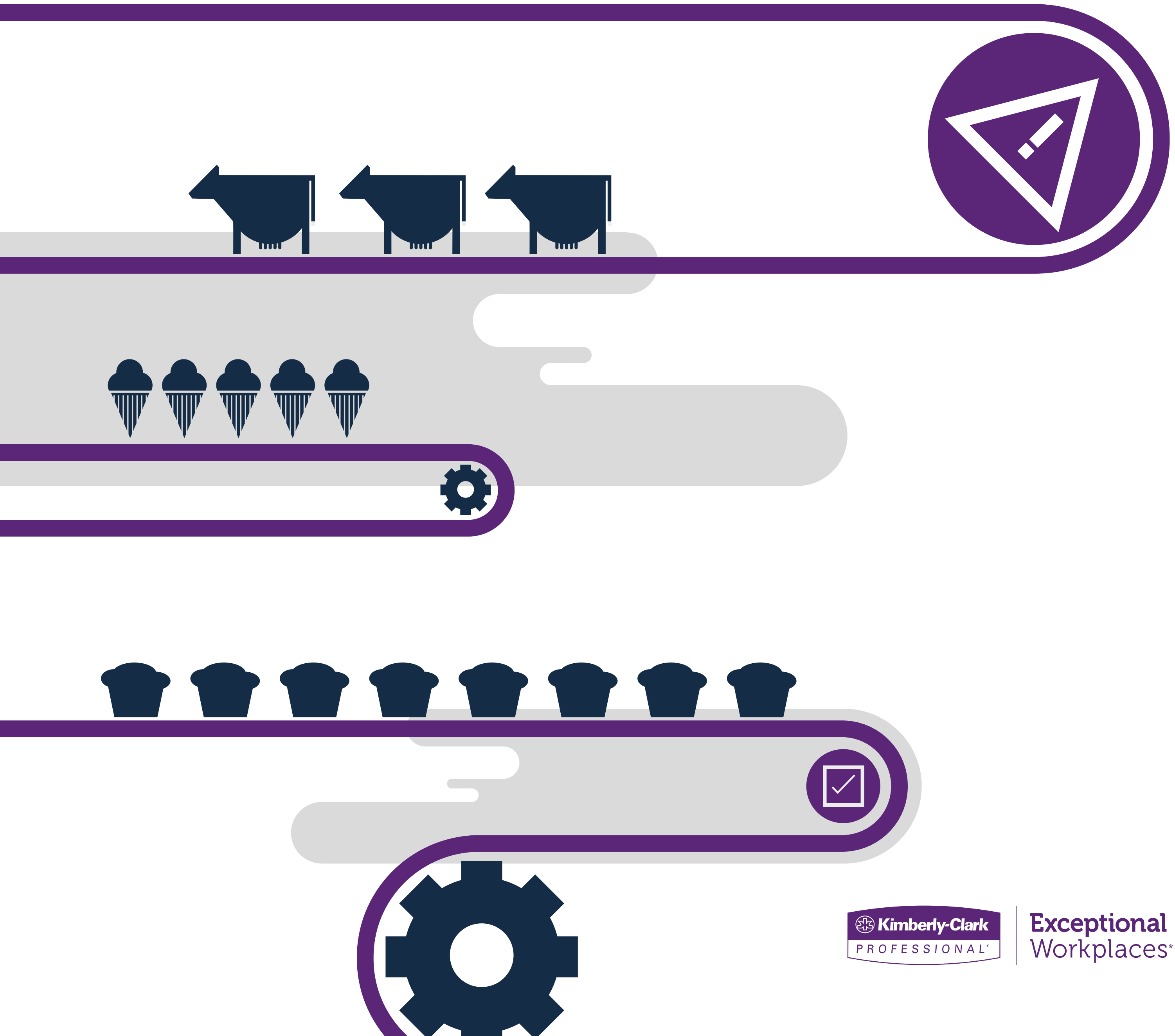
The true cost of audit failure

The real impact on the food processing business



Kimberly-Clark PROFESSIONAL*

Exceptional Workplaces*

Audits matter

Food manufacturers often see retailer audits as a painful process. And to a degree, that's understandable. When your processes are put under the microscope of an external auditor looking for areas of non-conformance, the experience is bound to be stressful.

