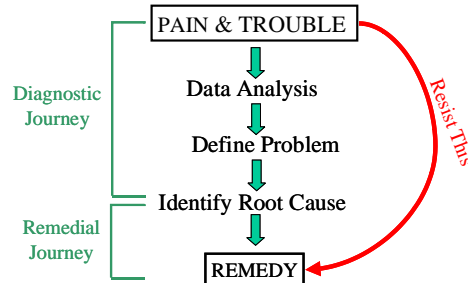
Appraising Performance

This is intended to answer the question "How are we doing?" against expectations. It is quite easy to establish key performance indicators (KPIs) for production, service (including medical) or distribution companies. In fact, every department within a company can, and should, have "local KPIs", which are directly connected to the organization's top level KPIs. This interlinking helps pinpoint the activities that need work.

If done correctly, the "health" of the organization, will be clearly evident by the status of the KPIs.

Robust Corrective and Preventive Action Systems

When problems do occur, and they definitely will, it is important to understand what in the process actually CAUSED the problem. A formal corrective action and preventive action (CAPA) system can help resolve the problem at hand and prevent recurrence. It can also identify and prevent similar potential problems before they occur. The CAPA approach must be designed to go beyond addressing symptoms and get at the root cause. This is very important, since sometimes it is necessary to sort through four or five layers of symptoms before the true cause is identified. Dr. Joseph Juran pointed out that there are two journeys to take when solving problems. These are illustrated in the diagram here.



The "Diagnostic Journey" goes from the symptom to data analysis to the (real) problem to the root cause. The "Remedial Journey", which is usually the easier one, goes from root cause to the (real) remedy. Both sporadic upsets and chronic problems need to be corrected at their root causes for sustainable control or breakthrough in performance to occur.

Remember the earlier discussion on Cost of Poor Quality? Well, a robust and well-implemented CAPA approach is a must if those tens of thousands, hundreds of thousands, millions or even billions of lost profit dollars are going to come back to the bottom line!

Conclusion:

While this is not an exhaustive list of what needs to be done to achieve Profit through Quality, it is a very good start. If you would like to discuss your journey towards BUSINESS EXCELLENCE please feel free to contact us.

Training is available in all or a portion of this material. Training can range from awareness sessions through full workshops. There are also provisions for assessments and one-on-one or group *in-situ applications* training. Contact information is included in the footer below.

The emphasis is always on RESULTS so the return on investment will be substantial!