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CHALLENGES TO INTEGRATING REQUIREMENTS OF THE QUALITY MANAGEMENT SYSTEM INTO AN ORGANISATION'S STRATEGY

KOMPLIKACIJE POČAS INTEGROVANIA SYSTÉMU MANAŽÉRSTVA KVALITY DO ORGANIZAČNEJ STRATÉGIE

Abstract: *The article explores challenges in integrating the requirements of ISO 9001:2015 within organisations and their related existing systems. The author has gathered information from twenty-two organisations, where data have been collected through the external audit process. The results have been discussed to see if the organisations with fully integrated systems have been more successful in achieving their goals. The paper ellaborates on the most critical areas such as objectives and targets, Key Perfomrance Indicators, stakeholders and risks. Based on the research, the author has concluded that only one out of the twenty-two organisations has a fully integrated system in place. Moreover, the research has confirmed the hypothesis that organisations with fully aligned systems tend to better achieve their established goals.*

Keywords: *Audit, Business, Management, Objectives, Organisation, Strategy*

Kľúčové slová: *Audit, Business, Management, Cieľ, Organizácia, Stratégia*

JEL: L 10, L 15, L 21

Introduction

The image of quality has been shaped by both supply and demand sides through industrial revolutions, globalisation and information technology for over decades. The phenomenon of seeking common quality denominators has become relevant only since the customer "centrification" (customer is the driving force of organisations' activities).

The shift of the influences and power from suppliers to clients have stipulated new trends and re-defined customer service and its value in the market (Slater & Narver, 1994). Hence, the new quality paradigm has become a multi-dimensional model consisting of diverse factors which embody the overall quality concept.

Subsequently, the archetype of the organisation-client relationship has been refined to allow for collaboration and focus on synergies. This supply-demand cooperation process is being further enhanced by new emerging markets - catalysts that facilitate the collaboration through a variety of products and services such as customer relationship management (CRM) database, business intelligence (BI) tools, data analytics, social platforms or frameworks that advance organisations' capabilities to improve customer relationship and satisfaction.

For those organisations looking to develop value-adding products or services and exceed customers' expectation, the international quality standard ISO 9001:2015 has become a globally sought framework across industries. Therefore, achieving certification to ISO 9001:2015 reflects the organisations' ongoing commitment to their customers and superior output. However, from the organisations' perspective, achieving certification to ISO 9001:2015 could be a confronting experience as developing a new system could collide with well-established habits, culture and operations.

The case study looks to explore the challenges of small to medium size organisations in the Australian and New Zealand markets related to the integration of Quality Management System into the existing organisational strategy. The case study examined 22 organisations across industries that have achieved certification to ISO 9001:2015 and analysed the output of their external audits. The results have then been analysed and compared with organisations overall success in achieving their objectives. The goal of the paper is to investigate whether organisations with fully integrated systems are more effective in achieving their targets compared to those businesses where the quality system has not been fully integrated. The paper builds on academic literature, case studies and utilises quantitative and qualitative data.

Quality Management System Overview

Achieving certification to ISO 9001 illustrates a significant milestone and evidence that organisations not only provide quality service or produce a quality product, but continuously meet markets' expectation in a turbulent environment (Ilkay et Aslan, 2012). The standard defined quality of product, process or service through intrinsic principles that manifest critical quality components. By adopting those requirements, organisations anticipate attaining both financial and non-financial benefits.

For instance, Novokment and Rogosic (2017) argued that certified and mature Quality Management Systems provide organisations with long term financial effects (earnings before interest and tax and return on asset) as opposed to organisations with the less mature developed systems. The selected organisations in this case study claimed that achieving certification resulted in immediate impact in the areas such as organisational knowledge, risk management and planning activities.

Developing or improving management systems is a complex process that involves the entire organisations and their resources. It is expected, that the systems of organisations committed to the certification process would keep evolving to reflect organisations current operations. However, this is not to say that increasing complexity of the businesses should result in more complex management systems.

On the contrary, the systems should stay intuitive and simple to support relevant activities in organisations. Therefore, the author looks not only to explore the challenges that organisations face when adopting the quality management system but will attempt to answer the following question: “Would organisations with fully integrated systems be more effective in achieving their goals compared to those organisations where systems misalignment has been exposed?”

Integration of the Standard Requirements with Existing Arrangements

This chapter will discuss organisation strategy and its interrelationship with the requirements of ISO 9001:2015. The objectives of this chapter are to develop an awareness of strategy principles and identify the critical areas of activities that should be considered when adopting standard requirements to ensure strategy and operations alignment.

