



The Quarterly Quality Report

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The ASQ Quarterly Quality Report provides a detailed look at a variety of quality-related topics and issues. The report is developed by the American Society for Quality in keeping with its role as the steward of the quality profession—to promote the use of quality as a global priority, an organizational imperative, and a personal ethic, and to promote quality concepts, technology, and tools to make the world a better place.

How Economic Recession Is Affecting Quality Activities

This installment of the ASQ Quarterly Quality Report looks at ways in which the recent downturn in economic activity is affecting quality activities and the quality function in manufacturing and service companies—including impacts on both core quality activities and cutting-edge efforts.

ASQ polled a small sample of its members to gain some insights on this issue from practicing quality professionals. Forty-seven individuals responded, offering comments on ways that the economic recession is affecting them and the companies where they work. About two-thirds work in manufacturing companies, while not quite a third work in the service sector, including government and nonprofit organizations.

The feedback received clearly documents some of the pain companies are going through—in terms of reductions in work force, reductions in training, and budgetary cutbacks for quality activities.

The results show companies paying more attention to cost cutting, waste reduction, efficiency, and downsizing, and somewhat less attention to growth through either new product introduction or acquisitions.

A solid majority of the people who shared their views see effects on their company that they attribute to cutbacks in spending by consumers.

These data also show a slow but steady movement by companies toward deploying quality strategically to achieve top-line objectives, and this movement is not attributable to deteriorating economic conditions.

Somewhat surprisingly, quality practitioners say that over the past year they were more likely to have more opportunity rather than less opportunity to become involved in business development activities (such as new product development, establishing business strategy, meeting with customers, and working with sales and marketing). Perhaps this means there is some hollowing out among the quality troops—fewer people and less budget—but not necessarily a shrinking in the size or ambitiousness of their quality programs in a strategic sense. They still have big ambitions, but they’re forced to do more with less.

But these results also show that some companies are redoubling certain quality efforts, placing stronger emphasis on preventive actions, increasing commitment to continuous improvement in order to gain competitive advantage, and gaining a clearer quality focus. It seems as if the shocks rippling through the economy are exposing some fundamental differences in the way organizations embrace quality.

Quality and recession: the view from the field

Quality initiatives in companies have not been immune to effects of the slowing worldwide economy. As Table 1 shows, some of the major effects are reductions in the work force and cutbacks in training and budgets for quality activities.

Table 1	
Given the economic downturn over the past 12 months, have you noticed any of the following events at your company? (Check any and all that apply.)	
	<u>Percent</u>
Reductions in work force	54.3
Less training	50.0
Reduction in budget for quality activities	32.6
Backing away from quality initiatives	28.3
Culture changes (e.g., less emphasis on quality)	26.1
Canceling the introduction of planned new quality programs or activities	19.6
Canceling ongoing quality programs or activities	10.9
Changes in visibility of quality	8.7
None of the above	23.9
Other	19.6

Outright cancellation of either ongoing quality programs or the planned introduction of new quality programs also is happening. However, our observers were less likely to notice these quality program cancellations than they were to pick up on more subtle changes in the priority and emphasis afforded to quality activities in their companies—evidenced by those who said they noticed a backing away from quality initiatives and cultural changes such as decreased emphasis on quality in their organizations.

Belt-tightening by consumers is also having a direct effect on companies. Six out of 10 respondents to the ASQ survey said the organization where they work has been affected by reductions or cutbacks in consumer spending.

Although pulling in the reins and cutting back on a variety of initiatives is commonplace during economic hard times, some organizations buck the trend and continue to forge ahead with quality initiatives that might help them leapfrog their competition. Evidence for this shows up in the survey data. About one in five respondents commented on events taking place in their organizations that were not included in the list of belt-tightening measures reported in Table 1. These comments included: a noticeably increased emphasis on quality, especially in the area of preventive action; an increase in continuous improvement activities designed to provide competitive advantage; concerted efforts not to cut back, but rather improve and add programs and take a sharper focus on quality now; and also an increased desire to use quality improvement activities to reduce expenses.

