



ECONOMIC CASE FOR QUALITY

What Do CEOs Think About Quality?

by **Greg Weiler, ASQ project leader**

In today's highly competitive global marketplace, quality practitioners must justify the cost of quality. Making the economic case for quality by creating materials quality professionals can use to specifically demonstrate that quality pays rather than costs has accordingly become a priority for ASQ.

In 50 Words Or Less

- **ASQ plans to help quality professionals make the economic case for quality.**
- **We surveyed executives to learn what they currently think.**
- **The surprising results included almost all believing quality helps the bottom line but fewer viewing it as a management tool or its practitioners as professionals.**

The effort calls for three primary activities:

1. Conduct a survey to identify the current level of thinking about the economics of quality among CEOs and other top executives in four markets: manufacturing, service, healthcare and education (see "Survey Demographics," p. 56). This will allow ASQ to create and focus materials to prove the economic case.
2. Engage volunteers in two target markets to contact top executives and deliver the economic case for quality message.
3. Provide members and other quality professionals with information and materials they can use in their own organizations.

The survey was conducted in January and February, and its results provided valuable information in the following areas:

- Awareness and use of specific quality techniques.
- Definition of the word "quality."
- Quality's contribution to the bottom line.
- Quality as a management technique or product attribute.
- Measuring the economic impact of quality improvements.
- The perceptions of quality as a profession.
- The attributes associated with people who practice quality.



- Sources of information that would influence executives to use quality.

Awareness

Interviewers read a list of techniques and practices generally associated with quality to interviewees, asking them whether they were familiar with each technique or practice and whether it was being used in their company.

The list included total quality management (TQM), Six Sigma, Baldrige, the ISO 9000 series of quality management standards, quality circles and benchmarking. By a wide margin in all four markets, TQM (83.1% overall) and benchmarking (82% overall) were the most familiar (see Figure 1).

As might be expected, those in manufacturing had the highest degree of awareness or familiarity. That the service market was less familiar with all the techniques than were healthcare and education was surprising.

Usage followed the same pattern, with benchmarking (60.7%) and TQM (59.3%) being used most frequently. Again, manufacturing led the list, and service was last.

We also asked what other techniques the executives might be familiar with or use, and the most typical responses included lean manufacturing, continuous quality improvement, QS-9000 (ISO 9001's automotive industry spin-off), internal processes and *kaizen* (unending gradual improvement).

The conclusion we drew from these data is there is still a significant gap between familiarity and actual use when it comes to quality initiatives or business process improvements.

Definition of Quality

Because we did not wish to prejudice the survey by providing a definition for quality, we asked each person being interviewed what his or her definition was. The most common response was "customer satisfaction." Other common answers included:

- Meeting or exceeding customer expectations through excellence in products and services.
- Getting the product done right the first time.
- Producing the highest quality product with the least expense to the company.
- Implementing an ongoing process toward perfection (continuous improvement) within the organization.
- Setting a goal of zero defects and zero rejects.

Within the education segment, quality was defined as the academic success of students.

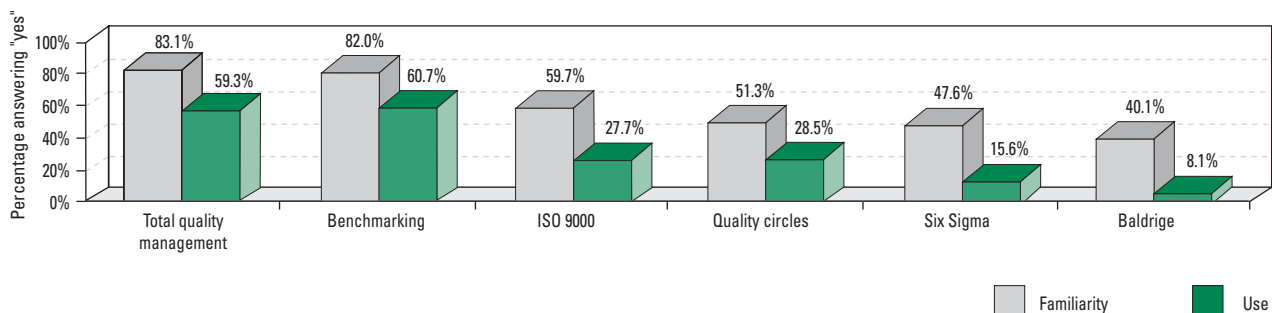
We concluded from these responses that, for the most part, executives recognize quality in the same way most quality professionals do, although they generally attribute it to a specific tool or technique rather than an organizationwide system. Executives also see quality reflected basically in the product or service being created.

