

EXCELLING IN EXCELLENCE

TO DATE, THE MOST IMPRESSIVE EVIDENCE OF THE FINANCIAL BENEFITS OF PURSUING EXCELLENCE HAS COME FROM THE US, BUT NOW **DR LOUISE BOULTER, PROFESSOR TONY BENDELL, AND HANIDA ABAS** OF THE CENTRE OF QUALITY EXCELLENCE AT THE UNIVERSITY OF LEICESTER PROVIDE IMPRESSIVE EVIDENCE FROM EUROPE THAT EXCELLENCE PAYS. SO HOW DO WE CONVINCE THE DOUBTERS?

It's official – excellence really pays. You may believe it, but do your senior colleagues? How much evidence is there that the pursuit of organisational excellence is a legitimate business strategy that will pay dividends in the form of returns to shareholders and all the usual financial business indicators?

THE FINANCIAL ISSUE

To those devoted to the pursuit of excellence, it is a self-evident truth that excellence makes money. In the 1980s many organisations entered into total quality management programmes in the sometimes misguided belief that focusing on the customers' needs, staff involvement, continuous improvement and leadership for change would, by some undefined mechanism, lead to various business or organisational successes.

Unfortunately, this was not always the case. Excellence does not happen by accident. To ensure that the pursuit of excellence pays, an organisation and its leaders need to do the right things in a consistent, focused and structured way.

The principles of excellence underpinning the Excellence Model are our current summary of the right things to do. But if you do them well, will you get the results? It can be argued that they are a nec-

essary condition for financial success but are they sufficient? Put another way, do companies that have been serious about pursuing excellence do better than those that do not? One way of finding this out is to compare the subsequent performance of companies that have won quality awards based on the Excellence Model with others in their sector that have not. This is essentially the



method previously used by Singhal and Hendricks in their US study that revealed conclusively that publicly traded award winners outperformed their competitor companies significantly.

EUROPEAN-WIDE RESEARCH

To bridge this gap in the knowledge-base about the Excellence Model, the European Foundation for Quality Management (EFQM) and the British Quality Foundation (BQF) have sponsored a European-wide research project to identify whether excellence really does pay.

To identify companies that have effectively implemented the principles of the Excellence Model the analysis has been focused on companies recognised for their efforts in the form of quality awards. The system of quality awards is well established within Europe as is evidenced by the Excellence Model-based awards that are presented at European, national, and in the cases of some countries, regional level. An important objective of award-giving organisations is to recognise companies that have done an outstanding job in implementing the principles of excellence.

To maintain credibility and the value of awards, award-giving organisations have strong incentives to give awards to only those companies that have implemented excellence in an effective manner. Award-giving organisations typically decide on winners after conducting an independent evaluation and assessment of a company's practices and measuring a company's performance. Thus, winning a quality award in Europe is generally an indication that a company has effectively implemented the principles of the Excellence Model.

Using essentially the same methodology that Singhal and Hendricks used to conduct the US research, the thrust of the European study is on award-winning publicly traded companies. Two sets of performance measures have been used for this study: share price performance and other accounting based measures of financial performance. Share price performance is important to various stakeholders including senior management, employees, suppliers, mutual fund managers, institutional and individual investors.

Therefore, a primary measure for this study is the return on shares that an investor would have earned by investing in companies that have effectively implemented the principles of the Excellence Model. Other accounting-based measures include: revenue and sales, costs, operating income and capital expenditure.

The names of award winners were obtained directly from a number of sources including award-giving organisations such as the EFQM, BQF and National Partner Organisations, and from information obtained by conducting online searches, and online databases such as

Hoovers, Hemscotts and Carol were used to identify whether an award winner is a publicly listed company. The Data-stream database (a financial database for publicly listed companies) was used as the primary source for share price and accounting data for the study.

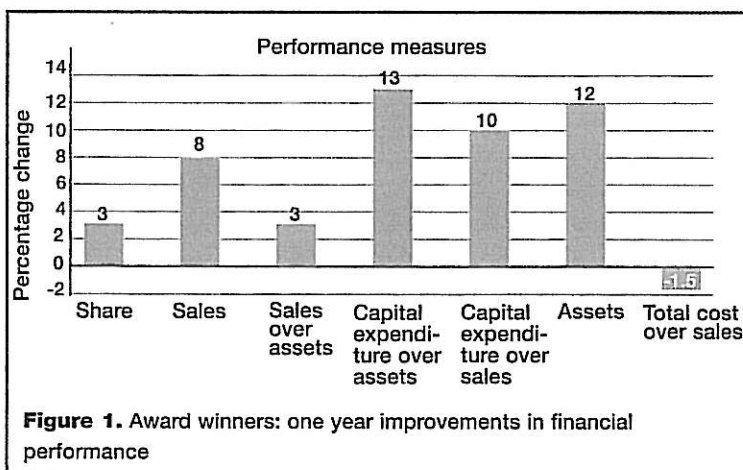
After extensive study of award winners, the team compared the financial performance of the 120 award winning European companies that met specific criteria against comparison companies similar in size and operating in the same industries. The financial performance of the companies was tracked over a reasonably long period of time. This is because the principles of the Excellence Model require a suitably long horizon to be fully absorbed and integrated in the normal operating mode of how things are done at a company.

