

CONSIDERATIONS REGARDING THE QUALITY COST OF TRADED PRODUCTS AND SERVICES IN THE CONTEXT OF PERFORMING MANAGEMENT OF THE ENTITY

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Summary: The quality of products and services offered and the costs of its assurance represent a major concern of the management of any entity, since the influence exerted on its activity is significant. The decisions concerning the quality costs have, on one hand, direct implications of the financial performance of the entity and, on the other hand, on the competitiveness of traded goods and services. In this context, this material proposes itself to illustrate the main aspects regarding the quality and the costs associated to it at the entity's level, which can represent elements which can be considered by the management in the administration of this matter.

JEL classification: M41, M49

Key words: cost of quality, managerial decisions, performing management

1. GENERAL THEORETICAL ELEMENTS CONCERNING THE QUALITY OF TRADED GOODS AND SERVICES

The performing management of the entity represents the fundamental objective of all the parties having financial interests within it but, particularly, of the management which ensures the current realization of all its activities.

An essential element in this respect, under the conditions of current markets globalization, is represented by the passing, to consumers, of some qualitative products and services, at a price which allows the maintenance of the market segments held or the access to new markets.

In this context, the quality insurance and the costs of its support acquire a crucial importance for the management and the decisions of this type need a rigorous grounding, at least from the point of view of the elements presented below.

A first aspect regarding the quality cost of the goods and the services granted to third parties refers to the fact that the managerial decisions shall consider the need for determining an optimum between the volume of the expenses of this type and the value of the defects or the deficiencies subsequently registered at beneficiary and for which remediation this last one bears the costs. Its assurance is realized in the context in which the amendment of any of the two components mentioned has as consequence the influence exerted on the financial performance of the entity. Thus, the increase of the

costs regarding the quality leads to the increase of the total volume of the expenses of the entity and, implicitly, to the diminution of its performance. In turn, the registration of some increased values of the expenses made by the beneficiaries in order to remedy the defects or the deficiencies appeared subsequently the acquirement of goods and services, involves decreases of market shares held by manufacturers or providers, with immediate effects on the turnovers registered and, as a consequence, the decrease of their financial performance.

Considering the elements previously exposed, we consider that the determination of the optimum presented supposes both the rigorous determination of the cost elements concerning the quality and the collection of data concerning the level of the expenses which are endured by beneficiaries during the post-guarantee period which, obviously, will generate additional costs for the collection and processing of respective data.

A second aspect concerns the fact that, together with the influence exerted on the financial performance, the quality becomes more and more a strong competitive instrument.

As the entities trade products and services based on the standards recognized in the field, it's possible the maintenance of the position obtained on certain markets or the extension of other new markets. With this in view, we remember that there is a continuous concern regarding the obtainment of the production under the conditions of observing some qualitative standards, aspect sustained, among others, by the elaboration of international quality standards, ISO 9000, by the International Organization for Standardization. These were adopted in more than 85 countries and represent the central element which shows the quality of products and services provided to third parties, by means of ISO 9000 certificate, which became a need for the obtainment of a place on the global market of goods and services. Herewith, the increase of quality standards leads to the specialization of the production with effects on the decrease of manufacture costs and, implicitly, of the obtainment of great profits. The importance of this system of standards is suggested, among others, by the successive revisions which took place since their apparition, in year 1987, until present.

Considering this aspect, we think that on managerial level, the quality insurance imposes taking some decisions which facilitate the consolidation of the market position of products and services which already meet the conditions imposed by the quality standards and, herewith, the renunciation to products and services realized by the entity, which would suppose significant financial efforts in order to be in line with the related quality standards.

A third aspect which, in our opinion, shall be carefully analyzed by the entity management is represented by the problematics concerning the assembly of characteristics of products and services realized by the entity from the point of view of the user's needs and desires, which are constitutive in decisive elements in respect to the satisfaction degree of the customers and, as a consequence, determine their desire to purchase those goods and services.

2. CONCEPTUAL ASPECTS CONCERNING THE QUALITY COSTS

An approach frequently met in the specialty literature in respect to the quality costs from the perspective of producers is represented by the concentration on two

elements considered to be significant in this way which, as a synthesis, can be described as it's presented below.

The designing of goods and services shall be realized according to the careful analysis of the way in which are met the customers desires and needs, according to their characteristics. Thus, in the designing phase, is imposed that the managerial decisions be grounded according to some rigorous market studies which faithfully intercept the desires and the needs of the users. Such an approach ensures that the management decisions in respect to the costs of goods and services obtained is oriented towards the beneficiary and, in this way, ensuring the premises for the realization of the contemplated sales volume. Herewith, the decisions of this nature can also take into account possible subsequently costs imposed by the development of the goods and services realized, considering the accentuated dynamics for the changing, in time, of the desires and the needs of buyers.

A second approach imposed to be considered under the aspects of the costs aims the fulfillment of all the features of a product or service traded in report to the elements for which it was designed. It's obviously that this type of managerial decisions also aims the satisfaction degree of the clients who are in strong relationship with the assurance of the conformity of goods and services with all the features provided in their technical specifications.

Starting from this approach, most of specialists group the quality costs on several categories, from which we retain as being relevant those presented in a reference paper from the field⁵⁹:

Prevention costs, as the denomination suggests, refer to the costs needed in order to prevent the obtainment of some goods and services which don't correspond to the specifications.

Evaluation costs, which include all the elements of this type which are made in order to identify those goods which don't correspond to the specifications.

Internal dysfunction (error) costs, which aim the costs implied by a product with deficiencies before it be delivered to the clients.

External dysfunction (error) costs, which refer to those costs which the entity shall bear in order to, eliminated the deficiencies, after the delivery of goods to the clients.

