

## **INFLUENCE OF A QUALITY MANAGEMENT SYSTEM ON EXTERNAL RELATIONS: EXAMPLE OF JOINT STOCK COMPANY "LATVIA'S STATE FORESTS"**

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**Abstract.** As entities and organisations are beginning to participate in the international trading more and more, such characteristics as quality, price and available information are being valued more frequently. Hence, such organisations and entities are aware of the need to establish an external relation department and quality management system. With the usage of the external relations, entities and organisations inform the interested parties not only about their production, goods, entity's goals and achievements, but also about the quality of the goods and services sold.

Research paper aims to identify alteration in external relation process, caused by the establishment of the quality management system corresponding to the ISO 9001 standards, by using joint stock company's "Latvia's State Forests" (JSC "LVM") example.

The main task of the research is to analyse the business activity of the joint stock company "Latvia's State Forests" and the influence of a quality management system on the entity's external relations. Research methodology: analysis of documents, semi-structured interview, SWOT analysis. The results of the research reveal that the quality management system is linked with the external relations, as by establishing the quality management system, external relations are being influenced.

**Key words:** quality, quality management system, external relations.

**JEL code:** M190

### **Introduction**

To meet the accruing client demands for goods and services of good quality, entities and organisations may introduce a quality management system that is in accordance with one of the most widely recognised quality management system standard – ISO 9001. The popularity of this standard is explicit in both Latvia and world – there are more than 1 million entities and organisations that have obtained a certificate in accordance with the ISO 9001 standard. The amount of the issued certificates in Latvia that are in accordance with ISO 9001 standard has increased from 73 certificates in 2003 to 1001 certificates issued in 2014. Since the joining to the EU, there have been more than 7531 issued certificates in Latvia alone, which are in accordance with the ISO 9001 standard (Evolution of ISO..., 2015).

As Latvia has one of the highest forest coverage per territory proportion in Europe (59 % of Latvia's territory is covered by forests), timber and sapling export is one of the main export item groups for Latvia for years. In addition, as JSC "LVM" is the largest timber and sapling exporter in Latvia, it has a significant role in export. To ensure even and continuous proportion of demand and sale of Latvia's main

export group, JSC "LVM" has implemented a quality management system in accordance with ISO 9001 standards and has obtained respective certificate in forest sapling manufacturing and sale. According to the data of the Ministry of Finance, regardless of overall decrease in Latvia's export in 2016, export of wood, timber and sapling have been evenly increasing. In addition, according to finance consultancy agency's "Prudentia" and broker's "NASDAQ OMX Riga" research, JSC "LVM" was 3rd most valuable entity in Latvia and 9th most valuable entity in Baltic (DesmitvertigakieLatvijās ..., 2016), as well as the largest public company after profit after tax in 2014 (Lursoftstatistika, 2016). Notwithstanding all the research done till now, there still are not enough data and research made on the influence of the quality management system on entity's external relations. Thus, the research question is: "Are the external relation processes being influenced by the implementation of quality management system, which is in accordance with ISO 9001 standard?" The aim of the research paper is to identify alteration in external relations process, caused by the establishment of the quality management system corresponding to the ISO 9001 standards, by using JSC "LVM" example.

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## Research results and discussion

For the determination and measurement of the quality, a complex combination of indicators – quality management system – is used. The term "quality" has been interpreted in a several ways. The interpretation depends on the context, in which the term has been issued, as well as on business sector, entity, services and products. The quality of a service or product is the benefit which customer gains from using it and it is also a security from the competitors and the path to a continuous growth. Both Forand (Forand I., 2000) and Kotler (Kotler F., 2007) refer to the "quality" as an entirety of characteristics of the item (process, product, service, entity), which determines the capability to meet the set or expected demands. Quality can be described as a degree in which the inherited characteristics meet the customers' needs and desire, as well as the set safety, ethical, social and environmental requirements (Juran M. J., 2016).

