

PROVIDING QUALITY – A KEY TO SUCCESS

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Abstract: Providing a high quality products and services is a key to business success. That is because high quality promotes customer satisfaction and customer satisfaction has a direct link to business revenue. Clients want quality products and services in order to feel they are getting value for money, especially in these hard economic times. Although it is well known that advertising may win new customers, quality can be the reason to keep them. A good manager is aware that the costs of winning market share may be five times more than the related costs to manage a relationship with trade partners on an already existing market. The purpose of this paper is to present an overview about the necessity of promoting quality as a key to business success which can make the difference and positively influence revenues.

JEL classification: M14, M41, M54

Key words: quality, providing quality, managerial accounting, quality cost, benefits

1. INTRODUCTION

Having regard to the current economic conditions, "survival" is the basic word for top managers whose goal is to preserve their places on the competitive market. The key is actually in the conservation and, why not, profit growth for the company's strategic objectives. In the economic entity, regardless of the activity domain, products and services should be sold at a fair price that covers all costs for production and sale. In turn, costs become a very important variable, whose calculation and estimation plays a crucial role in determining the company's benefit. In this context we discuss the issue of "quality" because a product well done for the first time represents a success for each economic agent. Currently the product diversity becomes overwhelming for both provider and customer. But still, which is that unique characteristic that makes the difference? Certainly quality! For this reason we believe that an appropriate understanding and a relevant optimization of quality and quality related costs can become nowadays, for many companies, a key to success.

2. OBJECTIVES

The objective of the article lies in presenting a pertinent view regarding quality benefits. Therefore, the vision of management on quality and quality costs should be a

constant concern reconsidered at all levels of a company: "zero defects" goal. In fact, quality is a remarkable tool for adding value and also an important source of growth and profit.

3. METHODOLOGY

The methodology of the economic research is defined as being "a set of principles, stages and phases, methods, techniques and tools of investigation and scientific knowledge of the economic phenomena"¹. In the present paper we have used, like a stage of research the scientific documentation, which is based on: definitions and concepts, principles, laws, theories, hypotheses confirmed and unconfirmed data and information, investigative methods and techniques to formulate hypotheses. The selection of information and the concepts exposure of the related issues regarding quality were done by bibliographic documentation and comparative analysis.

4. ANALYSES

Încă de la jumătatea secolului trecut calitatea a stârnit mari interese de-a lungul literaturii de specialitate, ocupând un loc din ce în ce mai important. Însă, discutând despre calitate, interesul pică în special asupra impactului pe care aceasta îl manifestă asupra consumatorului. În speță, o companie trebuie să știe care sunt necesitățile și dorințele clienților în scopul obținerii unui avantaj considerabil în fața concurenței. Consumatorii sunt tentați să stabilească nivelul optim de calitate în termeni comparativi, punând în balanță produse similare care satisfac aceleași nevoi. Cu toate acestea, optica unei companii trebuie să transforme această caracteristică comparativă într-un obiectiv strategic.

4.1 The role of quality cost

Normally, quality should be every company's commitment to meet the demands of the market. From this point of view, the perception of the quality managers was one related to desire of creating a separate department within the company, dealing strictly with this issue and to come up with concrete methods for calculating costs and improve quality on activities - such as Activity Based Costing calculation method (well known as ABC). Currently, top managers vision was to reconsider quality position as a whole in order to be integrated across all company departments. This decision was taken in order to optimize quality costs not only for products and services, but this time they were concerned also on processes. One method that comes to implement this concept is considered to be Lean. Often, improving quality can be achieved at minimal costs for the company, or maybe, if costs are significant, they are clearly outweighed by the advantages that quality provides them. Eventually to optimize quality costs are essentially just reducing operational costs and increased customer satisfaction.

Quality costs contribute in a high proportion to the total costs of an organization, their importance is all the greater as they can not be fully reflected in the accounting, many of which can not be measured in practice. Therefore, some costs can be calculated, such as the costs involved during the warranty period, others due to scrap or subsequent processing, and can also be found in the accounts, while others can not be practically measured, for example: the loss of customers and market share etc. Where

¹ C. Popescu, Gh. Răboacă, D. Ciucur, D. Iovan, *Metodologia cercetării științifice economice*, Ed. ASE, București, 2006, p. 242.

comparisons are possible between different sets of data, quality costs can be regarded as a valuable criteria of a company performance. However, in order to perform such analyzes should be considered the different categories of quality costs.

