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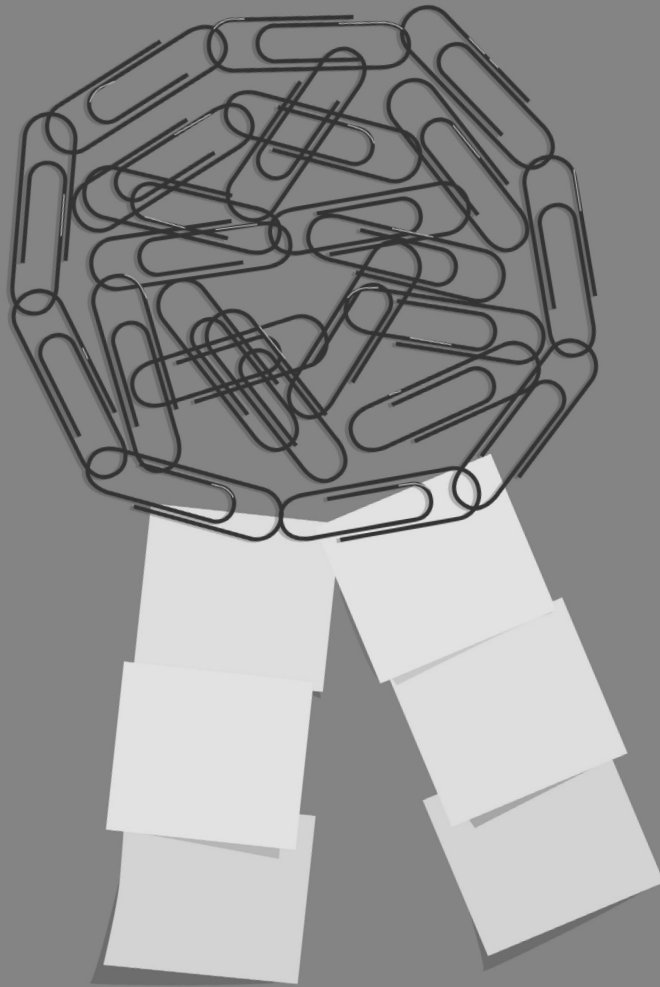


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IDEA WATCH

Creating a Culture of Quality

**Financial incentives don't reduce errors.
Employees must be passionate about eliminating
mistakes.** *by Ashwin Srinivasan and Bryan Kurey*



In most industries, quality has never mattered more. New technologies have empowered customers to seek out and compare an endless array of products from around the globe. Shoppers can click to find objective data compiled by experts at organizations such as *Consumer Reports* and J.D. Power and go online to read user-generated reviews at sites such as Amazon; together, these sources provide an early warning system that alerts the public to quality problems. And when customers are unhappy with a product or service, they can use social media to broadcast their displeasure. In surveys, 26% of consumers say they have used social media to air grievances about a company and its products. And this issue isn't limited to the consumer space—75% of B2B customers say they rely on word of mouth, including social media, when making purchase decisions.

But just as companies' margin for error has decreased, the likelihood of error has risen. In many industries, cycle times are compressing. During the recovery from the Great Recession, output gains have outpaced employment growth, and employees report straining to keep up with demands.

ORGANIZATIONS

Creating a Culture of Quality

Financial incentives don't reduce errors. Employees must be passionate about eliminating mistakes.

by Ashwin Srinivasan and Bryan Kurey

ILLUSTRATION: OLIVER MUNDAY

As a result of these pressures, managers must find a new approach to quality—one that moves beyond the traditional “total quality management” tools of the past quarter century. For two years CEB has conducted research exploring how companies can create a culture in which employees “live” quality in all their actions—where they are passionate about **quality as a personal value** rather than simply obeying an edict from on high. We define a “true culture of quality” as an environment in which employees not only follow quality guidelines but also consistently see others taking quality-focused actions, hear others talking about quality, and feel quality all around them.

