

Scientific Study

Business Excellence Does Work

By Armin Wiedenegger, supported by Franz-Peter Walder

The meta-analysis of the current literature about strategic management shows contents that are practically congruent and contribute to long-term corporate success. But what about effectiveness of the contents of the EFQM Excellence Model as far as success is concerned? Are they demonstrable scientifically?

All definitions of quality have one thing in common: Quality always refers to clear requirements. At measurement, assessment and review of quality, the extent to which the requirements are met must be in the centre of interest. The situation is similar for the term of "Business Excellence": Requirements are placed by all the relevant stakeholders, i.e. people, customers, shareholders, suppliers/partners and society. Thus high Business Excellence means that all the stakeholders' requirements need to be met comprehensively while focusing on long-term perspectives and a balanced character.

TQM and Business Excellence

According to the large majority of literature, Total Quality Management (TQM) is the origin of today's idea of Excellence. The term of "Business Excellence" is a further development of the idea of TQM or simply re-naming. For the fundamental ideas (holistic approach, stakeholder focus, active participation of top management, etc.) have remained the same.

In this respect, the European Foundation for Quality Management (EFQM) can be regarded as being a link or as an illustration of the development. For at the beginning (1990's), this Model was defined as a TQM Model. In the course of time, however, it was referred to as "Business Excellence Model" more and more frequently.

Variables influencing "Business Excellence"

The Doctoral Thesis underlying this article was aimed at intensively dealing with the topic of "Business Excellence". The central question of this paper ran as follows: What variables are positively related to corporate success?

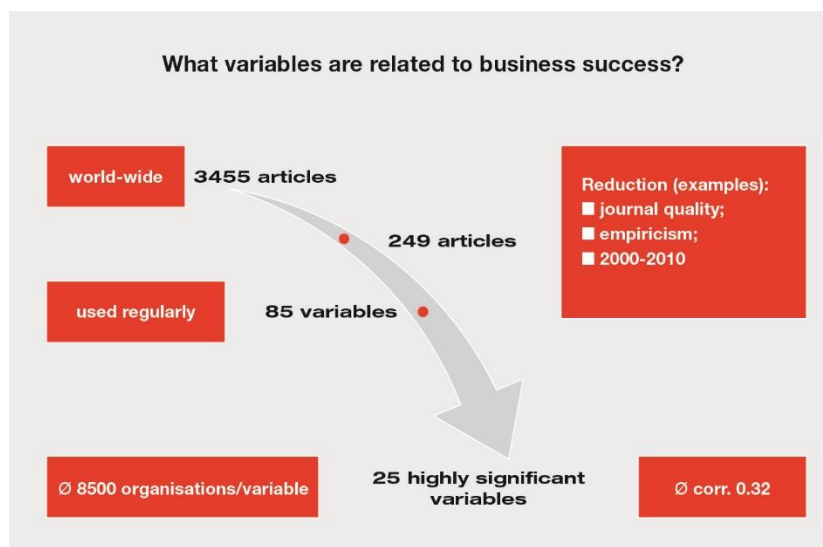


Chart 1 – Process of meta-analysis

For this purpose, a meta-analysis of literature about strategic management was made. A meta-analysis analyses existing studies and uses their empirical results. When looking for

the terms of “success”, “business” and “organisation”, 3455 scientific publications have been found all over the world. This number of studies has been reduced to 249 articles by using such criteria as journal quality, empirical data or date of publication. In all these articles, 85 variables have been used regularly. 25 variables among these variables have proved to be highly significant in connection with corporate success (**Chart 1**). On the average, data of 8500 organisations is integrated in this analysis for each variable.

