

# Quality - a Factor for Competitiveness Improvement for Small and Medium Enterprises

**Ion IONITA**

[ion\\_ionita@yahoo.com](mailto:ion_ionita@yahoo.com)

*Academy of Economic Studies Bucharest*

**Florin POPESCU**

[apopescuflorin@yahoo.com](mailto:apopescuflorin@yahoo.com)

*University Valahia of Targoviste*

**Ioan DONE**

[done.viorica@yahoo.com](mailto:done.viorica@yahoo.com)

*Petroleum and Gas University of Ploiești*

**Jean ANDREI**

[andrei\\_jeanvasile@yahoo.com](mailto:andrei_jeanvasile@yahoo.com)

*Petroleum and Gas University of Ploiești*

**Mirela MATEI**

[mirematei@yahoo.com](mailto:mirematei@yahoo.com)

*Petroleum and Gas University of Ploiești*

**Jonel SUBIC**

[jonel\\_s@mail.iep.bg.ac.rs](mailto:jonel_s@mail.iep.bg.ac.rs)

*Institute of Agricultural Economics, Belgrade, Republic of Serbia*

## **Abstract**

The impact of quality management on microeconomic systems is major. The integration into the European Economic Area requires a comprehensive process of compliance to European policies and practices, including implementation of quality management system. The dominance of the small and medium enterprises sector in the economy requires a specific action framework, the quality having a fundamental role. Only those operators who have implemented and certified a quality management system can valorize on their goods and services in the European market. Acting on the potentials' sphere, quality becomes a crucial resource for economic success. In this context, the authors aim to analyze the impact of implementation and certification of quality management on the progress of Romania small and medium enterprises in the context of diversification and globalization of the emphasis of European and world markets.

**Key words:** certification, quality management, quality strategy, and globalization

**JEL:** C88; M13

## **1. Quality management. Short considerations**

In terms of diversification of the business environment and increasing competition, the quality is currently an important tool for the substantiation of decisions, and in our opinion, is the most important factor in increasing economic competitiveness of Romanian companies. The relationship quality - competitiveness is determined for any business because we notice that the needs of clients have been varied. Today is no longer enough to satisfy the consumers' needs, but must get the maximum results by exploiting their inclinations for the novelty of product. The quality increase must turn, therefore, in the growth of competitiveness.

Currently the requirements for quality in the EU have increased greatly, it is considered that customer satisfaction is not sufficient to overcome the expectations of promoting the concept, "Beyond Customer Satisfaction". According with this concept, the offered product must exceed customer requirements and the customer must be enthusiastic about the characteristics of the merchandises available on the market. Under these conditions, in our country, in which micro and small enterprises represent 99.73% of the total number of enterprises, the implementation of quality systems became the main condition for survival. (*I. Ionita, model design and redesign processes for implementation of quality management system in SMEs, Journal of General and Applied Economics, No. 8*).

Therefore, with the diversification of trade relations of Romania, it is necessary more than ever to adopt measures to harmonize the quality conditions of Romanian products in order to make them more attractive for export. The relations with the European Economic Area are more than a determinant of compliance with mandatory regulatory requirements of EU policies and instruments of quality management. The delivery and selling of products and services within the European Union must comply with strict European quality standards that are models for assessing the correlation of the degree requirement of consumers.

Approach of quality policy at European level has its roots in creating the European Economic Area dominated by the single market freedoms, which require the adoption of specific policies, uniform for all agencies that operate in its. Competition and the classical laws of the economy are now doubled by new requirements designed to increase the competitiveness of the economy of the European Union. In this connection, the first steps in the technical harmonization were materialized by the decision of the Council of Ministers in 1985 in order to reduce the legislation and to "New Approach". The same challenge is facing the Union today, however, because of the increasing the volume of regulations that are adopted and must be put into practice including quality aspects. With the appropriate legal instruments - regulations, directives and decisions – the EU quality policy quality is bonded and must to be applied as such.

In this context, the European Quality Promotion is designed to create a favorable environment in which companies and public administrations must attain excellence in products and organization, in the interest of clients and society. Through this policy, the image and the European culture of quality is intended to be created in the general context of the development of competitive systems, in each European country, which requires integration and harmonization with the European social space. The organizations for quality certification become guardians "of compliance with quality requirements because we assist at the development of tools and resources, both technical and human, qualified to promote quality in partnerships with economic on vertical line and with other entities in a horizontal approach.