But this mindset misses a crucial point about regular inspections of a food processing unit's processes: they exist to prevent the worst from happening to your business.

Make no mistake: audit failure is compliance failure.

In no uncertain terms, audits should matter to everybody from senior management to the workers on the production floor. In food processing, audit failure is a serious warning sign of irreparable damage to your reputation.

More pointedly, it has a major impact on your bottom line. The costs of consumer compensation, product recalls, restructuring new protocols, re-training staff and managing PR can be debilitating to even the biggest organisations.

Audit reports and hidden opportunities

Audit reports can serve as hidden opportunities to understand where you can minimise risk and improve processes. They also make a powerful business case for anyone trying to enforce higher standards.

This eBook looks at the reasons behind audit failure, the true costs of non-compliance and what you can do to protect yourself. More importantly, it outlines a new approach where companies take responsibility and do everything in their power to uphold the core values of food safety.

After all, passing an audit isn't about pleasing customers and inspectors. It's about your business reputation and delivering on your promise of safety and quality to the final consumer.

Why companies fail audits

Constant scrutiny

No business sets out to fail an audit – but failures still happen.

Part of the reason is the underlying tension between compliance and productivity in the food processing industry. Compared to the pressure of a looming deadline, the significance of glove policy compliance and accurate labelling protocols might seem negligible.

But as regulations increase pressure on retailers, they raise the 'due diligence' stakes on their own suppliers (you).

And being under constant scrutiny from a variety of private inspectors trying to limit their liability can be as frustrating as it is exhausting. Sometimes it feels like all you have time to do is prepare for audits.

Human behaviour

Human behaviour always plays a major role when rules are broken. When people do something they know is wrong, they're essentially making an instant risk assessment about the consequences. But that risk assessment is often seriously flawed.

To understand why this happens, it's important to appreciate the culture and environment in which people make these decisions. If the people they work with focus solely on production, sales and profits, so will they. If they see other members of the group cutting corners and getting away with, shortcuts seem reasonable.

This is rarely about willful neglect: good people break rules too. And broken rules are a symptom of slipping standards.

In many facilities, Quality Managers are uniquely positioned to stop production and enforce higher standards. Everyone else is there to drive productivity. This tension needs to be exposed and actively managed.

In a recent global survey, 70% of Quality Managers said that finding time for food safety training was their greatest challenge.

"We've been training and it doesn't work properly but we sort of keep on putting them through the sheep-dip anyway. We started to try to find out about what makes people tick and try to translate that into something for our customers."

Dan Fone, Business Development Director, Global Food, NSF International

Why companies fail audits

1) Failure to implement HACCP

Retailers are primarily concerned with the safety of their customers. So the guiding principle behind the Hazard and Critical Control Point system (HACCP) is the prevention of foodborne diseases and other dangers to consumer safety.

When auditors go in to a factory, the first things they're looking for are:

— The most-at-risk moments in your production cycle

— The measures in place to prevent contamination, food disease and fraud

— The frequency with which checks are conducted

— Whether or not worker behaviour is in line with regulations

All these things touch on every aspect of your operation, including:

