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Article abstract

Selon l'auteur, la qualité totale passe d'abord par la compréhension des besoins de la clientèle et la reconnaissance des changements profonds qui s'opèrent dans cette décennie. Il revient aux clients de poser leurs exigences et aux entreprises d'y répondre au mieux. La gestion, la culture de l'entreprise, la motivation et l'implication du personnel ainsi que la maîtrise de la technologie sont des exemples significatifs qui illustrent le thème abordé par l'auteur : la qualité est la clé du profit.

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Improved Profitability through Quality*

by

William E. Bradford**

Selon l'auteur, la qualité totale passe d'abord par la compréhension des besoins de la clientèle et la reconnaissance des changements profonds qui s'opèrent dans cette décennie. Il revient aux clients de poser leurs exigences et aux entreprises d'y répondre au mieux. La gestion, la culture de l'entreprise, la motivation et l'implication du personnel ainsi que la maîtrise de la technologie sont des exemples significatifs qui illustrent le thème abordé par l'auteur : la qualité est la clé du profit.

During the 1980s, it became fashionable to speak about "service excellence" and the "pursuit of quality." It was a fad that, like many others, had caught the fancy of many corporations and would soon give way to next year's management buzzword program. However, an examination of the underlying concepts of excellence is leading many to take a closer look at how concentration on the substance of a service excellence process, rather than its superficial aspects, benefits both organizations and their customers.

The Importance of Quality

In his Kaizen theory of continuous improvement, Masaaki Imai, Chairman of the Cambridge Corporation, talks about the five "whys" of quality. Let us use this tool of total quality to determine why quality is important.

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** President and Chief Executive Officer, North American Life Assurance Co.

So let us ask the first "Why is that important," about total quality. First of all, total quality is important because of the changing environment, the most significant change of which is in customers themselves. Customers of today are older, more knowledgeable and more sophisticated; and they tend to be more discriminating and to ask more penetrating questions. In addition, the financial services industry is entering a difficult period. Many markets are mature. Companies face the continuing erosion of some core businesses, with more revenue coming from sources other than their core products. Gaining a greater share of the market often means competing on price and making thin margins thinner -- or worse, producing a loss.

Why is all of the preceding important? Because the nature of world markets is changing. The regulatory environment is undergoing fundamental change, with new players poised to enter many markets, promising lower costs with easy and convenient linkages to other services. For example, in Canada, new legislation to be released in the summer of 1992 will enable each of the four major financial institutional groups -- banks, insurance companies, trust companies and cooperative credit associations -- to move into each other's territory. In this re-regulated environment, some of the smaller fringe players will not survive. Some will be bought out, while others will be forced into mergers to take advantage of economies of scales. Only the very best and strongest, as perceived by the customer, will remain in their present form; and they will tend to be superbly managed, provide quality customer-focused products and services and be financially strong.

Why is all of the preceding important? Because it puts pressure on organizational performance to improve. The Strategic Planning Institute's study, "Profit Impact of Marketing Strategies" -- PIMS for short -- utilizing information from over 2,500 companies in all industries, found that quality has a direct impact on the bottom line. As you have undoubtedly heard many times before, on average, the study noted that superior service companies can charge 9 percent more for their products; have an 11 percent higher return on sales; enjoy a 6 percent gain in market share, compared to a 6 percent loss for poor service companies; and see sales grow 17 percent per year, rather than 8 percent. The study goes on to say that return on equity has two prime drivers -- market share and relative quality. Quality improvement can drive market share, but by the time poor quality results in market share loss, it is probably too late to do anything about it.

Why is all of the preceding important? Because key competitors understand what relative quality is. Consider for a moment how banks view the evolution of the teller's role. Tellers who today complete simple transactions like taking deposits will soon be called personal financial services consultants. They will focus on building customer relationships; will be armed with extensive product knowledge, selling skills and a vast array of technology; and will try to persuade customers to place more and more business with their organizations. All of this will make customer dealings more personal, which will provide them with the perception that they are receiving higher quality service.

