

# Deloitte.

Quality Culture

Raising the employee's  
appetite for the zero-  
defect-product





For many premium OEMs, the last three years were years of ever-growing sales figures. The insatiable appetite of the Chinese middle class as well as strengthening demand in the US market following the crisis brings a smile to every auto maker's balance sheet, even though sales declined in 2015 and it seems that the Chinese market will now slowly fall back to Western growth rates.

Unfortunately, there is another side to the coin. So far, 2014 marks a record year in recalls, with no end in sight.

US-based auto maker GM tops the list with its announced recall of 8.4 million vehicles due to ignition defects in July 2014. Earlier, in April 2014, Toyota said that they had recalled 6.4 million vehicles owing to problems with airbags.

But recalls are not limited to volume manufacturers: BMW recalled 1.6 million of its popular 3 Series vehicles due to concerns regarding airbag safety. Even quality leader Porsche had to recall all of its 911 GT3s in March 2014 because two of the sports cars caught fire.

Every recall puts pressure on the margin due to increased risk provisions. Needless to say, apart from the monetary consequences, recalls have a negative impact on image and brand perception.

The skyrocketing of recalls in the recent years was an expectable consequence

when some of the key trends within the industry are considered. However, many OEMs did not do their homework, thus resulting in massive quality issues and recalls.

In search of increasing profitability, many OEMs are focusing on building block strategies. With these, different models are built with the same basic components and parts. The concept certainly provides a cost advantage due to a higher degree of standardized parts and thus higher sourcing savings. Unfortunately, costs and risks develop in opposite directions. Although the probability of a part failure may remain the same, the effect of such a defect is substantially increased since it may hit several products and models at the same time. In this way the rising number of models operates as a catalyst for quality issues as well as significantly increasing complexity. As an example, the current BMW 3 series comprises four different models and each may be produced with a unique configuration. Moreover, automotive manufacturers have shortened product lifecycles dramatically over the last decades. For example, a car in the mid-80s was introduced every eight to ten years or more, whereas today OEMs introduce a new model or facelift in less than three to four years.

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## The recent recalls and the underlying trends show that corporate quality management must make its way from an unpleasant duty to a source of competitive advantage and increased management attention.

In order to respond to these emerging challenges, companies must successfully redesign their quality organization and associated strategies. In the last decades, often the sole purpose of quality management was to maintain relevant and statutory certifications such as ISO 9000. Fortunately, most OEMs have reshaped or are in the process of significantly reshaping their quality organization by integrating the whole value chain, i.e. from supplier to after-sales. Moreover, emerging technologies such as data analytics offer new ways to analyze patterns and predict future quality issues.

However, organizational structures and technology only function as an enabler for quality work. In the end, it all comes down to the individual employee and

their perception and attitude towards quality, regardless of whether they are an executive or an assembly worker. Only if the processes and guidelines are lived within the whole organization, by all its employees and stakeholders, can they tip the scales in favor of a competitive advantage. In order to employ a real quality culture, every individual needs to be addressed and needs to assume responsibility for their actions.

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In order to be a quality leader, OEMs must consciously shape their organizational culture towards an unconditional focus on quality.

Building and sustaining such a rigorous quality culture within established companies is doubtless a matter of stamina. The seeds of a quality culture must be planted in the right quantity and at the right places and then carefully nurtured with the right measures in order to lead to a sustainable and long-lasting cultural change.

Starting at the basis, Deloitte has identified four major dimensions that need to be taken care of in order to enable the fragile new culture to thrive and prosper.



## Organisation

**Analyze, Measure, Evaluate & Repeat**  
Improving quality is a continuous process.

**Communication leads to Transparency**  
Communication as a success factor.

## Employees

**Learn quality standards**  
Employees should be trained in a standardized way

**Find potentials for improvement and receive recognition**  
Employees should be rewarded for identifying potentials for improvement.

**Be responsible for your own work**  
Show responsibility for your own work and the quality of the products.

## Leadership

**Mistakes are ok, but only once**  
Leadership should accept that mistakes can occur and use them as trigger for quality optimization.

**Leadership by example**  
Every member of leadership should show responsibility for quality and should involve employees in the change and quality process.

## Basis

**Top-Level commitment and understanding the customer needs as a basis for change**

Each member of leadership and management board in a organization should be aligned in their understanding and commitment to quality and change.

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The basis provides a solid foundation for the desired cultural change and acts as a catalyst as well as an enabler.

At the beginning of every journey, leaders must determine the direction. A well-defined quality strategy that can be divided into functional as well as departmental strategies provides a solid foundation. In the past, these strategies were usually built on internal goals set by production and had only few interfaces with other functional areas. However, that is only one side of the coin. Future quality leaders must direct their attention towards the customer by putting quality demands and wishes at the top of the strategic agenda. Only by understanding what the customer's main quality demands are can OEMs integrate them into their action plans and thus continuously improve perceived quality.

In addition to a clear strategy, top-level commitment is essential when it comes to efforts to make changes. A cultural change towards a quality culture can only be successful if it is initiated and pushed forward by top management. Without this support, cultural changes may quickly fizzle out. Bearing that in mind, a clear and consistent quality strategy and top-level commitment mark the foundation for a continuously growing quality culture.

