

IMPACT OF INNOVATION, CONTINUOUS IMPROVEMENTS AND SELF ASSESSMENT ON BUSINESS EXCELLENCE

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ABSTRACT

Excellence models provide a wider assessment framework for analysing corporate business excellence. They are a superstructure to the ISO 9001 quality management systems, which can be seen from individual criteria used to assess, among other, also the process approach. The EFQM¹ Excellence Model belongs to the integral management tools by which all fields of activity of an organisation can be analysed against its targets (results) and resources (enablers). Sustainable excellence provides a cause-and-effect link between the approaches used by the organisation to reach the set goals, and the actual results achieved. Perhaps the most frequently asked question about adopting the model is, 'How do you know it works'. One of the most convincing answers to this comes from a piece of extensive research carried out in year 2000 by Dr. Vinod Singhal of the Georgia Institute of Technology and Dr. Kevin Hendricks of the University of Western Ontario². The research, which was published by EFQM and comprised more than 600 quality award winners, showed that all without exception experienced significant improvement in the value of their common stock, operating income, sales, return on sales, employment, and asset growth.

Self-assessment according to the EFQM Excellence Models with their nine criteria covers all essential fields of an organisation including leadership, people, policy and strategy, partnerships and resources as well as implementation of changes and process management. In line with our finding that the PRSPO scores as compared to those of EEA show the greatest weaknesses of our organisations under all the criteria. They are related to human relationships and management – both internally and externally – we should consider a systematic approach to improving leadership in order to raise inventiveness and innovation of employees, which is considered to be the driving force of development and by which excellent organisations are distinguished from the average ones.

Keywords: *ISO 9001 quality management systems, Sustainable excellence, EFQM Excellence Model, Self-assessment, quality award, EEA*

1. INTRODUCTION

Sustainable excellence provides a cause-and-effect link between the approaches used by the organization to reach the set goals, and the actual results achieved. The European Excellence Model makes it possible to establish a rounded system for measuring progress in the performance of all key areas of activity of the organization using the complex RADAR matrix methodology. It should be pointed out that the Model also enables benchmarking against the best organizations, inter-organizational learning and transfer of good practices with respect to the type and size of organization, both in the private and public sectors. Introduction of quality principles into governmental sector operation results in considerable savings by increasing the customer satisfaction at the same time. This is

¹ European Foundation for Quality Management

² More information on that research is available on the MIRS website at www.mirs.si and the EFQM website at www.efqm.org.

therefore certainly a clear reason that every government should take care that promotion of quality management within the governmental sector is embedded into their operation and strategic documents. Since 1992, the best European organizations have been benchmarking against the European Excellence Award (EEA) based on the criteria of the EFQM Excellence Model. The Metrology Institute of the Republic of Slovenia (MIRS) has been successfully promoting the development of excellence in Slovenian organizations for the eighth year now, both through their assessment within the national quality award – The RS Business Excellence Prize (PRSPO) – and through pilot projects. The PRSPO pilot projects are designed to encourage, in a systematic way, organizational learning, transfer of best practices and innovation, and to boost competitiveness in those sectors within the country, which have been "undernourished" in this respect as compared with the European environment.

2. THE EFQM EXCELLENCE MODEL

The achievement of excellence is not an abstract theory; it relates to an organization's tangible achievements in what it does, how it does it, the results it gets and the confidence that these results will be sustained in the future. Achieving excellence is hard enough at the best of times; sustaining it in today's world of increasing global competition, rapid technological innovation, changing processes and frequent movement in economic, social and customer environments, is even harder. The Self-Assessment process relies on the EFQM Excellence Model® as its reference point for good management practice and long-term sustainability. Each organization is unique but because this Model provides a non-prescriptive, generic framework of criteria, it can be applied to any organization or sub-set. The Model consists of nine criteria. Five of these criteria, the 'Enablers', cover an organization's activities and efforts, the "whats" and the "hows". The other four, the 'Results' criteria, cover an organization's outcomes and achievements. A symbiotic relationship exists – 'Results' are caused by 'Enablers' – 'Enablers' are improved using feedback from 'Results' (Assessing, 2004).