— Personnel Training

— Employee practices

— Cleaning procedure

— Equipment maintenance

— Grounds and facilities

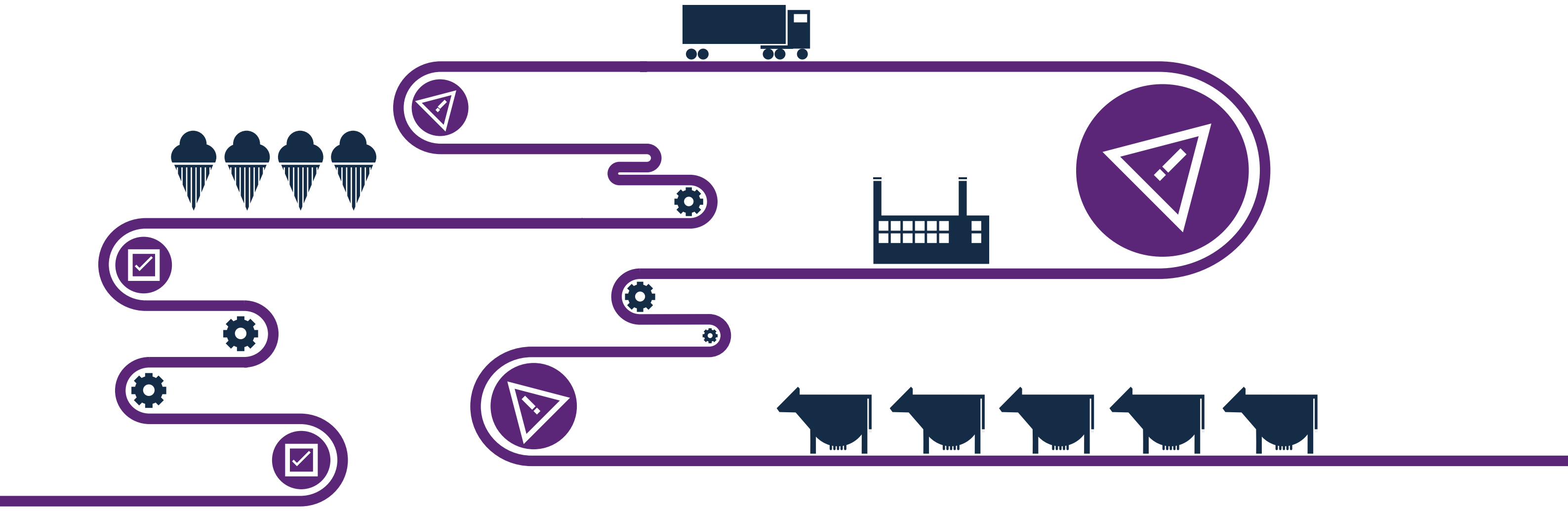
— Labelling

— Storage

— Pest control

A fully documented – and observable — HACCP protocol is an auditor's primary indicator that production is compliant and products are legal and more importantly, safe for consumption.

If your HACCP documentation is incomplete or unavailable, or if your workers don't comply with the standards, then it's not just food safety protocols they're failing at, they're failing to protect the safety of the final consumer.



2) Lack of supplier control

Even if you're running a model facility by legal standards, it won't guarantee you're audit-safe unless you apply your own strict standards to your suppliers as well.

With today's global supply chains, the risk of fraud and contamination has grown. Any raw materials purchased from an outside source need to be traceable. They should come with a third party audit certificate or a letter of guarantee to prove they meet agreed specifications.

If they don't, you're vulnerable.

3) Senior managers don't buy in

Eventually, minor violations turn into serious failures. They tell auditors that a company takes food safety lightly and is willing to put consumers at risk.

Audit failures rarely come down to a single violation. It might be hard to admit but, typically, it's the result of an organisation's entire food safety culture.

When senior management struggles to show a commitment to compliance, it's because they're inundated with concerns about the production schedule. That's understandable. But good or bad, their attitude to food safety will inevitably trickle down through the ranks and inform priorities.

Business leaders who really understand what's at risk make sure their production managers and CI leads can do their jobs properly – especially when other parts of the organisation are at odds with these standards.

Senior managers need to understand that audit failures may not be frequent, but if they do happen, the results can be catastrophic.

Audit failure and the bottom line

Putting a price tag on a failed audit is extremely complex because beyond the obvious fines and penalties, there are a number of costs you just can't afford to ignore.

Best case scenario: It's going to cost the company internal time and expense for process fixes, additional worker training and a repeat audit.

Worst case scenario: It's going to lead to a product recall and a PR nightmare that could break the company's back.

