

## **THE ORGANISATIONAL PROFIT AND QUALITY ENVIRONMENT**

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**Abstract:** In this paper a method of cost development and profit increase is presented. The quality cost system has proved to be a very successful tool in industrial management.

### **1. INTRODUCTION**

The problems of environmental decay in the developed world are embedded in economic structure; they are not attributable simply to mismanagement or incompetence, but are largely the result of externalities, and are caused by a structural defect in the free enterprise system. This phenomenon is critical for the formulation of effective environmental policy, for only by understanding the sources of the problem can programmes be designed that can deal effectively with it and do so without imposing unnecessary burdens upon society [1].

Correlations between profit, customer loyalty, customer satisfaction, service value, internal service quality, output quality and productivity; however there was no support for the claim that these are driven by employee satisfaction and loyalty. In fact, to the contrary, there was a strong correlation between employee dissatisfaction and store profitability. This research raises questions about the robustness of a central premise of the service profit chain, which is that strong business performance is the result of a mirror-effect between employee and customer satisfaction [5].

Total Quality Management is a system approach to management that aims to continuously increase value to customers by designing and continuously improving organizational processes and systems. The relationship between the degree to which total quality management practices were adopted within organizations and the corresponding competitive advantages achieved have a strong support, reported in paper [2].

There are a lot of methods and techniques for economic quality management, such as: the quality cost system, value analysis, Pareto analysis, Taguchi method. For management use, the quality professionals can work out the adaptable combination of these.

### **2. THE QUALITY COST**

The quality cost can be tracked back to the early 1950s, categorizing quality costs into the costs of prevention, appraisal, internal and external failure. The quality cost was formulated in the manufacturing sector of American industry to assist the quality manager in getting the quality system understood and accepted. It was based on the premise that there is no economics of quality, and it is intended to help sell the quality system on the basis of its impact on profit and loss. Over a number of decades, quality professionals developed and formulated the system into a good tool and gave it to the general, quality and managers for use.

The system is used by many national and multinational companies with good results. In USA the quality cost system went down to 3-5 % of the sales in many companies. In Western European economies, within an 8-10 year period, the quality costs are reduced from about 20 % to 6-8 % of the sales. In reviews is supplied information about the

problems with quality cost systems and the fact that many companies do not operate an appropriate accounting system.

In Japan there are some companies which collect, report and analyses quality costs. It seems that quality costs vary around 3 % of the sales, on average. The Japanese Companies approach the same matter from another route, but they gained the best result. The empirical observation on the shape of quality cost curves in general originates from the developed countries, where the system operates under a good quality environment. Even here there are some deviations from the average in the curves of total costs, sales and in the limited field of profit for various reasons. In the countries with transition economies, with a disadvantageous environment, both the cost and sales curves shift dramatically towards the directions of profit limitation.

There are countries where the already limited profit field is drastically broken up, because the order of quality value does not operate properly, as a particular consequence of the quality environment.

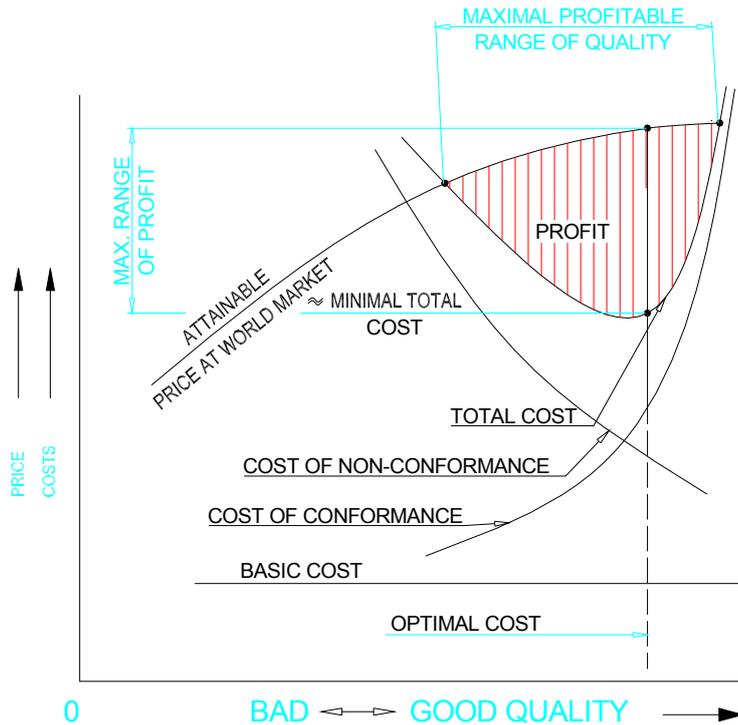
Financial benefits from quality may be derived from revenue expansion, cost reduction, or both simultaneously. The literature on both market orientation and customer satisfaction provides considerable support for the effectiveness of the revenue expansion perspective, whereas the literature on both quality and operations provides equally impressive support for the effectiveness of the cost reduction perspective. There is, however, little evidence for the effectiveness of attempting both revenue expansion and cost reduction simultaneously, and some of what little empirical and theoretical literature is available suggests that emphasizing both simultaneously may not work. Although it is clear that no company can neglect either revenue expansion or cost reduction, the empirical results suggest that firms that adopt primarily a revenue expansion emphasis perform better than firms that try to emphasize cost reduction and better than firms that try to emphasize both revenue expansion and cost reduction simultaneously. The results have implications with respect to how both theory and practice view organizational efforts to achieve financial returns from quality improvements [6].