The results affirm the still remaining need to adopt a standard definition of quality that is accepted by everyone.

Bottom-Line Contribution

This item in the survey was one of the most crucial and most interesting. We gave respondents two choices: that quality contributes to the bottom line (provides a positive financial return) or does not contribute (costs more than the related return).

FIGURE 1 Familiarity and Use



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The results were stunning: 99% of the respondents said they believe quality contributes to the bottom line. This unexpectedly high level of agreement may be because respondents define quality broadly.

When asked why quality contributes, respondents most often mentioned increased revenue through repeat business, referrals and customer loyalty; less rework; and savings on labor and materials.

Only two respondents of a total of 603 stated quality does not contribute. Their reasons were, "We have found it is expensive to achieve," and "People are just interested in price, not quality."

Management Technique Or Product Attribute?

Our analysis of all the verbatim responses to the question about quality's bottom-line contribution led us to hypothesize the respondents were defining quality as a product attribute, not as a system of management.

To test this conclusion, we went back to 100 respondents (chosen randomly) and asked the question differently:

There are several definitions of the word "quality." For this question, I want to define quality as an organizationwide, coordinated effort to use quality techniques and practices to achieve business process improvement. My question is: Do you believe this type of quality effort provides a positive financial return, or do you believe it usually costs more than the potential return?

To our great surprise, the results using the revised question were virtually the same: 92% of respondents agreed an organizationwide, coordinated effort to use quality techniques provides a positive return.

If we accepted this at face value, then we would have to conclude there is no need to try to prove the economic case for quality.

In a follow-up question, the respondents were presented two definitions for the word "quality":

1. Quality is a management tool.
2. Quality is built into a product and is not a business management tool.

Given the answers to the original question, we assumed the majority of respondents would choose the second option, but that was not the case. Instead, 64% believe quality is a management tool (see Figure 2).

Surprisingly, the manufacturing segment was least ready to accept the management tool definition and service the most.

Trying to reconcile all these responses obviously is going to be challenging. They don't match the answers we expected to receive when we created the survey.

Measuring Economic Impact

We believed it was important to understand the degree to which companies actually measure the impact of quality improvements. Responses indicated 60% measure the economic impacts of business process improvement initiatives, with the manufacturing segment most likely to do so (see Figure 3).

Respondents mentioned a variety of different measurement methods including customer satisfaction mail or telephone surveys, cost benefit

FIGURE 2 Believe Quality Is A Management Tool

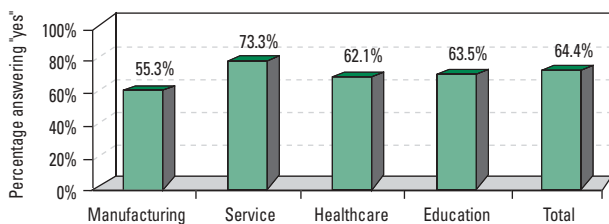
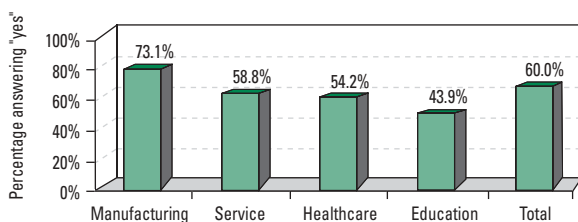


FIGURE 3 Organization Measures The Impact of Business Process Improvement Initiatives





analysis, trend analysis, audits, benchmarking, Six Sigma, tracking studies, returns on investment, bottom-line profitability and warranty returns.

Respondents don't seem to be using a great deal of hard statistical study or data gathering and analysis, but instead favor more general types of information gathering. We've concluded this is an area ripe for additional study.

Quality as a Profession

A question that has frequently intrigued many quality practitioners is whether their bosses see quality as a profession in the way law, medicine, engineering and accounting are viewed. Perhaps they see practicing quality more as the ability to understand and use a variety of tools and techniques to arrive at a result. So we included that question in the survey.

Interestingly, only 46.7% of the respondents agreed quality is a profession (see Figure 4). That is quite telling, since we use the term "quality professional" with great regularity—including in this article. This survey might encourage us to look more closely at how we are defining what we do and what we might do to appear more professional.

Attributes of Quality Practitioners

Our final questions were a bit more subjective in nature. First, we identified a list of attributes (leaders, team players, strategic thinkers, risk takers) and asked respondents to agree or disagree with each as it would be associated with those who practice quality.