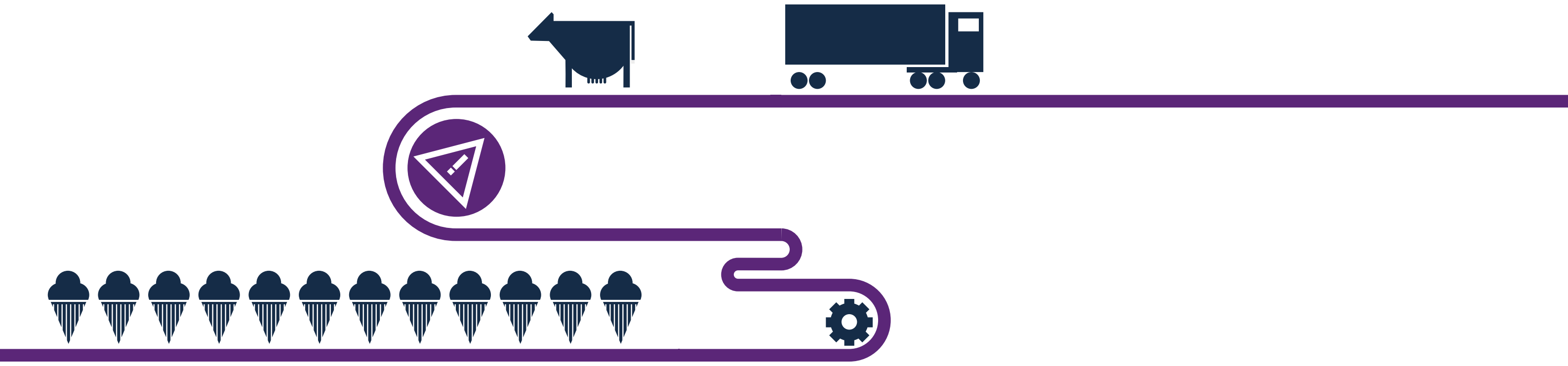
In any case, audit failure will cost the company a great deal more than is immediately apparent.

Internal costs

When auditors find a fault in your facility and set a deadline for fixing it, the re-engineering process disrupts business-as-usual, costs money and impacts the productivity of the entire company.

The necessary worker training, cost of implementing controls, and testing could, and really should, take place without the pressure of a re-audit deadline.

The UK Food Safety Authority Chief Scientist put the total costs of food disease at over £1.5 billion in the UK alone. This figure included the NHS, lost earnings and other expenses, including pain and suffering.



Retailer Relations

Retailers want to make sure the products they sell their customers are safe and of a consistent quality. Very often, a retailer's own voluntary guidelines will go well beyond the practices required by law.

For retailers, ethics in compliance are a major factor in supplier selection. There's no doubt that companies with self-imposed high standards have a competitive edge over those that only do what's absolutely necessary.

When the alternative is breach of contract, loss of business and subsequent redundancies, there's no clearer business case for passing audits and making product quality a top priority.

In a legal context, retailers defend their due diligence and minimise their own liability. The buck stops, as it often rightly should, with the manufacturer being sanctioned.

The Cost in Consumer Terms

If auditors and regulators are the judge and jury of food safety, consumers are the executioners. Breach their trust and you're dead.

