

CHAPTER 1: INTRODUCTION

1.1 PROBLEM BACKGROUND

Many organizations have recognized that quality as the key customer value and critical success factor for achieving competitiveness. An improvement in quality is considered as the best way to enhance customer satisfaction, reduce operation costs as well as increase productivity (Schiffauerova & Thomson, 2006). In order to achieve customer satisfaction, an organization must be able to offer viable product not only at high quality but also at competitive prices (Arvaiova *et al.*, 2009).

The cost benefit has been the important factor of any continuous improvement programs since the objective of these programs are not meet customer requirement in terms of quality alone but to offer at the lowest cost possible. Therefore costs associated with achieving quality which is called as Cost of Quality (COQ) must be identified and measured (Schiffauerova & Thomson, 2006)

Failing to adopt COQ reporting has caused some organizations wasted their vast resources and money because they did not take advantage of opportunities to improve their cost of quality (Rodchua, 2009). Thus the ability to collect, quantify, measure and analyze quality related costs represents an important asset for companies since they can be used not only as a performance indicator but also as a quality improvement prioritization and cost reduction tool (Arvaiova, *et al.*, 2009).

Therefore measuring and reporting cost of quality (COQ) should be considered an important issue for managers (Schiffauerova & Thomson, 2006). Study by Dahlgaard *et al* as cited in (Setijono & Dahlgaard, 2008) has referred quality costs as an indicator (or a measure) of the effectiveness of quality management system and to identify of potential failures which will lead to identification of improvement opportunities

However, according to a study by C.C Yang (2008) most companies do not know the true cost of their own quality. Indeed although 82% of companies in United States are involved in quality programs, only 33% actually calculate the total cost of quality (Harry & Schroeder, 2000) and in north-east England 66% of organizations do not make use of quality costing (Prickett & Rapley, 2001).

In another study by Sower *et al.* (2007), only 34% of survey respondents systematically track quality costs and cited reasons for not tracking quality costs as lack of management support and inadequate information systems.

Recent study on the implementation of COQ in telecommunication sector in UK by Arvaiova *et al.* (2009) stated that only 3% of respondents implement and track COQ in their organizations and the reasons for not tracking COQ were current costing system able to monitor quality costs and the second reason was the

organizations were not introduced to the concept of COQ. The study also concluded that COQ reporting more prevail in manufacturing sector.

Adoption of COQ reporting in Malaysia, will be very much beneficial especially for manufacturing sectors since globalization and free trade zone has led to stiff competition from Thailand and China. As cited earlier through some other studies, key success factor for any organization is the ability to offer high quality products at competitive price in order customer satisfaction as well as loyalty to be remain in the competitive environment. Therefore, tracking and measuring of COQ without doubt will enable organizations in Malaysia to identify potential improvement areas to reduce costs, improve productivity and enhance customer satisfaction.

Despite COQ reporting has been regarded as an effective tool in quality management by many studies worldwide, none of studies in Malaysia has investigated the adoption and implementation of COQ reporting among organizations in Malaysia. Review of Malaysian studies shows, the studies had focused on quality management practices such as Total Quality Management (TQM) and ISO implementation alone in general such as studies by Quek and Yusof (2003), (Rahman, 2000; Garvin, 1991; Powell, 1995) and (Kamar Nasir & Mohd Zulkifli (2004).

Therefore being the first study in Malaysia, this paper will explore the adoption, implementation and issues in COQ reporting among organizations in Malaysia specifically in manufacturing sector. Without doubt, the finding in this paper will provide useful insight on COQ practices in Malaysia.

1.2 RESEARCH QUESTIONS

Based on problem identified in this paper, few questions developed in order to direct the purpose of this research and solve the problem defined in this paper. After going through research problem, several literatures and other information, three research questions were developed which will set direction for this research.

Three research questions of this research are:

- i. What is the adoption rate of COQ reporting among manufacturing companies in Malaysia
- ii. What are the underlying issues in adoption and implementation of COQ reporting among manufacturing companies in Malaysia
- iii. Does adoption of COQ reporting has benefited manufacturing companies in Malaysia?

1.3 RESEARCH OBJECTIVES

The objective of this research after looking into the research problem and research questions is to:

- i. To determine the COQ adoption rate among manufacturing companies in Malaysia
- ii. To determine what are reasons for manufacturing companies in Malaysia for adopting and not adopting COQ reporting
- iii. To determine what are the difficulties encountered during implementation of COQ reporting
- iv. To determine the perceived and achieved benefits through adoption of COQ reporting among manufacturing companies in Malaysia

1.4 SCOPE

This research will be conducted among organizations in manufacturing sectors in Malaysia according to classification by Federal of Malaysian Manufacturers (FMM) 2009 directory.

1.5 ORGANIZATION OF STUDY

This study is divided into 5 sections starting with introduction which will discuss the topic of study in general, looking into the purpose of the study as well as its importance and significance.

The literature review is the next section where previous studies regarding the subject will be studied and presented in a structured manner to support the study

The third section is the Research methodology involving the development of the hypotheses and selection of the research instrument which will involve the selection of measures, sampling design, data collection, procedures, and the data analysis techniques

The fourth section will focus on analyzing collected data and the fifth section will interpret and summarize the analysis of data