The results in Figure 5 indicate respondents generally felt quite positive toward quality practitioners and how they manifest themselves in their organizations.

The attribute of risk taker rated the lowest in every segment. In manufacturing, the greatest attribute was "contributes to the bottom line." In service and education, it was "leaders," while in healthcare it was "team player." We think it would be an interesting exercise to explore this in more depth.

Sources of Information

Finally, we were interested in learning the best method of convincing an executive of the economic case for quality. We suggested four different sources of information and asked the respondents to indicate whether each would influence them to adopt

FIGURE 4 Quality Is a Profession

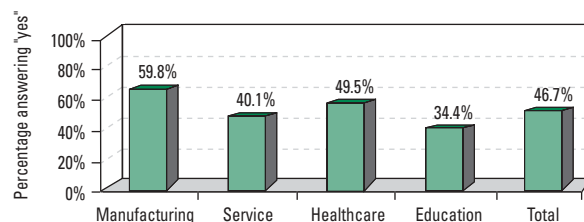


FIGURE 5 Attributes of Quality Practitioners

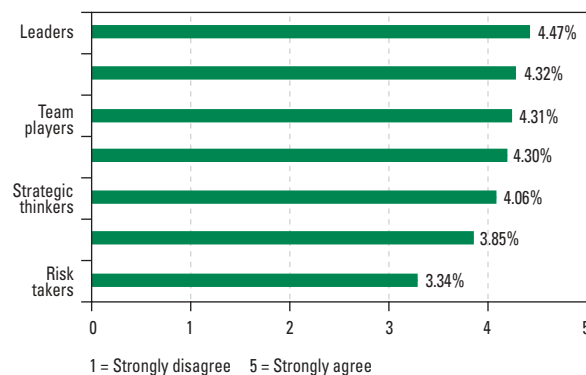


TABLE 1 Sources of Influencing Information

| Information source | Percentage answering "yes" | | | | |
|---------------------------------------------------------------------|----------------------------|---------|------------|-----------|-------|
| | Manufacturing | Service | Healthcare | Education | Total |
| A conversation with one of your peers. | 82.0 | 90.7 | 94.0 | 93.1 | 89.1 |
| A testimonial from someone who has used the technique successfully. | 71.8 | 80.1 | 77.3 | 83.0 | 77.6 |
| A case study. | 75.4 | 66.7 | 71.9 | 84.4 | 73.2 |
| Your competitors' financial results. | 42.3 | 57.0 | 52.6 | 53.9 | 51.2 |



Survey Demographics

ASQ has identified four main segments in which it focuses its efforts to expand the market for quality principles, tools and techniques: manufacturing, service, healthcare and education.

We determined a survey population of 600 top executives across these four markets would be sufficient to gauge the degree to which quality is believed to make business sense.

We also weighted the number to be contacted by estimating each segment's standing within the U.S. gross domestic product. This resulted in a decision to survey 180 executives in manufacturing, 220 in service and 100 each in healthcare and education.

We included a broad area of representation in each market to gain as much knowledge as possible about the entire industry.

For example:

- **In the service market**, we included the areas of finance, insurance, real estate, wholesale trade and public administration.
- **In education**, we interviewed school superintendents and principals, as well as representatives of state education agencies.
- **In healthcare**, besides general hospitals, we also included hospice care, long-term care, healthcare payers and regulating bodies.

We wanted to talk only to

those individuals who initiated, influenced or approved spending money on quality. Therefore, before conducting each interview, the surveyor was instructed to qualify those being interviewed by asking whether they were the person in their organization who made high level decisions related to business process improvement.

To remove as much bias as possible from the results, we encouraged the surveyors not to include quality managers.

A full report of the survey findings, including industry specific breakdowns of responses and demographics, can be found on ASQ's website at www.asq.org/survey.

or increase the use of a particular business improvement process or technique (see Table 1, p. 55).

That the most frequent choice was "a conversation with one or your peers" wasn't surprising. A distant second was "use of a testimonial," followed by "a case study" and "your competitor's financial results."

What's Next?

A project team will analyze the results of this survey carefully and contribute its conclusions to the development of a promotional campaign, the development of materials for use by members who wish to convince their CEOs of the economic value of implementing quality and as a baseline for com-

parison once follow-up data are collected.

The results will also stimulate ASQ to think about how quality is perceived in the modern world and how it should position itself to help its members and their organizations become even more competitive.

Please comment

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