

# The Importance Of Total Quality Costs In The Evaluation Of The Strategic Performance

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**ABSTRACT:** The total quality costs can provide information that give a clear view about the actual execution by ensuring the effectiveness of corrective action when it gather information about the implementation of the procedure in order to identify the extent in which this procedure can address quality problems, in other words to identify solutions of these problems also to know if it was successful or not, the total quality costs can provide a set of indicators and measures for short and long term goals of the economic unit which is linked to these objectives and future strategic visions of economic units which support the evaluation process of strategic performance of these units.

## Introduction

Total quality cost can be an important tool for the continuous improvement in the value chain that shows adjacent to total cost in each stage of the value chain starting from research and development to customer services, thus we can identify through total quality costs the strong and weak points in each activity of the economic unit, so, we can evaluate the strategic performance of the economic unit by total quality cost which helps in obtaining a competitive advantage enabling to enter a new markets and win new customers as a result to identify its own strength and weakness points and taking the appropriate solutions for them, in order to achieve competitive advantage in the modern manufacturing environment dominated by extensive competition requires high quality products and as the quality is not expensive, we can reduce the product sales in a way that satisfies customers comparing to competitors this will help economic units to maintain and increase profits compared with the average of industry profits, (Hill & Jones,2001:122) Total quality costs is an important tool in the evaluation of the strategic performance because of the link between quality and futures vision and the strategy of economic unit as they provide indicators and standards for the strategic performance can measure the effectiveness and efficiency of the economic unit to achieve objectives and also to fit the changes that took place in the modern manufacturing environment, we cannot get such indicators and standards without identify and measure total quality costs. We can evaluate the effectiveness and efficiency of quality programs carried out in the economic units by using total quality costs, and we can diagnose by these programs what the economic unit needs in order to achieve its strategic objectives and to resolve all quality problems and improve the quality of processes and products, total quality costs considered an important part in these programs which can be implemented by them and can helps in improving the quality which becomes a strategic issue now and requires more attention and evaluation programs and the economic units performance continuously and thoroughly.

(Chi, 2008; 2809) The importance of total quality costs in the strategic performance evaluation can be shown by the following points:

- 1- The total quality costs can provide useful information to evaluate the effectiveness and efficiency of quality programs by providing a special set of indicators and measures for quality for example "the effect of training the workers for the application of quality standards and its reflection on reducing defective units and internally and externally failed units" and thus reduces total quality costs.
- 2- The total quality costs used as a comparison measure between input and output like "to compare warranty cost and external failure costs or total quality costs".(Ross, 1999:372)
- 3- The total quality costs can provide information that give a clear view about the actual execution by ensuring the effectiveness of corrective action when it gather information about the implementation of the procedure in order to identify the extent in which this procedure can address quality problems, in other words to identify solutions of these problems also to know if it was successful or not, the total quality costs can provide a set of indicators and measures for short and long term goals of the economic unit which is linked to these objectives and future strategic visions of economic units which support the evaluation process of strategic performance of these units.
- 4- It helps to measure and evaluate the quality level in all processes as well as products by providing a measurement and evaluation system and comparing the achieved performance with competitors achievements by providing a comparison criteria and this criteria includes all the processes, products, employment and management in the economic units to explain the improvement extent in all these units.
- 5- There is a relationship between total quality costs and strategic objectives of the economic units like "the relation between these costs to sales and manufacturing and profits costs" by the time we can see the extent of performance improvement and solve problems also achieve goals so they are necessary in the strategic performance evaluation in modern manufacturing environment changes and thus offers the possibility diagnoses of quality problems in economic units and develop an appropriate solutions. (Jacobsen,et.al,2009:330 )
- 6- It helps to state whether the application of activities, programs and results quality effective, efficient and

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appropriate to achieve the goals. also provides indicators and effective measures are linked quality because the effective and efficient quality activities can influence on strategic performance of the economic unit and its ability to achieve the goals. (Maher, et. al, 2006: 543)

- 7- The quality is linked to financial performance and that can be explained through the relationship between quality and product costs because the high quality reduces these costs and thus improves the financial performance of the economic unit, and we can evaluate the financial performance by relying on the total cost of quality measures because this include a set of goals and most importantly reduce total quality costs and improve profitability.
- 8- The continuous improvement programs consider quality as an important and integral element in these programs, as well as "the link between quality to economic unit strategy" so it must be linked to its goals wither they were short or long term goals. (Khannan, & Tan, 2005: 156)