At European level, the issue of quality management is a very current problem and it is indissolubly linked to other size of business success: the competitiveness. The efforts made in this regard were materialized particularly in the communications of European Commission in its White Paper entitled *Growth, competitiveness, employment* that recognize the role of quality as a driving force in the achievement of economic activities which generate high gross value added.

As states and in the European Union's documents, „*the standardization plays an essential role in stimulating competition and growth of SMEs by increasing product quality and consumer confidence. For this reason, the Commission increases the amount of financing aimed at supporting the participation of experts representing the interests of SMEs in the process of developing European standards.* "(European Commission, COM (2007) 592 final, Brussels, 4.10.2007).

## 2. The role of SMEs in the Romanian economy and community

In Romania, the development of small and medium enterprises sector known new valences in the context of instability of the national economy. Taking in account that the backbone of an economy lies, mostly, on the quality of agents who act on the market, SME policy resulted in a direct and active support from the public authorities. At European level, approaches regarding the support policy of SME sector acquired new valences, when in March 2008, European Council sustained an initiative of the European Commission entitled "Small Business Act (SBA) for Europe", which has the objective of strengthening sustainable growth and competitiveness and the set up of a coherent framework of action for this sector.

Also, an approach of the European Union states that *"Despite encouraging progress, the EU will have to take other important steps that the potential for SMEs to be fully exploited. In general, SMEs in the European Union still have lower productivity and slower economic growth than those of the United States. In this country, survived enterprises increase, on average, their assets by 60% during the first seven years of existence, while in Europe; the increase is around 10% - 20%. SMEs must face to market's disruptions, which worsen their working conditions and competition with other actors in areas such as finance (especially venture capital), research, innovation and environment.* (European Commission, Consider first the small "Priority for SMEs A" Small Business Act "for Europe, COM (2008) 394 final).

The identification and applying of best practices developed at European and international level bring, in the first stage, diverse problems from methods and techniques of production, the qualification level of personnel and the projected level of production, to the qualitative dimensions of activity. The efforts do not stop here however and the experts try to define and implement, at company's level, the concept of "quality work" and to construct a specific indicator for measuring this kind of quality at European level. This indicator should accurately reflect the changes taking place at the micro level and the impact on productivity growth, leading to methods of improving the quality of professional life for employees. Germany is the first state falls into this trend, promoting the new initiative on quality of work - **INQA**.

## 3. The place of implementation of quality management policies between the priorities of development of SMEs in Romania

According with a recent study conducted by National Agency of Small and Medium Enterprises (NASME) in 2009, regarding the main competitive advantages of SMEs, the quality of products / services offered is the essential factor that differentiate companies as shown in Table. 1

### The differentiation of competitive advantage of small and medium enterprises according with organization form

Table 1

Rank	Competitive advantage	Joint stock company	Limited liability company	Other types of enterprises
1	Quality of products and services offered	67.35%	64.77%	62.20%
2.	Price/quality ratio	42.86	41.43	31.92
3.	Distribution channels used	16.33	6.30	4.88
4.	Quality of practiced management	4.08	2.48	8.54
5.	Innovation capacity	4.08	4.55	4.88
6.	Company reputation	12.24	10.43	7.32

Source: *The white book of the small and middle enterprises in Romania, 7<sup>th</sup> Edition, 2009, CNIPMMR, Bucharest*

The analysis by sector shows that the SMEs which attach the greatest importance to quality of products / services offered are those of tourism (72%), while the lowest importance is given by trade companies (61.72%). Regarding the price / quality ratio, the percentage is the highest in building businesses, and the lowest in tourism. As for the innovative capacity, the percentage is the highest in the services sector (8.82%) and lowest in trade field (3.35%).

This study shows that among the management priorities of SMEs, the implementation of quality management system is found in only 32.2% of firms, a percentage that is below other concerns such as the acquisition of new equipments 36.31%, the diversification of production 41.95% or the boost of the marketing activity 58.14% of companies included in the study etc.

The Differentiation in the development priorities of SMEs is depending also on their age. The table 2 shows this situation.

