

## **Business Excellence Models for Romanian SMEs**

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### **Abstract**

*The current business environment is characterized by a multitude of influence factors within a global context that is continuously changing, in which all types of organizations operate. These factors are pressuring the businesses, forcing them to adapt to the constantly changing environment. Competition has become intense, and as a result, quality improvement has become one of the keys to business survival and excellence.*

*Small and medium enterprises represent the solution for Romania to move more easily over the economic crisis and in the long term is the answer for economic sustainability. Improving quality should be one of the priority strategic objectives for each SME.*

*Providing a model for assessing and improving process performance, based on a coherent system of performance indicators in accordance with the European model of quality management or other business excellence model can be a real support for Romanian SMEs.*

**Keywords:** business excellence, TQM, quality prizes

**J.E.L. Classification:** L15, O10, M10

### **1. Introduction**

In today's global competition and economic liberalization, quality has become one of the important factors for achieving competitive advantage. A good quality product or service enables an organization to add and retain customers. Poor quality leads to discontented customers, so the costs of poor quality are not just those of immediate waste or rectification but also the loss of future sales. Technological innovations have diffused geographical boundaries resulting in more informed customers. The business environment has become increasingly complex and the marketplace has changed from local to global. Constant pressure is applied on the management to improve competitiveness by lowering operating cost and improving logistic. Customers are becoming increasingly aware of rising standards, having access to wide range of products

and services to choose from. There is an ever-increasing demand for quality product and/or services and this global revolution had forced organizations to invest substantial resources in adopting and implementing total quality management strategies.

## **2. Literature Review**

Total Quality Management has many definitions. Gurus of the total quality management discipline like Deming, Juran, Crosby, Ishikawa and Feigenbaum defined the concept in different ways but still the essence and spirit remained the same. According to Deming, quality is a continuous quality improvement process towards predictable degree of uniformity and dependability. Deming also identified 14 principles of quality management to improve productivity and performance of the organization. Juran defined quality as “fitness for use.” According to him, every person in the organization must be involved in the effort to make products or services that are fit for use. Crosby defines quality as conformance to requirements. His focus has been on zero defects and doing it right the first time. Ishikawa also emphasized importance of total quality control to improve organizational performance. According to him quality does not only mean the quality of product, but also of after sales service, quality of management, the company itself and the human life. Feigenbaum defined total quality as a continuous work processes, starting with customer requirements and ending with customer’s satisfaction.

Definitions of quality have changed with the passage of time with changing customer’s needs and requirements. But the essence has more or less been to develop an approach to problem solving, conformation to standards for customer satisfaction. With management functions getting complex, approaches to managing quality in functional areas are becoming difficult. Organizations, which have successfully use TQM principles, have customer and quality embedded in their corporate strategy.

Any organization is a system of interrelated units. For TQM to succeed, all of the components within the organization must be collectively involved. Initially, organizations implemented TQM in the hope that improvement in the shop-floor activities would solve all existing productivity and quality problems. Later, they have realized that TQM is much more than just shop-floor improvements. The definitions of quality incorporate factors like top management commitment, leadership, team work, training and development, rewards and recognition, involvement and empowerment of employees etc. These critical factors are the foundation for transformational orientation to create a sustainable improvement culture for competitive advantage on a continuous basis.

The quality movement has gone through many transformations. In the past, controlling quality meant that the product had to be inspected after it was produced to check whether it met all the specifications or not. The transformation from inspection mode to prevention mode is considered to be a very important step in building quality from the very beginning or start of the manufacturing process. The quality movement saw focus on building quality in every task that is performed in an organization. Therefore, we see a dramatic shift in the quality management focus from just a concentration on manufacturing, to a companywide activities and, more specifically, to the needs of the internal and external customers as explained earlier in the paper.

Different instruments have been developed by researchers and institutions like Malcolm Baldrige National Quality Award (MBNQA), Tata Business Excellence Model (TBEM) among the Tata Group companies in India, based on the American Model for Business Excellence (MBNQA), the European Foundation for Quality Management (EFQM), the Japanese Model, the Deming Prize by Japanese Union of Scientist and Engineers (JUSE) and the Confederation of Indian Industry and Exim Bank (CII- Exim) Business Excellence Award in India, based on EFQM. These most popular models are manifestations of principles of TQM implementation in the entire organisation.