To evaluate economic unit performance by financial measurements of total quality costs, we must care in return on investment measurements ROI, return on sales ROS, residual income RI and economical added value EVA, that can be done by explaining the relation between total quality costs to these measurements, like "the effect of reducing failure costs on sales and profits also the percentage of return on investment and so on" in other words explain the extent of improvement in these measurements (ROI, ROS, RI, EVA) through total quality costs. Since the total quality cost is considered as one of the performance measures by which we can view the quality of operations and products of the economic unit (Kaplan & Atkinson,1992:400) we look to the prevention. Evaluation, internal and external failure costs as examples of financial performance measures for economic unit, Needles and others refer to that and they stressed on total quality costs with its four elements consider as financial measures of performance (Needles, et.al, 2002:1163), the financial measures for total quality costs include a set of standards for design quality and conformance which aims to improve financial performance for economic units (Horngren,et.al,2003:661).the financial measures for total quality costs includes asset of measurements that are linked by design quality and conformance that aim to improve the financial performance for the economical unit. Managers usually taught both costs and profits of improving the quality so always they study Return on Quality (ROQ), which represents the increase in the profits that can be obtained as a result of the products quality offered to customers as a result of spending Total Quality Costs, the economic unit aims to increase the rate of Return on Quality, (Needles,et.al,2002:1172), ROQ knows as the amount of profits divided by "Total Quality Costs" expressed as a percentage profits per Dinar spent on Total Quality Costs and helps in selecting the best alternatives for the quality improvement, the Return on Quality represents as an entry "to assess the performance and focuses on quality efforts economics and improving quality seen as an investment similar to any other investments. Other Financial measures for customer satisfaction are as follows: (Horngren, et.al, 2003: 661)

- 1- Insurance costs (representing maintenance and replacement costs during the warranty period).
- 2- Compensatory claims costs (which are fines and costs for legal services incurred by economic units as a result of the poor quality of the products offered to customers).
- 3- Lower selling prices due to poor quality (sales at low prices and second degree).
- 4- Alternative chance costs of lost sales (representing lost income for losing sales because of poor quality).

#### **Nonfinancial Measures of Total Quality Costs:**

The nonfinancial measurements always linked to quality and customer satisfaction to explain what activities need in order to achieve production best quality and increase the customer satisfaction to the economic unit, also improving the design quality and conformance quality will result finally to achieve financial results the most important is the improving profits and thus improving the financial performance of the economic unit (Evans & Dean, 2003: 324). Using the nonfinancial and financial measurements will be more suitable to assess the economic unit performance in modern manufacturing environment. We must focus on customer satisfaction, operation management and decision making based on facts, continuous improvement and motivated employees involvement also strategic planning, creativity and change. Also we must focus on employee training in order to develop their skills and study the markets from customer and competitor sides and to benefit from nonfinancial standards of total quality costs, the economic unit must focus on quality improvement programs and work to focus on designing best quality products instead of focusing on checking quality at the end of production process, in other words works according to Crosby slogan of Zero Defective that said "producing good products from the beginning".

#### **Some of nonfinancial quality measurements:**

- 1- Process yield: the rate of best output goods from output to total output.
- 2- Manufacturing Lead Time: (The times spend to convert direct materials to finished output due to the different manufacturing processes in the economic unit).

The best example of the companies that have used Total Quality Costs Standards for evaluating the quality of their internal operations, Photon Company where the managers of the company believe that the improvement of these standards will lead at the end to get customers satisfaction with the economic unit and its products as well as 'reducing Total Quality Costs and achieve the best financial performance costs".

#### **These includes the following measures (Horngren, et.al, 2009; 700):**

- 1- The time rate to repair defect goods to the total time.
- 2- The proportion of products returned to work.
- 3- The number of changes in the processes or products design or the decline in Total Quality Costs.

The economic unit satisfies their customers by continues improving the quality of its operations and products and using the nonfinancial and financial measurements

together, As we can see there are many time standards that linked with customer's satisfaction, some economic units begin to look at time as a strategy driver and an important element of competition, the activities performance and the necessary functions properly and quickly helps increasing sales revenue and reduce costs, as well as "earn customers satisfaction" and for the purpose of achieving a good time management it must be measured by a set of time operational standards which shows the economic unit reaction to the customers' requests as well as reliability in delivery scheduled time, and we can clarify the operational standards of the time that impact on customers satisfaction by the following: (Horngren, et.al, 2003:663-664)

- 1- Customer-Response Time:
- 2- Receipt Time:
- 3- Manufacturing Cycle Time:
- 4- Delivery Time:

After the presentation of financial and nonfinancial standards of Total Quality Costs, we can see a possibility to connect Total Quality Costs to its financial and nonfinancial measures with (SWOT) (Strength, Weakness, and Opportunities & Threats) to evaluate the strategic performance, through SWOT analysis we can clarify how the external opportunities and threats that face the economic unit can be adapted to the interior strength and weakness points, though this analysis is useful for using the new strategies that rely on harmonization of both internal and external environment (Wheelen & Hunger, 2004:113), the strength points are important elements that enable the economic units to achieve its goals and missions, while the weakness points affect in achieving these goals (Keegan, et.al, 1995: 103), the opportunities represents the circumstances and events that offer the possibility to achieve the goals, while threats are represented by elements and events that are obstacles in front of the economic unit and its management.

## CONCLUSION

Using the nonfinancial and financial measurements will be more suitable to assess the economic unit performance in modern manufacturing environment. We must focus on customer satisfaction, operation management and decision making based on facts, continuous improvement and motivated employees involvement also strategic planning, creativity and change. Also we must focus on employee training in order to develop their skills and study the markets from customer and competitor sides and to benefit from nonfinancial standards of total quality costs, the economic unit must focus on quality improvement programs and work to focus on designing best quality products instead of focusing on checking quality at the end of production process, in other words works according to Crosby slogan of Zero Defective that said "producing good products from the beginning".

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