

**55<sup>th</sup> EOQ Congress**  
World Quality Congress  
Budapest, Hungary - June 20-23, 2011

"Navigating Global Quality in a New Era"



**June 21, 2011 (Tuesday) 55<sup>th</sup> EOQ Congress**

**CONCURRENT SESSIONS**  
**KEMPINSKI HOTEL CORVINUS**

**Tuesday 13:30 – 17:30**  
**Erzsébet tér 7-8, Budapest V.**

**REGINA BALLROOM II.**

**Tuesday 15:30 – 17:30**

**11.2. REPOSITIONING QUALITY FOR MANUFACTURING II.**

**15:30 – 17:30**

**Session Chair:** *Hans Dieter Seghezzi, University St. Gallen, Switzerland*

**15.30 Quality Management: A Cost Factor or a Driver of Competitiveness?**

*Jürgen Varwig, Christiane Georg and Malte Fiegler, German Society for Quality, Germany*

**Varwig, Jürgen** (Germany)

Born in 1947, Jürgen Varwig, holding a PhD in chemistry, started his career at BASF in 1978 as head of laboratory in crop protection research. After three years management tasks in colour and pigment production he took over the management of marketing textile chemistry group and in addition he was nominated Quality Management Executive in the textile chemistry division of BASF in 1988. In 1993 he became director of BASF AG, head of the quality management BASF Group unit and of the company's employee suggestion system. In the course of international restructuring of BASF he was nominated Director Quality Management BASF Group in 2002. In addition he was responsible for market research, controlling of large BASF projects and purchasing of consultancy services for BASF Group. He retired in 2009. On 11 November 2002, Dr. Jürgen Varwig, assumed office as President of the German Society for Quality.

Jürgen Varwig, Christiane Georg, Malte Fiegler

# Quality Management: A Cost Factor or a Driver of Competitiveness?



**DGQ**  
Deutsche Gesellschaft  
für Qualität

The German Society for Quality

# We introduce ourselves



**DGQ**  
Deutsche Gesellschaft  
für Qualität

### We

- 🔍 design networks
- 🔍 enable people
- 🔍 develop organizations
- 🔍 generate knowledge
- 🔍 improve performance and innovation

**... for long-lasting success of our members, customers und partners.**

### DGQ - The German Society for Quality

... is a non-profit organization

... was founded in 1952 and is located in Francfort/Main (Germany)

