# The Negative Impact of Quality Disruption: the Real Challenge of Today's Quality Management

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**Abstract:** Recent recalls in the auto industry have reignited people's attention to quality management. Good quality used to be an order winner for leading companies, but today many customers take quality for granted. Hendricks and Singhal (1997, 2001) analyzed the data from 1983 to 1993 of quality awards winners and showed that high quality led to better sales growth and higher stock price. But as competitors have improved their quality, customers have started to take good quality for granted. High quality today has a weaker effect on firm performance when compared to 15 years ago. However, customers will now penalize firms more severely for poor quality. That is, overtime firms rewards for high quality decreases and their penalties for poor quality increases. Red Queen effect provides a theoretical lens to explain the evolutionary dynamics of this phenomenon. Companies increasingly need to work hard on quality just to stay competitive. A quality failure will severely penalize companies that could potentially lead to extinction. This study investigates auto industry as a starting point. Quality awards indicate high quality, while recalls indicate quality disruptions. The study will use publicly available accounting data and event analysis to empirically test the performance influence of quality awards and recalls.

**Keywords:** quality management, quality disruption, recalls