



The Quarterly Quality Report

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The ASQ Quarterly Quality Report provides a detailed look at a variety of quality-related topics and issues. The report is developed by the American Society for Quality in keeping with its role as the steward of the quality profession—to promote the use of quality as a global priority, an organizational imperative and a personal ethic, and to promote quality concepts, technology and tools to make the world a better place.

SOURCING IN A WORLD OF RISK

ASQ Quality Fundamentals for Ensuring Safety of Imported Products

Toothpaste laced with diethylene glycol. Tainted pet food. Lead paint on toys and lead in jewelry. Small, powerful magnets in toys that can cause internal injury if ingested by children.

2007 was a banner year for scares about the safety of products imported into the United States, with anxiety reaching a peak just as consumers were planning their Christmas purchases of toys and other consumer products.

Many of the suggested fixes center on the various federal agencies that play a role in regulating imports, but supply chain quality experts say that the more effective focus is on the supply chain quality practices of the importing companies themselves.

“The Consumer Product Safety Commission is doing exactly what they were supposed to do. They were meant to be a reporting agency, not an inspection agency. If you're going to import products from third world countries, then you better have your own people there to assure the product is to spec. It's a mistake for American importers to pursue the economies of these countries and expect they will have the same internal controls in place as anyone else,” states Randall Goodden, a liability prevention expert who heads the Product Safety and Liability Prevention Interest Group of the American Society for Quality.

In the end, the best protection against harmful products comes from steps taken by the importing companies themselves. When your name is on the box, protecting your brand provides powerful incentive to ensure that no one anywhere in your supply chain does anything that could harm your customers.

This report maintains that much of the responsibility for unsafe products entering this country rests with the importing companies, for a variety of reasons such as: inadequate

assessment of risks when dealing with overseas suppliers; insufficient supplier development activity; and lack of sustained discipline in applying supplier quality basics and maintaining and developing supplier relations. This report looks at what importing companies can and should be doing to guard against unsafe products.

Global Supply Chain Pitfalls

The rash of problems with imported products suggests that some companies may have been seduced by the prospect of cheap overseas labor without adequate consideration of compensating factors such as the hidden costs and pitfalls involved. There is never a clear and simple substitution of one labor source for another—too many other factors are involved.

Major differences in manufacturing and doing business exist in industrializing nations compared to the highly industrialized nations of North America, Europe, and Japan. In many ways, it's a chaotic jungle out there. In addition to cultural differences and different business operating models, companies sourcing from developing economies will encounter an unfamiliar legal climate often providing no recourse through the legal system in the event of misunderstandings or failures to uphold terms of a contract, widespread lack of protection for intellectual property, and in some countries a highly developed and largely unchecked document forging industry.

The level of familiarity with world-class quality standards and procedures and customer-supplier practices also varies greatly.

While it's true that some manufacturers and food processors in developing economies operate in pristine, state-of-the-art facilities employing rigorous process and quality controls, it's also clear that many others do not—there is much greater variability in their capabilities for turning out products that will not cause harm. That variability, when combined with extreme pressures to cut costs and the willingness of some bad actors to cut corners, can result in lethal consequences for consumers.

The Special Case of China

Although the conditions described above apply to any number of countries, products coming from China have been getting the most intense scrutiny—if for no other reason than sheer volume.

In July 2007, China surpassed Canada as the number one source of imports into the United States. While the dollar value of all goods imported into the United States was up 60% from 2002 to 2006, the value of imports from China was up 130% during the same time period.

In the case of toys, recalls of Chinese toys accounted for 44% of all toys recalled in the United States in 2002 and 95% of all toy recalls in 2007.

Quality experts familiar with production in China caution against making assumptions about Chinese companies' capability to produce according to specifications or their resolve to do everything they can to comply with standards and specifications.

“We’re so accustomed to dealing with companies in which we have a high level of confidence that our suppliers are going to comply with the specifications,” says Goodden. “In the United States and Europe, any manufacturing organization is quite likely to have a well-established quality system in place.”

Goodden points out that in the United States we are accustomed to having individuals in the organization constantly monitoring production to assure it is in compliance with specification. “That’s not the case in China,” he states. “The whole quality system is a radically new thing to many Chinese companies.” And he cautions that even if a company has the manufacturing ability and process controls necessary to make the product and get it right, there is no guarantee it won’t cut corners in circumstances such as the unavailability of the right raw material.

