

# Outsourcing the Quality Function



**Contracting with third parties can improve your processes... if you know what to expect.**

**by Nicolette Dalpino**

**W**hat is quality? An academic definition of quality as it relates to business might be that quality is a product or service that consistently has zero defects, conforms to particular specifications, and is satisfactorily received by the customer. Another aspect of quality is that it is a thought process sought out by organizations to create an overall drive toward efficiency, the reduction of waste, and the continual creation of more streamlined management processes.

“Unlike twenty years ago, when the quality department was viewed as the creator of quality, now the whole concept is more ingrained into the culture of organizations,” says Ron Atkinson, past president of the American Society for Quality. “Quality is created by the people performing the function, whether it be assembling a Bluetooth device or filling out an intake form at a medical clinic. Therefore, a culture of quality is emerging in

which the leadership of organizations is emphasizing that the functional areas are responsible for quality in the same way that they are responsible for manpower costs, etc.”

The quality department then becomes mentors in these areas, helping assign metrics for quality (similar to financial departments developing cost targets), developing measurement tools, and becoming involved in ensuring the accuracy of reported data. This approach results in everyone taking responsibility for quality and leads to a better experience for the customer.

Can quality be outsourced?

“I have not seen a trend to outsource quality as a whole,” says Atkinson. “I have seen a trend to outsource some portions of the quality function. The functions that are outsourced are dictated by good business practices.”

## Know & Go

- Quality is a product or service that consistently has zero defects, conforms to particular specifications, and is satisfactorily received by the customer.
- Quality functions such as internal auditing, testing and verification, and supplier audits are regularly outsourced.
- Finding the right internal auditor, one who understands your needs and will work proactively with your team, is key to the success of outsourcing this process.
- The importance of auditing correctly can mean the difference between a company receiving its product on time and intact, or not. A company must trust the supply auditor to be on top of these issues and accurately report the truth of the matter.
- Success is determined by whether the auditor or testing facility is willing to share information to improve processes, how trustworthy the auditor is, and how qualified.

Companies that wish to comply with best practices, gain a competitive advantage, reduce costs, and/or maintain high quality standards, look to outsourcing to achieve their objectives. There are many pros and cons in this burgeoning field, but there is only one bottom line—profit.

The consideration of cost is paramount. “Companies will look at the value they are receiving for the money they are spending on quality,” says Joseph De Feo, president of Southbury, Connecticut-based Juran Institute. “If they can find a better return on investment, then they will do it. Is this going to continue? I believe it will.”

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### Internal auditing

An internal audit is a periodic examination of the quality management system conducted by a third party to ensure that an organization’s concepts, principles, and procedures are properly maintained. Generally the internal audit is done by in-house personnel. What, then, is an outsourced internal audit?

“I consider an internal audit to be one conducted by the organizations’ own employees for use exclusively by the organization, *not* for wider distribution,” says J.R. McGee, president and CEO of

X-Stream LEAN LLC in Pottstown, Pennsylvania. “I know there are more formal definitions, but I use this for a practical understanding. That is to say, I have been brought in to do an audit that was ‘for internal use only.’ I would consider that to be an outsourced [internal] audit.”

The primary reason why a company may choose to outsource its internal auditing function is that it will be more cost-effective. A company must weigh the financial aspects of training and maintaining in-house personnel against what the future might hold for the company as well as the changing priorities for the employee, such as retirement, relocation, or the scope of the job.

“Although an external auditor may be more expensive by the hour, when one considers the costs of training and maintaining an internal auditor, the costs of the external resource are actually lower overall, and the quality can be at least as good as an internal resource,” says McGee.

Outsourcing is often sought when there are shortages of skilled staff, or there is a need to improve upon the processes that an organization is currently using.

The primary benefit derived from outsourcing the internal auditing function is that bringing in an outside source not only allows for an exchange of information, but also that the external auditor can focus completely on the task at hand. Many trained professionals within a company deal with multiple job requirements, which often leads to an inability to put their auditing functions first.

“An internal auditor will almost always understand your business and take into consideration your specific and individual needs during the course of conducting your audits,” says McGee. “However, often the best people, the ones most skilled in the subject matter necessary to accomplish effective audits, are in high demand by management for other tasks for the very reason that they are good auditors—their ability to get things done.”

The trick is finding the right auditor for the job. The marketplace is full of auditors who can do an audit to see if a company is meeting the minimum standards outlined in the area being audited. But is the company really gaining anything from a basic audit?

“Finding an auditor who will work with your team proactively to identify ways to help your team achieve better productivity and higher levels of effectiveness can be difficult,” says McGee. “However, the right auditor can help move your organization closer to world-class performance in your quest to become more profitable and competitive.”

### Testing and verification

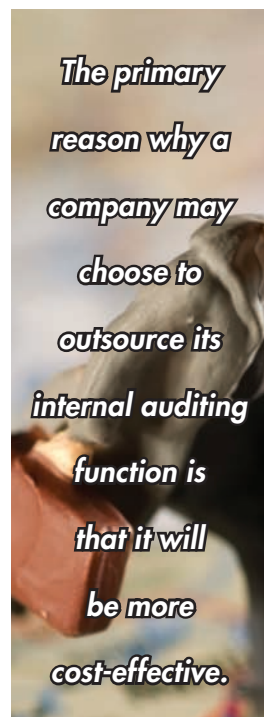
According to Stanley Chao, managing director of All In Consulting in Rancho Palos Verdes, California, testing refers to confirmation that a product meets performance specifications. For example, a syringe must be able to hold the proper amount of liquid without leakage, and the plunger must slide according to verified pressure. Verification refers to the confirmation that the syringe meets all stated physical and material specifications.

