THE ASSESSMENT OF EUROPEAN BUSINESS EXCELLENCE MODEL CRITERIA PERFORMANCE IN LATVIAN ENTERPRISES

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Abstract. There are certain companies that try to develop their own performance and efficiency hand in hand with the regional business performance. One of the methods applied by these companies is the use of quality improvement in order to improve the business results.

EFQM (European foundation for quality management) business excellence model is applied to ensure successful operation of the company, including increased satisfaction of the customers regarding the goods/services offered by the company, thus guaranteeing high competitiveness of the business. EFQM model is simple, easy-to-understand and practically applicable in any enterprises. However, the application options may differ between large and small & medium companies.

The European Foundation for Quality Management (EFQM) Excellence Model provides guidance and support for business organisations to improve their quality management. Novelty: the research shows the actual scores achieved by enterprises in their assessment for EFQM performance, the effect of enterprises size on the all model. To the EFQM model users, it provides guidelines for addressing perceived performance gaps in their pursuit of recognition for excellence.

The aim of the research is to assess the level of performance of EFQM business excellence model in Latvian enterprises, make conclusions and give proposals for improvement of performance results of model criteria, basing on theory and survey. The main tasks of the research are to provide the theoretical description of EFQM model, to assess the EFQM model application level in Latvian enterprises, come to conclusions and elaborate proposals. Methodology of the research analysis consisted of relevant literature studies and EFQM model-survey carried out in the enterprises.

The results of the survey show that the level of compliance to the EFQM criteria depends on scale of the enterprises.

Key words: business excellence model, enterprises, self-assessment.

JEL code: L15, L 26, M 11

Introduction

With increasingly intensifying competition on the global and European markets, the success of enterprises to large extent depends on ability to manage the processes and resources available to enterprises efficiently, achieving results that are appropriate to the goals of the business. Initially, the company should assess the current situation in the enterprise, identifying areas where improvements are necessary. It should take into account that taking over the methods applied by another successful and recognized company does not guarantee the success. The operating methods of successful and recognized enterprises need to be understood and adapted to the situation and circumstances of a particular company individually.

Several scholars (Hendrick K.B., 1996; Singhal V.R., 1996) have tested the hypothesis and concluded that using effective quality management programmes, the company's performance can be improved. Given this assertion, the Quality Award winning companies are far ahead of those enterprises that have not received this kind of awards, based on a comparison of income-based indicators. The authors also have analysed the impact of received Quality Awards on changes in market value of enterprises and conclude that the stock market reacts positively to notifications on prizes, mainly because the quality of the offered goods / services has improved due to the implementation of the Business Excellence Model. Considering previous research, which relied on surveys of managers’ opinion, this research based on the scores achieved by organizations in their assessment for EFQM business excellence model admission. Research shows the effect of size on
the whole EFQM model, which so far has been neglected in the publication. The aim of the research is to assess the level of performance of EFQM business excellence model in Latvian enterprises, make conclusions and give proposals for improvement of performance results of model criteria, basing on theory and survey. The main tasks of the research are to provide the theoretical description of EFQM model, analyse the EFQM model application level in Latvian enterprises, come to conclusions and elaborate proposals. Methodology of the research analysis consisted of relevant literature studies and EFQM model-survey carried out in the enterprises.

**Theoretical background**

According to the Porter L. and Tanner S., (2001) EFQM model is a powerful diagnostic tool that provides interested parties with learning opportunities in order to identify the company’s strengths and improvement possibilities. Besides, this model can provide the enterprise with the opportunity to establish the difference between the best practice and actual performance, ensuring the rational basis for assessment of achievements and progress on the way to clearly stated aims and tasks (Sampaio P., et al., 2012).

The guidelines for the EFQM business excellence model were developed by the European Quality Management Foundation in the early 1990s, and since then these guidelines have been continuously improved by users. Essentially, the excellence model is a framework for interpreting of excellence guidelines implemented in real action. In order to maximize the benefits of mastering EFQM’s business excellence model in the enterprise, the management should initially ensure that the company's operations are in line with aforementioned guidelines. In case the enterprise fails to understand and accept the statements, the model mastering process may be complicated and even pointless (Hakes C., 2007). The author of the paper thinks that with the help of the initial assessment, the enterprise can avoid waste of resources, channelling them into procedures that would help to implement the excellence guidelines in the company. The EFQM guidelines can serve as a basis for approval of policy at a senior management level.

Since 2012, the guidelines of EFQM model have slightly changed, but their main statements remain the same. The adopted guidelines of EFQM model do not differ significantly from the previously known guidelines that existed until 2012 and were based on Total Quality Management, maintaining 8 basic principles that characterize the company’s excellence (European Foundation for Quality Management, 2013).

