

Risks related to quality management systems implementation – some lessons learned from Czech Republic

Introduction

Efficient and effective implementation of quality management principles asks for responsible approach from top managers' perspective. A current state at Czech organizations discovers lot of shortcomings in this field which can be changed to various managerial risks. The article identifies some of them and gives short guidance for appropriate treatment. Text of the article reflects author's experience as well as knowledge obtained from systematic analysis of industrial companies' environment.

All activities of any organization involve risks. This fact is valid also for establishing and development of modern quality management systems. ISO Guide 73 defines risk as "effect of uncertainty on objectives" [Asbury, Ashwell, 2007, p. 230]. An effect is understood as deviation from expected or planned state. Such state is usually described through strategic quality objectives at quality management system. This guide also notes that uncertainty could be the state of deficiency of information related to understanding or knowledge of certain event. We can view the risk as a chance of particular situation or event, which will have an impact upon organizations' objectives, occurring within a stated period of time [EFQM Excellence Model, 2009, p. 32]. Each quality management systems must be based on valuable principles. As to me, it is important to identify serious risks related to these principles before quality management systems establishing. Let us remind fundamental quality management principles. Regardless the quality management concept (ISO 9000, branch standards or TQM /Excellence models) following 10 principles could be identified as minimum:

- adding value for customers (customer focus),
- leadership,
- involvement of people,

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- process approach,
- systems approach to management,
- factual approach to decision making,
- continual improvement and innovation,
- building partnership,
- managing with agility,
- taking responsibility for a sustainable future.

Such minimum of principles can be seen as combination of the ISO 9000 family of standards principles [EN ISO 9001:2008 Quality management systems – Requirements] and the excellence concepts [EN ISO 9004:2009 Managing for the sustained success of an organization – A quality management approach].

When analyzing the risks in this area, all external factors as politics, macroeconomics or technology should be ignored. Only internal environment of the organization ought to be considered as very these risks could be managed by efficient way.

The most serious risks related to the quality management principles (we investigated them through practical projects solving at Czech companies) are identified at the right column of table 1.

Table 1. The most serious risks related to the quality management principles at Czech companies

Quality management principle	Definition of the principle according to [3] or [4]	The most serious risk
Adding value for customers (customer focus)	Organizations know that customers are their primary reason for being and strive to innovate and create value for them by understanding and anticipating their needs and expectations.	Customer loyalty and customer value aren't measured by systematic manner.
Leadership	Leaders establish unity of purpose and direction of the organization. They should create and maintain the internal environment in which people can become fully involved in achieving the organization's objectives.	Quality policy and quality objectives aren't derived from organizations' mission, vision and values.
Involvement of people	People at all levels are the essence of an organization and	Knowledge sharing is not a company value.

	their full involvement enables their abilities to be used for the organization's benefit.	
Process approach	A desired result is achieved more efficiently when activities and related resources are managed as a process.	An incorrect process performance measurement methodology is there used.
Systems approach to management	Identifying, understanding and managing interrelated processes as a system contributes to the organization's effectiveness and efficiency in achieving its objectives.	Interrelations among processes aren't described and understood.
Factual approach to decision making	Effective decisions are based on the analysis of data and information.	Statistical methods for data processing aren't used systematically and correctly.
Building partnership	Organizations seek, develop and maintain trusting relationships with various partners to ensure mutual success.	Partnership with suppliers is rather underestimated.
Managing with agility	Organizations are widely recognized for their ability to identify and respond effectively and efficiently to new and emerging opportunities within their operating environment.	Reviewing the leading organizations performance to identify areas for own improvements is not done by systematic manner.
Continual improvement and innovation	Continual improvement of the organization's performance through innovations should be a permanent objective of the organization.	Corrective actions have a priority before product or process innovations.
Taking responsibility for a sustainable future	Organizations embed within their culture and ethical mindset, clear values and the highest standards of organizational behaviour, all of which enable them to strive for economic, social and ecological sustainability.	Company philanthropy is not top managers' value.

