

ABC with TQM A Powerful Combination

Why does TQM fail?

Failure to provide management with activity information is a barrier to successfully implementing TQM, and it contributes to the failure of many quality efforts. A recent survey performed by Ernst & Young and the American Quality Foundation found that only 30 per cent of respondents thought that their TQM efforts had measurable improvements in financial performance.

A major reason why improvement efforts don't appear on the bottom line is because management fails to eliminate costs or re-deploy resources freed up by the changes. Traditional financial and performance measurement systems, that report cost by department and expense type, don't tell managers anything about the work (activities) being performed.

Viewed within the context of TQM, financial and performance measurement systems should provide managers with information to plan, manage, control and direct the activities of a business to improve processes and products, eliminating waste, and execute business operations and strategies. We define these financial and performance measurement systems as activity based cost management (ABCM).

What is ABCM?

ABCM is an information system that is used to support a successful TQM effort. ABCM contributes in three distinct and important ways.

First and foremost ABCM is a measurement tool. ABCM provides relevant, meaningful feedback and information about how well improvement efforts are working. In this way, it is an integral part of supporting a company's TQM effort. Secondly ABCM is a strategic tool. ABCM can be used to direct managers towards areas where improvement efforts would produce the greatest result. Thirdly ABCM is an identification tool. It identifies and measures the amount of value-added and non value-added activities.

ABCM helps to identify cost drivers.

By identifying the key cost drivers, or the cause of the cost, ABCM not only tells managers where to start, but also what to start on. By monitoring and reporting the volume of cost drivers, where possible, ABCM again provides relevant and meaningful information.

Put the teeth into TQM

Using ABCM with TQM is a powerful way to effect operational improvement in an organisation. ABCM puts the teeth into TQM efforts to help improve financial performance.

In order to support TQM, the ABC effort has to go significantly beyond the determination of product cost and adopt a process orientation to provide the following information:-

- Cost of key business processes and significant activities.
- Cost of non-value added activities
- Cost drivers.
- Measures of activity performance, including quality, productivity, time, and customer service.

The common thread that runs through both ISO 9000 standards and TQM, is a philosophy of the continuous improvement of processes and activities directed towards satisfying customers. This common thread is based on the notion that all work is a process, all processes have variation, and all variation is opportunity for improvement. By eliminating unnecessary work, a more cost effective organisation results. Because ABCM is focused on activities, it fits naturally with continuous improvement.

A powerful combination

Using ABCM with TQM is a powerful way to effect improvement. ABCM is an integral part of TQM assessment - it defines and measures key business processes and activities to establish the current situation and Quality awareness is enhanced by including the key activities as part of the awareness effort.

Help available

Horwood International with many years' experience in ABCM is exceptionally competent to advise on ABCM, and ABCM with TQM in particular. Our Track record makes us unique among ABC practitioners to help implement ABC/TQM.

Subject to application, Government Aid may be available.