### **3. Theoretical Background regarding quality awards and business excellence models**

**The Deming prize**, established in December 1950 in honor of W. Edwards Deming, was originally designed to reward Japanese companies for major advances in quality improvement. Over the years it has grown, under the guidance of Japanese Union of Scientists and Engineers (JUSE) to where it is now also available to non-Japanese companies, albeit usually operating in Japan, and also to individuals recognized as having made major contributions to the advancement of quality. The awards ceremony is broadcast every year in Japan on national television.

Two categories of awards are made annually, the Deming Prize for Individuals and the Deming Application Prize.

**The Malcolm Baldrige National Quality Award** recognizes U.S. organizations in the business, health care, education, and nonprofit sectors for performance excellence. The Baldrige Award is the only formal recognition of the performance excellence of both public and private U.S. organizations given by the President of the United States. It is administered by the Baldrige Performance Excellence Program, which is based at and managed by the National Institute of Standards and Technology, an agency of the U.S. Department of Commerce. Up to 18 awards may be given annually across six eligibility categories—manufacturing, service, small business, education, health care, and nonprofit. As of 2010, 91 organizations had received the award.

The Baldrige National Quality Program and the associated award were established by the Malcolm Baldrige National Quality Improvement Act of 1987 (Public Law 100–107). The program and award were named for Malcolm Baldrige, who served as United States Secretary of Commerce during the Reagan administration, from 1981 until Baldrige's 1987 death in a rodeo accident. In 2010, the program's name was changed to the **Baldrige Performance Excellence Program** to reflect the evolution of the field of quality from a focus on product, service, and customer quality to a broader, strategic focus on overall organizational quality—called performance excellence.

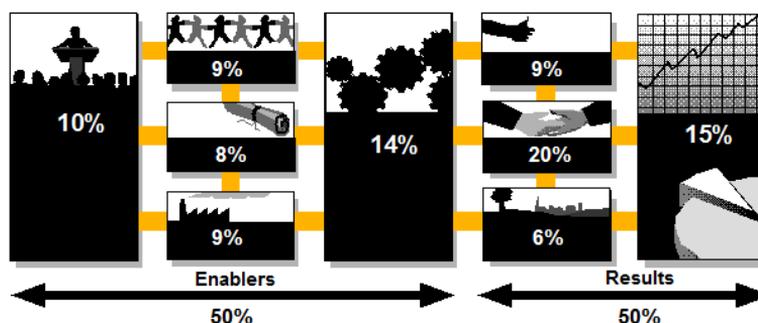
The award promotes awareness of performance excellence as an increasingly important element in competitiveness. It also promotes the sharing of successful performance strategies and the benefits derived from using these strategies. To receive a Baldrige Award, an organization must have a role-model organizational management system that ensures continuous improvement in delivering products and/or services, demonstrates efficient and effective operations, and provides a way of engaging and

responding to customers and other stakeholders. The award is not given for specific products or services.

**EFQM.** Business excellence, as described by the European Foundation for Quality Management (EFQM), refers to "outstanding practices in managing the organization and achieving results, all based on a set of eight fundamental concepts." These concepts are:

1. orientation on balanced results
2. focus on customer value
3. leadership and constancy of purpose
4. management by processes and facts
5. people development and involvement including continuous learning
6. innovation and improvement
7. partnership development and
8. public responsibility

The Business Excellence Model is a nine-box model, originally developed by the European Foundation for Quality Management (EFQM) (*Fig. 1*). Its purpose is to "support the management of Western European organisations in accelerating the process of making quality a decisive influence for achieving global competitive advantage" (EFQM publication).



**Figure 1. EFQM Model-scores**

The Model's nine boxes, shown above, represent the criteria against which to assess an organization's progress towards excellence. Each of the nine criteria has a definition, which explains the high level meaning of that criterion.

To develop the high level meaning further each criterion is supported by a number of sub-criteria. Sub-criteria pose a number of questions that should be considered in the course of an assessment.

At the heart of the self-assessment process lies the logic known as RADAR which has the following elements: Results, Approach, Deployment, Assessment and Review.