Why is all of the preceding important? Because consumers will compel companies to either adapt to the new competitive realities of competing on quality -- or perish. So quality really is a survival issue; and to prosper, organizations must make customers their central focus -- the raison d'être for everything they do.

Customers Define Quality

Knowing "why" quality is important is one aspect of the overall quality process; equally important is determining what quality is. The important point to bear in mind is that quality is defined primarily by those receiving the service. The quality process begins with understanding customer needs and then developing and delivering the right product, as perceived by the customer, and continues with satisfying customer needs throughout the relationship.

The words may sound easy enough; the difficult part is that the customers' perception of quality is based upon their expectations. Just when a company thinks it is in the position to satisfy customer expectations, someone or something comes along to change them. This has long been a way to gain market share -- competitors strive to convince customers to expect the higher level of services they provide so that the quality of the current supplier is put in question. That is why staying close to the customer is so essential -- to really understand and anticipate changes in their expectations. Thus, the customer's perception is the only true way of looking at quality; and that in turn, depends on their expectations.

The Technical Assistance Research Program (TARP), a Washington-based customer satisfaction consultancy, has conducted numerous studies on the impact of poor service. One of its findings is that while 68 percent of customers leave because of poor service, competitive reasons and dissatisfaction with the product together represent only 23 percent. Poor service not only results in customers lost, it costs potential customers. Although 95 percent of customers with problems do not complain, of the 5 percent who do, 91 percent leave. Also, each dissatisfied customer tells ten people, and 13 percent of these strangers tell 20 others about the poor service.

TARP's figures come from over 2,500 business units in many different industries. Many of these business units have weekly, if not daily contact with customers which provides them with thousands of customer interactions. In the insurance industry, the reality of less frequent service opportunities prompted one life company to look beyond the published figures and to use TARP to determine the relative size of the insurance industry's problem. In this specific individual life study, poor service seems to cause 25-35 percent of lost policies -- significantly less than other industries, but much too significant to ignore.

Some economic forecasts say that finding new customers in the next ten years will be difficult and expensive. When one also considers that it costs five times more, perhaps ten times more in the insurance industry, to acquire new customers than to retain existing customers, one readily appreciates that the real challenge of the 1990s is keeping customers and ensuring they return for repurchases.

The policyholder is not the only customer who benefits from a total quality approach. Agents, consultants and other intermediaries also share in the benefits. If an insurance company is providing the right products to satisfy customer needs and then is following up with the right service -- right the first time -- the needless hours that agents spend in acting as a buffer between the client and the customer can be eliminated, diverting more time to sales -- the paying side of their job.

Employees also can benefit greatly. Rather than spending their time trying to rationalize company policies and practices to irate customers or trying to overcome the inadequacies of systems and staff, they can quickly and pleasantly provide the service the customer is looking for.

Even suppliers can benefit from a total quality process. Rather than trying to cut corners on price that can result in inferior products, an arrangement with a quality company can be a long term partnership providing what is needed when it is needed at a profit for both parties.

The largest beneficiary of quality, though, is the company and its shareholders. Not only does the company benefit from satisfied customers through repurchases and unsolicited referrals, but also by doing everything right the first time, the 25-40 percent of expenses that are currently expended a non-value-added effort is greatly reduced, if not eliminated entirely.

Quality can produce higher sales and lower costs while satisfying the needs of all of its customers, internal and external.

So the question is, if quality provides so many positives for so many, why did every company not adopt it a long time ago? The main reason -- it is extremely difficult to do. Experts say 80-90 percent of quality processes currently in operation will fail.

What are the elements of a quality process that will reduce the odds of failure? The Strategic Planning Institute of Cambridge, Massachusetts is currently trying to answer this question. In the meantime, the following comments summarize the consensus on what these prime elements are.