We interviewed the quality function leaders at more than 60 multinational corporations, conducted an extensive review of academic and practitioner research, and surveyed more than 850 employees in a range of functions and industries and at all levels of seniority. Some of what we learned surprised us. Most notably, many of the traditional strategies used to increase quality—monetary incentives, training, and sharing of best practices, for instance—have little effect. Instead, we found, companies that take a grassroots, peer-driven approach develop a culture of quality, resulting in employees who make fewer mistakes—and the companies spend far less time and money correcting mistakes.

Going Beyond Rules

What embeds quality deep in a company’s culture? And how, precisely, does an organization benefit as a result? These questions were at the heart of our “culture of quality” survey.

A minority of the employees we surveyed believe their company has succeeded in making quality a core value: Roughly 60% said they work in an environment without a culture of quality, especially when it comes to having peers who go “above and beyond.” Such companies are missing out on significant benefits. Employees who ranked their company in the top quintile in terms of quality reported addressing 46% fewer mis-

takes in their daily work than employees in bottom-quintile companies. In our surveys, employees report that it takes two hours, on average, to correct a mistake. Assuming an hourly wage of \$42.55 (the median for CEB client companies), a bottom-quintile firm with 26,300 employees (the median head count) spends nearly \$774 million a year to resolve errors, many of them preventable—\$350 million more than a top-quintile firm. Although figures will vary according to industry and company, here’s a broad rule of thumb: For every 5,000 employees, moving from the bottom to the top quintile would save a company \$67 million annually.

We also studied quality-improvement actions in eight different categories and conducted regression analyses to understand the relationship between those actions and employees’ appraisals of how rigorously their company focuses on quality. We found little or no correlation between

the use of standard tools and the achievement of a culture of quality. We are not suggesting that companies abandon those tools; however, they should use them to support rules-based quality measures, not as the underpinnings of a true culture of quality.

We pinpointed four factors that drive quality as a cultural value: leadership emphasis, message credibility, peer involvement, and employee ownership of quality issues. Our research indicates that companies could do much better with all four. Nearly half the employees surveyed reported insufficient leadership emphasis on quality, and only 10% found their company’s quality messages credible. Just 38% reported high levels of peer involvement, while 20% said that their company has created a sense of employee empowerment and ownership for quality outcomes.

We have identified clear actions that can help companies improve in each of the four areas.

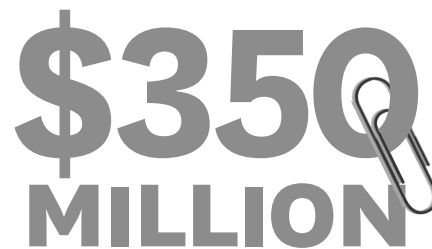
Maintaining a leadership emphasis on quality. Even when executives have the best intentions, there are often gaps between what they say and what they do. As a result, employees get mixed messages about whether quality is truly important.

Seagate, a \$14 billion provider of media storage solutions, uses a series of leadership engagement mechanisms to help executives identify inconsistencies between their actions or decisions and the company’s ideal culture. Company leaders begin by agreeing on what would constitute an ideal culture and what behaviors would be needed to achieve it. Next, the quality and HR teams compared their definitions of “ideal culture” with employees’ observations, which revealed areas for improvement. The leaders then attended workshops that helped them spot behaviors that might be impeding their stated goal. Simulations made the lessons from the workshop concrete and memorable.

By showing leaders the gaps between the expected and the current state of their culture, Seagate created awareness and buy-in. “Executive participation has been

A company with a highly developed culture of quality spends, on average,

\$350 MILLION



less annually fixing mistakes than a company with a poorly developed one.

THE FOUR ESSENTIALS OF QUALITY

In our research, we examined tools commonly used to make employees care about quality, including training, best-practices sharing, and monetary incentives. We concluded that only four attributes actually predict a culture of quality:

Leadership Emphasis

Managers are told that quality is a leadership priority.

