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MEASURING THE EFFECT OF QUALITY MANAGEMENT PRACTICES ON COMPANY FINANCIAL PERFORMANCE - A CASE STUDY ON IKEA

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ABSTRACT

Total Quality Management (TQM) is a process that enhances the continuous development of products and service quality to get customer satisfaction and promote the productivity. Quality management is managing all the activities which determine the quality policy and how implementation by the quality planning and quality assurance. It has a big role to improve and develop the performance of the organization. Therefore, this study investigates the effect of quality management practices on company financial performance. This research used both qualitative and quantitative approaches such as literature review and questionnaire. There are about 53 respondents from IKEA Company, Saudi Arabia had participated in this study. The questionnaire is used to understand the perspective of employees regarding the importance of quality management practices on company financial performance. This study identified three main practices: management, infrastructure, core practices and their relationship with the company financial performance. The hypotheses test results confirmed that there is a positive relationship between the quality management practices and company financial performance.

INTRODUCTION

The quality management is defined as an approach to achieving and sustaining a high-quality output with focus on maintaining and continuous development process to prevent from any risks or defects to get customers' expectation [1]. Waldman and Gopalakrishnan (1996) were defined the quality management is about a customer perception and their observation based on the quality of the products and services or the service that meet with their needs and desired [2].

Customer satisfaction is from the most elements that are important in the manufacturing process. So, it's required to integrate the customer in the manufacturing phase [3].

Feigenbaum (1991) defined quality management as "business method" and it's required a high level of effective functional integration between people, information, machines [4]. The constructs of total quality management had categorized in some ways, even they complement each other [5]. There is no clear understanding of TQM research concerning its key components that demonstrate the capacities of what TQM depicts when referred [6, 7]. Hence, there emerges a difficulty of achieving a concurrence on the components of TQM because of the inconsistency in the past research [8].

A complete evaluation of TQM literature had shown the practices in seven fields, start with leadership, strategic planning, customer focus, information and analysis, human resource management, process management and supplier management [9]. Total quality management has described as a system of collective interlinked of quality management practices which connect with organizational performance [10].

Black and Porter (1996) determined ten factors of quality management by using the criteria of Malcolm Balridge Award [11]. There are corporate quality culture, strategic quality management, quality improvement measurement systems, people and customer management, operational quality planning, external interface management, supplier partnerships, teamwork structures, customer satisfaction orientation, and communication of improvement information.

Motwani (2001) described the total quality management like a foundation stage of building a house start with a top management [12]. It is including the employees training, measured the quality, management process and customer satisfaction. Therefore, that clarified the importance of quality management in the organization.

One of the essential strategies in a business environment is an enhancement in quality and performance to achieve organizational competitive advantage. Quality management has a greater effect on enhancing the business. There are many practices of quality management which have impact on organizational performance in the different fields (Lakhal, et al., 2006). [13].

There are ten dimensions of quality management which are, employees training, higher management commitment and assistance, quality of organization, participation of employees, supplier quality management, continuous support, leadership, enhancement in quality procedures, focus on customers, analysis and information, satisfaction of employees, use of statistical techniques [14]. Also, there are another eight dimensions of quality management practices were defined by Su et al. (2008) [15]. The seventh of them was adapted from the ten what Lakhal, Pasin and Limam (2006) suggested [13]. One dimension is added which is cross functional quality groups. The role of the cross functional quality group is to build the

connection between all employees in different departments at the firm. There is a positive relationship between TQM and company financial performance. Company financial performance refers to many factors such as output, profits, competitive advantage, reduce in expenses, reduction in errors, minimized scrap level, and stable business [16]. Also, there is a strong relationship between the managers' commitment and customer satisfaction.

There is an important influence of quality management on performance, especially in the biggest companies which specialized in manufacturing processes [17]. Many categories are considered of total quality management as basic performance predictors such as leadership, individual management and focus on customer. The focus on quality management philosophy is to achieve integration between the employees and their tasks to get a better enhancement and preservation of products and service quality [18].

This philosophy depends on decision making processes by using group of quality development and quality strategies [19]. Hence, quality management is a management strategy which leads to organizational performance and efficiency by improving the quality of services and products in the firms [20]. The fact of organizational performance can be measure by different approaches such are: operational performance, financial performance, customer satisfaction and effectiveness of product quality [21]. The operational performance deal with enhanced delivery performance, flexibility, minimizing costs and errors and enhance the productivity [22]. Also cost and quality are main measures for organizational performance, which are affected by quality management practices. Quality management considered the customers as the main element by providing them a good quality of services and products. Also, by continuous development in the production processes (Harmon & Peterson, 1990).