Where data has been available, the change in the performance of companies has been analysed over an 11 year time period, anchored around the year when a company received its first award. To measure the net benefits from the effective implementation of the principles of the Excellence Model, share value and accounting-based performance measures have been computed before and after a company has received a first award.

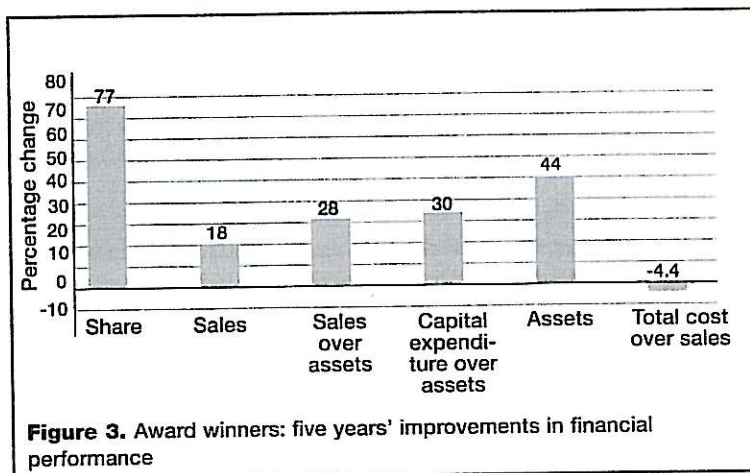
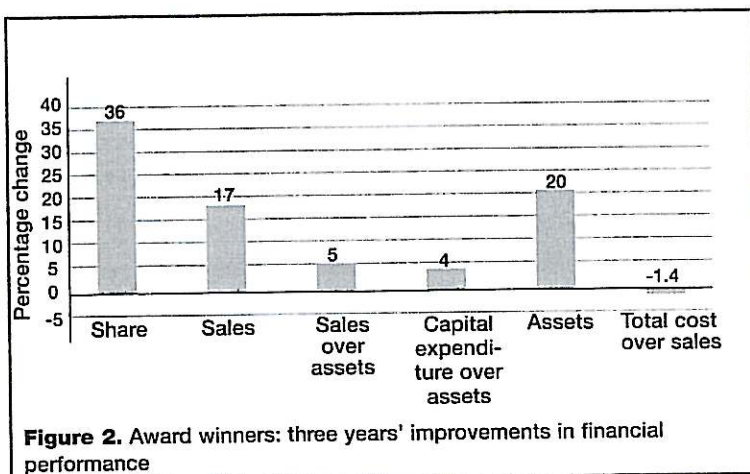
The first period of time, 'the implementation period', starts five years before and ends one year before a company received a first award. The second period of time, 'the post implementation period' starts one year before and ends five years after a company received a first award.

THE RESULTS

The results are notable. The study found that, compared to the other companies, award-winners experience higher increases in share value, sales, capital expenditure over assets and capital expenditure over sales, higher growth in assets and further reduction in costs over sales within a short period of time after having received a first award (see figure 1).



'An important objective of award-giving organisations is to recognise companies that have done an outstanding job in implementing the principles of excellence.'



Three years after receiving an award, the award winning companies outperform the comparison companies by:

- an average of 36 per cent for share value
- 17 per cent for sales
- 5 per cent for sales over assets
- 4 per cent for capital expenditure over sales
- 20 per cent in assets
- 1.4 per cent decrease in costs (see figure 2)

For the final year that performance was tracked, the award winners experienced even greater increases. Compared to the other companies, the award winners experienced:

- higher growth in sales by an average of 77 per cent
- higher increases in operating income by an average of 18 per cent



- higher increases in capital expenditure over assets by an average of 28 per cent and capital expenditure over sales by an average of 30 per cent
- higher growth in assets by an average of 44 per cent and further decrease in costs over sales by 4.5 per cent (see figure 3)

Compared to limited case-study and often anecdotal evidence to date, the evidence from this new study provides a more factual, objective and statistically valid assessment proving the business case for excellence in Europe.

WHAT DOES IT MEAN?

The business case for an organisation to pursue excellence has never been particularly well made. To the committed, the pursuit of excellence is an end in itself. To the organisational leader, it is often at best a facet of longer term market positioning subservient to the immediate need to get the financials right.

The importance of the recent European-wide research project is the clear result that excellence does pay. It pays not just in terms of market image or long-term development strategy. It pays in terms of the shareholders and all the usual financial measures in the short term as well as the long term.

For more information on this study or the work of the Centre of Quality Excellence at the University of Leicester visit www.le.ac.uk/cqe