

TOTAL QUALITY MANAGEMENT STATUS IN CROATIA'S PROFIT TAX ACT

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1. INTRODUCTION

Running a business under contemporary conditions of globalization becomes greater challenge for economic entities in Croatia as well as in the rest of the World. Market conditions where the smallest detail can make difference in doing business have emphasized the importance of quality. Croatia is becoming a new EU member next summer, which already brought the importance of quality for our companies during the accession time. Business entities need to meet the customers needs, which is, at the same time, the only way to succeed own success and subsistence and there for they need to establish and improve quality system in their own business. During history, a term quality management evaluated from continuous improvement, quality control system to total quality management. Total quality management includes long term organizational loyalty to continuous improvement of quality trough out every process on all organizational levels. The process involves every employee in company with the unique purpose to meet and to enhance consumer needs and expectations.

2. RELATIONSHIP BETWEEN ISO 9000 AND TOTAL QUALITY MANAGEMENT

There are number of empirical research in literature which connects total quality management with ISO quality certificates, often mistakenly identified. Introduction of revised ISO 9000:2000 series of certificate was held in December 2000. Created ground preconditions for ISO to direct to and connect with the concept and basic propositions of TQM.²

¹ DAHLGAARD J.J., DAHLGAARD-PARK S.M.: **Lean production, six sigma quality, TQM and company culture**, The TQM Magazine, Vol. 18, No. 3, 2006. p. 266; SPENCER B.A.: **Models of organization and total quality management**, Academy of Management Review, vol. 19, No. 3, 1994. p. 446-471; SNELL S.A., DEAN J.W.: **Integrated manufacturing and human resource management**, Academy of Management Journal, No. 35, 1994. p. 470

² CURRY A., KADASAH N.: **Focusing on key elements of TQM- evaluation for sustainability**, The TQM Magazine, Vol. 14, No. 4, 2002. p. 211

Some authors¹ claim that ISO 9000 certificate becomes *sine qua non* for establishment and maintenance of business connections. Van der Wiele² and others claim that ISO 9000 is only the first step in achieving business excellence and competitiveness through TQM, while others³ state that combination of TQM and ISO 9000 series of certificate is the best competitive strategy for maintaining company business, especially those with more than hundred employees. Common elements, characteristics which fault for ISO 9000 and elements opposite in comparison with TQM are shown in table 1.

Table 1
Similarities and differences between TQM and ISO 9000

Common elements	Elements of ISO disadvantage	Contradictions contained in ISO
process management	continuous improvement	excessive paperwork
gathering information and data processing	customer focus	lack of flexibility
use of statistical tools	development and employee involvement	emphasized control and inspection

We could conclude that introduction of ISO series certificate is the first step in adoption of total quality management and confirmation for company ability to implementing quality initiatives. As a confirmation, an empirical research was carried out in Spain⁴, which showed that largest part of companies will continue with introduction and development of TQM after their successful implementation of ISO 9000 certificate, as shown in figure 1.

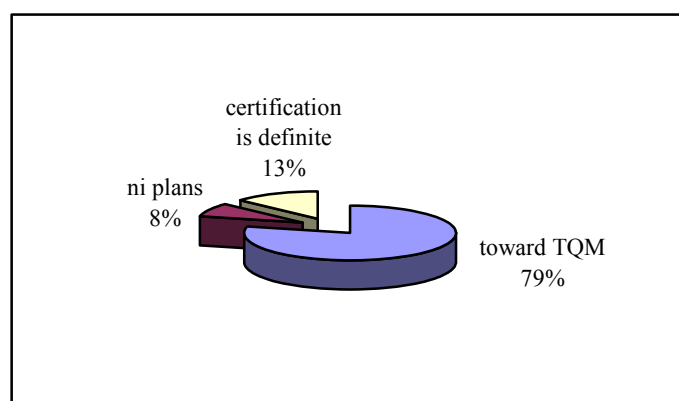


Figure 1. Companies plans after certificate implementation

2. ISO CERTIFICATION IN CROATIAN COMPANIES

Companies which are running a business in Croatia introduce a number of certificates, as follows:

1. ISO 9001:2000
2. ISO 14001:2004
3. ISO 22000:2005 (HACCP-IFS-BRC)
4. OHSAS 18001:1999

¹ ESCANCIANO C., FERNÁNDEZ E., VÁZQUEZ C.: **ISO 9000 certification and quality management in Spain: results of a national survey**, The TQM Magazine, Vol. 13, No. 3, 2001. p. 192

² VAN DER WIELE A., DALE B.G., WILIAMS R.: **Business improvement through quality management systems**, Management Decision, Vol. 38, No. 1, 2000. p. 20

³ SHARMA B., GADENNE D.: **An investigation of the perceived importance and effectiveness of quality management approaches**, The TQM Magazine, Vol. 13, No. 6, 2001. p. 434

⁴ ESCANCIANO C., FERNÁNDEZ E., VÁZQUEZ C.: **ISO 9000 certification and quality management in Spain: results of a national survey**, The TQM Magazine, Vol. 13, No. 3, 2001. p. 197

5. ISO/IEC 27001:2005 (BS 7799-2).

Every year, Croatian Quality Association publishes CRO Survey- Croatian review of certificated management systems on the pattern of ISO Survey which carry a review of ISO certificates on the World basis. Flow of ISO certificates within six years since the year 2005, according to Croatian Quality Association review, is shown in table 2.