**Table nr.2**

Rank	Measures for economic activity's increase	under 5 years	5-10 years	10-15 years	over 15 years
1.	Introduction of quality systems	29.85%	30.72%	37.23%	36.36%
2.	Acquisition of new technique	35.97%	38.26%	39.42%	32.06%
3.	Diversification of production	37.76%	42.61%	48.18%	45.45%
4.	Amplification of the marketing activity	58.93%	56.81%	56.93%	61.72%

Source: *Situation and needs of small and medium enterprises in Romania*, NASME, 2007

Regarding the main competitive advantages that entrepreneurs consider that they have over competitors, the quality of products / services offered is in first place being indicated by 64.70% of companies analyzed, while other benefits such as price-quality ratio in 41.31% of enterprises, innovation capacity (4.55%) or quality of practiced management (3.0%) have a much less importance.

#### **4. The situation of implementation of quality management in small and medium enterprises**

The evolution of the economic environment from the European Union is marked by profound economic transformations. The diversification of production, refining demand, increasing customer demands to offer of companies have contributions, on the background of globalization of national economies, to the increased polarization phenomenon of decision's centers. Without remains immune to these phenomena, the Romanian economy is subject to important structural transformations, and economic operators are in an accelerated process of organizational and management changes in order to redefine the position and role they have in the market. The integration into the European economic space entails sustained efforts of local businesses to adopt and implement measures of economic policy, including policy for quality products and services used on the market of the European market.

Although this phenomenon is manifested intensively at all levels of the economy, there are still many companies carrying on a predominantly stereotypical without possession of an appropriate business strategy, enabling them to obtain a high profit, that can reinvest in further diversification of production and a strengthening competitive position on market. The survival and development of small firms under conditions of **tough** competition, on the EU market is only possible when enough efforts have being done, including in financial field, for some products that have to meet increasing customers needs, particularly in quality sector.

Thus, the quality turned into a very important resource for companies. The companies do not produce any longer and anyway, but only those goods and services that meet higher level of requirements. A consequence of increasing interest for quality problem is the development and application of quality management system, which became part of the general management of the company.

Implementation of quality management at companies level has been achieved in the context of increased expectations of products and services valued by the European Union market, where the certification in terms of quality has become the prerequisite to act in this market. So, the certification of quality works as a restriction at the entry on this market. Taking in account the experience of developed economies like the U.S. and Japan, many companies, even if they have programs for well-designed quality control, use of certifications in ISO quality system to increase the credibility they enjoy international markets.

### **5. State certification of quality systems in SMEs and in the sectors of activity**

The certification of quality systems in the small and medium enterprises constitutes a central element in ensuring a favorable competitive position in the market, unfortunately, the Romanian economy and companies, this fact is not fully realized. Regarding the situation of the certifications achieved, according to a survey conducted in 2007 by us, only 52% of SMEs have introduced a quality management system, and 10.6% of companies are in an implementation process. The survey highlighted a direct correlation between class size of the enterprises and the certification of quality management system.

The best situation is specific to medium enterprises where more than 50% of them have implemented or are implementing the quality systems. The micro enterprises have a situation that is practically difficult to correct in a short time, and this case is serious because they represents 88.43% of SMEs As regards the categories of quality systems certified, from 42% of the SMEs that have implemented quality systems, 75.3% are in category of standard ISO 9001 and only 34.7% hold certification on environmental standard ISO 14000.

### **6. Perception of quality by managers of firms**

Trying to find an explanation to this situation of the SMEs in our country, we preceded to an interview the managers of SMEs from Bucharest and Dambovita county. Conclusions drawn from the study show that a good part of the managers of SMEs surveyed are unaware of the beneficial effects of quality management system on profitability and long-term development. They accept the quality as a socially desirable goal, but its contributions to business profitability are considered marginal. Another part of the managers have appreciated that implementation of a quality management system is beneficial only to large enterprises.

This perception is due to wrong concepts on which we stop below.