According to the Brussels based European Foundation for Quality Management, over 35,000 organizations Europe-wide use the Excellence Model for self-assessment. Also, 60% of the 25 largest European enterprises and over 10,000 small and medium enterprises (SMEs) in Europe use it. Another important fact is that 9 from among 13 European companies from the World Top 50 List (according to Financial Times), use it. Over 26 national and regional quality awards have been established in Europe, including: Austria, Belgium, Czech Republic, Denmark, Finland, France, Ireland, Italy, Latvia, Hungary, Turkey, Germany, North Ireland, Wales, Georgia, United Kingdom, Norway, The Netherlands, Poland, Portugal, Russia, Scotland, Spain, Sweden and Switzerland [Skubic in Kern Pipan, 2005].

The EFQM Excellence Model is based on the following suppositions: excellent results in operations, customers (direct users of the organization), employees and society, are achieved through leadership that pursues policies and strategies, employees, partners, and resources and processes. The EFQM Excellence Model, in contrast to other approaches, presents a basis above all for establishing an integrated system of self-assessment and continuous improvement of all key areas and segments of the organization's operations.

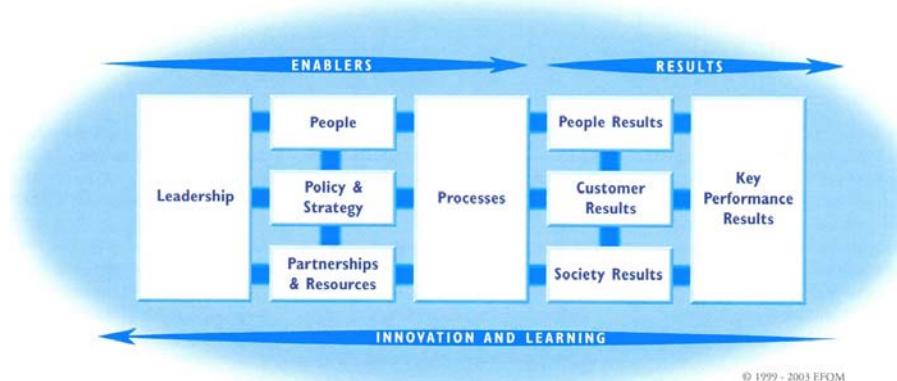


Figure 1: The EFQM Excellence Model®

The model has shown itself to be optimal for many years, with the supplementation of the sub-criteria and the development of the RADAR scoring method. This was doubtless also bolstered through the decision of authoritative decision-makers and experts, who were given the task of shaping a general quality model for the public sector within the EU (at that time still the EC) during the late 1990s. Instead of developing their own tools they used the EFQM Excellence Model and simplified it. The simplifications were carried out in the assessment methods and consideration of its adaptation to the public administration system in the context of state work with political stigmatization and the consequently less flexible management. This is how the Common Assessment Framework (CAF) came about; individual bodies and even entire systems of bodies in some countries have, however, directly chosen to use the EFQM Excellence Model itself (e.g., the UK, the Netherlands).

The use of the EFQM Excellence Model means an integrated system approach, which through all nine criteria comprises both the Results and the Enablers and covers all essential fields and levels within the organization; through a combination of the RADAR logic and the PDCA cycle, it contributes to continuous improvement of the approaches to achieve the set goals.

3. THE BENEFITS OF USING THE EXCELLENCE MODEL AND CORRELATION TO THE FINANCIAL PERFORMANCE

Among most frequently asked question about adopting the model is, 'How do you know it works'. One of the most convincing answers to this comes from a piece of extensive research carried out in 2000 by Dr. Singhal of the Georgia Institute of Technology and Dr. Kevin Hendricks of the University of Western Ontario. The research, which was published by EFQM and comprised more than 600 quality award winners, showed that all without exception experienced significant improvement in the value of their common stock, operating income, sales, return on sales, employment, and asset growth. Dr. Singhal and Hendricks compared the financial performance of nearly 600-quality award winning firms against a control sample of firms similar in size and operating in the same industries. Both groups were tracked over a five-year period starting one year before to four years after the award winners won their first award. The award winners averaged significantly larger increases in several measures of financial performance than the control group (Figure 2). Award winners experienced a 44% higher stock price return, a 48% higher growth in operating income and 37% higher growth in sales compared to the control group. Award winners also outperformed the controls on return on sales, growth in employees, and growth in assets.