“The bottom line with China at this point in time is that you can’t fully depend on the owners of these corporations to comply with your specifications,” Goodden says.

China is still an economy in transition from state control to free-market conditions. Vestiges of the older economic regime still affect the way businesses operate there.

William Barthold, chair of ASQ’s Customer-Supplier Division, recently returned from a sourcing study trip to China, where he sees differences according to type of ownership and management.

“We are finding that the government-owned companies may know about advanced product quality planning and other related concepts, but it seems they really don’t have a lot of skin in the game,” Barthold says. “We tend to see some lackadaisical attitude from those management staffs. They’re government owned; they’re going to get a paycheck regardless.” Companies that are partially government owned and partially private are a step up the ladder, and if it’s a privately held company, better still. “These privately-held companies are investing back into their future and you’ll see newer equipment and more processes and controls that might be typically seen elsewhere in the world,” states Barthold. Private companies with foreign management, such as the many that have been bought recently by Taiwanese owners who bring in their management and work styles, are described by Barthold as “an ideal combination right now in China.”

Protecting Consumers

Amid cries for increases in consumer protections, the U.S. House of Representatives passed legislation in December 2007 that would beef up the Consumer Product Safety Commission (CPSC) by modernizing its testing laboratories and nearly doubling its budget over the next four years. CPSC’s 400 employees (down from a head count of nearly 1,000 in the early 1980s) monitor about 15,000 types of products and administer some 400 recalls yearly. So far in 2007, the commission has recalled millions of products, including 25 million children’s products. About 95% of all toys recalled so far in 2007 were made in China (which produces about 80% of all toys sold in the United States). Five years ago, Chinese made toys constituted 44% of all toys recalled in the United States. The House bill, which still must pass the Senate, also bans the sale and export of recalled products, requires third-party testing and certification of children’s products by certified laboratories, requires tracking labels on children’s products to aid in

recalls, and establishes a nationwide ban on products containing lead in excess of specified minute amounts. The bill gives the CPSC more teeth, enabling it to seek civil penalties up to \$10 million from makers of unsafe products and criminal penalties including asset forfeiture.

In the food safety arena, imported foods have been singled out for special attention. That's not surprising in the current atmosphere of apprehension over imports, since imported foods now comprise 13% of the overall American diet. Nearly 10% of red meat, 30% of fruits, juices, and nuts, and 80% of fish and shellfish are imported. In 2007, the dollar value of imported foods is estimated to be \$64 billion, up from \$45.6 billion in 2003.

Proposed legislation includes provisions that would give the FDA the power to order mandatory recalls of adulterated food products, establish an early warning and notification system for human food, as well as pet food, and establish fines for companies that don't promptly report contaminated products. Other legislative proposals are focusing on establishment of a national food safety administration that would consolidate existing separate food safety and inspection services and agencies and administer a national food safety program. Elements of that program would include registration of domestic and foreign food processing establishments, requirements for preventative process controls to reduce adulteration of food, establishment of performance standards for contaminants in food, requirements for enhanced federal and state cooperation, and requirements for a national system for tracing food and food-producing animals from point of origin to retail sale. There are also enforcement provisions, including expanded authority for food detention, seizure and condemnation, civil and criminal penalties for violations of the food safety law, and protection for whistleblowers. And there are calls for increasing staffing for inspections to find unsafe and adulterated foods and prevent them from reaching consumers.

In December 2007 the Bush administration signed an agreement with China that will give American food safety personnel a greater role in certifying and inspecting Chinese food products. The memorandum of understanding improves access by FDA inspectors to Chinese facilities and establishes registration and inspection requirements by Chinese food exporters. The agreement currently covers only 10 product categories, however—such as farm-raised fish, preserved foods, and pet foods—although it could be expanded to cover other food categories in the future.

Next Steps

Besides policing activities by government agencies either in the United States or abroad, what else can be done? Here are some useful steps.

- National commitment to putting more teeth in consumer protection measures and increasing capacity of federal consumer protection agencies.

The various federal agencies that play a role in regulating imports have not kept pace with the flood of products coming into the country. They clearly need increased funding and staffing to provide for more thorough inspection and more effective screening at ports of entry, greater authority to seek out problem goods and remove them from the marketplace, and more authority to enforce sanctions. But beyond public agency policing efforts, much more needs to be done by the private sector.