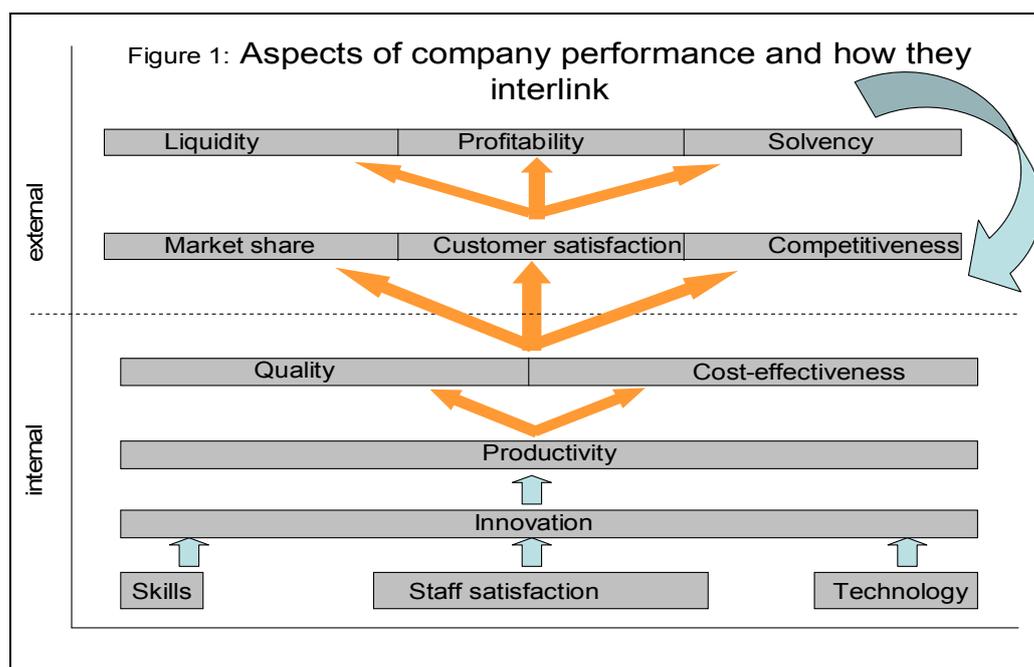
**a). The quality is expensive;** this is the most widespread concept on quality. Obviously, the concept is false. The researches carried out on mechanism of design and implementation of quality and manufacturing processes have shown that higher quality does not always cost more. In this respect, it is important to understand what constitutes a quality of a product in the modern mass production. Based on market requirements, the quality is first defined and translated into a project, which is then materialized into a real product through a manufacturing process. Of course, this means investing more resources in research and development but the

result is the increase in product quality and thereby increases of market outlets. At the same time, the improvement of manufacturing processes may generate an increase in labor productivity and a substantial reduction in the medium costs of production, which will permit the pay back of the additional investment and the **record of net profit**.

Confirming the historical experience of the increasing competitiveness, the Economic and Social Committee noted in the notice on promoting sustainable productivity of labor in Europe:

*„In Europe, the economic growth has traditionally depended on the volume of employment, level of investment in means of production and increasing level of education. This model no longer works today as well as in the past [...] For enterprises, the productivity growth is crucial, as is the key to their competitiveness. Because global markets in good measure, determine prices, and productivity cannot increase indefinitely by traditional investment in machinery and equipment, other means must be used. In this respect, it is consider that quality becomes a decisive factor in ensuring the growth of competitiveness for companies. The investment in quality implies a broader process of reconfiguration of mentalities rather than the processes of production itself.*

Schematically, the grade of company's performance of a company is shown in Figure 1



Source: Adapting from European Economic and Social Committee, Promoting the durability and productivity of the work in Europe, 2007

According to a U.S. study on the relationship between quality, market share and investment recovery, for the 1200 companies, the result was that, for the same market share, the payment back of investment increases proportionately with the level of product quality and the value added by a quality management system exceeds the resources that a company allocates for this purpose.

Also, by implementing quality system in Romanian, a new culture develops, „Competitiveness's culture through quality”, which in turn develops the general management of the organization, enriching it with quality management.

The development of quality Romanian culture, the companies have another chance to become competitive in relation to competitors in the EU and, for the Romanian state, the quality becomes a crucial factor in enhancing prosperity and international respect.

**b) The focus on quality creates a reduction in labor productivity** – that is a concept encountered very often among the leaders of organizations, who say that quality is obtained only if the quality is reduced. This view is a legacy of the period when quality control is exclusively a physical inspection of the finished product. However, currently, in terms of quality control, the preoccupations consist in prevention of unconformities from design and manufacturing stages; in this way, from the project initiation, manufactured defective products cannot be obtained. The efforts to increase the quality and to maintain the quantity have become complementary with high productivity.