Elements of the Quality process

A quality initiative cannot be the flavor of the month -- quality cannot be turned on with the flick of a switch or just by saying the words. It is a total process that takes a great deal of time, effort and commitment. It must affect everyone in an organization and everything they do. It involves listening to customers, measuring performance in satisfying customers, empowering employees to bring about changes to improve service, fundamentally redesigning business processes to eliminate non-value-added elements, becoming more responsive to customer needs and developing information technology to drive these efforts.

Every organization will have its own approach to developing the quality process. What follows are some of the key components one organization is inculcating as part of its quality initiative.

A quality process is a fully integrated initiative. It begins with a VISION -- a picture of how a total quality company would appear not only to customers, but to employees, shareholders, agents and suppliers. This vision must be shared by every member of the company and be supported by a company orientation program aimed at giving even the newest employee a clear understanding of the company's vision, its strategic direction and service philosophy. It has to say, "At our company this is the way we manage and work, each time, every time. No other way is acceptable."

Management Commitment

No service excellence vision will materialize and no quality process will succeed unless there is 100 percent commitment from management -- and this means management at all levels. Without such commitment, the effort to establish the quality process will be sporadic at best; and every time pressure builds on sales or expenses, customer satisfaction will go on the backburner, with the consequent message that quality is nice to do -- but the company has a business to run! The problem is, without a total corporate quality process that is consistently practiced by all, the belief weakens, employees believe management does not take quality seriously and the whole initiative is in danger of floundering. Without total management commitment throughout the organization, top to bottom, the result will be a temporary program that produces only temporary gains. Moreover, when one considers the extensive amount of time and resources that have to be dedicated to launch a quality initiative, management must not only be committed initially, they must maintain a deep commitment if the process is to have any chance of succeeding.

Corporate Culture Change

For an organization to develop and implement a service excellence culture, it is necessary to change the way its people think and behave. A service excellence culture -- in which organizations win customers with first class products and services, retain customers by consistently satisfying their requirements and make customer service the responsibility of everyone -- does not just happen. Unfortunately, many companies striving for quality do not realize that the significant results attainable will not materialize unless they are prepared to change. Vision and management commitment will not be enough. If work processes continue to be done in the same old way, the same old results inevitably will follow.

So, a change in the way work is done is necessary; but the question is how and what do you change. Advertising the change is not the first step. Since customer satisfaction is based on customer expectations, telling them that they are experiencing it only raises their expectations and can lead to their dissatisfaction. If one asked customers about the last time they received quality service, they would probably tell you that they received more than they expected, and in most cases it was provided by staff, not management. Most vice presidents do not routinely talk to customers. Employees determine whether customers will receive quality service; and so they, not management, are the key to quality.

Despite the many smile-training sessions, organizations cannot really satisfy customers with dissatisfied employees. If satisfied employees are the key to providing customer satisfying service, then it is essential to understand what is important to them. The most recent LOMA-100 Report, which triennially measures employee opinions about the quality of work life within the insurance industry, notes that pay, challenging work, opportunities for advancement, benefits and good working relationships with co-workers are the five most important contributors to overall job satisfaction.

The study also found that a significant number do not think the company treats employees as an investment -- key to its future success. However, the more companies allow a more participative style of management, empowering employees, involving them in decisions and providing a freer flow of communications, the more favorably employees perceive the company's ability to compete. They also have greater loyalty and buy-in to corporate objectives.

So it seems that empowerment of employees is one of the best contributors to employee satisfaction. Of course, real employee empowerment requires management to change the way they manage, to have trust in their employees and to let go, which is not that easy. It requires a change in thinking whereby management relinquishes some decision-making authority and accepts the risk that decisions may be made differently than they would like. Of course, it also requires sufficient controls to allow management to understand what is going on and to be alerted when processes begin to get out of control. The controls must be built, however, from quality customer listening that enables management to understand what is important to customers and how effective the corporation is. So again, the perspective is the customer's.

