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Cost of poor quality in a pharmaceutical industry: A case study

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Purpose: The concept of quality is embedded in every process that takes place in an organization. There is a general perception that while increasing quality cost also increases. This perception was challenged by Dr. Genichi Taguchi. Taguchi states that quality can be increased without increasing cost and cost can also be reduced by increasing quality (Campanella 1999). Measuring quality-related costs has been advocated as an important component of quality improvement (Moen 1998). Gryna (1988) states that quality related costs range from 10-30 percent of sales and 25-40 percent of operating expenses. Researchers have proposed several methods of quality cost estimation. Commonly used methods are Quality Costing Approach, Process Cost Approach and Quality Loss Approach (Campanella, 1999). Tsiakals (1983) used Quality Costing Approach (PAF Approach) to collect Cost of Quality in a Pharmaceutical Industry and Malchi and McGurk (2001) used alternative cost model (Schiffauerova et al, 2006). The present paper aimed at collecting and measuring Cost of Poor Quality in a Pharmaceutical Industry on the basis of Process Cost Approach.

Design/Methodology/Approach: The methodology adopted is based on Process Cost Approach. Goulden and Rawlins (1995) argue that analysts should emphasize on cost of each process to identify Cost of Quality. Process Cost Model can be made for any process. All the activities and parameters of a process can be identified and monitored by flowcharting the process (Oakland J.S. 2003). The approach included identification of process, data collection followed by data analysis. On the basis of that analysis Cost of poor Quality was calculated and solutions were proposed.

Result: The study identified many factors from which six factors contributed towards eighty percent of failure cost: FIFO not followed, quantity variation, PVC color change, delay in release report, misprinting on packing and market returned stock of drugs. Cost of Quality Program can help an organization reduce its failure cost. Cost of Quality program can help organization to identify its weaknesses and helps devise solutions for continual improvement.

Research Implications: The study will add to the body of knowledge as how to identify Cost of Poor Quality in Pharmaceutical Manufacturing Company on the basis of Process Cost Approach. Various failures in different departments are identified which are common in many pharmaceutical organizations especially in developing countries. The research can help pharmaceutical companies especially in developing countries to effectively manage and efficiently control their quality-related costs.

Research Limitations: Study was conducted on Production and Warehouse Departments. Other areas i.e. Administration, Marketing were not analyzed. Methodology adopted was based on company's processes. Other organizations may require different methodology to collect COPQ.

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