

Audit your Cost of Quality

An outline guide to identifying waste, rework and unnecessary costs in your organisation

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The late Phil Crosby introduced much of North America, and then most of the rest of the world, and then me, to Total Quality with his 1979 book *Quality is Free*. He wrote the book after leaving Martin Marietta where he was credited with dramatically reducing costs and defects on the US Pershing Missile program. (In those days, making better, cheaper ICBMs was still deemed to be a good thing by most people who ran businesses.)

These days, most people under 30 don't know what Total Quality is and most people over 40 aren't mention it (it's like remembering where you were when JFK was shot). However, the principles of Total Quality are as relevant as ever. They go something like this:

- Total Quality applies to goods and services, actual and virtual.
- Total Quality doesn't mean 'excellence'. It has a very specific meaning: 'fitness for purpose' or 'conformance to requirements' or 'does what it's supposed to do'.
- More specifically, Total Quality means that it 'does what it's supposed to do first time and nothing more'. Because conforming to requirements means not over-engineering a product or service, as well as not under-engineering it.
- Total Quality doesn't mean control - weeding out defects or mistakes as they happen. It means prevention - designing systems that prevent defects and mistakes occurring.
- Total Quality offers a fantastic way of improving performance and eliminating waste, errors, downtime, rework and mistakes. That means, it's the perfect tool for reducing costs and improving efficiency. It's also an integral part of ensuring that your approach to business and your business's approach to business is environmentally responsible and ecologically sustainable.

So... Total Quality is as relevant as ever. Where do you start?

Probably the easiest way, rather than taking every member of your organisation on a 5-day induction workshop, is to measure non-Quality, and specifically the costs of non-

Quality, in your organisation. Find out the cost of having to redo work, the cost of poor communication, the cost of inefficient processes, the cost of not satisfying customers, etc.

Why start there?

Because, typically, the ‘Cost of Quality’ (the technical term, which actually means ‘the cost of falling short of Total Quality’) is between 20% and 40% of your company or organisation’s annual turnover. That’s a shocking statistic and most company directors won’t believe it. Which is why it’s useful to have the evidence of a Cost of Quality Audit to back up your claims. (It’s also a wonderful opportunity - cutting out the waste, rework and mistakes that cause those 20% costs requires minimal investment. The benefit goes straight to your bottom line, increasing profits this year.)

What’s involved in running a Cost of Quality Audit?

Back in the 1980s and 1990s, consultants (like Philip Crosby Associates and many others) used to say you had to hire consultants to do the audit for you. But you don’t. It’s not hard and there are plenty of models for doing it. The approach I’m going to outline is taken from *The Cost of Quality Audit* and was originally devised by Jeffery Howard at the American Productivity & Quality Center. It assumes that one person, but preferably a team of three, can complete an audit over about three months. It’ll probably mean the team spending 1-2 days a week on the audit, so it can just about be fitted into existing schedules.

Using the actual *Cost of Quality Audit* (or a similar assessment method) would save you a considerable amount of time, but the rest of this article will give you a good idea of the areas you’ll need to cover and the kind of approach you should think of taking.

Typical Quality Failure Costs (to give you an idea of what you’ll be looking for). Almost of all these costs apply in some form whatever sector you’re in, but you’ll need to consider your own customers and supply chains to come up with examples that fit your business.

Internal Failure	External Failure
Unrealistic deadlines	Product recalls
Lack of training	Wrong service provided
Lack of planning for illness/absence	Product/service supplied late
Computer downtime	Repairing faulty products under guarantee
Poor documentation	Discounts/refunds/rework resulting from product/service failure
Poor time management	Handling ‘unnecessary’ customer enquiries (because the website/ordering system/product/service/instructions don’t work properly) - what Systems Thinkers call Failure Demand
Lack of consultation	Distribution problems
Progress chasing	Licensing/affiliate/contractual problems and mistakes
Unnecessary meetings and reports	Redesigning faulty products and services
Faulty parts/goods	Product liability
Over- or under-capacity	Litigation
Replacing staff	Mistakes made at the order processing stage
Poor filing/knowledge management	Storage and warehousing errors

The Cost of Quality Audit uses a 14-step approach to the self-assessment. Others vary between 10 and 28 steps, but all cover the same ground, disagreeing only over how far to break down the audit process. The number sounds daunting, but some of the steps can be more or less taken for granted. They use a process-based approach and you'll be able to save a lot of time if your organisation has already mapped its core business processes and if the idea of process management and improvement is well embedded already.

It may be tempting to hurry past the steps that involve explaining and communicating the plan to staff, but experience shows that this is absolutely crucial. Initial reactions from staff will almost certainly include the fear that this whole audit process is a cover for job cuts. The resistance that accompanies this response will also almost certainly make it impossible to gather good Cost of Quality data. Again, it's likely that those staff members most hostile to the audit will also be those who are most vociferous and (perhaps) most influential.

Finally, of course, preparing the report after the audit, communicating its results and getting buy-in for the necessary changes is a decisive stage. Without it, there is no chance of achieving even modest improvements.

Here are the 14 steps:

Step 1	Choose the audit team	Pick three team members including someone from Finance/Accounts
Step 2	Choose the process	Start with a process, not the whole company. Pick one which is well documented and which touches as many teams/departments as possible
Step 3	Communicate the audit plan	Explain why you're running the audit - it's NOT to identify potential staff cuts - and identify and overcome resistance
Step 4	Choose people working on the process to assist with the audit	Get people with a range of experience - not just 'old hands'
Step 5	Agree a mission, set a schedule and identify any training needed	The day's training may be necessary to help the process staff understand the idea of Quality costs. Schedule should be 2-3 months.
Step 6	Define and map the process	Use process flow mapping software if the process has not already been mapped
Step 7	Prepare to calculate Quality costs	Agree a way to convert time-related Quality costs into a monetary equivalent, reflecting the pay and benefits received by different levels of staff
Step 8	Determine the causes of Quality costs	Use process analysis, brainstorming and observation to identify problems, delays, rework, etc.
Step 9	Interview staff	Use interviews and questionnaires to confirm/challenge/expand your results from Step 8
Step 10	Allocate costs	Use the data from the previous two steps to calculate a financial equivalent for each Quality cost
Step 11	Prepare the assessment reports	Focus on costs and improvement targets
Step 12	Prepare the audit report	If appropriate, identify targets and allocate responsibility for improvement
Step 13	Share the findings and take action	Presentation to senior management/the board
Step 14	Develop a cycle of improvement	Put in place a system for repeating the audit

In conclusion, measuring your Cost of Quality is a powerful tool in identifying areas for improvement in your organisation:

- By converting problems that are often seen as endemic and inevitable into tangible costs, it enables management to see their real impact on profitability for the first time.
- By showing staff that they can act on problems of waste, delay and inefficiency, it enable employees at all levels to take greater responsibility for the efficient running of the organisation.
- By focusing on business processes, it opens up a whole range of related improvement opportunities.
- By offering a continuing measure of improvement, it offers the means to build and maintain momentum in any improvement programme.

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