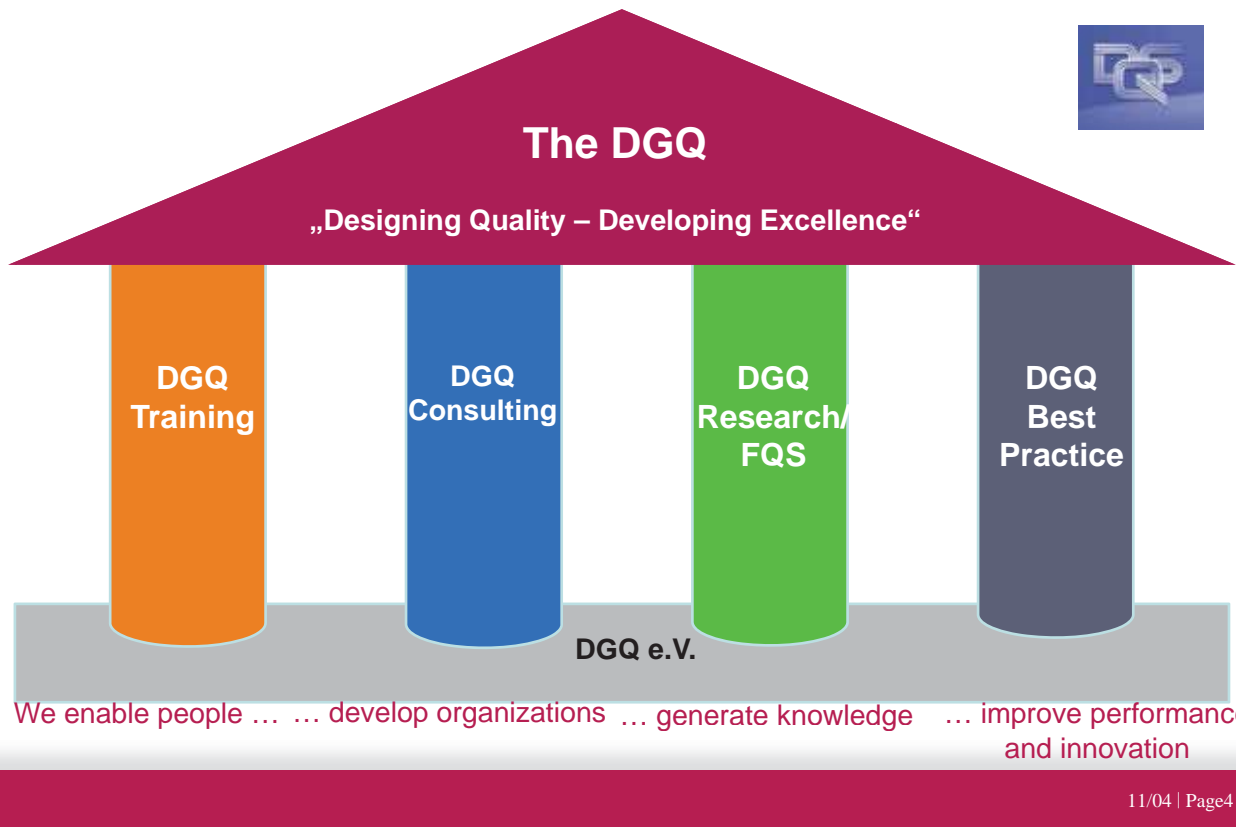
... consists of

- about 1.000 corporate members
- about 6.000 personal members
- about 100 employees as experts and in administration
- a network of more than 500 trainers and consultants (freelancers)

... organizes a network of 62 regional circles in Germany

... broadened its business scope

**from training people to management partner**



*Quality Management*  
**A Cost Factor or a Driver of Competitiveness**

## Content

### 🔍 A short Introduction

- › Current Situation of Quality Management

### 🔍 Status quo and Outlook

- › Organizational Structure
- › Budget vs. Contribution
- › Manufacturers vs. Service Industry
- › Customer View

### 🔍 Conclusion

- › Quality Management: A Cost Factor or a Driver of Competitiveness?

## A short Introduction

- 🔍 In recent years, several studies have consistently revealed:  
**Quality is a key success factor for competitiveness!**
- 🔍 Within a global environment, shaped by the economic crisis, every business division has to make its contribution to the company's results. Quality managers are challenged to do so, as well.
- 🔍 This raises the question: What is the real contribution of Quality Management in terms of a company's results?
- 🔍 Is the formula correct?

**Quality + Qualification of employees + Innovation  
= Competitiveness**

## A short Introduction

- 🔍 **Quality Management** is going through a **transformation process** on a global level.
- 🔍 In most of the companies **Management Systems have already been implemented** according to **ISO 9000**.
- 🔍 More and more, **the positive impact** on financial results and competitiveness **by Quality Management activities has to be proven**.
- 🔍 New challenges have to be confronted with new topics coming up.
- 🔍 With the 2010 surveys “Best Practice Performance Tool” and “ExBa Study”, DGQ polled decision makers in Germany regarding the status quo of Quality Management.

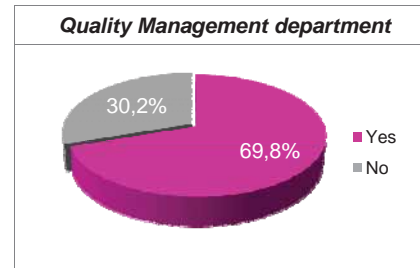
## DGQ Best Practice Performance Tool (BPPT)

- 🔍 BPPT is an online tool developed and owned by **DGQ Best Practice** to enable **open benchmarking** by collecting **reference data** and identifying **trends and tendencies** on different topics.
- 🔍 DGQ Best Practice conducts four to five surveys annually.
- 🔍 Survey participants are **German top managers**.
- 🔍 Current topics include **Quality Management (2010)** and **Innovation Management (Q I, 2011)**. Next surveys are in the making and deal with **Sustainability** and **Integrated Management Systems**.
- 🔍 **Objective** of the surveys is to provide insights regarding:
  - Facts & Figures
  - Organizational structures
  - Hot topics & Key processes
  - Major Challenges
  - Trends & Tendencies



## Organizational Structure

- Q Almost 70% of the interviewed organizations have a separate Quality department.
- Q The rest of the companies has positioned Quality as a support function of the general management.