“The really good news, if there is a silver lining in these times, is that while some companies are shrinking back into their shell, other organizations are moving decidedly in a forward-looking direction,” says Ken Case, a past president of ASQ and emeritus professor at Oklahoma State University, who counsels companies on quality strategy.

To gauge whether organizations are being any more or less adventuresome in their quality applications, we used three different lines of inquiry:

- 1.) What activities are getting relatively more or less attention now?
- 2.) How are organizations using quality strategically?
- 3.) What opportunities do individuals have to become involved in nontraditional activities?

What are organizations paying attention to?

First, we asked our sample of quality professionals to comment on what their companies are paying attention to during the economic downturn. We presented them a list of 13 activities and asked if their companies were paying more or less attention to each as a result of current economic conditions. They rated each activity on a scale of 1 to 5, where 1 means much less attention, 5 means much more attention, and 3 means no change. In Table 2, activities with a mean score above 3 are those that are getting more attention due to the economy, and those with a mean score below 3 are getting less attention.

On one end of the scale are the cost-cutting and downsizing activities, which come as no surprise given the daily news about job losses and companies struggling to survive. On the other end is growth generated through acquisition, which for many firms is choked off by lack of available credit. In between these obvious extremes is the very interesting middle ground where companies are attempting to balance efficiency with innovation

Table 2
Because of the recent economic downturn, is your company paying more or less attention to each of the following?
(Use a scale of 1 to 5, where 1 = much less attention, 2 = less attention, 3 = no change, 4 = more attention, and 5 = much more attention.)

	<u>Mean</u>
Cost cutting	4.28
Downsizing	3.65
Becoming more efficient	3.57
Waste reduction	3.55
Listening to the voice of the customer	3.33
Incremental improvement to existing processes or products	3.20
Innovation	3.13
Creativity	3.09
Quality	3.09
Building a culture supportive of quality	2.93
Organic growth through new product introduction	2.89
New product development	2.87
Growth through acquisition of products or companies	2.60

and growth. Receiving considerably more attention these days are attempts to reduce waste and become more efficient, while new product development and introduction receive somewhat less emphasis. Also getting more attention are efforts to generate inspiration and new ideas—through listening to what customers have to say and through programs to bolster innovation and creativity.

Quality’s strategic emphasis: bottom-line or top-line

From a business profit-and-loss perspective, quality activities traditionally have focused on improving products, services, and processes and in so doing bolstering a company’s bottom line. One emerging trend in some firms is a broadening emphasis of the quality functions to include a focus on top-line benefits of quality improvement efforts beyond the more traditional bottom-line focus. In this leading-edge application, the firm’s quality apparatus still pays attention to waste reduction, efficiency, and incremental improvement of products and processes, but there is additional involvement in top-line expansion of the business—areas such as new product development, innovation, rapid deployment and flexible manufacturing, and other strategic uses of quality to gain competitive advantage and grow the business.

To better understand how economic conditions might be influencing this strategic positioning of company quality efforts, we asked people to comment on their company’s positioning at three points in time: today, one year ago, and a projection for one year into the future.

We presented them with a scale of 1 to 10, with 1 representing a company whose strategic quality focus is on deploying quality to achieve primarily bottom-line results, and 10 representing a company with a strong strategic quality focus on deploying quality to achieve top-line results.

	<u>One year ago</u>	<u>Today</u>	<u>One year from now</u>
MEAN	4.27	4.44	4.64
1 Quality impacts bottom line	17.8	15.6	20.0
2	6.7	8.9	2.2
3	11.1	13.3	15.6
4	15.6	13.3	11.1
5	22.2	13.3	11.1
6	11.1	15.6	13.3
7	6.7	6.7	11.1
8	6.7	11.1	6.7
9	---	---	6.7
10 Quality impacts top line	2.2	2.2	2.2

The result is a barely perceptible but steady movement toward acknowledging that traditional quality improvement activities and methods can be deployed strategically to help an organization grow its business.