- Companies need to be on the ground working directly with supplying companies. “All of these efforts help—strengthening inspection agency abilities and pressuring our trading partners to ensure that what they’re exporting is safe and reliable product—but that’s not really going to help our domestic companies assure that they’re getting what they’re supposed to be getting” from their overseas suppliers, according to Goodden. He says, “What ultimately has to happen is that companies that buy things from China and elsewhere are going to have to go and check what is being made for them and assure absolutely that the article is being made per specification and everything is being done right. They have to have some type of a presence right there on the shipping end and right inside the manufacturing plants.”
- Reinforce discipline in applying supplier quality basics. There is a well established body of knowledge governing customer-supplier relations among companies, as well as guidelines for avoiding product liability problems. But these principles need constant (continuing) reinforcement, and if more importing companies were paying close attention to these fundamentals there would not be as many revelations of problems. ASQ supply chain expert Grace Duffy sees the building of value chains as the end result of consistent application of these procurement quality fundamentals. “When you’re putting a supply chain together, you really want it ultimately to be a value chain, which looks to the use of resources across the whole supply chain to create loyalty.” “You’re then creating repeat business and you’re creating the feedback that allows us to anticipate the next product or service that will keep the loyalty of that customer,” she says. It’s about building long-term relationships based on more than price. “Let’s be realistic,” says Duffy. “There is only so far that we are going to be able to pressure a company to reduce a price before they’re tempted to cut corners.” Building these relationships takes time, however, and Duffy predicts that before the current import quality crisis ebbs, “we are going to see probably two or three more very ugly, very large import quality issues.”
- Open up avenues for domestic companies and overseas suppliers to work in concert with government agencies and private, third-party organizations. All of these organizations have a role to play to secure confidence in safe products regardless of where they are sourced. The voluntary-sector conformity assessment and consensus standards organizations play a lead role in the establishment of consistent and uniform standards and tools that suppliers and purchasers anywhere in the world can rely on for assurance that their products conform to safety requirements. These organizations have expressed a desire to do more to ensure product safety. The American National Standards Institute (ANSI), for example, is working with the toy industry to establish uniform, effective toy safety testing and inspection procedures for use across the industry, so that the testing process is done consistently and labs performing the tests are competent and are accredited to international standards. ANSI is also

working with the industry to develop a new, mandatory testing protocol by accredited laboratories and a continuing education program for toy testers.

- Raise the level of competence among suppliers—in China and elsewhere. It is not uncommon for large companies to set up programs of supplier development. These activities, which have been around for decades, give suppliers clear knowledge of the purchaser's expectations, an understanding of the purchasing company's culture, and may even include assistance to the supplier in setting up quality management systems that are compatible with those of the purchasing company.

One of the clear lessons emerging from the recent import safety scares is that there has not been nearly enough of this supplier development activity going on. There exists a large gap between what purchasing companies expect of their suppliers in the developing countries and what the suppliers understand about those expectations.

The president of one Chinese toy manufacturing company recently told the Wall Street Journal, "In the past, a lot of [Chinese] companies didn't really know what was expected" when producing for foreign markets.

To help bridge that gap, the American Society for Quality is about to offer a series of seminars to manufacturers in China.

"These seminars are an opportunity for Chinese suppliers to understand what their customers are expecting in terms of quality," says Goodden. The "Improving Quality and Product Safety" seminar will enable Chinese companies to establish systems to proactively avoid safety problems while making overall operations more efficient. American importers can also benefit by encouraging their Chinese suppliers to attend. The first of the seminars will be held in late January in Shanghai and Hangzhou. The sessions will be held in conjunction with the Shanghai Association for Quality and the Shanghai American Chamber of Commerce. Since 2005, ASQ has been conducting training for Chinese quality professionals through its ASQ China Beijing office.

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The American Society for Quality is the world's leading authority on quality. With more than 93,000 individual and organizational members, the professional association advances learning, quality improvement, and knowledge exchange to improve business results and to create better workplaces and communities worldwide. As champion of the quality movement, ASQ offers technologies, concepts, tools, and training to quality professionals, quality practitioners, and everyday consumers, encouraging all to Make Good Great®. ASQ has been the sole administrator of the prestigious Malcolm Baldrige National Quality Award since 1991. Headquartered in Milwaukee, WI, the 61-year-old organization is a founding partner of the American Customer Satisfaction Index (ACSI), a prominent quarterly economic indicator.