Table 2

Total number of certificate (December)

Certificate/Year	2005.	2006.	2007.	2008.	2009.	2010.
ISO 9001	1.287	1.608	2.078	2.313	2.567	2.861
ISO 14001	124	181	265	343	469	591
ISO 27001	-	1	4	9	20	26
OHSAS 18001	17	31	38	45	67	95
ISO 22000	2	17	68	86	91	105
HACCP	92	209	297	367	481	550
TOTAL	1.522	2.047	2.750	3.163	3.695	4.228

As Croatian companies notice advantages of certificate implementation, a number of newly introduced certificates record growth trend form year to year, as shown in table 3.

Table 3

Number of new certificate (December)

Certificate/Year	2005.	2006.	2007.	2008.	2009.	2010.
ISO 9001	324	370	470	235	254	294
ISO 14001	40	64	75	78	126	122
OHSAS 18001	5	14	7	8	22	28
TOTAL	369	448				

We could conclude that companies in Croatia notice advantages and necessity for implementation of quality certificate in their own business as a factor of competitive advantage and one of the first steps in achieving continuous improvement and development of total quality management. Unfortunately, intensity of implementation still is falling behind the most developed European and World countries, as shown in figure 2.

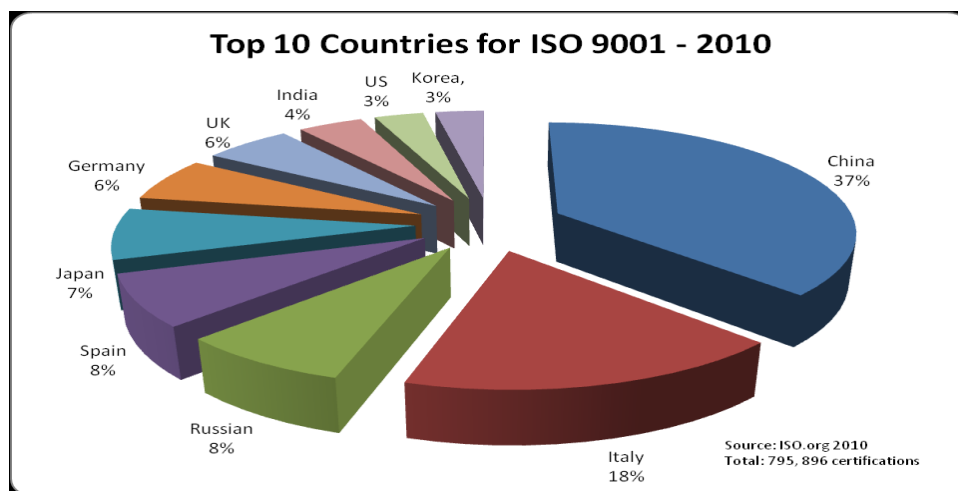


Figure 2. Top 10 countries for ISO 9001:2000 certificates

3. TAXATION INFLUENCE ON ISO CERTIFICATE IMPLEMENTATION IN CROATIAN COMPANIES

The costs of ISO certificate implementation, from the point of their structure and amount, are very similar to the costs of total quality management implementation, as well as any other quality management system. The base for all of them are costs connected with conducting an organizational change which will emphasize importance of doing business in a quality system way. Besides size and organizational complexity, implementation costs depend on a number and complexity of processes which are implementing certificate. Companies which organizational characteristics aren't harmonized with certification requirements will have additional costs to meet organizational propositions. However, certificate implementation presents important item in total expenditures.

In Croatia, The Profit Tax Act¹ was changed mainly to resolve duality in determination tax base (the difference between accounting and tax profit), determination of tax relief and tax exemptions and adjustment of direct taxing to EU taxing guidelines. Newness in profit taxation concerns tax relieves exemptions and incentives, which are now regulated by special law acts instead of Profit Tax Act.

In the period from November of year 2007 till January of the year 2008 the survey was conducted with a purpose to examine companies' managers/owners attitude and opinion about quality systems and taxation influence on their implementation and the importance of taxation when deciding about certificate implementation. The questionnaire was sent to 180 companies-profit taxpayers, of whom 75 responded (42%). Responded questionnaire's was fulfilled by the 33 company with quality certificate and 42 companies which still haven't introduced quality certificate.