A significant aspect concerning the quality costs refers to the fact that, in the practical activity, is needed an additional effort in order to group the accounting information on the components previously mention, in order to process and analyze them which, in turn, increase the total costs of the entity. Such information aim, among others, the rubbishes value, the reshuffling value of deficiencies found, under the aspect of manpower and of materials involved, the value of compensations granted to beneficiaries etc. The opinions expressed with this in view in the specialty literature, which we join, converge towards the fact that the increases of the costs generated by the processing of accounting information in the purpose mentioned is justified by the advantages obtained under the aspect of the delineation of an overall image of the problematics concerning the quality and also of the rigorous grounding of managerial decisions of this type.

⁵⁹ Horngren C., Datar S., Foster G. – Contabilitatea costurilor, o abordare managerială (Costs management, a managerial approach), Second Edition, Arc Publishing House, 2006, pages 715-716.

The approaches between the specialists who had concerns related to the quality costs lead to the apparition of the concept of low quality cost, its promoters supporting the fact that the obtainment of some quality goods and services doesn't generate additional costs but, contrarily, the goods and the services of low quality determine additional costs for the entity.

3. MANAGEMENT OF QUALITY COST FROM MANAGERIAL PERSPECTIVE

The management of the quality cost represents, in our opinion, a complex approach to be realized by the management structures of the entity, which supposes, among others, the insurance of adequate conditions for the collection of the information needed in order to determine the four categories of costs previously presents, and also the careful analysis of these information made according to some specific methods for the identification of the problems of this nature, by means of which the decisions regarding the quality be grounded.

In respect to the collection of the information, we consider that the managerial activity can be oriented at least to certain significant considerations regarding the determination of the quality cost, as presented below.

The prevention costs are rigorously determined as far as they embed the costs related to the quality planning since the starting phases of the processes carried out by the entity which concern elements such as: the conception of execution rules, the adequate instruction of the staff, the elaboration of a quality manual, the performance of some comparative studies etc. With this in view, the management structures can follow the institutional procedures and the costs related to the evaluation of suppliers, including possible additional costs for taking over the raw materials which don't correspond from the qualitative point of view, supplied from the aggregated suppliers. A particular attention shall be granted to the costs generated by the tests and by the checking which take place during the realization of the processes.

The evaluation costs are managed in a corresponding way by assuming the elements of this nature concerning the supply and the maintenance of the inspection equipments, the performance of the laboratory tests, and the wages of the staff involved in this activity, the elaboration and the implementation of the methodology and the quality evaluation criteria etc.

The internal dysfunction costs suppose the collection of the information regarding the rubbish, the performance of reparations, the interruption of the processes as a consequence of some non-conformities which weren't discovered upon the reception of the raw material supplied, the storage of the goods which are inadequate from the qualitative point of view, including their manipulation and transport, the analysis of defects in order to establish the causes, possible problems concerning the pollution etc.

The external dysfunction costs aim the procurement of information regarding the cost for the management of customer's complaints, of the expertise because of non-quality, the value of the delay penalties and compensations, including of the banking commissions in relation to these, the value of the insurance premiums used in order to cover the legal responsibility of the entity etc.

In turn, the analysis of the problems of the type of those presented is realized according to the methods known with this in view, among which we mention: the

control graphics, the Pareto diagrams, the cause-effect diagrams, the use of financial and non-financial indicators, etc.

The control graphics have the role to illustrate those defects appeared as a consequence of some system problems or, in other words, as a consequence of non-random variations appeared. By means of these statistical control instruments of the quality, the management structures from various hierarchical levels can investigate the variations registered outside the control limits established which usually enter in the category of non-random.

Pareto diagrams are instruments used in close relation with the control graphics, being elaborated according to the non-random elements found within them, arranged in a decreasing way depending of the frequency of its production.

The cause-effect diagrams complete the analysis made by means of the methods previously described, for the identification of the defects with the biggest frequency and, herewith, involving the highest costs, illustrating, as the denomination suggests, the potential causes of the registered defects.

As we can notice from the succinct description of these methods, the management of the entity shall ground its decisions on the use of some combinations between them, thus making possible the rigorous identification of the problems concerning the quality.

In the same order of ideas, the analysis of the costs regarding the quality are grounded on the use of non-financial indicators which, in the opinion of several specialists from the field, which we share, are essential in order to determine the long term performances of the entity. The use of this type of indicators is possible both in the area of the analysis of satisfaction degree of clients and of the costs specific for the designing activity or of those with external dysfunction. The non-financial indicators are several and they are customized for the area in which they will be applied. From these, we can mention as being relevant those concerning the information about the preferences and the satisfaction of the clients in relation to certain features of the goods delivered, to the number of complaints received from them, delays in the delivery of the goods, the number of the defects registered, on types of products, the satisfaction degree of the employees etc. It's obviously the fact that these indicators represent an important source for the grounding of managerial decisions concerning the quality.

4. CONCLUSIONS

The aspects related to quality are analyzed with a particular attention in the actual contexts, by the management of any entity, because they have significant implications both on its performance and also in respect to the maintenance or to the extension on new commodity markets. In this respect, it's unanimously recognized the fact that this is constituted in a factor with significant influence on the competitive environment.

The grounding of the decisions concerning the quality shall take into account the particularization of all the information which contribute to the determination of costs associated to it and, herewith, the combined use of various instruments which ensure the rigorous identification of the problematics of this nature. This fact imposes that the management structures on various hierarchical levels institute the procedures adequate for the collection of such information, thus making possible a determination, as more as possible, of the costs associated to the quality and, as a consequence, a pertinent analysis of these by means of the specific managerial techniques and methods.

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Acknowledgement: This work was partially supported by the grant number 4C/27.01.2014, awarded in the internal grant competition of the University of Craiova