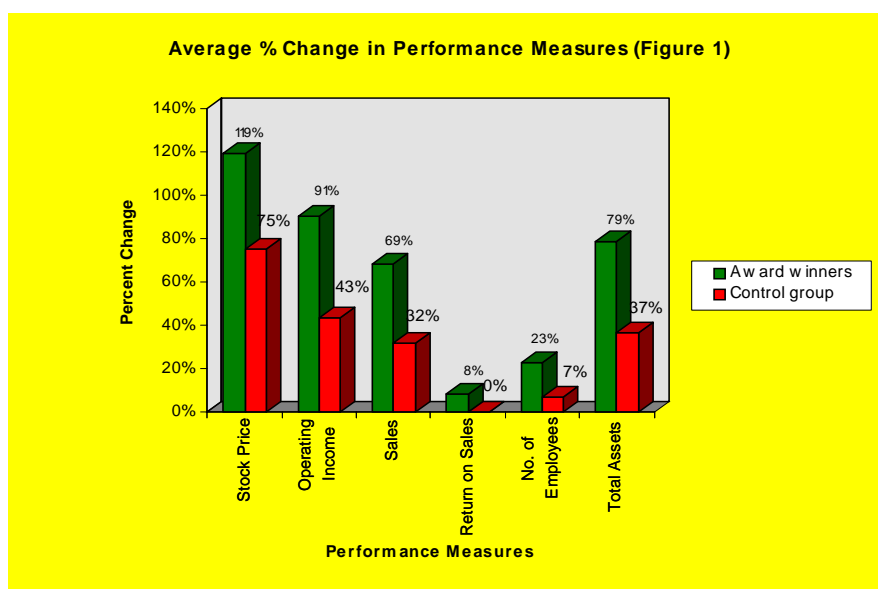


Figure 2: Average % Change in Performance Measures [The EFQM Excellence Model, 2004]

Also a recent research carried out on the basis of the data on the European Quality Award winners by Dr. Louise Boulter et al. additionally confirm the findings of the earlier research [The EFQM Excellence Model, 2004].

4. SLOVENIAN APPROACH AND NATIONAL QUALITY AWARD (PRSPO) BASED ON THE EFQM EXCELLENCE MODEL

The beginning of the Slovenian National Quality Award, called the "Business Excellence Prize of the Republic of Slovenia (PRSPO)", dates back to 1998, when the National Quality Award (NQA) Act was adopted. Slovenian organizations from both the private and public sector may apply for the Award. The Award criteria are based on the EFQM Model and the applying procedure is similar to the European Excellence Award (EEA). The NQA has been coordinated by MIRS (Metrology Institute). From experiences of European Excellence Award and Slovenian Quality Award (PRSPO) is known that improving quality management is difficult process and organizations journey to excellence last three to five years, by striving their development, constant improvements and progress. The Award, namely the Prize called "PRSPO", is based on the procedure of assessment and nine criteria of the EFQM Excellence Model, which makes it comparable with the European Excellence Award (EEA) from Brussels. The Government of the Republic of Slovenia is the owner of the PRSPO programme. The knowledge transfer from EEA and the Prize procedure is managed by the RS Metrology Institute within the Ministry of Higher Education, Science and Technology, and on behalf of the PRSPO Board who were appointed by the RS Government. Pursuant to the RS Business Excellence Prize Act, the Slovenian Prime Minister presents the award to the winners. Awards can be granted each year in the following categories: private sector organisations with more than 250 employees; private sector organisations with 250 or less employees; and public sector organisations. Pursuant to the Act, PRSPO can also be awarded to individual entrepreneurs who meet the conditions. The award consists of a sculpture and a special document. The **PRSPO Board** (Figure 3) is the highest decision-making authority in the system that grant the awards and appoint assessment teams consisting of assessors, lead assessors and jurors. The **assessors and lead assessors** (more than 90 members) are appointed upon the proposal of the jury, and they are responsible for carrying out assessment of submission documents of the applicant organisations.