Wheelen and Hunger (2000) defined a strategy as a plan for achieving the established objectives of a business. Further, Kaplan and Norton (2006) asserted that successful business strategy requires developing layers at three levels; corporate, business and functional with defined a connection throughout these levels. A similar perspective was provided by Sohrab et al. (2013) who branched the strategy into business and operational level where the role of business strategy is to achieve a competitive advantage in the market whereas operation strategy is considered as core competency generating profit activities (Schroeder et al., 2011).

ISO 9001:2015 exhibits a similar hierarchy that identifies the organisational and operational levels. However, the standard does not clearly classify such composition; the categories could be apparent when analysing the requirements in detail. Although the majority of the requirements of the standard are focused on the operational level (International Organisation for Standardisation, 2015), to ensure the system functionality, both the organisational and operational levels must be aligned.

Objectives and Key Performance Indicators

Based on the analysis of the selected twenty-two organisations, the audit reports have highlighted that sixteen companies (approximately 75 per cent) failed to fully align newly developed quality elements with existing business strategy which includes mission, vision, objectives and targets (goals) and key performance indicators (KPI). This concern proposes a theory that newly developed strategy elements have not been integrated with either existing arrangements or have not been accounted for being a component of a larger system.

Firstly, the misalignment with organisation’s mission and vision might reveal the fact that organisations do not consider their direction when developing a strategy as well as those fundamental artefacts that have not been communicated and effectively implemented. Ignoring the organisation’s mission and vision, in reality, could lead to a diversion or at least an operational distraction from the established direction. For instance, organisation pursuing tenders that are not aligned with their capabilities or does not fit into the service or product portfolio. A genuine mission and vision not only allow for visualisation of the company's future (Ozde, 2011) but provide a framework for all company’s actions.

Secondly, the reports identified that the quality objectives do not provide support to the overall strategy and that lower-level objectives do not contribute to the overall goals. The evidence suggests that the quality objectives have been established aside without the involvement of other relevant stakeholders from different areas such as marketing, human resources and finance.

Scholars claim that aligning objectives and strategy is necessary for improving organisational effectiveness (Kaplan and Norton,1992; Joshi, Kathuria, & Porth, 2003; Walker, 2013) and should occur throughout the business, process, communication, structure, leadership and management. The absence of effective alignment could result in strategy disruption in different business functions. For instance, a misalignment of human resource strategy when developing a training plan could result in inadequate organisation competence.

Likewise, an identical issue has been identified with organisations' individual KPIs that do not provide support and do not directly contribute to objectives and targets. In other words, the organisations' emphasis on targeted areas does not contribute to the overall results due to lack of interrelationships throughout the strategy layers. According to the research fellow at the MIT Sloan, Michael Schrage, KPIs are the most important data that the organisation shall monitor (anonymous, 2018).

Based on the global study released by MIT Sloan in June 2018, 70 per cent leaders out of 3200 companies agreed that functional KPIs are critical to meet and improve customer satisfaction. Moreover, aligning KPIs through the business allows for more effective changes in an organisation related to operations, culture and strategy. In reality, organisations' focus on misaligned KPIs with company's goals could result in pursuing different priorities or distracting business from its core functions.

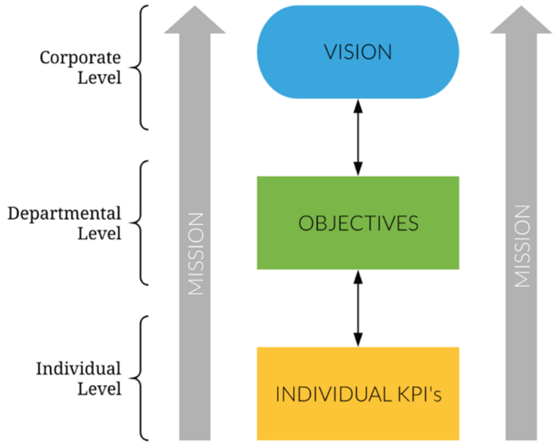

Figure1: (Teply, 2019) Illustration of strategy alignment among elements in corporate, departmental and individual levels.

Stakeholder analysis and the role in the organisational strategy

Another specific requirement of the standard refers to identifying internal and external stakeholders and their needs and expectations. This was yet another area of concern pointed out in the case study, where approximately 90 per cent of the selected companies did not fully integrate their identified parties into operations. The evidence suggests that organisations often do not utilise the full potential of stakeholder's analysis. It seems that the outcome is another passive record filed in the system which could be a valuable input for organisations' strategies.

