



Total quality management, market competition and organizational performance

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Abstract

This study examines the interactive effects of total quality management (TQM) practices, and intensity of market competition on organizational performance. The responses to a questionnaire survey of 89 production and operation managers, drawn from a cross-section of Australia manufacturing companies, were analyzed using a multiple regression technique. The results show that the higher the degree of market competition, the more positive the relationship between the TQM practices of customer focus and organizational performance is. In addition, the results also confirm that the higher the degree of market competition, the more positive the relationship between TQM practices of product design and organizational performance.

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1. Introduction

The past decade has witnessed a remarkable spread in the use of total quality management (TQM) practices in both manufacturing and non-manufacturing firms. Intense competition in the marketplace has caused manufacturing firms to search for a competitive edge in their manufacturing operations and processes. It has been argued that the use of TQM practices has a synergistic impact on organizational performance (Schonberger, 1986; Cobb, 1993). Some studies have found that the use of TQM practices reduces manufacturing process variance, eliminates reworks and scraps, and improves quality performance (see Daniel and Reitsperger (1991), Flynn et al. (1995) and

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Schmenner and Cook (1985)). In addition, there is considerable anecdotal evidence (Crosby, 1984; Hayes and Wheelwright, 1984; Gerwin, 1987; Harmon and Peterson, 1990) on the extent to which TQM initiatives enhance the potential for firms to improve their performance. More recently, empirical evidence suggests that there are direct and indirect relationships between the adoption of TQM practices and firms' performance levels (Hendricks and Singhal, 2001; Kaynak, 2003). Other researchers have, however, expressed reservations about the benefits of TQM practices as a feasible and cost effective initiative (Schaffter and Thomson, 1992; Naj, 1993). Moreover, some studies have found that TQM firms do not outperform non-TQM firms (Mathews, 1992; Fuchsberg, 1993). Despite this, some researchers claim that the disappointing results of TQM practices may be attributed to inadequate resources, negligence in making complimentary investments in organizational structure and human resources, and inadequate appreciation of system dynamics (Powell, 1995; Sterman et al., 1997). Other studies assert that the poor performance of many new TQM initiatives are due, in part, to the continuous reliance on management accounting systems that fail to provide relevant information (Kaplan, 1983; Johnson and Kaplan, 1987; see also Gurd et al. (2002)). Gurd et al. (2002), for example, examine the factors that either encourage or inhibit accounting lag following the implementation of TQM practices. Specifically, they found that industry sectors, management commitment, organizational structure, participation, and financial performance, have an impact on accounting lag.

Banker et al. (1998, p. 1179) note that, "...if increased competition is the primary basis for the renewed focus on quality today, it is important to understand how the quality improvement decision of a firm is linked to its competitors' choice of quality levels and the degree of competitive intensity between the firms". However, the issue of how TQM initiatives are influenced by the intensity of market competition has received only scant attention in the empirical literature on management accounting. The need to address this gap in the literature arises from increasing concern over under performing TQM initiatives, and questions about the relevance of quality strategies in a highly competitive environment (Taylor, 1992; Fuchsberg, 1993). Our study is motivated by the lack of empirical evidence on the impact of intensity of market competition on the relationship between the use of TQM practices and organizational performance.

The remainder of the paper is organized as follows. Section 2 discusses the theory and the research hypotheses to be tested. Section 3 addresses the research method while Section 4 presents the empirical results. Section 5 presents the discussion and conclusion of the paper.

2. Theoretical development and hypotheses

TQM practices are management techniques involving the measurement of actual manufacturing performance against rigorous quality standards. The core ideas of TQM practices include seeking opportunities to increase customer satisfaction, striving for continuous improvement and doing things right the first time (Schonberger, 1986; Gunn, 1987; Harrington, 1987). We rely on the seminal works on TQM as the basis for our theoretical arguments (see the works of Crosby (1979, 1996), Deming (1982, 1986),

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