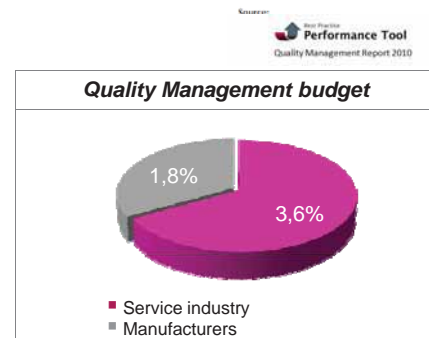
Source: Best Practices Performance Tool  
Quality Management Report 2010

## Organizational Structure

- Q Current and future challenges will influence organizational structures (e.g.):
  - Integrated Management Systems
  - New interfaces with other company functions due to new topics:
    - HSEQ (Health, Safety, Environment and Quality)
    - Sustainability
    - Corporate Social Responsibility
    - Others

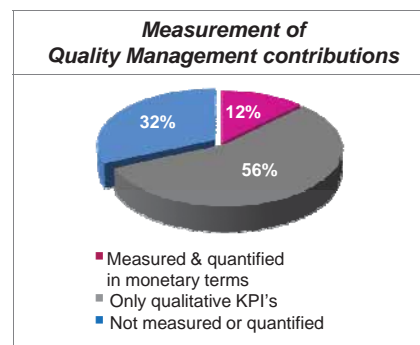
## Budget vs. Contribution

- Q Financial resources allocated to Quality Management
  - Average Quality Management budget amounts to approx. 2,6% of the total revenues.
  - With 3.6% of total revenue, the service industry budgets the Quality Management function twice as high as the manufacturing industry (1,8%).



## Budget vs. Contribution

- Q Measured and quantified results of Quality Management contributions to the company
  - Only 12% of the companies are quantifying the Quality Management contributions in monetary terms.
  - 56% are measuring only qualitative KPI's.
  - With increasing Quality Management experience, Quality Management results are measured more frequently and more precisely.

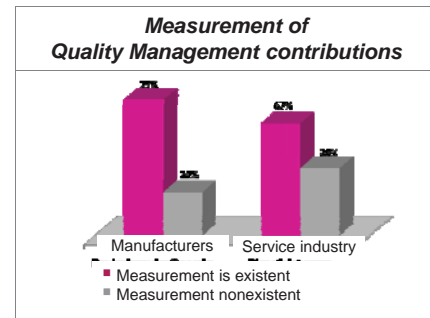




## Measurement of Contributions

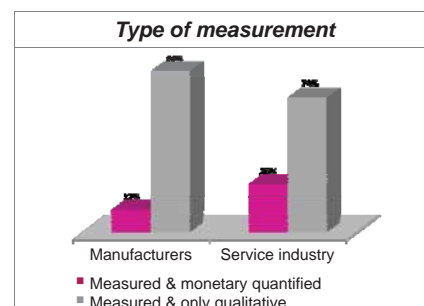
Source:  Performance Tool  
Quality Management Report 2010

- Q To what extent measurement is used in different industries?
  - 75% of manufacturers are measuring Quality Management contributions.
  - The ratio is lower in the service industry (62%).



## Measurement of Contributions

- Q **Manufacturer vs. service industry?**
  - Among the manufacturers, 88% of the companies that measure results of Quality Management are using only qualitative methods without any monetary quantification.
  - 26% of the service companies are quantifying the Quality Management contributions on a monetary basis – more than twice as much as in the manufacturing industry.