Employee Involvement

Training is critical if employees are to do their jobs differently and to become involved in customer satisfaction. It must be emphasized that everyone in the company -- from the newest employee right up to and including the president -- takes the training; no one can be exempt if the new corporate language is to permeate the organization.

Depending on the nature of their work, some employees in the past may not have realized they had customers; consequently, they have never attempted to understand customer needs and expectations. The end result: they are not doing a very good job of satisfying customers.

The most effective way to improve cooperation and make the service thrust take hold throughout an organization is for each employee to view the next person in the process as the customer, whether that person be a staff member, a manager, another colleague to whom the work goes or the ultimate customer who pays the bills. This concept helps everyone understand each other's expectations and to deliver products and services that meet and eventually exceed the external customer's expectations.

What then evolves is a process of change: training employees not only on the basics of quality but also how to communicate with each other. The training presents the basic principles of the quality process that the company will live by. These principles could include focusing on the situation, not the person; maintaining the self confidence of, and good relations with, others; and taking the initiative to make things better.

Training also involves improving " how to" personal skills such as listening to understand clearly, giving feedback to help others, getting points across, participating at meetings, dealing with change, being a team player, etc.

Another key concept is utilizing service excellence as a way of improving organizational performance -- through a team approach to satisfying customers. Once training is complete, employees can move into the second phase of the quality process -- the formation of departmental quality teams. The teams meet for about an hour a week -- and are the heart of the continuous improvement process. The meetings are not for six weeks, a year of even two years. They are forever and should be integral to the way in which the company operates. Through these meetings, employees use flow charts to visualize the total process, including the identification of their ultimate customer. Once customers are identified, their needs also can be identified, permitting employees to compare these to the level of service currently being provided, to identify the barriers preventing the delivery of improved service, as well as to determine the most effective way to remove those barriers. In this process review, the cost of re-work is also discovered and addressed as a barrier.

Each team selects a facilitator who is provided further training, including how to conduct problem solving sessions. Most important, facilitators learn how to take team members through an analysis of the work being done. The teams use a formalized problem solving process to question each and every function. They ask why certain functions have to be done at all, whether they can be simplified or automated or whether there is simply a better way to carry them out.

Empowering employees to question every process and giving them the tools and authority to make decisions that improve service is fundamental. As employees identify barriers to service in their team meetings, they have the opportunity to test the solutions on the job -- and to change the way things are done.

Front line employees know better that anyone else what the problems are, and most often they also know the best solutions to those problems. Giving employees the ability to solve problems enables organizations to deliver quality service in a more timely manner to customers.

It is the quality teams who produce the continuous improvements that create superiority of product and service. Without the teams, quality will not happen.

During the quality process, teams occasionally will uncover problems that their superiors may resist resolving. However, removing those problems could eliminate significant barriers in providing improved service levels. Thus, the overall quality process must include a formal mechanism whereby unresolved barriers can be referred to higher management teams so that departmental quality teams are not discouraged by leaving unanswered those problems that they have identified.

Compensation/Performance Evaluation

If quality is to truly permeate the organization, job descriptions, performance criteria, compensation and promotions must include quality criteria. If the company does not pay for it, it will not happen. Moving to evaluations based upon team achievements will hasten the pace of quality improvement.

Rewards and Recognition

Once staff becomes fully involved in the quality process, identifying barriers and devising ideas that result in improved service levels, it will not take them long to ask, "What is in it for me?" Rewards and recognition are another key component of the total quality process. There are many ways to recognize performance: accumulation awards based on the number of ideas or dollar savings the quality teams generate, annual awards for the best team and individual, special awards recognizing employees who have gone above and beyond the call of duty, among other possibilities.

There is another important aspect of "appreciation" that should be mentioned. Employees involved in the quality process play a greater role in the retention of customers, with the attendant results of increased customer loyalty, increased business and ultimately, increased profits. Employees therefore perceive themselves as directly contributing to the company's bottom line and expect to be recompensed for those contributions. Such recompense might include receiving a percentage of the company's profits, a percentage of increase in profit targets or a flat dollar amount if the company achieves or exceeds its annual earnings target.