Findings

The government can reduce certification cost by tax policies which will reduce the tax base throughout tax relief, exemptions and tax incentives for certificate implementation. Most of the companies which have implemented some of certificate agree that current tax policies already stimulate their implementation (see Figure 3).

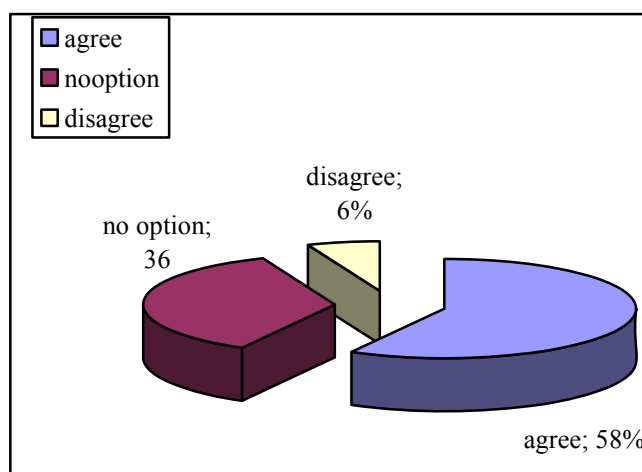


Figure 3. Opinion about stimulating tax policies Concerning ISO implementation

Similar to them, companies without certificate state that the simulative tax policies are important factor when deciding about implementation of quality certificate. At the same time, both, companies with and without certificate agrees that the number of certified companies would be higher if the government would stimulate their implementation (see Figure 5).

¹ The Profit Tax Act (Official Gazete of the Republic of Croatia "Narodne novine" No. 177/04, 90/05, 57/06, 146/08, 80/10, 22/12)

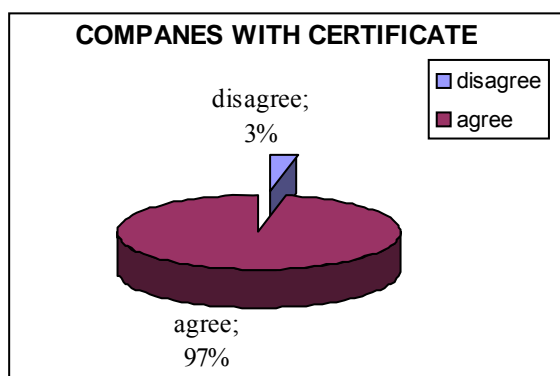


Figure 4. The number of certified companies would be higher if the government would stimulate certificate implementation

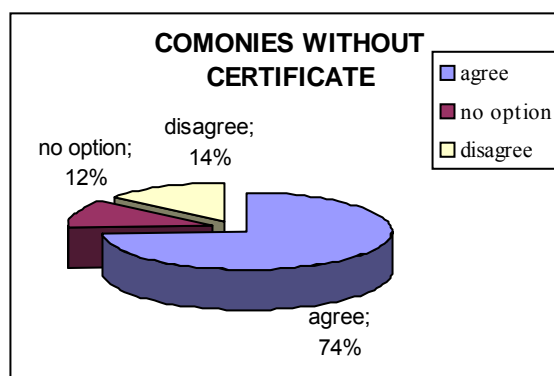


Figure 5. The number of certified companies and tax relieves trend in Profit tax act

According to official records of Croatian Ministry of Finance, Tax Administration office due to tax relieves connected with Profit tax act; we can note certain decrease trend. For the comparison, absolute amount of tax relieves used in year 2005 was near 195 million euro. After only six years, the amount was less for more than doubled.

Certificate/Year	2005.	2006.	2007.	2008.	2009.	2010.
Number of certificate	1.522	2.047	2.750	3.163	3.695	4.228
2005.=1	1	1,35	1,81	2.08	2,42	2,77
Tax relief 2005=1	1	0,96	0,80	0,78	0,54	0,52

Source: Croatian Ministry of finance, Tax administration, official record

That declining trend can be partially resulting of changes in legislative, but also can be connected with the conclusion of survey which confirmed that the great numbers of companies aren't familiar whit the possibilities of using tax relives in Profit tax Act.

4. CONCLUSION

Current Profit Tax Act doesn't embrace direct tax relief, exemptions and tax incentives for certificate implementation. However, companies in Croatia valuate government tax policies as an important factor which could indirectly stimulate certificate implementation by reducing implementation costs. However, many companies still don't recognize their own position for using tax relives. Achieving business excellence throughout own business quality is the most important task for Croatian companies especially when Croatia is becoming a new EU member next summer.

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