## Focus on Manufacturers

- 🔍 High significance and more *conventional* control/auditing function of quality management in the manufacturing industry. Source: ExBA 2010
- 🔍 Main features of Quality Management in the manufacturing industry:
  - High ratio of separate Quality Management departments.
  - Direct link of Quality Management function to General Management.
  - Quality Management as guidance system.
  - Main tasks of the Quality Manager:
    - Quality control and assurance
    - Implementation of rules and standards
    - Improvement of processes
  - Currently low involvement with regard to strategic projects or reorganization measures.

## Global Competitiveness Index 2010–2011 Rankings and 2009–2010 Comparisons

Source: WORLD ECONOMIC FORUM

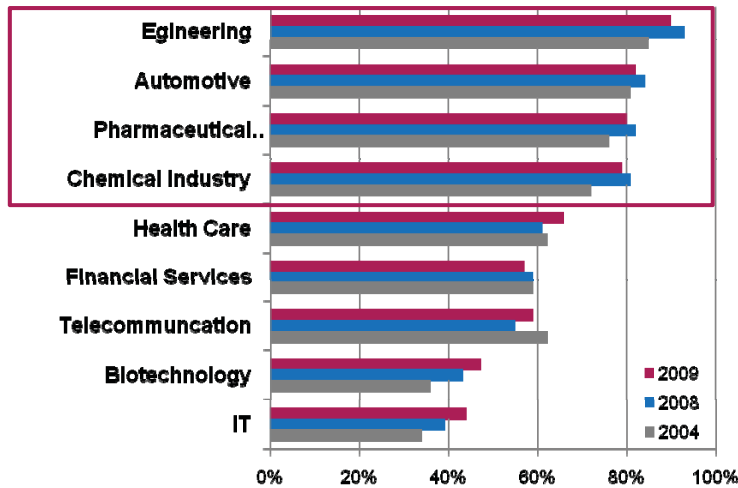
Country/Economy	GCI 2010–2011		GCI 2010–2011 rank among 2009 countries	GCI 2009–2010 rank *
	Rank	Score		
Switzerland	1	5.63	1	1
Sweden	2	5.56	2	4
Singapore	3	5.48	3	3
United States	4	5.43	4	2
Germany	5	5.39	5	7
Japan	6	5.37	6	8
Finland	7	5.37	7	6
Netherlands	8	5.33	8	10
Denmark	9	5.32	9	5
Canada	10	5.30	10	9
Hong Kong SAR	11	5.30	11	11
United Kingdom	12	5.25	12	13
Taiwan, China	13	5.21	13	12
Norway	14	5.14	14	14
France	15	5.13	15	16
Australia	16	5.11	16	15
Qatar	17	5.10	17	22
Austria	18	5.09	18	17
Belgium	19	5.07	19	18
Luxembourg	20	5.05	20	21

- 🔍 Switzerland ranked #1
- 🔍 Germany directly behind USA with improved 2010-2011 ranking

## Quality as a Driver of Competitiveness in Germany

- Comparison over Time: Quality Advantage of Germany by Industries (2004-2009)

Source: ExBA



- Quality is a Key Success Factor mainly in:
  - Engineering
  - Automotive industry
  - Pharmaceutical industry
  - Chemical industry

ExBa Population 2009/2008 – Quality, ExBa Population 2004; Presentation of answer category: „Yes, an advantage for Germany“

## Consumer View on Quality

- German product quality is valued by customers second to none. Most closely, products from Japan and France are seen on this level.
- German companies would be even more successful, if they would improve in terms of service and customer orientation.
- Quality is a strong economic driver, however only if awareness is set among the customer.
- Quality ranks as an important factor with regard to the purchase decision.