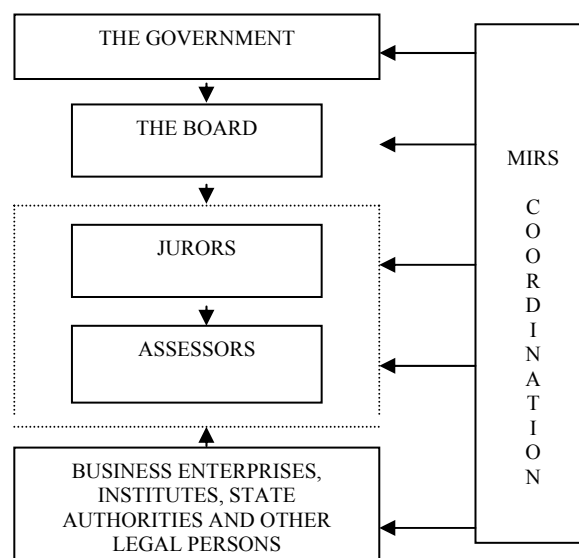


Figure 3: Organisation Structure of the PRSPO System

5. TRANSFER OF KNOWLEDGE AND BEST PRACTICES THROUGH PRSPO PILOT PROJECTS

Competition is not the basic purpose of pilot projects, since the PRSPO pilot projects produce neither winners nor losers. The advantage of pilot projects lies primarily in the use of the same methodology, both in preparing the self-assessment document of an organisation and in assessing it, as for the PRSPO award.

In 2004, the Metrology Institute and then the Directorate of Public Administration (today Ministry of Public Administration) started preparations for the introduction of the EFQM Excellence Model into public administration in line with the "2003–2005 Strategy for Further Development of the Slovenian Public Sector" and the revised "Quality Policy of the Slovenian Public Administration". Within the framework of preparations and an extensive briefing campaign on the advantages of self-assessment according to CAF, the Academy of Administration and the Faculty of Administration carried out 59 seminars in 2003–2005 (with attendance from the administration exceeding 1390). In 2004, MIRS carried out 12 seminars (over 130 participants from the administration). MIRS received 14 self-assessment documents (of 35 pages each) for the pilot project from administrative organisations; the documents were assessed by a team of 48 independent experts – assessors, some of them coming from public administration.

As shown in Figure 4, seven pilot projects have been successfully organised by MIRS with the participation and support of the relevant ministries (health, tourism) since 1996. In the first assessment, the best organisations in individual fields scored up to 300. An interesting finding is that the scores between 301 and 350 achieved within the first pilot project by public administration organisations exceeded by 50 points the comparable scores achieved within the first pilot projects by health and tourist organisations. This reflects the preliminary systematic endeavours of individual organisations to introduce the ISO standards and the well co-ordinated work of the above-mentioned institutes at the national level, especially in connection with the CAF model. [Summarized after Kern Pipan, K., Leon, L., Kovač, P., The CAF Project..., 2005].