Investing in high-tech equipment and training a specialized staff to run that

equipment often leads companies to seek out specialists to ensure that the product is tested and manufactured according to their specifications. Outsourcing to professionals is also a more effective financial prospect that generally produces positive results.

“An example would be a product that requires a test that is not part of the normal activities of an organization,” says Atkinson. “The logical solution is to send the product out for testing at a recognized lab that is certified to perform that type of test. This has been done for years, but this trend is increasing as organizations do not want

to invest the capital to purchase increasingly more sophisticated and expensive





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equipment, and train staff when the outside lab is an option. This approach usually produces results for the organization equal to or better than an inside lab, and at a lower cost."

Another positive aspect of outsourcing testing and verification services comes from comparing and contrasting the results of multiple vendors, thus enhancing the quality of a product by increasing your knowledge of the process.

"Customers can learn better quality procedures. It always helps to work with people in the same field that can teach you how to do things better," says Chao. "By going to multiple vendors, you can compare quality standards and maximize the product's quality by going to the best [testing labs]. When using your own facilities, you have no choice but to use your good or poor quality testing process, and have no other quality procedures to compare your own processes to."

There are problems with outsourcing testing, however. Companies must rely on the testing facilities to accurately identify problems and communicate those problems. Companies are also responsible if the testing facility fails to comply with their standards.

### Supplier audits

A supplier audit is a complete investigation and analysis of a factory operation after the customer has provided guidelines on its production methods and specifications. Ideally, a supplier audit is one of the best ways to ensure that the supplier is following the processes and procedures set forth by the company, and will provide objective analysis of a company's supply chain. A consistent, fact-based approach is used to check that a supplier can match the customer's guidelines, enabling control of the product.

"Audits are done during the actual production phase," says Chao. "In the beginning phase, the customer has given the supplier all necessary information: product drawings, material requirements, tolerances, testing methods, etc." The supplier audit is a confirmation during the actual production that the supplier is following all the guidelines."

With many companies outsourcing their manufacturing to other countries, such as Mexico and China, supply chains have

become very long, and companies are finding it increasingly important to have on-site supply auditors to ensure quality management.

Outsourcing the supplier audit function allows companies to acknowledge cost-effectiveness by maintaining on-site auditors. It also helps to ensure that the factory is abiding by the guidelines of production methods and specifications, monitoring performance, conducting periodic audits, and ensuring that all requirements are being met.

However, outsourcing supplier auditing has its share of problems. The auditor must contend with a host of problems in managing the actual supply chain, such as the misrepresentation of facts and figures by the supplier, the use of cheaper materials in place of the original specifications, or failing to manufacture a product entirely if the specifications are too narrow. The importance of auditing correctly can mean the difference between a company receiving its product on time and intact, or not. A company must trust the supply auditor to be on top of these issues and accurately report the truth of the matter.

"I trust the supply auditors only if they are hired by me, by my company," says Chao. "They should have no relation with the supplier. The auditor also needs to have full understanding of what my specifications are, what I view as important, and a complete understanding of my product and quality needs. The auditor becomes an extension of my quality team. In reality, I rarely advise companies to use an auditing company. Rather, hire your own people to do the auditing so you have 100-percent control."

### Outsourcing quality functions as a whole

Numerous global firms handle internal auditing, testing and verification, and supplier audits. Success is determined by whether the auditor or testing facility is willing to share information to improve

processes, how trustworthy the auditor is, and how qualified. The downside is that companies must rely on the auditor or testing facility to report accurate data and take a proactive approach instead of doing the minimum required to get the job done.

Cost is the leading concern. Companies have to consider whether it's better to train and maintain in-house auditors and/or invest in sophisticated equipment and train personnel, or to contract with an outside source.

There are many reasons to outsource, and lots of aspects to consider when contemplating outsourcing. Should companies be looking at a different approach?

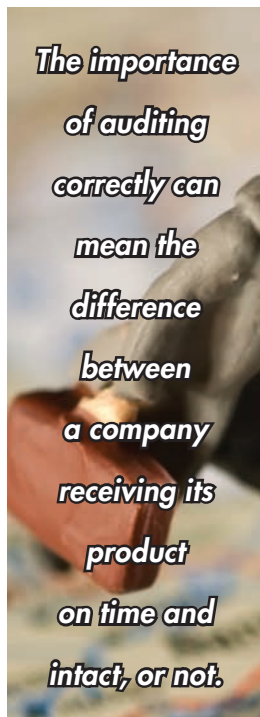
"More companies should invest in actually outsourcing their training," says De Feo. "Many companies do not have enough qualified trainers to transfer the right knowledge to other companies. They tend to not teach enough classes

to maintain their skills. Outsourcing the training of quality functions can actually improve performance because new ideas are coming in from the outside. Also, it is easy for an external trainer to observe problems in the company that internal people will not see. This is a hidden benefit of training with outsiders."

Can quality be outsourced? Yes. On a practical level, the actual quality functions that are outsourced will continue to be governed by the financial needs of the company. Along with cost-effectiveness, companies will need to examine their own internal culture of quality to ensure that they are making clear decisions about outsourcing vs. in-house training. It is through the exchange of information that the concept of quality will grow and continue to be redefined.

### About the author

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### Comments

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