Managers “walk the talk” on quality.

When evaluating employees, bosses emphasize the importance of quality.

Message Credibility

Messages are delivered by respected sources.

Workers find that communications appeal to them personally.

Messages are consistent and easy to understand.

Peer Involvement

Most employees have a strong network of peers for guidance.

Peers routinely raise quality as a topic for team discussion.

Like members of a sports team, peers hold one another accountable.

Employee Ownership

Workers clearly understand how quality fits with the job.

Workers are empowered to make quality decisions.

Workers are comfortable raising concerns about quality violations and challenging directives that detract from quality.

the most important factor driving culture change,” a senior development executive told us. “Leadership has shown enthusiasm and commitment that has trickled down through the organization.” Although the company does not share its data, it says that quality metrics have risen since the program began—and it expects the gains to continue.

Ensuring message credibility. Most companies energetically promote messages about the importance of quality—but their efforts are wasted if the messages are not believed. One company that has been successful with credible messaging is the beverage firm Diageo, whose brands include Johnnie Walker, Crown Royal, and Tanqueray. Confronted with the challenge of having 21,000 employees in disparate locations, Diageo identified four distinct segments of employees in terms of what drives hard work and created quality messages tailored to each one. It recognized that some workers respond best to messages emphasizing the reduced cost and hassle of producing defect-free goods, for example, while others are inspired by an emphasis on customer satisfaction. Local site managers chose the campaign they thought would most appeal at their site, and this customization helped the company’s messages resonate.

Smart leaders realize that quality messaging, like any campaign, needs to be refreshed over time. Managers should regularly test messages with their employees and use the feedback to ensure sustained relevance.

Encouraging peer involvement. Fostering peer engagement is a delicate balancing act. If leaders become overly involved in orchestration, then impact and authenticity suffer—but if they show too little support, they miss important opportunities.

One organization that has created effective peer networks is HGST (formerly Hitachi Global Storage Technologies), a Western Digital company. It uses positive social pressure to encourage employees to generate quality initiatives. The company displays employees’ ideas on posters in a busy hallway, providing a reminder that everyone at the company should work on quality. Managers publicly evaluate employees’ quality-improvement projects, highlighting not only business impact but also softer criteria, such as participant enthusiasm. HGST also organizes friendly “quality competitions” that capitalize on collective pride, not simply financial rewards, to spark ideas. “When I first joined the company, I was skeptical of the whole thing,” a quality and customer support executive told us. “But there’s a real sense of pride in work that people have developed as a result.”

Increasing employee ownership and empowerment. One of the defining traits of an organization with a true culture of quality is that employees are free to apply judgment to situations that fall outside the rules. Providing the right level of guidance is key. Too much stifles creativity and discretionary action, while too little leaves employees unclear about their authority to make decisions and carry them out.

Wrigley, best known for manufacturing chewing gum, writes “quality in action” guidelines to help employees understand the company’s expectations. It takes great care to apply the guidelines only to a short but critical list of improvement opportunities—the dozen or so “quality accountabilities” that each function is responsible for on a daily basis—and to strive for clarity while avoiding micromanagement. In addition, Wrigley creates opportunities for employees to observe and recognize quality actions that fall outside the guidelines, and it conducts group brainstorming sessions to determine the root causes of mistakes and identify corrective actions.

The specific actions needed to help an organization shift from a rules-based quality environment to a true culture of quality will differ from company to company, but the first step in the process will always be the same: Managers must decide that a culture of quality is worth pursuing. Our research unambiguously demonstrates that it is. A culture of quality requires employees to apply skills and make decisions in highly ambiguous but critical areas while leading them toward deeper reflection about the risks and payoffs of their actions. In an environment where customers’ tolerance for quality problems is declining, a workforce that embraces quality as a core value is a significant competitive advantage. ♣

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Ashwin Srinivasan is a managing director, and Bryan Kurey is a senior director, at CEB.