In this context arises the need to know the cost of quality, because a reduction is beneficial to both the company, in order to obtain a positive result and the consumer, in order to meet the required needs. The necessity to study quality cost lies in continuous improvement through improving the efficiency of the business as a result of analysis, evaluation and optimization. A company can reduce its production costs by implementing a reliable quality policy. In other words, this means that actions should be taken to increase customer satisfaction and financial and economic profitability.

4.2 The bookkeeping of quality costs

Quality cost is managerial accounting tool that requires special attention because of the many changes and transformations occurring both internally and externally of the company. This must be determined, evaluated and analyzed in accordance with the existing changes in political, social or economic level. When a company takes into account quality issues, management focuses mainly on quality as a source of obtaining profit.

Regarding the bookkeeping of quality costs, according to Shank and Govindarajan, this implies a system of aggregating all the efforts that the company registers by making goods and services which are contrary to the given specifications, offering a rigorous quality financial determination of compliance². The bookkeeping of quality costs is one way of quantifying the quality characteristic³ being considered as a way of reporting the monetary base as the company's efforts⁴ and a good starting point on the road of quality⁵. Basically, the bookkeeping of quality costs is how effectively these costs are determined.

Although the concept of "bookkeeping of quality costs" is closely related to quality management in recent years have granted special attention in accounting literature as an auxiliary tool in the strategic cost management. The best known approach is that of Juran, who considers periodic determination of of quality costs as a management tool for evaluation and control. Many authors believe in establishing an evidence system of quality costs subordinated to the accounting department in order to cooperate and closely collaborate with quality department. In these positions is situated the study conducted by H.P. Roth and W.G. Morse⁶, in which it is considered that the accounting department reports will be perceived as being much more objectives than those made by quality control personnel, which can be characterized by a lack of consistency, reliability, accuracy and efficiency in terms of costs involved. In the same study, Roth and Morse identified the limited level of involvement of the chief

² Shank, J. K., Govindarajan. V., *Measuring the "cost of quality": A strategic cost management perspective*, in Journal of Cost Management, Summer 1994, pp. 5 – 17.

³ Simpson J. B., Muthler, D., *Quality costs: Facilitating the quality initiative*, in BarryBrinker (Editor), *Emerging Practices in Cost Management*, Warren Gorham Lamont Publication, Boston 1992, pp. 11-1 – 11-10.

⁴ Gray J., *Quality costs: A report card on business*, in Quality Progress, April 1995, p. 51.

⁵ Kalanganam, S. S., Matsumura E. M., *Cost of quality in an order entry department*, in Cost Management, Fall 1995, pp. 68 – 74.

⁶ H. P. Roth, W. J. Morse, *Let's help measure and report quality costs*, in Management Accounting, August 1983, pp. 50 – 53.

accountants in the reporting on quality costs. Plunkett and Dale⁷ support this point of view by showing that the books kept by accountants have a much higher level of acceptability and are more likely to be compatible and in accordance with reports of other cost categories.

Many companies around the world are constantly promoting quality as the core of customer value scale, but also a key concept of entity, struggling to hold supremacy in the market. Practically, the measurement and analyze of quality cost is the first step in a quality management program. Cost of quality systems must be aware of a continuous growth because activities in this area consumes a lot of resources commonly used in companies. Therefore, the information provided by the cost of quality in an organization, can be used to indicate major opportunities for correction and to provide incentives for continuous improvement.

4.3 Quality benefits

Obviously, when you think of quality, we actually refer to a perfect joint between product performance, price and consumer perception (which at some point becomes the most important). Therefore, labeling products and services to customers becomes a double-edged sword for the company. Because customers rely on subjective assessments, and therefore, today you can be on top and tomorrow at the edge of the abyss.

Lack of quality for a company can bring many losses, namely: loss of revenue, waste (for time, money, materials, people, etc.), loss of some important opportunities, loss of goodwill and of course, the examples can continue. Although it is difficult to confer a financial value of all of these losses, in the business world "money talks" and for this reason losses must be estimated. Likewise, many times many questions about the cost of quality arise among managers, who wrongly associate those cost with "waste". However, the importance of quality has been demonstrated by the quality gurus and its many benefits have been visible over time.

