Thought Piece:

Quality Escape

Quality And Trust

Author and philosopher Robert Pirsig was someone who saw the beauty that is present in quality work. Quality, wrote Pirsig, can never be rigidly defined but everyone knows what it is.

Few headlines epitomise the fall from grace of a once preeminent business than those recently citing 'loose bolts' discovered on just-delivered Boeing airplanes. Boeing's CEO would rather use that awful industry euphemism 'quality escape' to connote a random, non-systemic manufacturing lapse. It is a not a stretch to say that allowing a product to ship with loose bolts says a lot of about your culture whether you are selling an aircraft or an airfryer. Quality is not just about tight bolts; it reflects the mindset - the culture - that ensures a bolt's tightness is always double checked before being shipped.

The recent fiasco on the Boeing jet operated by Alaska Air warrants a serious reflection on what quality means, how it relates to customer trust and perhaps, how tracking quality might be a useful proxy for assessing the state of a company's culture from the outside. Customers rightly expect a certain level of quality (in terms of product, service provision or both). By deduction, a company's attitude to quality should thus be a powerful external indicator of its cultural integrity.

What makes it easy for companies to loosen or de-prioritise quality standards without customers noticing immediately seems to be the slow-burn nature of such changes. Companies can get away with it, for a while. To bastardise Hemingway's line; how did the quality fade? Two ways. Gradually then suddenly.

Quality Is Time Dependent

An important dimension in assessing quality, we think, is the element of time. True quality cannot be sporadic, it needs to be delivered consistently.

In investing, one heuristic for identifying a quality business is the existence of high returns on capital, sustained over a long period of time. Similarly, in assessing product quality, quality typically means using materials of a high standard, employing craftmanship and above-all ensuring product longevity. For service providers, quality might mean customer centricity - treating customers well, but again, doing so on a consistent basis. In each case, we see that quality can thus derive from different things depending on the product or service being sold, but that a key requirement remains consistency of delivery standards over time.

Quality is not the sole purview of artisans, or of the LVMHs of the world. Ryanair or JD Wetherspoon provide what can arguably be deemed a high-quality service by having consistently low prices coupled with a reliable service. (Notably, Ryanair tells shareholders that it "does not seek to extend Ryanair’s low-cost operating strategy to the areas of safety, maintenance, training or quality assurance"). Barratt Developments, the UK's largest housebuilder is unarguably a high-quality operator. Barratt's CEO, David Thomas, 'gets' the importance of quality:

"If the business is a little bit quieter, it's an opportunity to focus on quality, service and sustainability," Thomas says. *"One of the most upsetting things people say to me is 'all housebuilders are similar'. But we really demonstrate fantastic credentials in terms of putting the customer first, quality, service and sustainability."*

Similarly, Marta Ortega Perez, the chair of Inditex, stated in a recent interview, *"in short my goal is to maintain and keep building quality, quality, quality in every aspect of the company*". It is no coincidence that these very long-standing businesses in diverse industries have all centred their culture and reputations around quality.

Cultural Fade, Twenty-Five Years In The Making

The travails of Boeing in recent years suggests that similar to the old saw of character being what people do when no one is watching, so too perhaps quality is largely reflected by what companies do when no one is watching. If product or service quality is a lessening priority, companies can delude themselves that the consequences are not dramatic. One might say the MAX design flaws were a slow-burn result of the gradual change in culture that began circa 25 years earlier. It likely began with the take-over by Boeing of competitor McDonnell-Douglas and the resulting infiltration of GE's short-term management thinking into the Boeing business.

With hindsight, these comments by then-CEO of Boeing, Harry Stonecipher, in a 2004 interview, should have sent alarm bells ringing,

> *"When people say I changed the culture of Boeing, that was the intent, so that it's run like a business rather than a great engineering firm," he said. "It is a great engineering firm, but people invest in a company because they want to make money."* - Chicago Tribune article

Stonecipher, who worked at GE for 24 years, brought a 'GE mentality' to Boeing and oversaw a shift in emphasis from product engineering to financial engineering. Stonecipher made no bones about prioritising what he deemed business decisions over engineering decisions. In the short run that was lauded by many as a sensible course of action, but its lasting impact on quality and its massive costs to stakeholders would not be truly seen for nearly 15 years.

It should be said that in the right hands, there is nothing wrong with outsourcing and efficient cost management per se. One of Europe's longstanding and pre-eminent engineering companies, Netherlands-based ASML, is in effect a systems integrator, and relies completely on outsourced manufacturers for crucial parts of its systems including the irreplaceable lens technology made by Germany-based manufacturer, Zeiss. ASML has retained an engineering-led organisational culture first and foremost, to the immense long-term benefit of all stakeholders.

Customers Seeking Short-Cuts As Indicators Of Quality

For ages, customers have sought short-cuts via third-party validation to determine whether companies are trustworthy, or that their wares are of a high quality.

The Royal Warrant, the British Standard (the kite mark), and more recently NCAP ratings and even The Michelin Guide, are all attempts to convey levels of quality via a credentialising and trustworthy third party. Such seals of approval continue to grease the wheels of commerce. Government regulators too can provide hurdles for companies to jump through via increased disclosure or adherence to standards (though in the case of the FAA, not always to great effect).

The internet has de-centralised this process. Social influencers and Trustpilot are some of today's incarnation of these credentialising third parties. The internet offers the wisdom of crowds to grade companies' quality of service to varying degrees of utility.

It strikes us that the younger a company is, the more unproven its quality standards, thus the more it has need for third parties to convey its quality credentials. It should not be a surprise that Costco does not use Trustpilot.

Nick Sleep puts it well,

> *"You really want to do everything with quality as that is where the satisfaction and peace is."*