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## Effective leadership is crucial for fueling the cultural change and plays a vital role when anchoring the zero-defect mindset in employees' daily behavior.

Leading others is all about influence. Successful leaders influence and inspire their employees to maintain high-quality work. Thus every leader in a company, whether in sales, assembly or in any other position associated with quality work, must show leadership by example. Change ambassadors, employees who bridge the gap between workers and leadership, can be a strong catalyst for efforts to change.

Management must set high expectations but also integrate them in their own behavior. Reflecting a zero-defect mindset is critical for exercising effective leadership. This is the starting point for promoting a quality mindset.

Management must also rethink how they handle defects caused by workers. Employees often simply draw a veil of silence over mistakes for fear of management punishment. As a result, customers often find themselves in the unintended role of product auditor by discovering scratches and malfunctions that have previously remained undiscovered. Leadership must therefore establish an environment in which reporting defects is encouraged. Only known mistakes can be rectified by appropriate measures and defects can be corrected in a sustainable way. The bottom line is: "mistakes are okay as long as they only happen once!"

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## The employee is the primary representative of a quality culture and should thus be trained and treated accordingly.

Providing a well-defined training offering that matches the needs of the different target groups is the key to raising the employee's quality awareness and responsibility. Best Practice training focuses on all relevant employees, ranging from assembly workers to quality executives. Furthermore, training courses should be rolled out on a global scale. Pursuing such an integrated approach ensures that a consistent commitment to quality is established and common standards are created.

In addition to training courses, the employee should be provided with a tailored incentive and reward system for appreciating initiative and continuous improvements. Identified potentials for process improvements or failure avoidance can be valued

by either monetary or non-monetary rewards such as bonus payments or "quality worker of the week" awards. Making the employee responsible for their work also provides additional motivation towards a quality culture and raises work recognition. At luxury manufacturers such as Aston Martin or Mercedes AMG it is a common practice that each engine has a plate signed by the responsible assembly operator. By giving their names to the engine, workers are held responsible but at the same time their work is highly recognized by the customer.

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## The organizational structures should be designed to enable a quality mindset and a free flow of communication.

In order to provide an integrated approach to a quality culture, quality must also be rooted in the organization structures. This is especially true for the quality strategy and the underlying quality targets as well as KPIs. In the event of failing to achieve the desired targets, defined measures and consequences should be in place. The central quality function can thereby

bundle all relevant quality actions within an organization. In addition, a central organization can ensure a high proportion of pro-active quality work rather than reactive ad-hoc measures. By ensuring a long-term approach in combination with regular communication, a significant contribution is made towards anchoring the topic of quality in people's mindset.



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## A tailored, four-step approach supports companies in successfully starting their journey towards a comprehensive quality culture.

At the beginning there is an assessment phase, documenting the prevailing culture. In this phase, the status quo is analyzed and the major levers are identified. Since culture is dynamic, it may vary across geographies. For example the perception of what is the “right quality” for a car might differ significantly between an assembly worker in Germany and their counterpart in South Africa. These cultural differences are critical when trying to define a company-wide quality culture.

Following the assessment phase, quality managers must, starting from the current position, select the appropriate dimensions and underlying measures that need to be undertaken. Depending on the discrepancies identified, companies may primarily engage in employee-related measures such as

the development of new incentive systems or setting up adequate training programs. In addition, it must be decided in which geographies and functions the measures are to be implemented. A specifically-designed rollout plan with time-frames, milestones as well as KPIs that ensure the effectiveness is a must-have for the executive in charge.

The rollout represents the critical phase, since change initiatives often fail to gain sufficient momentum to have a really measurable impact. Consistent communication about the reasons for change as well as the change roadmap provide a valuable medium to get the buy-in of the employees.

Last, but not least, a tailored performance measurement system provides the required transparency for steering and measuring the success of the change efforts. Even in the rollout phase, suitable KPIs might be defined and tracked on a regular basis. Since culture exhibits a certain degree of stickiness, executives must demonstrate endurance and patience as the vast majority of KPIs will not change overnight.

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**Measure the quality culture maturity and requalification**

Ensure a continuous improvement of the ever growing quality culture by a suitable and specifically designed KPI system (e.g. employees trained, degree of preventive defect detection) as well as requalification.

3



**Rollout of measures to implement a sustainable quality culture**

Consistent as well as sustainable rollout and implementation of selected measures (e.g. quality trainings for employees) across all playing fields within the organization. Communicate the reasons for change within the organization.

2



**Select suitable quality dimensions and measures.**

Based on the quality dimensions (Organization, Employees, Leadership, Basis) a well balanced quality initiative need to be developed. This approach must include actions like setting up suitable quality trainings as well as measurements.

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**Assess current quality culture within the organization**

QM responsible employees must critically assess the current culture within the organization. Taking into account intercultural differences is crucial for success.

# Summary

Platform strategies and the broadening product portfolio lead to a spiral of recalls that give rise to a new quality management approach. Adherence to quality standards such as ISO is no longer enough to fulfill the rising quality perceptions of the customer as well as to cope with changing industry trends. In this context, a quality culture provides a significant lever to increase

and sustain quality levels. With it, organization, leadership, and individual employees may complement each other to effectively shape the mindset of everyone involved with quality.



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