By compiling the given descriptions of the term "quality", it may be concluded that the "quality" is an entirety of characteristics of a product or service, which provides not only a particular performance of processes, but also a satisfaction of customer needs. Furthermore, quality provides the entity with protection from the competitors.

**Quality management** is carried out by top management, whose responsibility is to ensure the general management activities, to set a clear policy, goals and responsibilities, when planning the quality assurance and improvement. Management system can be implemented in any process and in any entity or organisation. It provides a clearly defined and documented process records, which enable entity to better control the procedures for each step of the process. Furthermore, combining the management system with the quality characteristics, a **quality management system** is created, which ensures the interaction of the

set quality components and the documentation, implementation and monitoring requirements.

The quality management system has been defined by various terms – Forand (Forand I., 2000) describes it as an organisational structure, procedures, processes, and resources for implementing quality management, but ISO 9001 standard states that the quality management system is quality management principles, which comprise explicit client-oriented actions, involvement and motivation of the top management, process approach and continuous improvement (ISO 9000 – Quality..., 2015). Quality management system is also defined as a coordinated activity complex, which is used in entity to manage and control every aspect in relation with quality (Kvalitates vadibas sistemas..., 2001) or as a complex of processes, policies and activities used in planning and implementation of the company's main business areas (Whatis a Quality..., 2016).

Definitions reveal that the quality management system is a set of processes, which consists of the different processes and elements, for example, of quality policy, principles, process control activities etc. The singularity of the quality management system is that it pays more attention directly to processes, resulting in the creation of products and services, rather than the final product (with the understanding of both products and services).

Furthermore, **the quality management system is on-going** and it has to be developed all the time, but on the other hand - the introduction of a quality management system is a voluntary act, which depends on the entity's strategy and objectives (Zygon Baltic Consulting, 2003). It is also laid down in the ISO 9001 standard.

The quality of products and services may be controlled in 3 ways:

- 1) by controlling quality of the finished items;
- 2) by controlling quality at all stages of the production and technology;

3) by controlling quality standards in both in own and in suppliers companies (Praude V., 2011).

Standard ISO 9001, which lays down the requirements for the quality management system, was created in 20th century and currently is the most common standard in the world. International Organisation for Standardisation (ISO) was founded in 1946 in London, England, when 65 delegates from 25 countries met to discuss the creation of ISO. In 1987, ISO published the first quality standard, which at that time had a strong influence from the military standards. Later the ISO Standard 9000: 2000 was created in a very different way – it stated that effective process management is based on the process implementation measurement. The newest ISO quality management system standard ISO 9001: 2015 was published on 23 September 2015. The new standard put greater emphasis on the performance. To achieve it, the new standard combines process approach with the risk assessment approach, as well as Plan-Do-Check-Act cycle at all levels in the organisation. By analysing mentioned standards, it can be concluded that the main differences between the new ISO standards are: there is added new or improved existing definition of a term and changed the sequence of the standards' chapters; however, all the ISO 9001 standards structure is generally the same, ensuring a uniformed implementation of standards and a smooth transition.

Standard ISO 9001, as one of the quality management system's implementation and maintenance requirements, sets the need of informing the interested parties. Furthermore, to ensure the quality of the entity's products and services all employees must be engaged.

Standard ISO 9001: 2015 Section 4 states a separate requirement: the company must determine the stakeholders, which may affect activities of the company. Stakeholders can be, for example, clients, shareholders, suppliers,

business partners, as well as legal and regulatory authorities (ISO 9001:2015-..., 2015).

Communication with stakeholders is one of the external relation department's main tasks; therefore, a company, which implements a quality management system, which is in accordance with the standard ISO 9001, has a defined task – to ensure the effective external communication and to use the information obtained so that the needs of both parties (customers, suppliers etc.) and the company's own needs would be satisfied.

In the context of the standard ISO 9001 process approach, during the first (source of inputs phase) and final stage (receivers of outputs phase) external communication is particularly important.

