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*Striking the right
balance of product
conformance,
compliance and
performance to create
value with quality*

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TO BE RECK



Just the Facts

To manufacture and market a product that holds value and that customers want, three forces—conformance, compliance and performance—must be managed and balanced.

The driving mechanism that brings these forces together and into motion is the understand-plan-do-check-act (UPDCA) cycle.

This approach illustrates how creating value with quality does not need to cost anything extra, but it does require the three forces to be balanced and remain balanced.

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Anyone who wants to manufacture and market a product¹ knows that the product must hold value for others who would want to use it. However, creating value for someone else never seems to be simple. In addition, those who attempt to create the value naturally want something in return so they can continue to create the product.

Creating value is never a one-way street. At least two parties are involved: one who creates value, and the other who is willing to pay money for this value. But what is this person actually paying for? What is of value in that product that he or she is willing to pay for?

The value of a product is represented by its qualities and characteristics that fulfill certain requirements and expectations of relevant stakeholders, such as users, end customers or regulatory authorities.

This means that creating value is a matter of creating value with quality. In other words, creating the right characteristics that consider the requirements and expectations of all relevant stakeholders.

So, how can value be created with quality? Creating value with quality is a process of managing three forces: conformance, compliance and performance (see Figure 1). The first

force—conformance—relates to the product. The second force—compliance—relates to the applicable regulations. The third force—performance—relates to the ability to create value within a given business context of conformance and compliance.

Product (conformance)

The first force addresses the product characteristics that should satisfy customer needs, often referred to as the voice of the customer. This force is at the top of the triangle in Figure 1 because it can lead to and influence the other two forces of compliance and performance.

For example, the force product (conformance) can dictate or lead to the force regulations (compliance) because the type of product and its characteristics lead to the rules that must be adhered to when developing the product.

For example, there are different rules and regulations that apply to the product garden hose than those that govern the development of medication. Manufacturing medication requires compliance with a specific set of requirements to control the manufacturing process. These requirements are quite different than those imposed on the manufacturing of a garden hose.

The product type also can affect the quality craftsmanship (performance) force because performance cannot exist by itself. The product characteristics create the context in which performance can take place.

Regulations (compliance)

Regulations (compliance), the second force, refers to the laws, rules and guidelines that an organization must adhere to when developing a product. An appropriate description of this force is the voice of law or regulations.

As noted earlier, the rules that manufacturers must adhere to can vary, depending on the product type.

When creating value with quality, these rules must be considered because failure to comply with these rules can lead to the creation of defective and sometimes harmful products, which represent anything else but value. Failure to comply with applicable regulations also can lead to large financial losses for the developer and society.

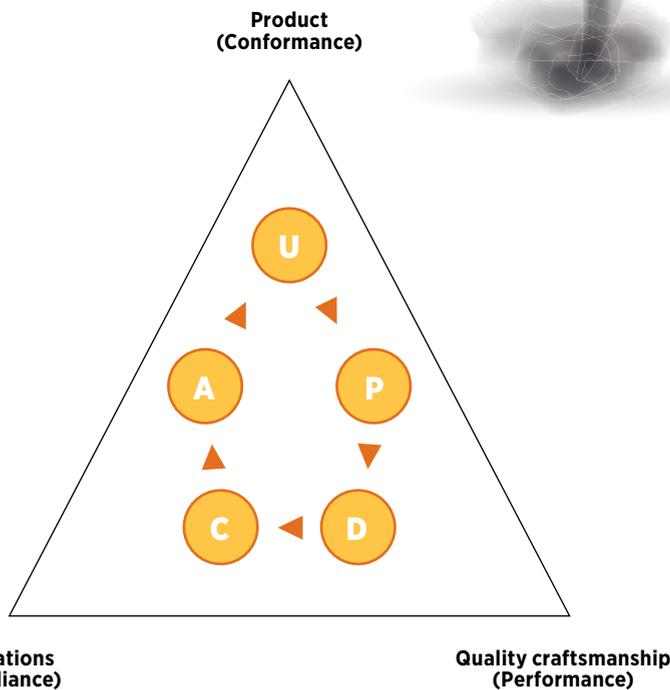
It's important to note that it's not only the product type that determines the regulatory framework for the manufacturer, but also the product-market

Creating value is a matter of creating value with quality.



FIGURE 1

Three forces to create value



UPDCA = *understand-plan-do-check-act*

combination. For example, one product can be considered a consumer product in the European market, but it could be considered an actual medical device in the U.S. market.

This can make a huge difference for the product's manufacturer because it must comply with much stricter rules if it wants to sell the product in the U.S. market.

Some medical device regulations often have strict requirements on a manufacturer's internal processes, systems and employees. The product manufacturer that wants to sell in the U.S. market must ask questions about what characteristics the processes, people and quality system must have to comply with the applicable regulations.

All of this applies not only to products, such as garden hoses, medications or medical devices, but to those who provide services, including bakers, hospitals or transport organizations.

Each applies to a specific context, which primarily depends on the specific properties of each product or service in question.

Quality craftsmanship (performance)

The third force is quality craftsmanship (performance), which also can be referred to as the voice of your organization. This force refers to an organization's ability to create value with quality for itself and its stakeholders. This is the force in which value creation with quality takes shape.