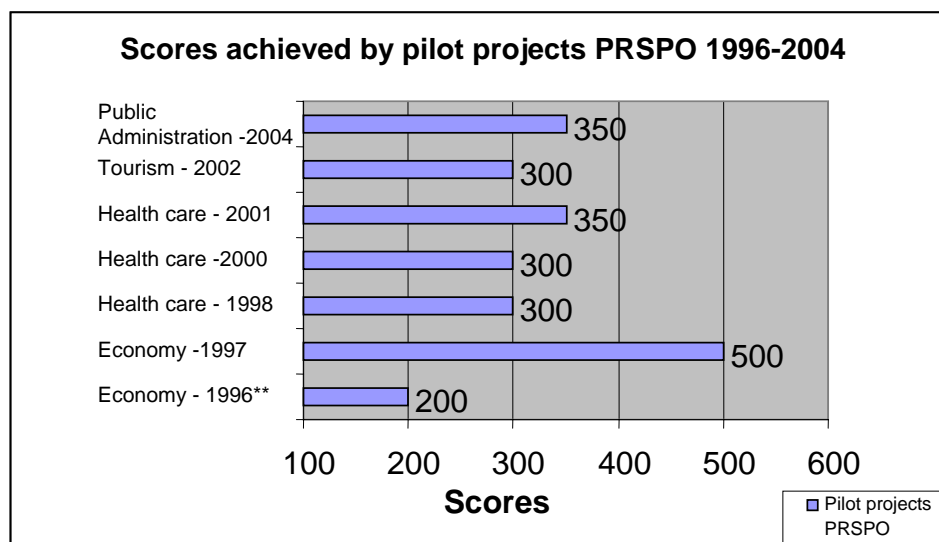


Figure 4: Scores Achieved in PRSPO Pilot Projects³

³ ** In the first pilot project for Economy in 1996, the scores included only the Results criteria 6 to 9

6. DISTRIBUTION OF FINAL SCORES FOR PRSPO AND EEA IN THE YEARS 2000 – 2006

Comparison of the data in Figure 5 shows the distributions of final scores for EEA and PRSPO. It shows that, between 2000 and 2006, the majority (altogether 75%) of the Slovenian applicants scored between 301 and 500, while most (85%) of the applicants for EEA scored between 401 and 600. A very low percentage (less than 5%) of the Slovenian applicants found themselves in the band above 501, and there have not been any scores above 600 in Slovenia so far. A comparison with the European Quality Award shows that over 50% of the applicants scored above 501. Slovenia will need a few more years to move the scores, at the moment ranging below 501, more to the right of the curve shown in Figure 5. And above all, we will have to consider what actions should be taken at the highest national level in order to make the Slovenian organisations develop on their journey to excellence and thus compete in the European environment.

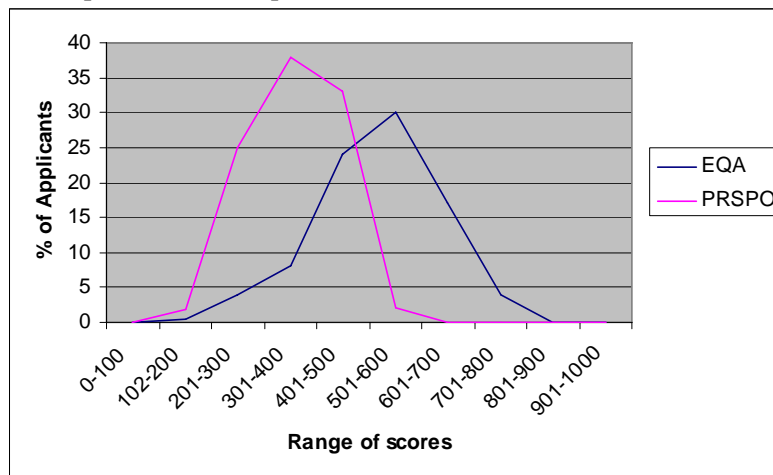


Figure 5: Average Distribution of final Scores for EEA (before y. 2006: EQA) and PRSPO (2000 – 2006)

A comparison between the average scores of EEA, those of PRSPO and those of the PRSPO pilot project for public administration in 2004 against the criteria of the EFQM Excellence Model shows that the average PRSPO scores are behind the European by some 50 points (Figure 6). The scores of the pilot project for public administration as compared to PRSPO are relatively the closest under criteria 6 and 7 (Customers and People). Most differences can be noticed under the following criteria: 1 (Leadership), 3 (People), 6 (Customer Results) and 7 (People Results), which means all those criteria that are directly related to the organisation's people (employees internally, customers externally).

The levels reached under Leadership and Policy & Strategy in PRSPO are by 17 points in average lower than those in EEA. The criteria Partnerships & Resources, Processes and Key Performance Results in Slovenia are by 15 points in average behind Europe. The most significant discrepancy can be noticed under the criteria People Results and Customer Results, where the average difference between PRSPO and EEA is as many as 19 points. It is interesting, however, that the smallest difference in scores is reached under the criterion Society Results, where the EEA applicants reached the lowest average score (39 points), and PRSPO applicants 36 points. On the other hand, a comparison between PRSPO and the administrative organisations in this particular criterion shows how atypical the latter are, since the difference in scores is the highest here (Kern Pipan & Leon, 2006).