The impact of the internal communication on the external relations can be explained as follows: if the employees have better understanding of the business activity, aims and strategy of the entity, they can convey more precise and accurate information to the clients and stakeholders.

There is no one unified definition for the term "external relations". It has been described in many ways. In fact, for the term "external" as synonyms are being used such terms as "public", "social", "international" etc.

Whereas for the term "relation" such synonyms as "communication", "affair" (for example, "foreign affair") etc. are being used. Therefore, in several studies and articles instead of using the term "external relations", other terms such as "public relations", "international relations", "foreign affair" etc. are used. The external environment of any organisation is becoming increasingly complicated and dynamic – interest groups are becoming increasingly active, the society itself – more demanding and critical, so external relations become mandatory requirement for each and all staff members (Bariss V., 2009). Overall, it can be concluded that **external relations** is a communication

between entities, organisations or institutions, during which the information about the company, its most important objectives, activities, products and services are exchanged. In the Latvia's Registry of the Professions, it is stated that the external relations employee must have knowledge not only about the external relations' processes, but also about the quality management systems.

Active external relations departments' establishment started when Latvia joined the EU. Latvian companies and organisations put more attention to external relations, because it is a way to attract new customers, partners and investors, which in turn means that companies and entities have more opportunities for strengthening and development of their activities in the international market.

JSC "LVM" has a direct role in the sustainable development of Latvia framework as this framework sets objectives of preventing forest cover, thus contributing to the reduction of the land utilised for agriculture and not utilised for any other economic activity; afforestation; promoting the development of the forestry model, as well as conveying the information to the public and forest owners and by organising events about the sustainable forest management (Par Meza un..., 2015). In 2010, JSC "LVM" implemented a quality management system in accordance with the ISO 9001:2008 standard. In order to be able to ensure the smooth and continuous demand and sales of Latvia's main export goods, JSC "LVM" implemented the quality management system in accordance with the IO 9001:2009 standard. JSC "LVM" is the first entity that has implemented a quality management system, which is in accordance with the ISO 9001 standard, in the sector: sapling and arboretum.

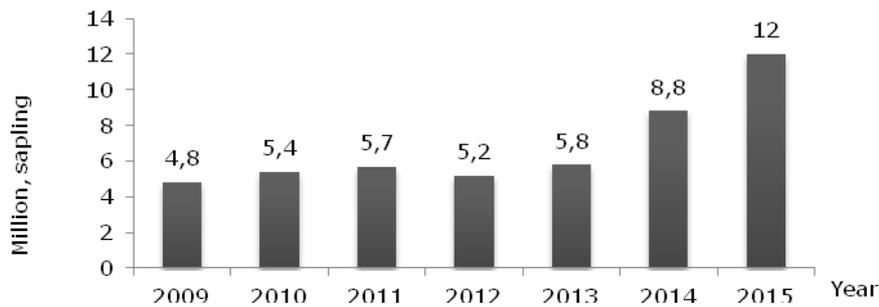
As the 70.1. sub clause of Latvia's Government Action Plan states: "To confirm the

ground rules for the amount determination of the wood cut, by ensuring JSC "LVM" a lead role in wood-pulp resource accessibility and the development of the competitiveness of the sector" (Par meza un..., 2015) and, accordingly, also in "Forestry and related sector's development ground rules for 2015.-2020" it is stated that the JSC "LVM" has a significant role in the management of Latvia's forestry, which requires ensuring and development of both quality and external relations. Despite the overall drop in Latvia's export in 2016, wood, wood materials and the sapling export continue to steadily increase. Compliance with regulatory framework offers the entity an opportunity to push their products and services on the international market, thus increasing JSC "LVM" competitiveness and the importance of the external relations in entity's business activities and development.

The implementation of the quality management system, which complies with the ISO 9001 standard is an event which binds stakeholders' attention, as well as improves the competitiveness of the company.