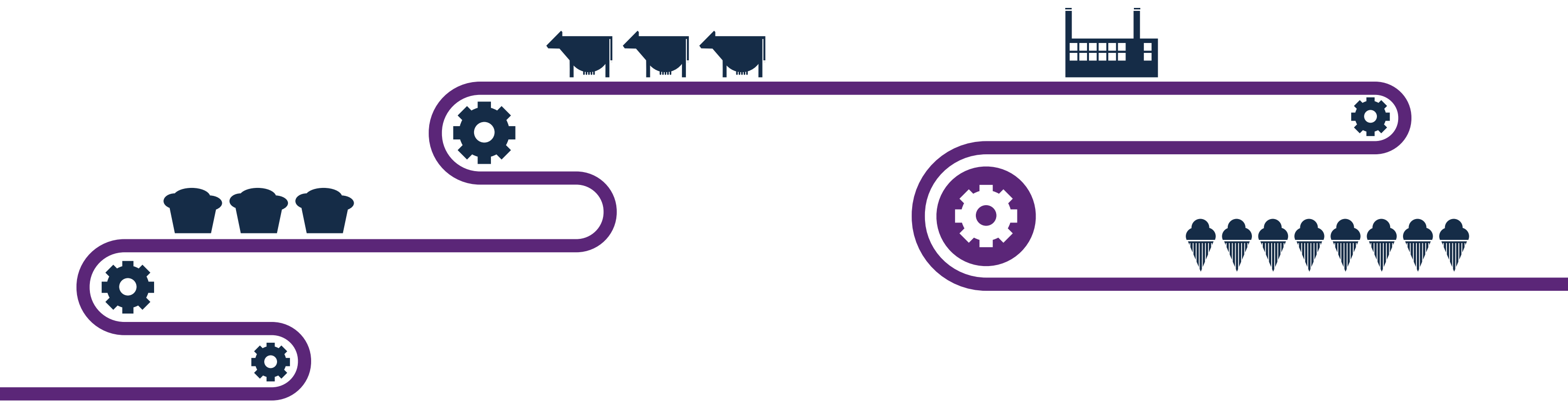
The good news: consumers know that the food industry is strictly regulated, and they tend to trust manufacturers and retailers.

The bad news: when consumers learn that the integrity of a food product has been sacrificed, the impact on reputation can be unforgiving. Consumers can't afford to give a compromised brand a second chance. They'll just stop buying.

After news of the 'horsemeat scandal' broke in January 2013, it took just one month for the UK sales of frozen burgers and frozen meals to drop by an astonishing 43% and 13% respectively.

And consumer trust is notoriously hard to regain. If that trust is compromised because of potentially toxic contaminants entering a population's food products, the cost cannot and should not be calculated in financial terms alone.

The food industry enjoys more trust than most. According to the Edelman Trust Barometer in 2012, a survey of 31,000 respondents from 26 countries found that the food industry was the 5th most trusted industry in the world.



Loss of brand value

A common cause of food poisoning, Camplyobacter is responsible for 22,000 hospitalisations and 110 deaths a year in the UK alone. If a pathogen like this was identified and traced back to negligent processes in your plant, your hard-earned reputation could be wiped out in one fell swoop.

The PR and media costs required to deal with this kind of crisis are immense. But the loss of consumer trust and brand value will multiply these costs for years to come.

Product recalls

Once the cumulative costs of product recalls are considered, it becomes abundantly clear how expensive audit failure can be. Even if the recall is a result of theoretical risk or labelling issues, the negligence that led to it will incur very real costs, including:

— Stopping sales and removing products from shelves

— Reimbursing customers

— Supplying replacement products

— Storing, transporting or destroying products

— Legal fees

— Compensation claims

— Increased insurance premiums

— Business interruption for investigation, sanitization or other plant modifications

Brand value and business interruption

An important thing to remember when considering the true cost of business interruption is that it isn't just about the time it takes to get production processes back up and running – it's also the time it takes to get customers to buy the product again.

Over half of the respondents (55%) to a Harris Poll indicated that, if a brand they usually purchase from were involved in a recall or safety issue, they would at least temporarily switch to another brand. 15 percent said they'd permanently switch to another brand.

When compared to the actual health risk, the percentage of recalls due to inadvertent contamination by nuts is extremely high.

In one year, the chances of a European with a food allergy dying from anaphylaxis are 1.81 in a million. Meanwhile the risk of being murdered is 11 in a million.

Getting audit ready

In light of the cumulative consequences of failure, the business case for a proactive food safety culture becomes clear and compelling.

In short, it's time to reject the trade off between compliance and productivity. Any real trade-offs are a sign of poorly designed processes that inhibit one of the two key goals.