The term "craftsmanship" should be viewed here in a broader context. First, quality craftsmanship means a basic attitude of an organization to create value with quality. This attitude is a direct result of the leadership being aware of the importance of creating value with quality for the organization, and the awareness of the individual responsibility that everyone has in it. This basic attitude forms the foundation for an organization-wide quality culture.

The second element of quality craftsmanship relates to the quality-related competencies consisting of specific knowledge and skills, and a personal affinity for quality as a discipline. Some examples of specific quality-related competencies are:

- + A quality mindset.
- + A customer-oriented attitude (putting customer needs first).
- + The ability to understand the business context.
- + An awareness that people (not tools) create value.
- + The ability to observe objectively and critically.
- + A proactive attitude (the ability to anticipate potential problems or events).
- + The ability to identify business risks associated with quality.
- + The ability to oversee key relationships within the entire organization (the context, product, process and system).
- + The ability to cooperate effectively toward a common goal.
- + A systematic approach to thinking and working.
- + The ability to find the right balance between effectiveness (doing the right things) and efficiency (doing things right).
- + Working with the end result in mind (avoiding suboptimization).
- + The ability to map, analyze and manage processes.
- + The ability to operate from a total-cost perspective, rather than a price-driven one. (A low-price policy can lead to increased total costs.)

- + The ability to identify and improve weaknesses in products, methods, processes and systems.
- + The ability to perform root cause analysis.
- + The ability to work accurately (paying attention to important details).
- + The ability to solve ad-hoc problems.
- + The ability to successfully apply specific quality tools, methods and techniques.
- + The ability to transfer quality knowledge and skills.

UPDCA

The driving mechanism that brings the forces of product, regulations and quality craftsmanship together and into motion is the understand-plan-do-check-act (UPDCA) cycle. UPDCA modifies the plan-do-check-act (PDCA) cycle by adding the understand phase at the beginning. This phase emphasizes understanding the business context in which an organization operates. This step is indispensable because it defines the right plan and puts it into motion.

Reflecting on present business operations, which are characterized by complexity, efficiency and speed, you can conclude that it's essential to first properly understand the context in which you operate—or want to operate—before you start working on plans.

The understand phase should provide insight into the three forces and can be summarized as:

- + Understand your customers and their expectations.
- + Understand the regulations in the market in which you intend to operate.
- + Understand your own business capabilities as they relate to your customers and the applicable regulations.

Creating value with quality is not a privilege—it's an economic and social necessity that relates to customers, suppliers, shareholders, the organization's own staff and society. Creating value with quality is an interplay of three forces, but how can we measure this value?

If you consider value as the end result of the work, you can say that:

$$\text{Work} = \text{material} + \text{means}^2 + \text{quality}.$$

Each final product inherently consists of a material component, a component of means and a set of properties.³ However, when it comes to creating value, it is the quality component that makes the difference. You can use the same materials and means, but the result can be completely different.

So it is not what you use to create value, but how you use it. In other words, it's not the materials and the means that make a difference, but the craftsmanship that turns materials and means into value.

Consider two bakers who use the same material and means to bake the same number of loaves of bread within eight hours.

Assume that the first baker has set the wrong baking temperature and his loaves burn. Because burnt bread is not normally suitable for human consumption, its economic value will be lower or zero. In spite of using the same material and means—resulting in the same productivity—the quality factor results in a different economic value of the bread by these two bakers.

From this example, it is clear that the economic value of the work performed by the second baker is higher. Achieving the desired economic value did not cost him anything extra, however. He just did things in the right way.

Doing the right things in the right way does not cost anything extra. In that sense, quality is free. Creating value with quality, therefore, does not need to cost anything extra. This, of course, does not mean creating value with quality happens magically. Creating value with quality requires that the three forces to be balanced and remain balanced. This does not happen spontaneously. It is the result of a conscious goal-oriented effort.

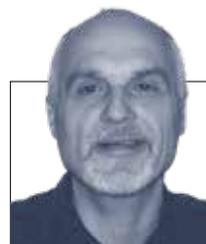
Win-lose balance

What applies in the burnt bread example also applies to medical devices, commercial travel, cars and baby food. The economic value of a medical device with poor quality, for example, can turn out to be much lower when additional nonquality costs must be incurred to correct defects of the device.

The effect of quality on the economic value of products or services is not only important for the users or society as a whole, but also for the business continuity of the organization that places products or services on the market. If there is a matter of poor quality, there are only losers.⁴ Good quality, in return, results in a win-win situation for everyone. **QP**

NOTES

1. In this article, the term "product" also can refer to "services."
2. The term "means" refers not only to equipment, tools or resources, but everything involved in value-creation processes—such as buildings, transportation, information and communications technology systems, and expertise—needed to develop a product.
3. The term "properties" also refers to the on-time delivery of a product or service. For example, a book delivered to a customer or the timely departure of a commercial airline flight.
4. Those who are deceptive and malicious in business activities and abuse quality practices can never be considered winners. Of course, anyone can generate profit through fraudulent activities at the expense of others, such as customers and society.



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