Quality management has a great effect on the level of customer satisfaction, especially from the managers' perspective [23, 24]. They were focused on planning a strategic way, management of processes and employees, leadership, customer concern, and measuring internal and external satisfaction of customers for the perceived quality of products and services.

Therefore, this study investigates the effect of quality management practices on company financial performance by identifying the relationship between the practices and performance of organization.

METHODOLOGY

Research Method

Mixed method is used in this research, because this approach can provide different views and analyzing data and including both qualitative and quantitative data. It is a completion method that helps to offset the weaknesses in the quantity method by the strength in the quality, and the strength of quantity method can offset the weaknesses of quality method.

The quantitative method includes using of questionnaire to collect the primary data and gathering more information about the topic. The qualitative method includes the collection of secondary data through literature review on journals, projects and websites.

Data Collection Methods And Tools

This study used two types of data collection methods to collect the needed information. A questionnaire has been used to collect primary data from the employees of IKEA Company and literature review approach is used to obtain the secondary data.

The questionnaire survey is the primary data collection tools used in this study, because it is time efficient and economical. It is helpful when having a large sample sizes and large geographic areas.

Sample Size

Sample size is the number of participants from IKEA employees. There are about 53 of employees from IKEA Company Saudi Arabia, had completed the questionnaire survey.

Data Assessment

The provided questionnaire requires the respondents to evaluate their organization performance with a scale ranging from 1 (weakest performance) to 5 (strongest performance). The data collected from this questionnaire will be analyzed using Excel then use SPSS software in order to explore the relationship between the two variables; Quality management practices and performance of organization.

Research Hypotheses

Figure 1 demonstrates the research model of this study and the hypotheses are identified as:

- H1: Management practices are directly related to financial performance.
- H2: Infrastructure practices are directly related to financial performance.
- H3: Core practices are directly related to financial performance.

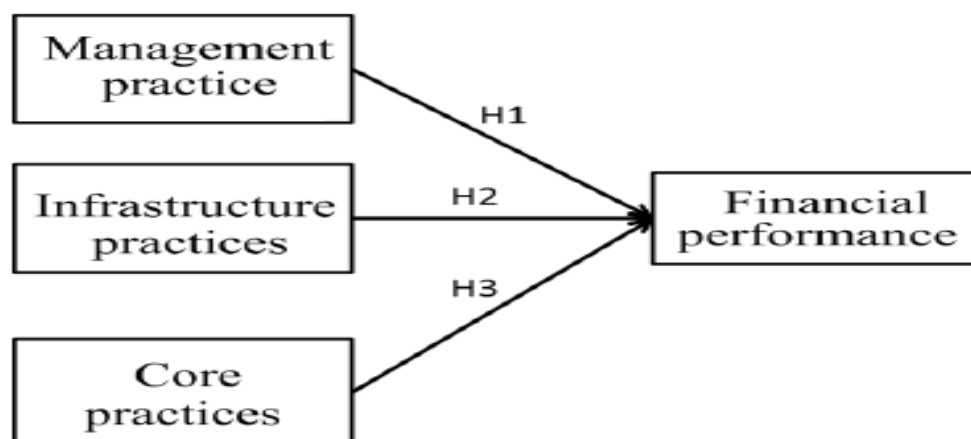


Figure 1. Research Model

RESULT AND DISCUSSION

The investigation of employees' perceptions about the company financial performances to examine the relationship between two variables are based on the 53 completed questionnaire result.

Reliability Analysis:

The goal of applying reliability analysis is to test the measuring the consistency of each variable. This study used Cronbach's alphas to utilized internal consistency to test how the variables correlated to each other.

Cronbach's Alphas:

Alpha coefficient ranges from the value of 0 to 1. It is could acceptable any value less than or equal to 1, but if it a higher it will be better. According to Table 1, the variable "Management practices", "Infrastructure practices", "Core practices" and "Financial Performance" have an acceptable level of reliability (Cronbach's Alpha > 0.65). To sum up, the alpha coefficients for the research variables are above 0.65 which means that the reliability of the measures applied are acceptable and high.