### **3. THE LIMITED FIELD OF PROFIT AS A FUNCTION OF QUALITY**

When the price of the product is not formed by the market and it is imposed by a central or regional price control system, even the shape of the already shifted curve of attainable price changes. In most cases, this control means fixed prices for a long period of time, in the country but also on the regional market. This typical practice is the cause of the following two negative symptoms:

- a) When better quality is produced, a higher price cannot be attained, which means the order of value in quality does not operate,
- b) Investment in quality is not promising, which means stagnation in quality improvement sets in and remains [4].

In figure 1 are illustrated the emphasizing the limitation of profit. It may also be observed that going from optimal quality towards both the bad and good quality directions, the same profit can be gained on either side, up to the point of zero profit, and then it goes to loss. In this respect of course for the sake of marketability of a product the good choice is better quality.



**Fig.1. The limited field of profit as a function of quality**

The recognition and seriousness of the above, are not easy to identify where the quality cost is not measured and the whereabouts of the actual quality costs the attainable price on the curves and the shapes of the curves are not known.

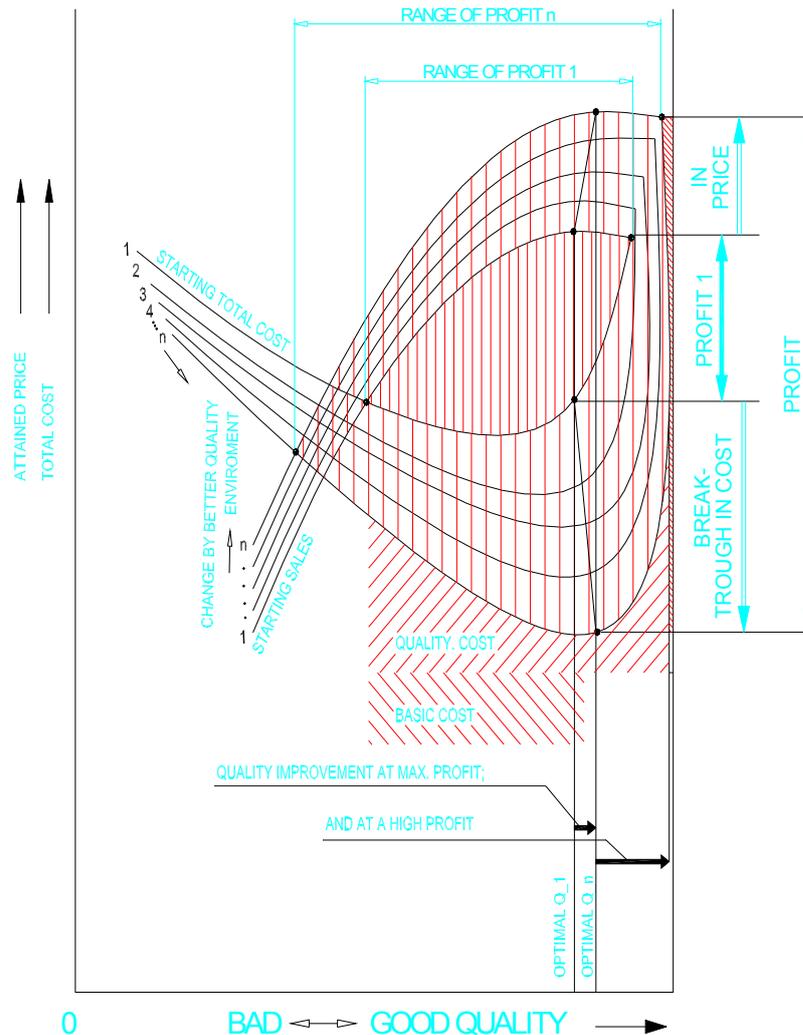
#### **4. THE INCREASE OF PROFIT BY CREATING BETTER QUALITY ENVIRONMENT**

Just as the creation of shareholder value requires performance on multiple dimensions, the global challenges associated with sustainable development are also multifaceted, involving economic, social, and environmental concerns. Indeed, these challenges have implications for virtually every aspect of a firm's strategy and business model. Yet, most managers frame sustainable development not as a multidimensional opportunity, but rather as a one-dimensional nuisance, involving regulations, added cost, and liability. This approach leaves firms ill-equipped to deal with the issue in a strategic manner. The global challenges associated with sustainable development, viewed through the appropriate set of business lenses, can help to identify strategies and practices that contribute to a more sustainable world while simultaneously driving shareholder value [3].

A better quality environment positively affects both the quality cost and the total sales. As shown in figure 2, the profit field will increase, step by step, as a result. At the same time a breakthrough is going on in profit at both sides, costs and sales. The optimal point for quality goes to a better position and the still high profitable quality level gets very close to perfection, which is demanded by most buyers these days.

#### **5. CONCLUSIONS**

Under a good quality environment the market economy and the order of quality value also developed, and the critical limitation of the profit field might be stopped as a result.



**Fig.2. Increase in range of profit through better and better quality environment**

The creation of an advantageous quality environment requires a decision, a national and company-wide, long-term program, hard work and some financial support in the initial years of the program. In the future stages of the program it becomes a self-financing system.

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