The importance and benefits of stakeholder strategy were emphasised by PWC, that highlighted the fact that nine out of ten leading organisations understand the importance of the stakeholder's alignment (Anonymous, 2016). For instance, forming effective stakeholder's strategy during a complex transformation or developing an engagement plan is fundamental for achieving the company's objectives. Underestimating stakeholder's analysis could result in unidentified opportunities or ignoring critical risks.

Organisational risks

The last inefficiency indicated that 80 per cent of studied companies failed to integrate operational risks with their existing arrangements. This also relates to ineffective risk management.

- Firstly, the reports stressed that organisations have not considered all business functions and activities when identifying risks.
- Secondly, identified risks have been poorly controlled and have not been implemented from bottom-up.

The reports often refer to a lack of identifying risks especially in internal projects for internal clients where organisations did not apply a risk-based approach.

For instance, Shochat and Fallen (2012) emphasised that strong operational risk management shall consider organisational structure, Projects in-flight or planned, Internal processes and policies, External compliance requirements, Reporting tools and processes, Communication standards and IT infrastructure to develop robust and reliable risk management. The authors claimed that identifying risk may require skills that are not present in the company and that the business needs to engage an external party. For instance, risks identified in complex projects often consider core activities; however, risks related to project delivery itself are often overlooked. Those risk could include, infrastructure, resources, skills, engagement plan, interface management, and so forth.

Achieving objectives

Formal management review meetings have been completed across twenty-two companies. The objective of the Management review meetings was to analyse and evaluate the system alignments based on the results of external audits and measure the impact on achieving objectives and targets.

In order to compare the results, measurable objectives and targets have been established across three areas; finance, operations and product and service quality (errors, non-conformances). For the simplification, the individual percentages have been averaged to indicate the overall achievement in the first column (see Fig. 2). The second column indicates whether the systems have been fully integrated based on the results of external audits.

Organisation	Overall Objectives Achieved [%]	Systems fully aligned/integrated?
Organisation 1	78	NO
Organisation 2	68	NO
Organisation 3	79	NO
Organisation 4	45	NO
Organisation 5	80	NO
Organisation 6	82	NO
Organisation 7	63	NO
Organisation 8	94	YES
Organisation 9	51	NO
Organisation 10	59	NO
Organisation 11	65	NO
Organisation 12	81	NO
Organisation 13	77	NO
Organisation 14	76	NO
Organisation 15	59	NO
Organisation 16	68	NO
Organisation 17	50	NO
Organisation 18	82	NO
Organisation 19	73	NO
Organisation 20	61	NO
Organisation 21	55	NO
Organisation 22	60	NO
Average	***68***	***N/A***

Maximum	***94***	***N/A***
Minimum	***45***	***N/A***

Figure2: (Teply, 2019) Organisations' results of achieving overall objectives and targets in percentages

Discussion

Overall, the case study has revealed that seventy-five per cent of studied companies did not align their quality objectives and targets with their existing goals, KPI's and mission and vision. Ninety per cent of the organisations did not integrate stakeholders in their arrangement, and eighty per cent of the companies did not align their organisational and operational risks with business functions. Only one out of the twenty-two businesses has fully integrated its systems.

The study also confirmed that the only organisation with integrated systems has achieved ninety-four per cent of established goals which is approximately twenty-eight per cent more than the overall average. This includes financial and non-financial objectives and aspirational goals. The limitations of the study shall consider the following.

- Firstly, the higher achievement could reflect a lower risk appetite which could result in developing more realistic objectives and targets.
- Secondly, different industries and sizes of business could result in different maturity, skills, commerce knowledge and resources available and therefore achieving better results.
- Thirdly, the sample size could limit the research and interfering the result onto the population could be misleading. Therefore, the author proposes that another study could include a more significant sample with specific groups that would represent different industries.

Conclusion

The literature indicates that achieving ISO 9001:2015 benefits organisations form different perspectives. For instance, improving clarity on processes and procedures, increasing customer satisfaction, enhancing control of business activities, developing awareness of the external environment and more importantly adopting a systematic approach to perform business operations.

The case study demonstrated that organisation strategy could be more effective if all elements are mutually supportive and aligned towards a single direction to deliver impact. In this example, the organisation with fully integrated systems with existing arrangements has achieved approximately 15 per cent more objectives than those with misaligned strategy components. The case study also highlighted the importance of interconnections and the involvement of all stakeholders to enhance the process of integration through the business.

Moreover, the relationship among individual elements should be flexible enough to allow for amendments whose impact should consider all the relevant consequences. Although achieving certification is an important milestone, the organisations' arrangements need to be logical and complement the system as a whole.

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