This may, in turn, affect the export and the work lead of the external relation department. The indicators of the research are as follows:

- changes in the volume of export of "Sapling production and sales" in relation to total exports of JSC "LVM" since the implementation of ISO 9001 standard in 2010;
- increase in the external communication activities (publications and the increase in the number of public events) since the ISO 9001 standard implementation in 2010.
- Figure 1 plots the data of the changes in the sapling amount since the implementation of the ISO 9001 standard (AS "Latvijas valsts ...", 2015).



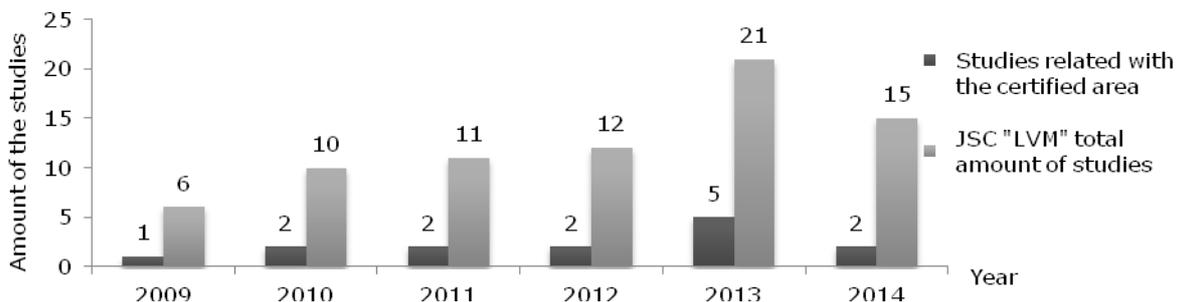
Source: author's calculations based on the results of the research, 2016

Fig. 1. Volume of the JSC "LVM" sold saplings in the foreign markets

The only decrease in the export was in 2012. It is due to the significant amount of the saplings planted in the Latvia's forests alone (33.6 million of saplings), furthermore JSC "LVM" sold part of the saplings to the local private forestry farms. Therefore, the amount of the exported saplings decreased. However, in 2013, export amount has increased and continues to increase.

In the Figure 2, it is shown that after the implementation of the ISO 9001 standard there has been a stable research amount made in the certified area.

The highest amount of the research made in the certified area was in 2013. It is due to the JSC "LVM" strategy, which sets the required amount of the studies and areas to be researched, as well as the increase is due to the repeated certification for the ISO 9001 standard. One of the requirements of the standard is entity to ensure continuous improvement and information flow to the public about the scope of the activities carried out and certified, and such studies are ensuring the execution of both two factors.



Source: author's calculations based on the results of the research, 2016

Fig. 2. The amount of studies conducted in the certified area in comparison with the total amount of the studies made by JSC "LVM"

The increase in the publications is due to the increase in the amount of the social activities, projects and campaigns organized by the entity. For example, campaign "Skabeklis" ("Oxygen"), which was organized in cooperation with "SEB bank" and for the first time conducted in 2010 – the same time as JSC "LVM" implemented the quality management system, which is in accordance with the ISO 9001 standard.

The aim of this particular campaign was to make Latvia most environmentally friendly country in Europe.

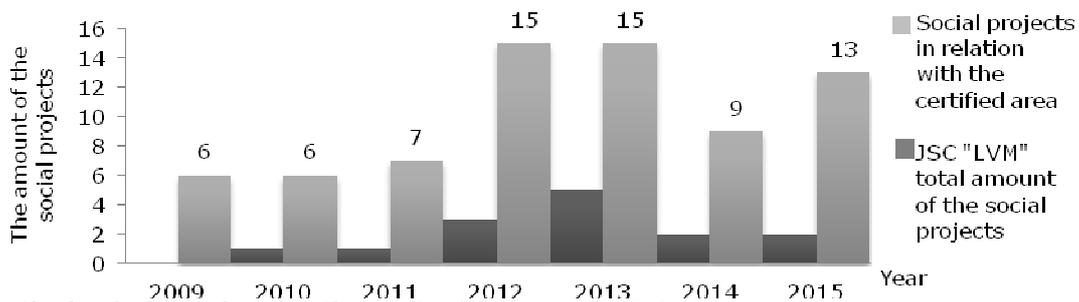
The changes in the amount of the social projects and activities conducted by JSC "LVM"

since the implementation of the quality management system, which is in accordance with the ISO 9001 standard, is shown in the Figure 3.