Rather than just aiming to please inspectors, the onus is on manufacturers to have higher standards than the retailers they do business with. Once a culture that fights for those standards is established, your organisation will be audit ready. With an added level of vigilance, it might also become audit safe.

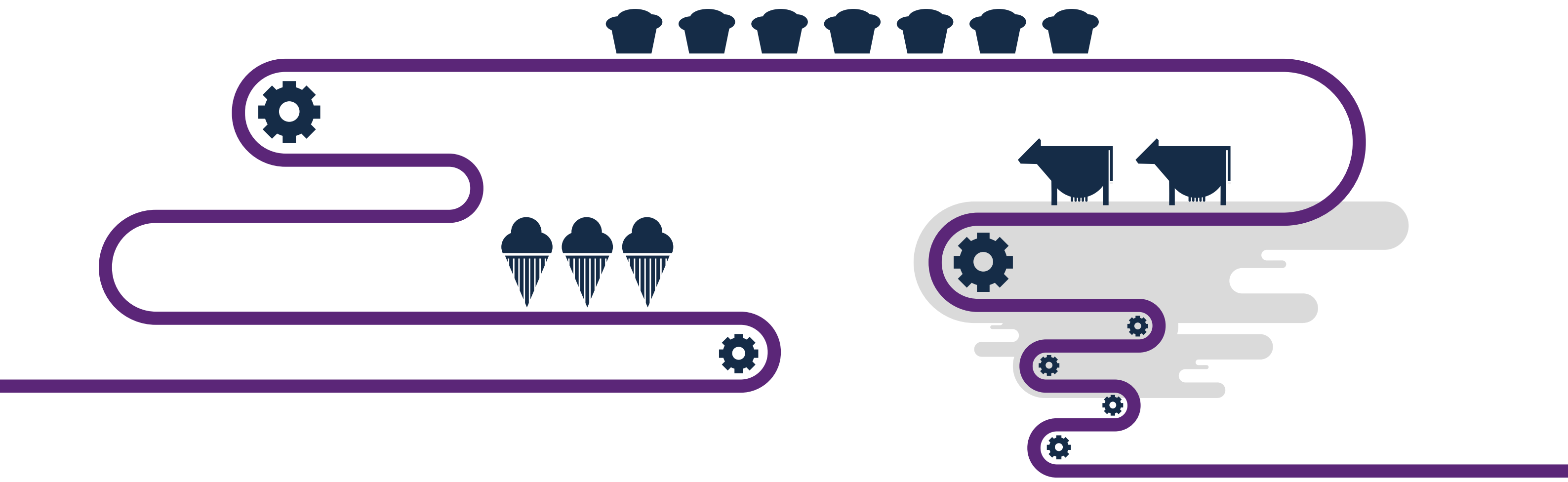
Taking action:

— **Identify patterns of compliance failure and seek out deeper causes.** If there's a repeated failure to identify all the allergens in certain raw materials, create an additional agreement clause within your supplier contracts.

— **Analyse and define HACCP.** Use HACCP as a framework to analyse your processes. Conduct internal audits and pre-emptively identify activities that conflict with HACCP. If documentation isn't being taken seriously, consider re-training the relevant employees.

— **Look for "short cuts" workers are taking.** Analyse why they're being taken. In our Waste and Hazard Walks we've identified dozens of seemingly innocuous reasons for short cuts that can be fixed simply and cheaply. Are hygiene habits at odds with production habits?

— **Review worker training.** Audit data from the British Retail Consortium showed that 27% of training non-conformances arose due to a lack of understanding by employees. Training represents a critical opportunity to reinforce your organisation's food safety culture, engage with your workers and get them involved.



— **Schedule training sessions for senior management.** To secure buy in to your quality assurance plans, make sure senior management isn't exempt from training. You may motivate them differently, but it's important you reinforce the same values from the top down.

— **Improve visual controls and management.** Visual controls should reflect the food safety values of the organisation. At the same time, they should play on the motivations most relevant to the employees they're communicating to and remind them of their responsibilities. Visual management can help increase visibility of progress against standard.