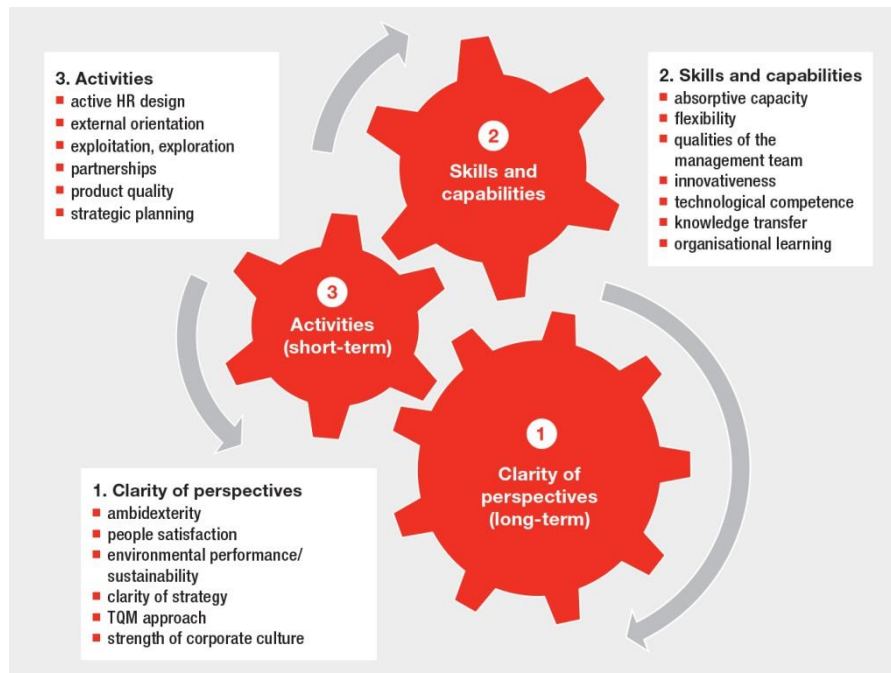


Chart 2 - The 25 success variables

These 25 variables, which are highly relevant to success, are broken down into three groups (**Chart 2**). The first group deals with the organisation’s clarity of perspectives. These success variables establish the organisation’s target system, i.e. the principles and values that operational business and the processes within the organisation should follow. For example, “ambidexterity” means that an organisation is simultaneously working efficiently and innovatively, i.e. creates a balance between these two contradictions. At clarity of strategy, the question is as to how consistently a strategy is pursued.

Still another group of success variables designates the organisation’s skills and capabilities. One example of this is the organisation’s absorptive capacity, i.e. the ability to recognise the value of new external knowledge, to process this new knowledge within the organisation and thus to create value for the organisation.

The third group summarises the success variables designating the organisations’ activities. This group includes such success variables as active design of Human Resources, which deals with recruitment or selection of employees, the system of incentives as well as measures for training and further training of present and future employees.

In this context, these three groups must not be viewed separately, for there are interrelations and interactions between them. However, there is a strong difference between the three groups as far as the time related and causal features of the effect are concerned. This means that the group of success variables that has the highest correlation to success (clarity of perspectives) focuses on long-term perspectives for success most of all. The category taking effect most rapidly (activities) also has the lowest correlation to success.

Comparison with the EFQM Excellence Model

A comparison between the 25 success variables identified by means of meta-analysis and the contents of the EFQM Excellence Model (Version 2010) shows surprising overlaps.

For example, 22 of these 25 success variables are addressed explicitly in the EFQM Excellence Model, 3 of them being addressed implicitly. The latter include the organisation's absorptive capacity, ambidexterity and ability to learn. This means that scientific management literature and the EFQM Excellence Model deal with very similar contents. This is very interesting (and also a little surprising). For designing the EFQM Excellence Model was not aimed at reflecting management literature. It rather is a question of a pure practitioners' model (from practitioners - for practitioners).

The economic value created by EFQM implementation

For studying the economic value created by the TQM approach and/or the EFQM Excellence Model, additional investigations into literature were made. The search has shown 15 studies dealing with TQM, EFQM, etc., on the one hand, and with corporate success, on the other. In this respect, none of these studies could identify a negative correlation (between TQM and corporate success). 10 studies could identify a significantly positive correlation. Below, please find some excerpts from the results of these articles:

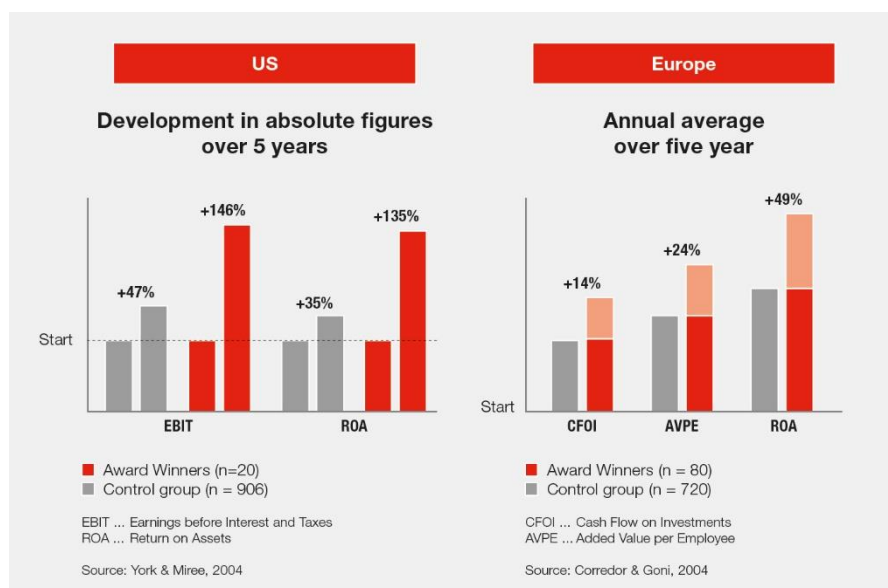


Chart 3 –Results of selected studies

- After winning an Award, the organisations could have a higher growth of the operational results than the control group. Besides, there are hints according to which the Award Winners control the costs more successfully (Hendricks & Singhal, 1997).
- Long-term performance of the organisations that have implemented TQM is clearly improved (Easton & Jarrel, 1998).
- On the whole, the results show a positive correlation between implementation of TQM and the organisations' performance (Kaynak, 2003).

