Quality management delivers £86bn to UK Plc, CQI research shows

Brand new CQI-commissioned research has shown that quality management offers UK businesses a return on investment of up to 12:1.

The CQI launched the report, *The contribution of quality management to the UK economy*, on 26 June. The research provides tangible figures to show how both individual organisations and the wider UK economy benefit from quality management practices – and the results are incontrovertible.

Commissioned by the CQI and carried out by the Centre for Economics and Business Research (CEBR), the research comprises three sources of primary and secondary evidence: case studies based on in-depth interviews with organisations across the UK; a survey of 120 senior business leaders; and a review of the literature on the business and economic effects of quality management (QM). From these data inputs, the CEBR were able to discover not only what positive effects quality management has for individual organisations, but also what it means for the wider economy.

On an individual business level, the research finds that return on investment (RoI) ranges from 2:1 to 12:1, depending on the industry. The reasons for such high RoIs are many, from the increased ability of companies implementing quality management to put in place price premiums, to increased productivity and customer retention as well as improved employee satisfaction.

Overall, the effective implementation of quality management was shown to drive business costs down by an average of 4.8% across all sectors. This is a huge reduction in costs.

By running the data through a bespoke economic model, the research has also established how quality management benefits the UK economy in terms of GDP, the Exchequer's net tax receipts and employment. The model estimates that in 2011 alone quality management contributed £86bn to the UK economy, and that if quality management had been rolled out across all organisations GDP would have been £48bn higher for 2011.

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The increased contribution to GDP is partly a result of improved productivity and, because these products and services are taxed, this in turn results in an increase in the Exchequer's real annual net tax receipts.

The research found that the increase in tax receipts that can be attributed to quality management was £8.4bn in 2011, which, if rolled out across all organisations, would be an extra £8bn.

Employment also increased in those organisations where quality management was effectively implemented, because as productivity increases, labour costs decrease, enabling businesses to expand.

The research estimated that quality management programmes resulted in employment being 1.43 million higher than it would otherwise have been in 2011 and, if rolled out across the economy, an additional 455,000 jobs could be created.

The CQI believes that these increases in GDP, tax receipts and employment figures provide some excellent evidence of the benefit of rolling out quality management across the UK economy.

Simon Feary, CQI CEO, said: "The CQI has spent the past century banging the drum for quality management and its professionals. However, until now no substantial piece of research has drawn together all the benefits of quality to provide tangible figures in order to show how both individual organisations and the wider UK economy benefit from these management practices.

"The evidence found in this new piece of CQI research fills this gap and provides managers with the evidence they need to generate senior management buy-in, thus helping to provide an important foundation on which future business and institutional success can be built. The research offers a vital strategy for growth for the UK economy, and an essential foundation for improved organisational performance and growth."

The CQI plans to use this new piece of research to inform and demonstrate the benefits of quality management to decision-makers and opinion formers in the private, public and voluntary sectors, with a view to encouraging further roll out of quality management practices across UK Plc.

To read the full report please visit www.thecqi.org/business_research

Case studies

Travel
Sunseeker International

Sunseeker International's QM programme, In Process Control (IPC), was introduced in early 2009 and includes technical process control aspects drawn from the Kaizen, 'plan, do, check, act' and Lean manufacturing QM frameworks.

The operations manager reported that the current cost of IPC is 2% of revenues. The expectation was, however, that most of IPC's benefits would be realised in the future, specifically:

- costs are expected to be £4.5m lower in three years time than could have been expected without the IPC programme
- annual revenues, three years from today, are expected to be between 3% and 5% higher than in the absence of IPC
- annual profits are expected to be between 5% and 7% higher.

In 2014/15, the return on investment is expected to be approximately 3:1, which suggests that for private sector manufacturers QM systems can drive profit increases that more than cover their implementation costs.

The company also expects IPC to have a positive impact on customer retention rates, with the percentage of returning customers expected to be 5% higher in three years' time.

Manufacturing
Smith's Environmental Products

Employing 60 people, this business which manufactures convector, or 'wet system', heaters and non-convector, or 'dry system', heaters began its QM programme in the early 1990s, and it has now been fully integrated into the company's manufacturing processes. The programme includes technical process control aspects drawn from the zero defect programme, total quality management and continuous improvement QM systems.

Under the programme, the components of each heater are electronically tested and sent back to the shop floor for repair if they do not pass. No heater is sold to retailers unless its components pass all relevant tests. The quality manager reported significant benefits in 2011 and that these are expected to increase. Specifically, the programme has decreased the number of hours required to produce a given heater, reducing labour costs per unit, and has also reduced the probability that a unit will develop faults after sale. The programme requires that the quality manager inspects the manufacturing floor on a daily basis, flagging up problems before units reach assembly, which was estimated to have saved the business £10,000 to £15,000 in 2011.

Construction
Costain Group

Costain Group is a UK-centred engineering and construction firm which had a 2010 turnover of £1,022m and 3,800 UK employees at the end of 2011. Project and sector managers are rewarded for successfully meeting performance targets.

The business's QM programme, which began in 2008, involves continually evolving Project Performance Assessments (PPAs) which are used to formulate implementable Business Improvement Plans (BIPs). PPAs allow Costain to track project performance against five enablers – strategy, leadership, partnership and resources, processes and people – each containing a set of quantifiable criteria.

The QM programme's design and implementation costs in 2008 were reported as a 'negligible' proportion of the annual revenues, and the PPA has served as an early warning system for high project costs, helping Costain to implement effective BIP measures and lower costs.

Furthermore, 80% of the company's work is repeat business and the QM programme has been a contributing factor in keeping customer retention rates from falling in a tight market.