Furthermore, respondents overwhelmingly believe that quality confers a competitive advantage on organizations (Table 4). They are less likely to say that the top management of their companies shares this belief (Table 5).

MEAN: 4.62	<u>Percent</u>
1 Strongly disagree	2.1
2	---
3	8.5
4	12.8
5 Strongly agree	76.8

MEAN: 3.70	<u>Percent</u>
1 Strongly disagree	6.4
2	12.8
3	19.1
4	27.7
5 Strongly agree	34.0

From the data in Table 3, a solid majority of those who said there is a change from where their organizations were a year ago in terms of strategic deployment of quality say the change is due to factors other than the deteriorating economy (Table 6).

	<u>Percent</u>
Yes, the bad economic climate is the primary reason.	39.4
No, it is due to other factors.	60.6

The experiences and responses of the group of people who attributed this change to factors other than the economy differ in several interesting respects from the responses of those who attribute changes in their companies to the deteriorating economy. For example, they are less likely to say their organizations are experiencing many of the adverse effects of the weak economy that were mentioned in Table 1: They are much less likely to say they have witnessed the reductions in work force, cutbacks in training, and backing away from quality initiatives; they are also somewhat less likely to say they have experienced budget reductions for quality activities or a diminishing of emphasis on quality in the culture of their organizations.

Considering factors that companies are paying more or less attention to as a result of the economic downturn (see Table 2), the people who attribute recent changes in their organizations to factors other than the tough economy are less likely than others to say their company is paying more attention to downsizing and cost cutting. They are more likely to say their companies are paying more attention to things like quality, innovation, creativity, and new product development and introduction.

These results paint a picture of two very different types of organizations reacting in fundamentally different ways to eroding economic conditions. On the one hand are those going into crisis mode, cutting back and de-emphasizing quality initiatives. On the other hand are those that continue to invest in quality and innovation as a competitive advantage even in the face of economic uncertainty.

This situation reflects a business dilemma that affects many other functions besides quality: To cut back or to forge ahead when the going gets tough? Organizations that refuse to panic, that move ahead judiciously with new initiatives, and that don't cut too deeply will be better positioned to excel when the economy rebounds. And they may even find the experience to be transformational.

Opportunities for individuals

We also wanted to learn whether the economic recession is having an effect on opportunities for quality professionals to become involved in business development activities consistent with the broader, more strategic role that quality is playing in some firms.

In all of the areas shown in Table 7, our small sample of quality professionals indicates they have had more rather than less opportunity to participate during the past 12 months. This is an indication that despite hard times, opportunities in some areas may be expanding for people who work in quality-related fields.

<p style="text-align: center;">Table 7 Thinking about your situation at work during the past 12 months, please indicate whether you have had more opportunity or less opportunity to participate in each of the following activities. (If your level of involvement has not changed, select '3.')</p>				
	Meet with customers	Work with sales and marketing	Participate in new product or service development	Become involved in establishing business strategy
MEAN:	3.37	3.36	3.35	3.18
	%	%	%	%
1 Less opportunity	8.6	9.1	13.5	17.6
2	2.9	9.1	5.4	8.8
3	54.3	39.4	43.2	35.3
4	11.4	21.2	8.1	14.7
5 More opportunity	22.9	21.2	29.7	23.5

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The American Society for Quality (www.asq.org) is the world's leading authority on quality. With more than 90,000 individual and organizational members, the professional association advances learning, quality improvement, and knowledge exchange to improve business results and to create better workplaces and communities worldwide. As champion of the quality movement, ASQ offers technologies, concepts, tools, and training to quality professionals, quality practitioners, and everyday consumers, encouraging all to Make Good Great®. ASQ has been the sole administrator of the prestigious Malcolm Baldrige National Quality Award since 1991. Headquartered in Milwaukee, WI, the 60-year-old organization is a founding partner of the American Customer Satisfaction Index (ACSI), a prominent quarterly economic indicator.