



## **Total Quality Management and it's implications for Management Accountants**

**Author: Chris O'Riordan ACA MBA**, Lecturer in Accounting, Waterford Institute of Technology

Total quality management (TQM), as an approach, has its foundations in Japan. It is based on the writings of a few insightful individuals, such as Demming and Juran, who identified that an important aspect of success was delivering quality products and services to customers. To achieve this, a quality focus must permeate throughout the entire organisation and not just in a few areas.

TQM has many elements and it is not an easy approach to implement as it can be expensive and require many organisational changes. Some of these elements are:

*Customer involvement* – Quality is defined by the customer, not by the company. As a result, to be quality focussed, it is essential to find out what the customer wants and try to deliver this in a cost-effective way. This involves eliminating items that are not valued and concentrating on those that are.

*Develop long term supplier relationships* – TQM, on one level, looks beyond the company, but also requires us to look backwards as well. To make a quality product requires quality inputs and this is helped through close working with suppliers. This can involve helping suppliers to implement TQM in their own organisation, identifying ways of saving money and assisting with training. The incentive for the supplier is a long term contract – the incentive for the recipient is targeted cost reductions as part of the contract.

*Empowering employees* – TQM requires a culture change in many Western businesses, where the employees are given considerable power and authority. We rely on employees to be their own quality controllers and give them the ability to stop production if problems arise – this requires trust. Quality circles are formed, where teams of employees are given the freedom to find solutions to problems and to come up with their own methods.

Clearly, much of TQM is production-based as can be seen by some of the elements above. The changes that TQM brings results in amendments to processes and products and how the factory operates. However, TQM is much more than this – it is a 'whole-company' philosophy, meaning that all functions must embrace the approach and thinking for it to work. For example, there is no point in production having top quality products coming out if the after-sales service is of poor quality and discourages customers from purchasing.

As with other functions, management accountants (MA) are affected by TQM being implemented. It is essential for MA's to be involved in the implementation process itself so that the final system allows them to perform

their key duty of providing management information. Otherwise, MA's risk being marginalised. In fact, a well devised system, using IT, can make information provision easier and allow the MA to involve themselves in more analysis i.e. interpreting the data, rather than just reporting it.

The performance measures under TQM are quite different to those applied by traditional companies. While profit and return on investment continue to be highly relevant, actual measures of quality (which are components of profit anyway) must be taken and reported. The measurements themselves may be automated or taken by others such as production or marketing, but many companies require the MA to consolidate this information into management reports. This allows for better comparison across measures, such that discrepancies in one may be explained by differences in another. Examples of such measures would be vendor performance (frequency of defects, time to deliver) and customer satisfaction (customer surveys, time to resolve complaints). The MA attempts to express these measures of quality in quantitative form to make them more understandable and unbiased. This also means that, where low measures are found (for example, slow delivery or low satisfaction ratings), the profit impact can be quickly determined of making (or not making) a change.

Cost of quality reports are a key aspect of TQM and are often used as a basis for deciding on whether to implement the approach or not. These reports are prepared by the MA from information from many different departments and show how much the company will need to spend if it tries to:

Prevent quality problems – implementing TQM, equipment change, training

Resolve issues through Appraisal – 'inspecting in' quality by testing incoming materials and finished goods

Ignore problems and allow products to Fail – scrap and rework, lost contribution and reputation

This is a wide-ranging and holistic investigation and looks at all costs (not just the obvious ones) of the choice made. It is an important task for the MA to perform as the discipline and ability to deal with numbers are important traits of accountants.

Benchmarking 'world-class' companies to establish and implement best practices is another element of TQM and the MA needs to be involved here. The MA can assist in the research process to establish if such practices are viable and cost-effective – this is referred to as a 'Cost-Benefit Analysis'. Indeed, this is an important overall exercise that goes beyond the Cost of Quality report (which is more to do with ongoing/running costs). Implementing TQM is likely to require considerable capital investment (to update machinery and amend factory layout to facilitate easy movement) and training (at all levels) and this can be very expensive, particularly as training may be required for quite some time before full implementation has been achieved. Resistance can be expected and it is important for the MA to be able to

demonstrate that, if it is the case, TQM implementation will recover the investment in it.

As the above illustrates, TQM is a complex and wide-ranging philosophy that has implications for the entire organisation. The effect that TQM implementation has on the role and function of the MA can be both short-term (CBA) and long-term (change in reporting) and this makes it important for us, as MA's, to be fully aware of what TQM is and how its arrival can change what we do – if this is for the good, we embrace; if this is for the bad, we make our voice heard so that we are properly considered.