**c) The quality is affected by poor training of the workforce** – that is an excuse that some manufacturers often invoke to justify the poor quality of products, by blaming the lack of training and conscientiousness of workers. Such an assertion is correct, and the workers may be responsible for the quality achieved only if the leadership provides the staff training in this regard, has thoroughly instructed workers about what to do, has established a means of verification or evaluate the results and has provided means to adjust equipment or processes in situations where results are found unsatisfactory.

**d) The quality can be ensured only through a strict verification** –that is saying many producers. It is known that verification was the first formal mechanism for quality control and most manufacturers still believe that strict verification can improve quality. The verification itself only leads to good separation of good parts from the scraps. Several studies have shown that 60-70% of the deficiencies found in the sections of production are assigned directly or indirectly to gaps in areas such as design, technology, supply and that almost all activities of inspection and quality control are directed to the sections production, the design being out of control.

The current situation of SMEs from our economy emphasize that most manufacturers or suppliers who wish to carry quality products make effort in order to verify and fix defects and scraps during manufacture's processes. But as we said, the control cannot resolve the quality product, it depends on how the product was designed and manufactured. Therefore, the awareness of quality should start from the idea of designing a product, when the customers' needs are identified. This conscious effort to achieve the quality must pass through different stages, from design to manufacturing and delivery, and even the consumer, the ultimate aim being to obtain a favorable reaction from consumers.

Today, with more in the future, the major manufacturers in Europe and North America require suppliers to prove their capability to produce the required quality and meet the commitments and deadlines for delivery. Therefore, the quality system ISO 9001 in SMEs from Romania, who mostly do the export of products components, has become an inevitable necessity for start and support a business on international markets.

**e) The Standards ISO 9000 can be implemented effectively only within large enterprises because this activity is involving the preparation of a specific documentation, that is not feasible in small businesses.** This erroneous assessment was invalidated by the experience in England and Japan, which have the largest number of companies certified on family of standards ISO 9000. Even if SMEs do not get benefits, in absolute terms as important as the

large companies, the yield of investment for implementing the quality system is high due to the advantages they have; these advantages allow them to implement easier and more efficient a system of quality management.

These advantages can be summarized as follows:

- ✚ high reaction speed, since the innovative ideas are implemented in a faster pace;
- ✚ reorientation and training of staff for work with the new procedures and methods are more easily achieved;
- ✚ channels of communication and information circuits are shorter and simpler;
- ✚ there are fewer bureaucratic procedures involved between the innovative idea and market;
- ✚ Employees quickly acquire the ability to make decisions as a result of the authority and responsibility granted to them more easily than in the case of large enterprises;
- ✚ Employees tend to form teams with a greater cohesion than in the case of large enterprises.

## **7. The benefits of implementation and certification of quality management system**

The implementation and the certification of quality system in the companies bring a number of important elements. At the level of a company, the determinants for implementation and the certification of quality management system are multiple and its can be external and internal reasons.

In the category of external reasons, we can enumerate a series of determinations. For example, more and more customers and business partners requires to suppliers the submission of evidence of the existence and effective functioning of the system of quality management as a guarantee of the application of standards and performance achieved by the company. The certification of the supplier on quality management system ensures the credibility of clients that this company has the conditions to fabricate the products according with the requisite parameters.

In addition, the certificate of quality has now become a crucial element in concluding contracts, especially those made by the public auction. According to the text of Article 33 of Directive 92/50/UE of 18 June 1992 on the coordination of procedures for the granting of orders in the public sector, some restrictions are established for public institutions to entrust enforcement to work only to firms that have been certified based on series of standards ISO 9000 by an accredited certification body. This restriction was imposed, in the meantime, in our country, through Law 337/2006, which was at the base of approval GEO nr.34/2006 on award of tender, the transfer of public works and concession contracts for services.

In conclusion, it can be said that external motivation for implementation of quality certification system is the need to establish a relationships of trust between customers and suppliers (with consequences for reduction of obstacles for the international trade) that only a quality system certificate is able to provide.