— **Run regular internal audits.** Identify the root causes of recurring issues by running regular audits free from the pressures of retailer audits. Spot issues before an external inspector does and you can spend more time compiling feedback and solving deeper problems.

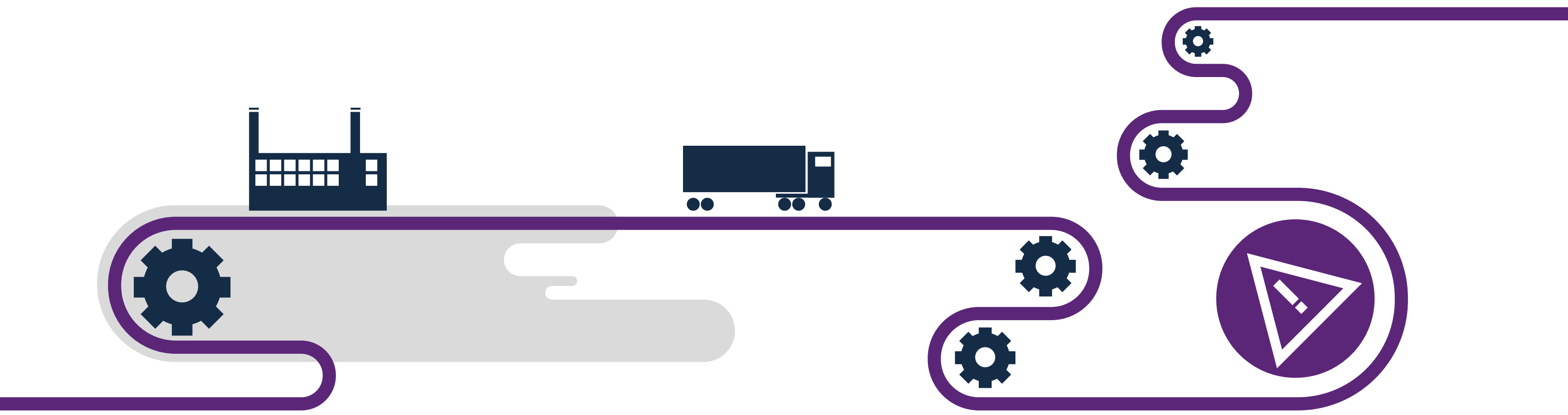
— **Manage up.** When talking to senior management, use audit failure to stress that there's always a business case for compliance – and never a business case for shortcuts or cultural obstacles.

Stay audit ready

Staying audit ready is about continuously improving your processes and maintaining standards far higher than your customers' and their auditors. Audit failure should serve as a cautionary tale to constantly reinforce these standards throughout your organisation.

Auditors look for instances of non-compliances because they're symptoms of an organisation with a poor food safety culture. Rather than focusing on these symptoms alone, it's important to look for the deeper root causes and weed out the processes that repeatedly fail.

The bottom line: audits are good for business because food safety is good for business. Take them seriously and you're protecting your business from a serious risk.



About Kimberly-Clark Professional* and the Waste and Hazard Walk

Kimberly-Clark Professional provides essential solutions for a safer, healthier and more productive workplace.

As part of the Efficient Workplace Programme, we offer a free Waste & Hazard Walk.

By visiting your facility, we can gain a deeper understanding of your operations. Once we identify areas of waste and avoidable risk, we propose countermeasures to reduce or eliminate them.

We have conducted dozens of Waste & Hazard Walks in the food processing industry and have demonstrated that a review of production practices and compliance issues can have a significant impact on food safety, worker efficiency, and the bottom line.

So if you would like to:

— Increase worker compliance and engagement

— Reduce the likelihood of audit failure

— Increase efficiency and reduce waiting times

— Make your business safer and more efficient

We're here to help.

Sign-up for the Waste & Hazard Walk now

With special thanks to **Chris Anstey, Director of Chris Anstey ltd.**