Quality is the variable that can influence decisively the main purpose of a company: obtaining profit and profit itself, includes the consistency in various sizes, quality. It is also well known the concept of quality as being the variable which can allows increasing the selling price, opening new market segments, can represent any trademark logo, in a word quality means value.

Although it can be demonstrated that a quality management system implemented properly bring a multitude of benefits - improved processes, employees motivated and satisfied beneficiaries - from our point of view, the benefits are divided basically into two categories - increasing revenue and reducing costs.

Significantly improve product performance, appearance, reliability, according to customer needs, reliability, deparabilitatea, aesthetics and perceived quality compared to the competition offer are all likely to increase demand for goods offered by the enterprise, if these dimensions of quality that are meaningful to the recipient. Increased demand translates into increased market share and usually increased revenues for that company, and improvements listed are part of those who enhances revenue.

Having regard to the quality concept over time, we can assert that the cult of quality becomes an additional important element for the economic activity. That is why,

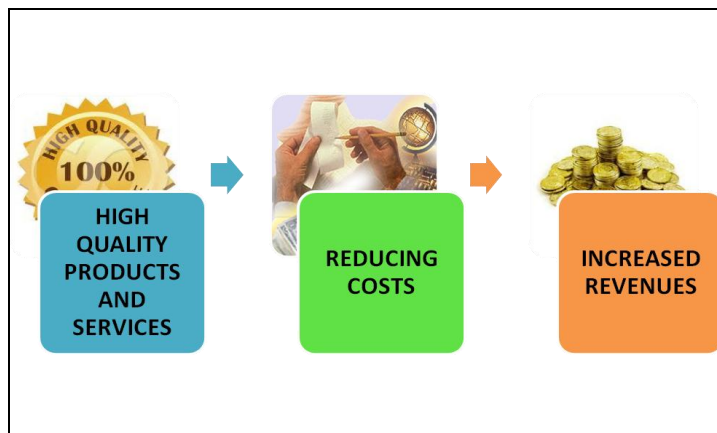
⁷ J. J. Plunkett, Barrie G. Dale, *Quality costs: A critique of some economic cost of quality models*, in *International Journal of Production Research*, November 1988, pp. 1713 – 1726.

it has to be instilled to the participants in economic and social processes involved in the mechanism of obtaining value.

Cost reduction is an obvious benefit of implementing a Quality Management System. By using specific quality management tools and techniques (histogram, Pareto chart, cause-effect diagram etc.) is provided a systematic reduction of material costs, labor costs (direct and indirect) and working capital requirements, each of which has implications for the cash flow.

Many case studies have shown that typical financial plan benefits of a businesses activity that adopt a reliable system of quality management are the following⁸:

- reduction by 10% to 20% of material costs;
- reduction by 10% to 20% of direct labor and indirect costs;
- reduction by 10% to 20% cost of financing receivables;
- reduction by 30% to 50% of space needs;
- reduction by 30% to 90% of the average level of stocks;
- reduction by 40% up to 60% of total production cycle time of the asset;
- reduction by 30% up to 50% of the cost of obtaining quality (COQ).



Source: belonging to the author

Figure no. 1 Quality, costs and revenues.

5. CONCLUSIONS

Because of the actual economic frame, quality is considered to be "the bible of the house" as this means "survival". But the true meanings of this concept is about the possibility of optimizing total quality cost, so there is perfect bond between customer needs and interests of the company. Nowadays, organizations face many challenges in terms of quality, which is why optimization should be done in a rational and continuous way. Therefore, it is necessary for those companies that want to develop to take into consideration a concrete management strategy for this purpose.

Understanding the cost of quality is however a very difficult endeavor, especially in a period when the struggle for supremacy is fierce. Managers often come to make compromises which apparently are appropriate, but at the expense of quality.

⁸ *Partnering for Total Quality*, Eight-Volume Series, SEMATECH, 1991.

In the current economic climate when everything seems unstable and organizations have no time for mistakes, quality should be able to provide permanent improvement for products and services. For this reason, quality improvement and cost optimization becomes an imperative. Basically, by taking relevant costs in order to optimize quality we have the possibility to ensure a safe path to a successful future.

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