Another award, established in 1998 is national **Romanian Award for Quality JM Juran**. This award is granted for the following six categories (Militaru and Drăguț, 2009):

- large enterprises (over 250 employees) - manufacturing;
- large enterprises (over 250 employees) - services;
- small and medium-sized enterprises (under 250 employees)-manufacturing;
- small and medium-sized enterprises (under 250 employees)- services;
- public sector organizations;
- non-governmental organizations.

#### **4. Improving quality and business excellence - priority strategic objectives for Romanian SMEs**

Business excellence is the systematic use of quality management principles and tools in business management, with the goal of improving performance based on the principles of customer focus, stakeholder value, and process management. Key practices in business excellence applied across functional areas in an enterprise include continuous and breakthrough improvement, preventative management and management by facts. Some of the tools used are the balanced scorecard, Lean, the Six Sigma statistical tools, process management, and project management.

In general, business excellence models have been developed by national bodies as a basis for award programs. For most of these bodies, the awards themselves are secondary in importance to the widespread adoption of the concepts of business excellence, which ultimately leads to improved national economic performance.

By far the majority of organizations that use these models do so for self-assessment, through which they may identify improvement opportunities, areas of strength, and ideas for future organizational development. Users of the EFQM Excellence Model, for instance, do so for the following purposes: self-assessment, strategy formulation, visioning, project management, supplier management, and mergers.

When used as a basis for an organization's improvement culture, the business excellence criteria within the models broadly channel and encourage the use of best practices into areas where their effect will be most beneficial to performance. When used simply for self-assessment, the criteria can clearly identify strong and weak areas of management practice so that tools such as benchmarking can be used to identify best-practice to enable the gaps to be closed. These critical links between business excellence models, best practice, and benchmarking are fundamental to the success of the models as tools of continuous improvement.

Because of the blend of different methodologies that have specific phases within their processes Business Excellence drives results through four well defined phases:

- 1.Discover/Define
- 2.Measure/Analyze
- 3.Create/Optimize/Improve
- 4.Monitor/Control

Those phases evolve continuously within the ever-growing organization, driving constant monitoring, optimization and re-evaluation and fit together with the Six Sigma core process named DMAIC or the improvement circle named PDCA which can also be found in ISO 9001.

SMEs represent the majority of businesses registered at a European level, contributing significantly in creating new jobs.

The analysis of statistics at a European level reveals that the added value generated by larger companies is higher than the added value generated by SMEs, especially in areas of industry and areas regarding providing different services to the population.

SMEs generate higher levels of productivity within constructions, trade, real estate and renting activities, accommodation and food services.

For some time now, many survey organizations have recognized the benefits of a formal approach to quality. Some have sought certification for Quality Assurance through the ISO 9000 series, others have implemented quality systems and embraced a total quality management philosophy.

Many countries have a Quality Award or Prize which acknowledges outstanding achievements in organization-wide implementation of the Quality culture and is designed to encourage organizations to pursue internationally competitive levels of performance by identifying organizations that do so and recognizing them as “benchmarks” of performance.

To achieve such a Quality Award or Prize is usually a long journey and can be a costly one from that initial commitment to quality. Even though the journey and the end result is usually well worthwhile for the organisation and its customers.

Presented annually by EFQM, the award recognizes business performance measured against Europe’s most widely used management framework: the EFQM Excellence Model. Bilim Pharmaceuticals won the EFQM Excellence Awards 2011, the first pharmaceutical company ever to win the Award. Another 9 organizations received Prizes for role model behavior in one of the 8 Fundamental Concepts of Excellence.

Romanian SME sector can represent an important source of local and regional dynamism and, thus, a source for economic and social cohesion. Even though the big firms remain a key factor of restructuring the productive system, from regional viewpoint the SME activity appears as a strategic one for each region’s economic reconstruction, provided SMEs be included in a well-structured environment, in a coherent territorial network, involving links, relations, exchanges between them and other economic agents in the region.

Small and medium enterprises represent the solution for Romania to move more easily over the economic crisis and in the long term is the answer for economic sustainability. Improving quality should be one of the priority strategic objectives for each SME.