Source: Own work.

Due to limited scope of this article we are going to discuss only three of the risks mentioned at table above now, including proposal for these risks treatment. I selected these risks according to two perspectives: likelihood of occurrence and consequences to quality management system performance.

I suppose the first of them cannot be ignored as it is closely linked to overall company performance! Unfortunately, only customer satisfaction level is usually measured as a relevant feedback from markets at Czech organizations. Despite of the fact that approach to customer satisfaction measurement is mostly far from the ISO/TS 10004:2010 recommendations [Feuss, 2011] very customer satisfaction is about immediate perception of our products without any respect to competitive offers. On the other hand, customer loyalty is about future customer behaviour within competitive environment: repurchasing and positive recommendations are crucial for the sustained success of any organization.

How to treat this risk? We are able to distinguish three basic types of customer loyalty: advocacy, purchasing and retention. Advocacy loyalty reflects the degree to which customers will play a role of advocates by way of recommendations, choose the same product again, etc. Purchasing loyalty reflects the degree to which customers will increase their purchasing behaviour, including purchase different products. And finally: retention loyalty reflects the degree to which customers will remain the same company. The following table 2 could serve as a guideline for customer loyalty measurement.

Table 2. Customer loyalty: what can be measured

Type of customer loyalty	Loyalty index related to loyalty factor:
Advocacy loyalty	Overall satisfaction Choose the product again Recommendations
Purchasing loyalty	Purchase different products Purchase more expensive Purchase more often Purchase larger
Retention loyalty	Purchase from competitors Stop purchasing Switch to another supplier

Source: Own work

It is obvious, the last type of customer loyalty (retention) measurement is based on reverse calculation – the higher scores mean the lower likelihood of purchasing from competitors for example. B.E. Hayes gives nice proposals at this field [Gable, 1994, p. 424].

Measuring customer value also goes beyond traditional customer satisfaction measurement as it focuses on two vital perspectives which are naturally viewed by each customer in case he or she is going to buy the product or take any service: level of his or her requirements fulfillment on the one hand and total resources consuming (declared mostly through overall customer's costs of ownership) on the other hand. Otherwise, customer value is amount of benefit that customer will get from a service or product relative to its cost. As B. T. Gale wrote: "it is simply quality, however the customer defines it, offered at the right price" [Hayes, 2010, p. 396]. The customer value analysis is a measurement method that is able to discover company customers' view of the perceived value for money delivered relative to that of their competitors' customers. Besides this strategic set of information for cultivating customer retention policy, the customer value analysis, made by producer, has also other important functions:

- it reliably discovers drivers of purchasing behaviour,
- it learns why customers buy from us or from competition,
- it identifies alternative market positions,
- it predicts future customer loyalty or retention,
- it can be used as tool of competitive benchmarking,
- it recognizes how customers select among various suppliers,
- it creates impressive data for marketing value proposition,
- it discovers areas for our products and processes improvement.

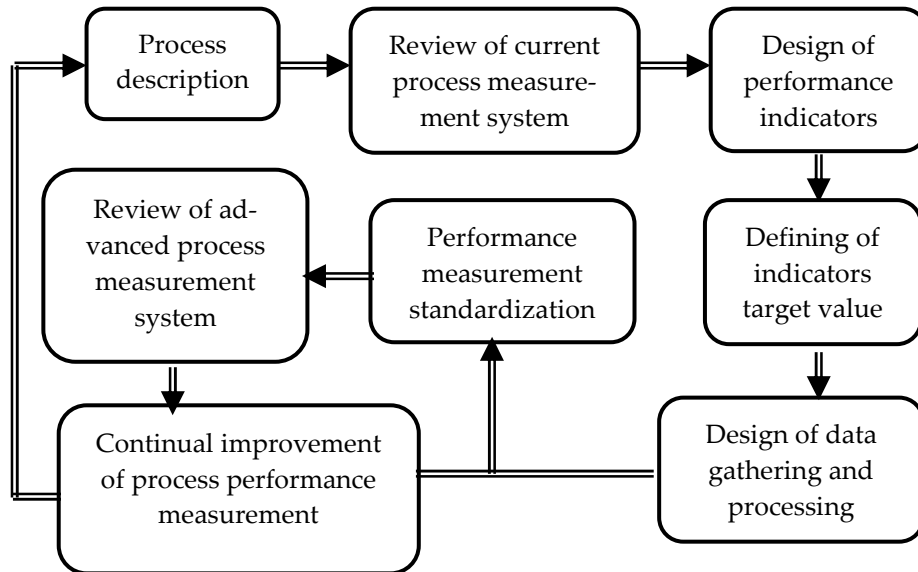
In spite of these advantages the core customer value analysis is not widely and systematically used at Czech companies at present. We can find more about customer value measurement in [Hayes, 2010, p. 396; ISO Guide 73 Risk Management – Vocabulary, 2009].