An employee ownership partnership plan is tangible and visible, something to which employees easily can relate. It should be viewed as a long term plan aimed at providing all employees with a stake in the business, in the company's future and in its success. In effect, they work for a company of which they own a part.

Customer Listening

As noted earlier, quality cannot be pursued in isolation -- an organization cannot provide superior service without listening to its customers and understanding what they think of it and the service it provides.

The only way to know if customers are satisfied is to ask them : determining whether they experienced any problems within a certain time frame and how service compares to that provided by other insurance companies, as well as to that provided by other financial institutions. Once a company determines what customers want, it determines the service levels currently being offered and works to move them closed to customer expectations.

Certain other data provide a good feel for the way in which customers view an organization -- especially data on repurchase decisions, because the real challenge in the 1990s will be not only in keeping customers, but in making sure they come back and buy again. One of the questions TARP asks in surveys concerns repurchase intentions, which they found are directly related to problem experience. The repurchase intention of satisfied complainants is almost as high as those who never had a problem. On the other hand, the repurchase intentions of non-complainers is worse than the dissatisfied complainants. Unfortunately, the number of non-complainers usually greatly exceeds dissatisfied complainants. This indicates that a company needs the opportunity to satisfy or at least mollify customers if they are to change their perception about it. So, eliminating service problems and making it easy for clients to complain not only provides the opportunity to satisfy them; it also has a large impact on profitability.

Benchmarking

Finding out how customers view service is but one dimension of the overall listening process. Another key element is measuring the organization against the best, not just within a particular industry, but others as well. One wants to be measured against the best because eventually that is the standard customers will use to compare. Another reason: as mentioned earlier, the PIMS studies show that high market share combined with high quality is unbeatable as measured by return on investment. However, because quality is relative to that of competitors, it is very difficult to retain a high quality position without a continuous improvement effort. So, as organizations implement the various elements of the quality improvement process, it is important to benchmark it to ensure genuine progress continues to be achieved.

Quality companies define superior service and communicate that to every employee. They establish standards and regularly measure themselves against those standards, as well as against the very best. This benchmarking process results in targets being set 50 percent higher, rather than the 5 percent improvement that previously provided satisfaction.

Technology

There is no question that technology, properly leveraged, will create competitive advantages in delivering service. There also is no question that without high technology support, competitive quality cannot be achieved. Technology in the 1990s will be focused on serving the customer better, tailoring products to meet individual customer needs, making service more responsive and more personal and eliminating errors in customer dealings.

Maximizing the potential of future technological applications also will necessitate defining and implementing a corporate information technology architecture to provide uniform standards for all systems development, including the applications of personal computers or workstations, data communication and software integration.

Establishing this architecture will require a stronger relationship than may exist between the managements of information systems on the one hand, and on the other, the business units. The latter, knowing their business better than anyone else, should be encouraged to advance innovative proposals for new technology to enhance service delivery. In addition, information systems people must be encouraged to be proactive in taking technology to line people. Together they should re-engineer each and every process to eliminate all non-value-added functions within the process.

The challenge in utilizing technology as an enabler to deliver superior service thus is to build a service environment that is effective from the customer's point of view; an environment in which all the organization's employees acting in partnership make it easy for the customer to do business with it and who deliver cost effective service which exceeds customer expectations.

One final word must be said about technology. On a strategic level, it is crucial to determine what technology underlies products. A company can have the very best retirement savings product on the market, but if it cannot service it at optimal cost levels, even the best product in the best market position will fail. Technology investment, like everything else in the quality process, revolves around the customer and what serves the customer best. The only way that an organization can marry customer service and technology is determining what the customer values and ensuring that its investment in technology is deployed to match those values.