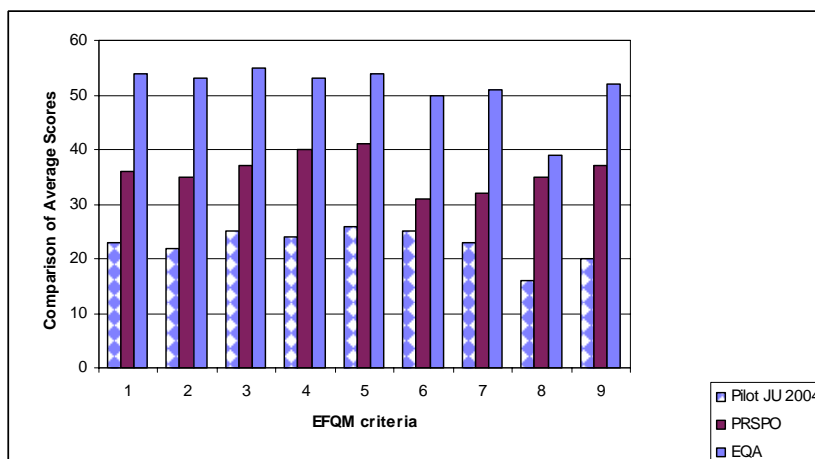


Figure 6: Comparison of Average Scores between PRSPO's Pilot Project for Public Administration, EEA (before y.: EQA) and PRSPO in 2004

7. CONCLUSION

Performing self-assessments in cycles and obtaining independent assessments stimulates benchmarking, continuous learning, improvements and innovations in organizations. The positive effects of self-assessment lie primarily in improved management, control of processes, communication, people and customer-related needs, and the like.

The main goal of establishing national quality awards in the world (Deming in Japan, Malcolm Baldrige in USA, EEA in Europe and also PRSPO in Slovenia) has been found in systematic approach for continuous improvements and innovations as drivers for business excellence and not granting awards.

Average scores reached in PRSPO compared with EEA show in average difference of more than 150 points. In line with our finding that the PRSPO scores as compared to those of EEA show the greatest weaknesses of our organizations under all the criteria, and they are related to human relationships and management – both internally and externally – we should consider a systematic approach to improving leadership in order to raise inventiveness and innovation of employees, which is considered to be the driving force of development and by which excellent organizations are distinguished from the average ones.

The results of the first PRSPO pilot project for public administration can be defined as successful; the best scores ranged between 300 and 350, while the majority of participants scored between 200 and 300. Feedback reports of the assessor team are of key importance, as they serve to the management as a basis for further work and progress within the identified strengths of the organisation, and for implementing improvements within the identified areas for improvement. Experiences in the European environment as well as those of the Slovenian PRSPO Award tell us that the implementation of progress and continuous improvements in an organisation is a demanding process, which takes several years.

The EFQM Levels of Excellence Scheme is becoming increasingly popular in Europe, especially the Committed to Excellence Certificate (above 400 points) indicates a certain level of best organisations. The average level of scores achieved in Slovenia within the national PRSPO award between the years 1998 and 2004, hardly meets the said level. The PRSPO pilot projects, which are intended to stimulate competitiveness, development, innovation and transfer of best practices, strongly support the development of excellence in those sectors, which have not been represented so far. In the future, and

based on the good practice of the first PRSPO pilot project for public administration (concluded in May 2005), we should consider systematic approach to education and health.

For Slovenia as an entity wishing to increase as much as possible its added value, the deployment of the Excellence Model to the public sector and SMEs will be the key task in the future. The recently adopted Development Strategy of Slovenia, which in a systematic way introduces the use of the Model throughout various segments, could provide the basis. In this way the competitiveness of Slovenian organizations could be improved, so that they could achieve higher results in comparison with the European environment. Slovenia's goal for the future should be the ranging of our organizations among the European role models, both in the Levels of Excellence Scheme and in EEA, in order to establish and increase global competitiveness of the country as a whole.

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