The achievement of strategic objectives relating to the development of Romanian SMEs involves, among other things, support for these enterprises in implementing European and international standards on quality management systems, action considered to be a key factor for increasing competitiveness and facilitating the entry on the Single European Market.

From this perspective, providing a model for assessing and improving process performance, based on a coherent system of performance indicators in accordance with the European model of quality management can be a real support for Romanian SMEs.

Quality or Excellence Awards for organizations around the world and also in Romania have a set of principles. These principles include:

- Effective leaders provide direction and create a supportive environment;
- Effective organizations are plan driven rather than event driven;
- Organizations benefit from decisions and actions that are based on facts and data;
- All systems and processes exhibit variability, which impacts on predictability and costs;
- All people work in a system; improvement happens when people also work on the system;
- The most important resource of any organisation is people – especially their creativity and knowledge;
- Continual improvement relies on continuous learning;
- Quality is determined by the customer;
- In order to improve the output, improve the process.
- Impact on the community and the environment are key influences of future sustainability.

Most quality award programs include the following components:

- Application Criteria – The application process consists of questions which seek information on the approaches used and the results achieved by the organization. Many organizations have found tremendous benefit in conducting self-assessments using the award criteria without even submitting the application into the awards process.
- Scoring System – The scoring system provides a means for determining the level of quality leadership attained by an organization. Some scoring systems provide component scores to aid organizations in determining some of their greatest areas, as well as areas of strength or weakness.
- Examination/Judging Process – This defines how organizations are evaluated and how award winners are selected. Many awards processes have several stages of evaluation whereby advancement in the process can be an indicator of the level of quality leadership.

Some of the winners of Romanian Award for Quality JM Juran are: City Hall of the sector 2, Xerox, SC Mari-Vila Com SRL, CN Transelectrica SA – Bucharest, Mdm Certificare SRL, Institutul National De Medicina Aeronautica Si Spatiale (INMAS), S.C. Rulmenti S.A. Bârlad, BCR, Sc Search Corporation Srl, SC Romaqua Group SA Borsec, SC Casial SA Deva, SC Transelectrica SA Bucharest, Electrica Banat SA, S & T – România, SC Oltchim SA Rm Vâlcea, Celsius 2000 S.R.L. Bucharest, Mangalia City Hall, SC United Romanian Breweries SRL – Tuborg România, Reynolds Manufacturing (Romania) SA – JTI.

## Conclusions

Organizations can realize the full benefits of TQM through successful integration of several improvement activities, each of which addresses a key element of the TQM philosophy. These organizations share several common characteristics or develop

common elements of management, which enable them to realize the true potential of TQM over a longer period.

The effective use of TQM helps companies obtain the maximum return on investment. Therefore organizations adopting TQM philosophies in the true spirit of understanding the TQM philosophy as part of their corporate strategy and applying any model for Business Excellence for TQM Strategy implementation will result in reducing the cost of ERP implementation and will give a solid foundation of required enhanced human capacities and capabilities, conducive organizational culture, optimal utilization of all resources and improved processes. This will facilitate the change and transformation in an organization and enable them to move towards Business Excellence.

Business Excellence is often described as outstanding practices in managing the organization and achieving results, all based on a set of fundamental concepts or values.

These practices have evolved into models for how a world class organization should operate. These models have been developed and continue to evolve through extensive study of the practice and values of the world's highest performing organizations.

Organizations must set a future perspective, setting a destination for their Business Excellence journey. This future perspective cannot be established by the Business Excellence Model itself, and organizations need to apply a strategy development model for this purpose.

Many countries have developed their own models and use these as frameworks to assess and recognize the performance of organizations through awards programs.

Since the 1990s there has been a general decline in award applications. However there has been an increasing trend for organizations to apply these models and integrate the principles and practice with their day-to-day operations thereby achieving the benefits business excellence brings.

Evidence shows that award winning organizations achieve higher levels of broad based success. This has been proven by multiple studies of long term business results of award winning organizations. Participation in quality awards programs have enabled these organizations to better understand what to do and how to do it. They compare company approaches to proven models for organizational success. They take advantage of expert third party feedback to implement performance improvement plans. They know where to focus process improvements to achieve the desired organizational results.

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