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Management of quality-related costs. The case of Portuguese companies

António Ramos Pires ^a, Aliona Cociorva ^b, Margarida Saraiva ^c,
Jorge Casas Novas ^d & Álvaro Rosa ^e

^a Polytechnic Institute of Setúbal, Campus do IPS, Estefanilha,
2910-761, Setúbal, Portugal

^b Polytechnic Institute of Leiria and GITUR, Santuário de Nossa
Senhora dos Remédios, 2520-641, Peniche, Portugal

^c University of Évora and BRU-UNIDE/ISCTE-IUL, Largo dos
Colegiais n.º 2, 7000-803, Évora, Portugal

^d University of Évora and CEFAGE-UE, Largo dos Colegiais n.º 2,
7000-803, Évora, Portugal

^e ISCTE Business School-IUL, Av. das Forças Armadas, 1649-026,
Lisboa, Portugal

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Management of quality-related costs. The case of Portuguese companies

António Ramos Pires^{a*}, Aliona Cociorva^b, Margarida Saraiva^c, Jorge Casas Novas^d and Álvaro Rosa^e

^a*Polytechnic Institute of Setúbal, Campus do IPS, Estefanilha, 2910-761 Setúbal, Portugal;*
^b*Polytechnic Institute of Leiria and GITUR, Santuário de Nossa Senhora dos Remédios, 2520-641 Peniche, Portugal;* ^c*University of Évora and BRU-UNIDE/ISCTE-IUL, Largo dos Colegiais n.º 2, 7000-803 Évora, Portugal;* ^d*University of Évora and CEFAGE-UE, Largo dos Colegiais n.º 2, 7000-803 Évora, Portugal;* ^e*ISCTE Business School-IUL, Av. das Forças Armadas, 1649-026 Lisboa, Portugal*

The traditional view of quality-related costs (QRC) tries to justify investment in prevention as a way to reduce the costs of failure. But this static view must counter a more dynamic vision that fosters continuous improvement and assesses the costs and benefits of implementing techniques and methods of quality management, such as certification of ISO 9001 systems. However, it is unknown whether such companies are also engaged in the management of QRC arising from activities undertaken, either at the level of monitoring, or coming from failures, and if such organisations verify (or not) the recovery of investments in quality. In this sense, the present article aims to provide insight into the procedures adopted by Portuguese companies in managing QRC, and to assess the extent to which management reports allow the analysis of quality costs and contribute to the related planning and control activities. The results of this study showed that there is hardly any assent to the implementation of formal mechanisms for planning and control of QRC, and to the explicit identification and segregation of those costs in management reports.

Keywords: quality-related costs; management; Portuguese companies

1. Measuring and evaluating the quality-related costs

Lopes and Capricho (2007) warn that the costs of poor quality are barely visible in companies which do not give them much importance, insofar as they are derived from the sum of large amounts of small deviations, which become a real iceberg of hidden costs where the visible portion may be the least important.

Gross margin and operating income grow whenever the quality system eliminates the costs of poor quality, to a greater extent than the total costs required for such a system to work and be effective (Crosby, 1994).

On the other hand, Robles (2003) argues that, by reducing waste, the company can generate resources to leverage its quality-improvement system and consequently the return on investment in quality would be obtained primarily by reducing waste. In addition, Srivastava (2008) has concluded in his research that quality-related costs (QRC) directly impacts the overall financial goal of a company. This author added that even a small reduction in cost of quality may boost the return on assets of a company by a significant amount.

The traditional view of QRC tries to justify investment in prevention as a way to reduce the costs of failure. However, this static view must counter a more dynamic

*Corresponding author. Email: antonio.pires@estsetubal.ips.pt