Corporate Organization

As noted, a total quality process requires significant change in the way in which organization are managed and in the ways in which customers are satisfied. It may be that one of the greatest barriers to satisfying customer needs is the corporate organization itself. As someone once said, many corporations are a bit like dinosaurs, "a big organization run by a small head." Empowerment allows greater talent to be used in resolving issues, but a very hierarchical organization can impede and ultimately destroy empowerment. Furthermore, communication is critical to a quality company; and the fewer levels of management, the more effective the communication system will be. Thus, the company must be reorganized around the customer, with needless levels of management removed.

Pitfalls -- The Barriers to Change

No discussion on implementing a quality process would be complete without reference to the barriers to change. As noted earlier, inculcating a quality process into any company is difficult -- and strong existing traditions simply add to the burden. Even if the difficulties are recognized and total commitment is forthcoming, there are many pitfalls facing unsuspecting management as they embark on their total quality journey.

The first will be the staff's perception that this is just one more cost reduction effort that will have to survive. Depending on the current employee climate and the company's recent history with respect to introducing new programs, there could be the perception that long term management commitment is missing and that if you keep your head down, this program too will pass.

Another difficult situation to be faced is the conflict between short term market problems and the quality process. The day that the agency vice president tells the new business area to get every case through the books for the end of the calendar quarter and not to worry about errors is the day that your quality process returns to being something that "we ought to do."

As companies get leaner to face the highly competitive market, they tend to put unrealistic demands on their key people -- then wonder why they are too busy to take the quality training. In fact, when faced with the decision of what really has priority, quality quickly can be relegated to a position of secondary importance, again sending the message that quality is great, but we have a business to run.

Most successful management teams have a sense of urgency which drives them to seek and demand quick paybacks. In trying to change a corporate culture, which can take years to inculcate, the attitude of quick paybacks produces disappointment and perhaps even abandonment of the quality process as initiated. Linked to this will be the perception, held by some, that quality is taking too long, or even worse, that "We are already doing it."

The last barrier to the quality process is that staff perceive no change in management behavior and it truly is business as usual.

Most companies run into many of these pitfalls, and the difficulty in dealing with them produces the statistic that 90 percent of quality processes fail.

With all of these difficulties, the benefits of a quality process have to be sizable to warrant the investment.

The Benefits of Quality

One point that cannot be emphasized often enough is that the pursuit of quality is not something that begins and ends at certain points. Quality is relative: competitors are continuously trying to turn your quality into a given, so that theirs will stand out. So quality improvement is a total, never-ending process to improve organizational performance. It adopts a team approach to satisfy customers. It requires every member of a company to know their customer and the total process; to understand what customers want; to identify and eliminate barriers to satisfying customers by understanding their expectations; to listen to customers and to benchmark with the best; and finally, to do all of this as members of teams dedicated to excellence.

Customers rightly expect excellent service. Organizations have to make them believe they value their business and want to develop lasting relationships with them. Unhappy customers will not remain as customers for very long. Having their needs met efficiently on a timely basis by caring staff will act like a golden handcuff as competitors prowl the market for your customers.

Second, the quality process will improve the efficiency and effectiveness of all business processes. By looking at processes from the consumer's point of view, non-valued-added efforts can be identified and eliminated. Furthermore, the excessive costs of correcting errors when service is not provided right the first time will not be incurred.

Third, the process recognizes that it is impossible to have happy customers if employees are unhappy. Thus, a key component of the quality process is recognizing and rewarding employees for doing well. Empowerment, "thank yous," recognition programs and profit sharing all contribute to letting employees know that they hold the key to quality service and that they, as well as the customer, will benefit from it.

Finally, the quality process aims to create an internal culture in which everyone regards providing quality customer service as a natural response: as the ways things naturally are done. The process will motivate employees to change the way they relate to their jobs, to each other, to management and most importantly, to customers. As time goes on and as the quality initiative becomes fully ingrained throughout an organization, quality will be its way of life and every customer will be aware of it. The world on the street will be -- "That's a quality company, how do they do it, and how are we ever going to compete with them?"

It is not easy, but there is no other way.