When comparing total amount of the social projects and events with the total amount of the publications related with areas certified in accordance with the ISO 9001 standard, the conclusion can be made: *the more entity held public activities (indirect media attraction genre: campaigns, projects, events etc.), the greater was the volume of publications.* In 2012, JSC "LVM" had the highest amount of the social activities held as it has ever had in the certified area. Accordingly, in 2012 there was also one of

the largest publication amounts. This relationship is explained by the fact that the media has a great interest in the events organized by

companies, especially by public limited liability companies.



Source: author's calculations based on the results of the research, 2016

Fig. 3. The ratio of the amount of the social projects related with the certified sapling production and sales area and the total amount of the social projects conducted by JSC "LVM"

To get more detailed information about the company's JSC "LVM" quality system and external communication process, the qualitative research approach was applied using sociological research method – semi-structured interview with the Arboretum manager and Communications Department manager.

Interviewed managers evaluated the implemented quality management system in a positive way: *"Overall, in my opinion, it pays off. The benefits of the implementation are greater than the resources we had to invest to establish and maintain it."*

Since the implementation of the quality management system, **there are changes in the external communication:** *"..if we had not gone through the process of the certification, we could afford to miss something once in a while, but now we just cannot do that. It pushes us to collaborate with the customers in a more detailed way. It is good for both the entity and the customer. By settling the system, it has made easier for us to work. It is like a trump for us."*

After the implementation of the ISO 9001, **an increase in interest shown from foreign and domestic companies, institutions, organisations** has been noticed. The evidence supporting this fact is not only the increase in the export, but also **the increase in newspaper publications** about both JSC "LVM" and its certified sector.

Feedback is provided by using the methods of measuring **customers' satisfaction:** the collection and analysis if the customer provides suggestions and comments (feedback). In addition, JSC "LVM" uses customer satisfaction survey at the customer service points where the process of the customer survey completion can be monitored, thus, ensuring not only the feedback process, but also the customer service process.

**International customer information and attraction** is performed mainly at the international fairs and exhibitions in Sweden and Germany (indirect media attraction genre), as well as organising customer visits and through mutual cooperation measures with Scandinavian companies. It is essential for the entity to participate in the international exhibition "SkogsElmia" as the main market for the forest sapling is the Southern-Sweden. This is where the communication department has a great role: *"..everything happens with their help. In the end – we are not representing only our sector, but all JSC "LVM"."*

It is the task of the communication department of the JSC "LVM" about the offered products and services, as well as the level of quality: *"To ensure the external communication, many tasks have to be done, for example, the collection and submission of the information on all the relevant and significant issues, actualities and issues important to the target audience, as*

well as the cooperation with the media, press release writing and web site maintenance etc."

Communication department in the relation with the ISO 9001 certified area deals with both indirect media attraction genre (participation in fairs, organising public projects, for example, campaign "Oxygen" ,which is one of the largest campaigns in the country in relation with forest planting etc.), and direct media attraction genre (press release preparation and submission).

The task of the JSC "LVM" communication department employees is not only to provide information about the enterprise as a whole and its activities, but also to be informed of the quality management system (this requirement is set out in the Registry of occupations), as well as to inform the public of the quality management system in the entity. The quality management system affects the company's external communication process, because all of the employees of the company are responsible for quality, moreover several of the quality management system requirements are also

External Relations employees' everyday tasks (e.g. providing feedback).