Table 1. Reliability Test

Variable	Cronbach's Alpha
Management practices	0.942
Infrastructure practices	0.814
Core practices	0.950
Financial Performance	0.918

HYPOTHESIS TESTING

Correlation Matrix

The main goal of correlation matrix is to investigate the relationship between the variables of the current study (Quality Management Practices and Company financial performance). Correlation matrix is a tool that explaining the correlations between the variables of a study. It is providing the Pearson's Correlation Coefficient between study variables and to assessment the relationship between each two variables and to assist in evaluating the relationship between these variables. Therefore, the value for Pearson's correlation can be ranged from 0 (No correlation) and 1 (Perfect correlation). The aim of applying Pearson correlation analysis and descriptive statistics is to provide test the direct relationship between the independent and dependent variables.

Table 2 shows the Correlation Matrix between the study variables. The value of Pearson Correlation represents the relationship between each two variables. However; the flagged variables represent the significant correlation. The result

that shows in the Table 2 demonstrates a strong correlation between study variables "Quality management practices" and "Company Financial Performance".

Table 2. Correlations Matrix Between the Variables (N=53)

	Management	Infrastructure practices	Core practices	Financial Performance
Management Practices				
Pearson Correlation	1	.902**	.915*	.685**
Sig. (2-tailed)		.000	.000	.000
Infrastructure practices				
Pearson Correlation	.902**	1	.987*	.689**
Sig. (2-tailed)	.000		.000	.000
Core practices				
Pearson Correlation	.915**	.987**	1	.705**
Sig. (2-tailed)	.000	.000		.000
Financial Performance				
Pearson Correlation	.685**	.689**	.705*	1
Sig. (2-tailed)	.000	.000	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

Regression Analysis

Regression analysis is a statistical process that helping to estimate the relationship between the variables and helping in analyzing and modeling many of variables. It has many techniques in dependent variable and one or several independent variables. In this section, the regression analysis will show in order to test the hypothesis of the current study.

Simple Linear Regression Analysis The Effect Of Management Practices On The Company Financial Performance

A Simple linear model is fitted between Management practices as an independent variable and financial performance as a dependent variable in Table 4.7. It was found that the model coefficient of determination (R Square) equals 45.9%, which means that the model explains 45.9% of the variance in Financial Performance, or that 45.9% of the variation in the dependent variable can be explained due to the variation in Management practices. Also, the overall statistical significance of the model reveals that the model is significant with P-Value= 0.000 (P-Value < 0.05). This recommended the acceptance of H1, there is a positive effect of Management Practices on Company Financial Performance.

Table 3. Model Summary

Variable	R2	Beta Coefficient	Significant
Management Practices	.459	.685	.000

Dependent Variable: Financial Performance
 R2= 45.9%

Simple Linear Regression Analysis the Effect Of Infrastructure Practices On The Company Financial Performance

A Simple linear model is fitted between Infrastructure Practices as an independent variable and Financial Performance as a dependent variable in Table 4. It was found that the model coefficient of determination (R Square) equals 46.4%, which means that the model explains 46.4% of the variance in Financial Performance, or that 46.4% of the variation in the dependent variable can be explained due to the variation in Infrastructure Practices. Also, the overall statistical significance of the model reveals that the model is significant with P-Value= 0.000 (P-Value < 0.05). This recommended the acceptance of H2, there is a positive effect of Infrastructure Practices on Company Financial Performance.

Table 4. Model Summary

Variable	R2	Beta Coefficient	Significant
Management Practices	.474	.689	.000

Dependent Variable: Financial Performance
 R2= 46.4%

Simple Linear Regression Analysis The Effect Of Core Practices On The Company Financial Performance

A Simple linear model is fitted between Core Practices as an independent variable and Financial Performance as a dependent variable in Table 5. It was found that the model coefficient of determination (R Square) equals 48.7%, which means that the model explains 48.7% of the variance in Financial Performance, or that 48.7% of the variation in the dependent variable can be explained due to the variation in Core Practices. Also, the overall statistical significance of the model reveals that the model is significant with P-Value= 0.000 (P-Value < 0.05). This recommended the acceptance of H3, there is a positive effect of Core Practices on Company Financial Performance.

Table 5. Model Summary

Variable	R2	Beta Coefficient	Significant
Management Practices	.487	.705	.000

Dependent Variable: Core Practices

R2= 48.7%

CONCLUSION

The model has been tested that links management practices, infrastructure practices and core practices with company financial performance. The three of hypotheses were specified according to the elements of the model. The results of this study support the hypotheses that management practices, infrastructure practices, and core practices have a positive impact on financial performance. The findings of this research confirmed that all three practices will assist to improve the financial performance of the company. Therefore, more interest in quality practices and capabilities will lead the company to compete with other strongly and support the company to be global.

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