Source: ExBA

**Quality made in Germany is still a factor for competitiveness**

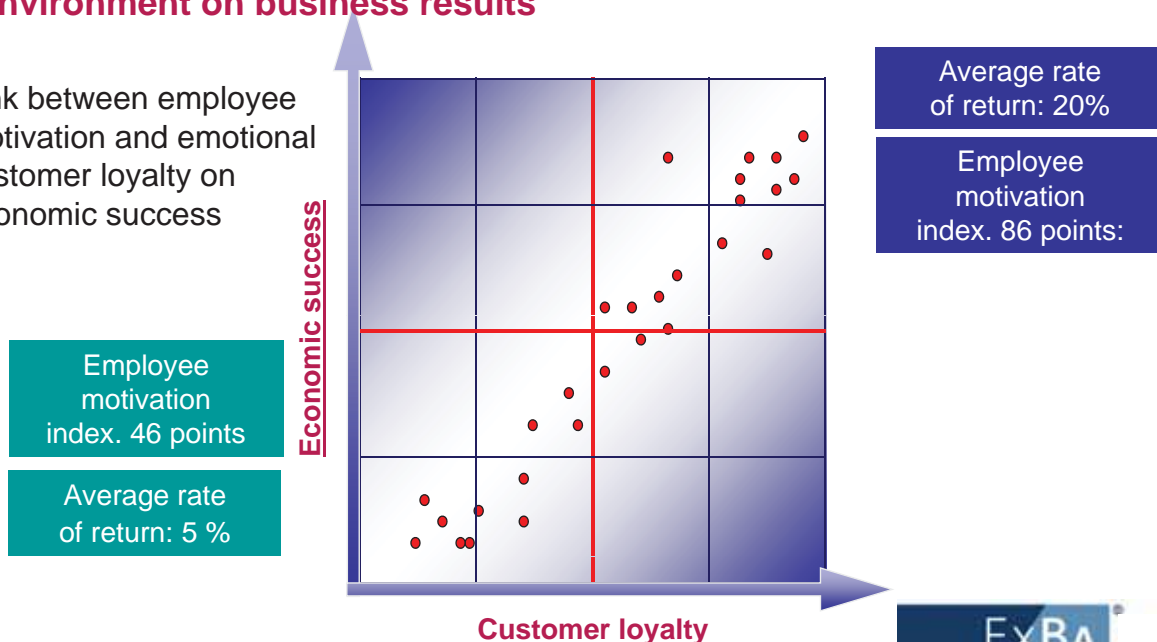
## Consumer View on Quality

- Q The phrase **Quality** is conjoint with **positive product features**, **zero defects** as well as the claim **"Made in Germany"**.
- Q **Even in times of crisis**, high quality is taken for granted and the customer is willing to pay for it.
- Q In the **DGQ ExBa Population survey 2008**, the respondents ranked **Quality Management under the top three corporate departments**.
- Q **Quality** is regarded as the **most important distinguishing feature for the future**.
- Q Many **German companies** are already aware of that and **consider quality as a key success factor** particularly in Engineering, Automotive, Chemical and Pharmaceutical Industry.

Source: ExBA

## Influence of quality of people and company environment on business results

Link between employee motivation and emotional customer loyalty on economic success



Source: Kundenstudie Handelsfilialen, forum! Marktforschung GmbH;  
Employee motivation index on a scale of 0 "no motivation" to 100 "maximum motivation"

ExBA  
Benchmarkstudie zur Excellence  
in der deutschen Wirtschaft

## Conclusion I

- Q **Quality** remains to be a **Key Success Factor in Germany**.
- Q **Successful companies** often **feature separate Quality Management departments** and **invest in higher Q-budgets**.
- Q **Continuous improvement** is taking place **in all economic sectors**.
- Q Quality Management has to respond to **new challenges**, as there are the **integration of new requirements** (compliance) with regard to health, safety, environment and quality (HSEQ) and the need to ensure **sustainability**.
- Q The **new challenges** demand for **new competences** at all layers of the organizations.
- Q **Measurement** of critical KPI's **makes possible** an **efficient and target-oriented management**.

***Quality management: A driver of competitiveness!***

## Quality Management

A driver of competitiveness!

That leads to a modified definition of Quality Management:

**„Do the right things right**

**with a sustainable, long lasting economical effect.“**

## Conclusion II

- Q There is a **lack of economic results from quality measures**.
- Q Most of the companies and organizations are using **only qualitative methods** to show benefits.

**This is one of the main reasons why quality people sometimes have communication problems with business leaders and a low level of acceptance by them.**

If Quality Managers want to become more important partners in their organization and intend to be recognized for the sustainable economic value they add to the company results, they should be trained not only in Quality issues but also in Business Management terms and ways of thinking.

**Thank you for your attention!**