The next risk to be discussed is tied to the process approach principle: an incorrect process performance measurement methodology is used: confusing performance indicators are monitored very often, process owners have only limited authority for decision makings and the performance measurement is rather formal and unfair as a whole. The treatment of this risk seems to be simple: establishing and development of process performance measurement methodology according to the steps, proved to be good in this case – see figure 1 below. When designing a new or innovative sys-

tem of process performance measurement, we must take into account some important features of this measurement:

- validity: the indicators must express what counts objectively and the results must be accepted by the users (by the process owners first of all),

Figure1. The basic frame of the process performance measurement



Source: Own work.

- completeness: the indicators must reflect all important aspects of the process performance,
- sufficient detail and accuracy: we need know a trends of indicators and some deeply performed data gathering can consume a lot of time and resources without relevant effect,
- sufficient measurement frequency: if measurement is not taken often enough, we obtain a distorted picture about real performance,
- timeliness: the process owner must have access to performance data when he/she needs it,
- easily understood terms: the company people must easily understand and explain any performance indicator,
- trust and credibility: the process owner and other users of performance data should fully rely on it from the point of data objectivity and competence of persons who perform data gathering and processing.

Read more in [ISO/TS 10004 Quality management – Customer satisfaction - guidelines for monitoring and measuring, 2010] for example.

When discussing building partnership principle, the most frequent risk is closely related to the partnership with suppliers: this mutual beneficial relationship is rather underestimated at most of Czech organizations. A lot of supplier chains operate on distrust and suppliers are perceived as enemies. On the contrary: partnership with suppliers is working relationship within supplier chain built on trust, sharing of knowledge and mutual integration, creating added value for final customers. The fundamental attributes of such partnership are:

- a high level of shared risks and effects are involved,
- win/win scenario is strongly preferred,
- intellectual property as well as knowledge is shared at high level of trust,
- both parties shall bring something beyond simple supply and demand,
- added value for customers is created jointly by all partners.

As a treatment for this risk I propose establishing a special part of company management system, called as partnership with suppliers program. Such program should be based on framework designed at figure 2. The figure is established on the process map platform: P1 – P12 identifies key processes within such program, explicitly:

P1 – Continuous improvement and development of partnership with suppliers program,

P2 – Communication with suppliers,

P3 – Administration of partnership with suppliers program,

P4 – Establishing policy and strategy related to suppliers,

P5 – Suppliers evaluation and selection,

P6 – Joint planning with suppliers,

P7 – Verification of purchased products,

P8 – Suppliers performance measurement,

P9 – Suppliers management system maturity assessment,

P10 – Defining requirements related to purchased products and suppliers maturity,