Structured interviews revealed that the spectrum of external relations work after the implementation of the ISO 9001 standard has a wide range and is related to the communication with the technology manufacturers and suppliers, direct contact with customers, direct media attraction methods, feedback and indirect media attraction genres: campaigns, projects, activities.

The implementation of the ISO 9001 standard according to quality management system and the work process of the external relations department together improve both the cooperation and communication with foreign clients: ".in recent years, and even this year already the interest from customers is little more than what we can provide ... amount wise."

Based on the analysis of the documents and the information obtained through the interviews, the weak and strong areas of the external relations after the ISO 9001 implementation have been summarized in SWOT analysis (Table 1).

Table 1

**SWOT analysis: JSC "LVM" external relation after the implementation of the quality management system, which is in accordance with the ISO 9001 standard**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• The expansion of the information when participating in international exhibitions and thereafter;</li> <li>• Interaction efficiency with customers;</li> <li>• Provided informative materials on certified areas in several languages;</li> <li>• The use of new external relations methods;</li> <li>• Standard's ISO 9001 certificate creates more reliance from foreign partners, customers etc. and increases the effectiveness of the communication;</li> <li>• Increase in the amount of research and publications made to raise the awareness in society about the certified sphere and to attract new customers.</li> </ul>	<ul style="list-style-type: none"> <li>• There is no separate external communications' department;</li> <li>• The increase in the workload for the Communications Department employees, since they are responsible for both internal and external communication;</li> <li>• The size and ratio between the certified area and the overall JSC "LVM" business magnitude.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• European Union aid for afforestation, forest restoration, land afforestation and the activities associated with it (for example, support to increase the effectiveness of the process by implementing the quality management system);</li> <li>• New media monitoring systems (for example, "Station", "MediANA" etc.).</li> </ul>	<ul style="list-style-type: none"> <li>• Media Information interpretation;</li> <li>• The instability of the amount of cut forests in private forest farms;</li> <li>• The increasing number of competitors on the international market;</li> <li>• Climate change and its impact on the growth of plants.</li> </ul>

Source: author's created SWOT analysis based on the results of the research, 2016.

JSC "LVM" for their main external relation channels and instruments uses JSC "LVM" web site, press release, communication via e-mails, direct communication, by organizing client visits and by participating in the exhibitions. The

threats that have intensified after the implementation of a standard ISO 9001 in this area are – the interpretation of information about the certified area from media.

The benefits of external relations and quality management system implementation may be different – improving company's image; the communication with stakeholders, employees can develop better understanding of their own and others' obligations, the company's objectives and, as a result, may lead to an increase in demand, profit or export. Research on JSC "LVM" has proven it.

### Conclusions, proposals, recommendations

- 1) The most significant changes in external relations, which have occurred after the implementation of the standard ISO 9001 and quality management system, are the increase of external communications' activities (publication, research, public activities, informative materials etc.), improvement of communication with customers, increased demand and respectively revenue growth.
- 2) The implementation of the quality management system according to the standard ISO 9001, has also affected the company's external communication process – external relations' department informs the public of its activities and certification processes, carries out media monitoring, is publishing studies etc.
- 3) There is an interaction between external relation and quality management system, because:

- the employee who is responsible for external relations, in accordance with the nomenclature of the occupation registry, also needs knowledge of the quality management system;
  - one of the core requirements of the quality management system, which is in accordance with the ISO 9001 standard, is the necessity to provide the external communication – communication with clients and stakeholders;
  - external communication process is of particular significance to the quality management system approach in the first and last phase of the process, because in these stages the information obtained indicates about the customer expectations, as well as determines the further action and development areas.
- 4) Quality management system implementation allows companies and organizations to create new external communication forms.
  - 5) Implementation of the ISO 9001 standard corresponding to quality management system has affected the external relations of JSC "LVM" – it has improved communication with stakeholders on JSC "LVM" Certified sphere, increased the number of publications, as well as attracted new customers, cooperation partners and it has also increased the sapling export.

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