Furthermore, some studies (see **Chart 3**) also show quantitative differences in performance. For example, a study made by York and Miree in the US (2004) shows at a comparison of the Award Winners there with a control group how the EBIT and ROA have developed in absolute figures over 5 years. As for the control group, the EBIT increased by 47 per cent within these 5 years. As for the Award Winners, however, it rose by 146 per cent. A similar picture can be seen for the ROA. With regard to the control group, there was a growth of 35 per cent, with regard to the Award Winners one of 135 per cent.

A similar picture is given by the results of a European study (Corredor & Goni, 2011). In this respect, **Chart 3** shows the average annual growth over five years: The group of the Award Winners has much better results for the profitability and productiveness indicators than the control group. For example, the Award Winners had, on the yearly average, higher values for the cash flow on investment (14 per cent), the added value per employee (24 per cent) and the ROA (49 per cent).

Study in Austria

For the site of Austria, there was no relevant study known to the author. Therefore, an own study in this respect was made. This is why a questionnaire was sent to Austrian organisations in 2011 in order to acquire the respective degree of Business Excellence and corporate success. On the whole, 218 organisations returned a completed questionnaire. As a result, the organisations had a mean sales volume to the amount of Euro 206 million every year and an average of 814 employees.

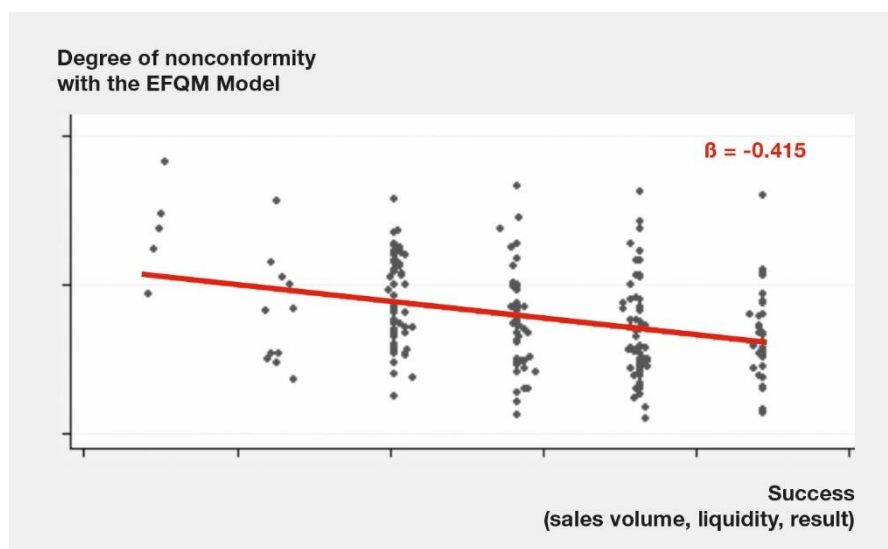


Chart 4 - Excellence in Austria

For measuring corporate success, a subjective measure for success was used. This means that the organisations were asked how well their organisations performed in relation to the result, liquidity and sales volume in comparison to their competitors.

The degree of Business Excellence was determined by operationalising the EFQM Excellence Model (breaking it down into 56 questions) and asking relevant questions by using a questionnaire.

Chart 4 shows the correlation between the degree of nonconformity and success. Result: The lower the nonconformity is (i.e. the higher conformity to the ideal of the EFQM Excellence Model is), the higher will the organisation's success be. This correlation is highly significant, and the beta between these two variables amounts to -0.415. This result confirms that the effect of implementation of the EFQM Excellence Model on corporate success is positive and highly significant - and demonstrated statistically.

Conclusions:

We can start upon the assumption that effectiveness of the contents of the EFQM Excellence Model relating to success is demonstrated scientifically. The results for economic value created by implementation of TQM (or the EFQM Excellence Model) are even clearer.

Thus 10 of 15 high-grade scientific studies have learned the lesson that there is a clear positive correlation between TQM implementation and the organisations' success. The study in Austria, which was made using the data of 218 organisations by the author himself, comes to the same result. In short: Consistent design of Business Excellence has a clearly positive effect on long-term success.

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The article basically is based on Armin Wiedenegg's Doctoral Thesis, which was written at the Institute for Strategic Management and Management Control of Vienna University of Economics and Business and has the title "Unternehmensqualität - Was ist das?" ("Business Excellence, what's that?").

Concrete recommendations for action and approaches for practice can be found in the book "Unternehmensqualität wirkt" ("Business Excellence does work"), which was written in 2013 by Armin Wiedenegger and Franz-Peter Walder.

This article was published in German in the "Special Edition of MQ" (Management und Qualität - Management and Quality) of ESPRIX, the Swiss Award for Excellence.

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