P11 – Suppliers motivation,

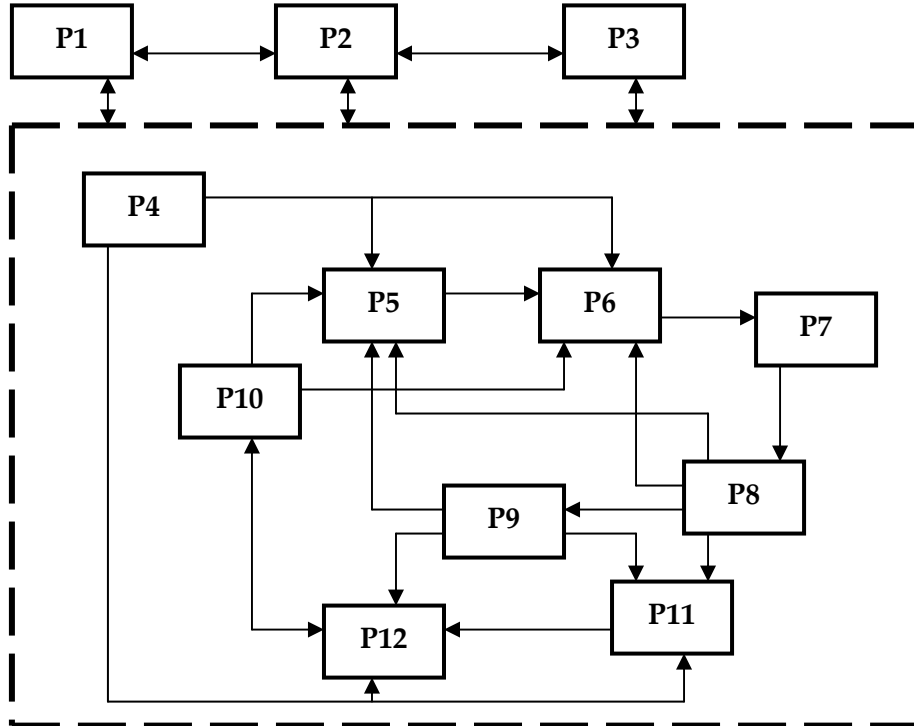
P12 – Suppliers continuous improvement.

The arrows at figure 2 describe mutual interrelationship among processes. One can find there all processes required by the ISO EN 9001 standard at clause 7.4 Purchasing [Nenadál J., Vykydal D., 2009, p. 11-25] there but another processes go beyond these requirements (e.g. joint planning,

mutual communication, suppliers motivation, continuous improvement of partnership, etc.)

Development of such program is considered as core strategic initiative and must be promoted by top management of organizations which play a role of consumers within total supply chain.

Figure 2. Framework of strategic program partnership with suppliers



Source: Own work.

There is no sufficient space to describe all risks related to quality management systems in this article. But of a piece: each risk can be seen from two perspectives:

- a) as a danger (downside risks) or
- b) as an opportunity (upside risks).

I tried only to show up some of the risks related to quality management systems performance. When searching a root cause of risks mentioned above, the general reason of occurring them is obvious: misunderstanding and underestimation of effective and fair management systems principles at top and middle management level - mostly caused by lack of relevant information. To ignore them means danger. We must not ignore

any feature of these risks! On the other hand: to aware them, it creates valuable opportunity for rapid and positive changes. The lessons learned from Czech environment lead to final idea: there are a lot of opportunities to eliminate dangers.

References

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Summary

The ISO Guide 73 as well as the ISO 31000 standard defines risk as effect of uncertainty on objectives. Any risk can be viewed as a chance of particular situation or event, which will have an impact upon organizations' objectives, occurring within a stated period of time.

In the field of quality management systems, current state at Czech organizations discovers lot of shortcomings in this area which can be changed to various managerial risks. That's why it is important to identify the most serious risks related to quality management principles before quality management systems establishing. Three of these risks are discussed in this article:

- customer loyalty and customer value aren't measured by systematic manner,
- there is used incorrect process performance measurement methodology,

- partnership with suppliers is rather underestimated, as these are recognized to be treated if we want quality management systems with high performance. The possible treatment approach linked to these risks is also mentioned briefly.

Keywords

quality management principles, customer loyalty, partnership with suppliers, process performance