

Value Based Quality Budgeting Model Excellence Model for IT Industry

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ABSTRACT

Quality has emerged as the most important factor that distinguishes a product from its mere utility value to brand that gives competitive edge over rival products. The fundamental idea here is to understand the value of quality in any product/service the IT industry provides. Researching this, the author has extruded the 'Value-Based Quality Budgeting Model'. Cycle tier from financial management perspective.

1. INTRODUCTION

In as much as industrial revolution brought about rapid economic progress, technological innovations gave rise to new products and increased customer requirements and expectations, leading to continuous improvement and competition to keep pace with the rapid meteoric growth rate. Organizations who succeeded in this race were those who ensured that their products imbedded the highest quality feature, which became the key to increased market share and profitability.

Quality, as it is used colloquially signifies a very special and appealing characteristic of any product or service. It points to an abstract measurement of one's perception or expectation of what is being referred to. Over the years, this perception has acquired a lot of significance, as along with industrial growth and development, customer appreciation has become the prized target of organizations.

To achieve this target, quality plays a pivotal role in taking the desired edge in such competitive environments. It is pertinent to note here the famous definition of quality be the renowned quality expert Crosby as "conformance to requirements". This definition delineates the importance of the customer's role in determination of level of

quality, as requirements are stated by the customer.

2. TOTAL QUALITY MANAGEMENT

From the time of mass production and growth of industries and rise of competition, extensive research has been in progress to come up with a suitable model for achieving the highest quality of products and services. Total Quality Management (TQM) has emerged as the most successful philosophy to achieve the desired results enhanced market share and profitability with reduced costs. TQM has made a profound impact to society. Organizations who have successfully incorporated this philosophy in their operations have achieved remarkable progress.

The term Total Quality Management (TQM) was originally coined in 1985 by the Naval Air Systems Command to describe its Japanese style management approach to quality improvement. Basic to the approach is the creation of a culture in which all members of the organization participate in the improvement of processes, products and services. Various specific methods for implementing the TQM philosophy are found in the works of Crosby, Deming, Feigenbaum, Ishikawa, Juran and Gryna. Despite variations in its implementation the

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key elements of a TQM system can be summarized as follows:

Customer Focus

The objective is to achieve total customer satisfaction. Customer focus includes studying customers’ needs and wants, gathering customers’ requirements and measuring and managing customers’ satisfaction.

Process

The objective is to reduce process variations and to achieve continuous process improvement. This element includes both the business process and product development process. Through process improvement, product quality will be enhanced.

Human side of Quality

The objective is to create a company wide quality culture. Focus areas include

- leadership, management commitment, total
- participation, employee empowerment, and
- other social, psychological and human
- factors.

Measurement and Analysis

The objective is to drive continuous improvement in all quality parameters by the goal-oriented measurement system.

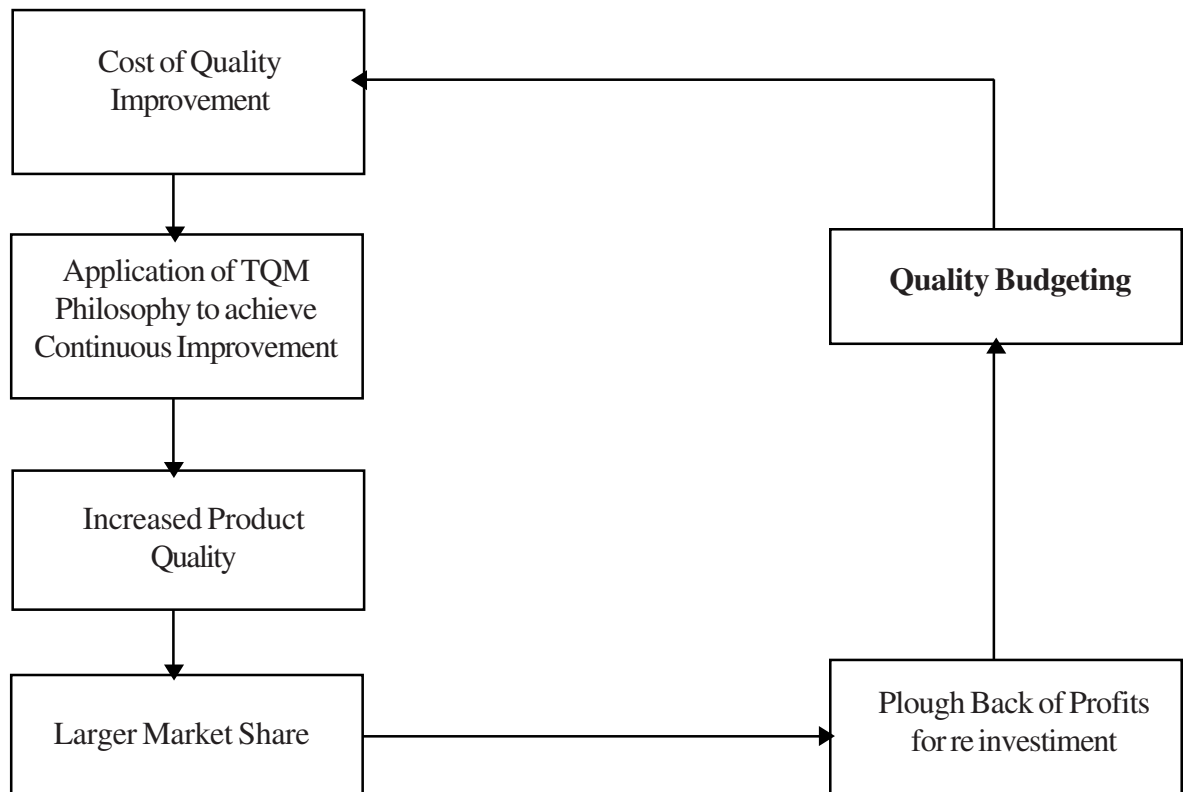
3. VALUE AND QUALITY

The importance of any product or service is gauged by the value it commands. Cost is correlated to the value of the product or service. The father of Economics, Adam Smith has coined:

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed and not that of the society, which he has in

Figure 1

Value Based Quality Budgeting Model



view. But the study of his own advantage naturally or rather necessarily leads him to prefer that employment which is most advantageous to the society.

4. VALUE BASED QUALITY BUDGETING MODEL

The inter-relationship between Quality and Cost is analyzed as follows:

Quality is a function of Value and Cost. This can be expressed as follows:

$$Q = f(V) \dots\dots\dots 1$$

$$C = f(Q) \dots\dots\dots 2$$

Therefore, to achieve enhanced value, there has to be an improvement in quality leading to increase in cost. Hence, it is essential to do 'Quality Budgeting'. Based on Equations 1 and 2, quality budgeting is done to determine the cost required to improve quality to achieve enhanced value. The allocated funds for this are the cost for quality improvement using models which include TQM philosophy. The increased

product quality leads to the required value enhancement, which in turn increases the market share and profitability. The profits are re-invested for quality budgeting. Hence, this model is called 'Value Based Quality Budgeting Model.'

5. CONCLUSION

Because of the rapid strides in science and technology and the profound impact of Information Technology on mankind, the role of quality is becoming a key parameter not merely for organizations to make profit and flourish, but more from the necessity perspective. Any small error in software controlling vital installations can bring about lots of problems. From financial management perspective, to ensure that an optimum level of quality is attained, appropriate quality budgeting is of paramount importance, and organizations have to put all hands on deck to have a smooth flowing investment cycle, so that funds are utilized effectively to achieve the goal of 'Quality Excellence'.

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