In the category of internal determinants to implement and certify a quality management system can mention more considerations. Firstly, through a certification audit is confirmed the functionality of quality management system and, its ability to prevent production of unconformities, to reduce afferent costs and to achieve permanent improvements. The auditors of certification bodies examine the system from the required distance, i.e. objective, because

they have considerable practical experience. Initiatives resulting from the audit process may contribute to permanent improvement of quality management system.

Secondly, the certificate and the competitiveness associated have a direct influence on employees' work, because its existence determines the perception of employees on the work's results. The building of a functional quality management system, the development of this system until maturity required by certification and the positive evaluation carried out by an external body recognized bring with its a motivation of the company staff.

## 8. Conclusions

The increasing diversification of the business environment and the intensification of competition make the quality of products/services the most important factor in ensuring economic competitiveness. Therefore, the integration in the European Economic Area involves efforts from local businesses to adopt and implement a quality policy to promote quality management systems. Given the conclusions of the studies presented, and the reality of our economy, we can finally make some general remarks about the benefits of certification of quality systems based on ISO standards.

The certification of quality system by independent bodies with a recognized prestige may constitute evidence of the superiority of the organization over the competition as a result of the existence of an effective quality system, capable of ensuring, in a constant mode, the production of goods that meet the requirements of customers.

A certificated quality system provides greater confidence to the organizations leaders that all processes and activities are kept under control, and the results obtained will be included in the forecasts made.

By implementing the quality management standard based on ISO 9001:2008, standard, the Romanian SMEs will be included in the overall trend at domestic and international level: the increase of competitiveness by assurance of the quality of products, services and works executed, which will enable increased efficiency and gain a better place on the EU market.

If for some organizations in our country, these advantages were not manifest at the level of expectations, the cause does not reside within the quality system, but how it was put into practice. The certification of the quality system of a firm does not mean automatically that all products and services delivered will have no deviations from the requirements set. Such a certificate can only show that conditions for conducting the processes of organization was provided, from research to market to operational supervision of the beneficiary to meet the conditions of certification. After certification, the organization must be made continuous improvement efforts of all processes, avoiding the appearance of unconformity on the entire cycle of manufacturing and shipping of the product.

### References

1. Ioniță, I. (2008), *Managementul calității și Ingineria valorii*, Editura ASE, București.
2. Ioniță, I., Dobrin, C., Mielă, M (2006), *Model de proiectare și reproiectare a proceselor pentru implementarea Sistemului de management al calității în IMM*, *Revista de Economie Teoretică și Aplicată*, nr.8
3. Ioniță, I.(2005), *Proiectul Legii Calității Educației-opinii*, *Economistul nr.1866*
4. Kondo, Y.(2003), *Managementul total al calității - modelul japonez*, *traducere din limba engleză*, Editura Nicolescu, București

5. Koller, J., K. (1995), *Total Quality Management in Service Industrie, European Masters Programme in Total Quality Management, University of Kaiserslautern, Germany*
6. Kélada, J. (1990), *La gestion integrale de la qualité. Pour une qualité totale, Québec, Edition Quafec*
7. Masaaki, Imai (2006), *Gemba Kaizen, traducere din limba engleză, Editura Finmedia, București*
8. Peter S. Pande, Roberd P. Neuman, Roland R. Cavanagh (2000), *The Six Sigma Way. How GE, Motorola and other top companies are honing their performance, McGraw-Hill Companies, Inc*
9. xxx Comisia Europeana - Comunicare a Comisiei către Consiliu, Parlamentul European, Comitetul Economic și Social European și către Comitetul Regiunilor - Rolul fundamental al întreprinderilor mici și mijlocii în favorizarea creșterii numărului locurilor de muncă. Evaluare intermediară a politicii moderne în domeniul IMM-urilor, COM(2007) 592 final, Bruxelles, 4.10.2007
10. xxx Comunicarea Comisiei către Consiliu, Parlamentul European, Comitetul Economic și Social European și Comitetul Regiunilor - „Gândiți mai întâi la scară mică”: Prioritate pentru IMM-uri Un „Small Business Act” pentru Europa, COM(2008) 394 final, {SEC(2008) 2101, Bruxelles, 25.6.2008
11. xxx Comitetului Economic și Social European, Avizul privind promovarea productivității durabile a muncii în Europa, Bruxelles, 26 septembrie 2007