Figure No 1 shows the EFQM business excellence model improved in 2012. Some of the criteria have been updated and several numeric values of the award criteria have been changed.
Fig. 1. **European Business Excellence Model Criteria since 2012**

The changes affected two criteria - "Strategy" and "Processes". From the previous model, the word "policy" was removed from the "Policy and Strategy" criterion, since according to the authors of the European Excellence Model criteria, the company’s strategy already involves the implementation of a certain policy of the company, and therefore, it is not necessary to emphasize it twice. The changes affected also the "Process" criterion, which was supplemented by the aspect of products and services regarding their development and promotion, which was not emphasized in the previous version of the model. In addition, the numerical values of the benchmarks changed, namely, they were "levelled" by assigning 100 points to each criterion except "customer related results" and "key performance results" valued 150 points out of a possible 1000. The model of 2012 keeps the maximum number of points in Approach criteria, which is 500 points achievable by the company through self-assessment according to the EFQM business excellence model and 500 additional points in the results section. "Approach" is the cause of the „Results", but it must be acknowledged that "Approach" also reflect the interconnections between the criteria and they are not normally characterized by predictable causes and consequences in descriptive manner (Suckling S., Jacobs B., 2007). The literature contains evidence from researchers that the "Approach" criteria and the "Results" criteria are not separated (within each block).

For instance, Rusjan (2005) is convinced that the "Approach" criteria are interrelated and form a complex structure. Thus, excellence in business approaches is interpreted as one comprehensive approach whose individual dimensions, such as the social, technical dimension, policy and strategy, affect one another, thus reflecting the mutual dependency of the criteria. This principle also applies to the "Results" criteria that are interrelated - changes of one criterion affect other criteria, regardless of whether the criterion relates to tangible or intangible results (Llusar B. J., et al., 2009).

Several studies have analysed the differences between EFQM model application level and company’s level of performance (i.e., Ahire S. L & Golhar D.Y., 1996; Hendricks K.B. & Singhal V.R., 2001; Zhao X. 2004; Roca V. 2006; Jayaram J. 2010; Zhang D., 2012). Dean J.W. & Bowen D.E. (1994) and Watson J.G. & Korukonda A.R. (1995) in their studies point out that many companies failed to implement the EFQM business excellence model due to the use of standardized approaches. Several authors (i.e. Gomez J. & Martinez M., 2011; Sampaio P., Saraiva P. & Monteiro A., 2012) claimed that there could be several types of approaches and selling. Williams R.
(2006) observed that a company can achieve a high level of excellence in certain criteria and it should be in line with the strategy of the particular company as well as with the needs of the company. Most often, this is observed in the case of small enterprises due to their necessity to be more flexible to survive, and therefore typical use of informal processes and direct communication between employees and managers. Large enterprises, on the contrary, tend to emphasize the efficiency and wider use of control systems. There is also empirical evidence of the impact of company size on the use of the EFQM business excellence model. For example, Sturkenboom J. (2001) and Kumar M. and Antony J. (2008) emphasized the need to adapt the EFQM business excellence model to small and medium-sized enterprises (SME), since the versions of the popular model have different criteria for SMEs and large companies (Escrig Ana B., de Menezes Lilian M., 2016).

Wilkes N. and Dale B. (1998) concluded in their study of self-evaluation and quality awards that small and medium-sized companies in the United Kingdom were generally aware of the EFQM model, but did not fully understand its benefits. They argued that fierce competition and the need to restore confidence in their business in the future contributed to the fact that SMEs wanted immediate results and postponed the implementation of the EFQM business excellence model. Human resource management studies have shown that management practices tend to vary between SMEs and large organizations. A study by Storey D.J., Saridakis G., et al., (2010), Zhao X., et al., (2004), Calvo-Mora, et al., (2015), found that the official organization of human resources management in large organizations undermines employees' perceptions of job autonomy and discretion, which is dangerous, because such an attitude reduce problem-solving capabilities and continuous improvement - an important part of the EFQM model's application.

Gustafsson A. et al., (2003) found that some practices based on process orientation directly affect customer satisfaction in large companies, but this effect is not obvious in small and medium-sized enterprises.

In addition, Angell L.C. & Corbett L.M. (2009) warned that small and medium-sized enterprises lacking in resource performance criteria find more difficult to obtain high evaluations of the EFQM business excellence model. Kumar M. and Antony J. (2008) concluded that the application of EFQM business excellence model in SMEs was too complicated, since this model turned out to be bureaucratic and its implementation took too much time. It was concluded that in large companies more emphasis is put on quality management process management (Lee G. L & Oakes I. 1995; Roca V., et al., 2006) and structural components such as formal employee training as well as collaboration with suppliers (Sun H. & Cheng T.K. 2002). Temtime Z.T. (2003) and Haar J.M. and Spell C.S. (2008) agreed that increasing the size of an enterprise means greater resources and savings benefits that make it easier to implement excellence. Especially for quality awards, Evans J.R. et al. (2012) stressed out the importance of measuring systems and forecasting that is more common in large companies. It draws to the conclusion, that the literature offers various evidences that the size of the company affects the application possibilities of EFQM. Therefore, the question, whether the application of EFQM in SMEs and large companies differs, remains open.

**Research results and discussion**

The author’s opinion is that by understanding the guidelines of excellence and by taking into account the criteria of the EFQM business excellence model, Latvian companies can fully evaluate their performance according to the criteria of this model. A model with included criteria can be
viewed as a set of guidelines that SMEs or large companies pursuing excellence in their activities can use to assess their initial status, improve their planning and gradual implementation of the principles of excellence. As the model does not contain specific references to the actions to be taken to achieve excellence, the company itself determines the measures to achieve consistently high results, taking into account the specifics of the company's operations, the existing circumstances and the company's capabilities (Latvijas Kvalitates asociacija, 2014). The author thinks that Latvian SMEs can take advantage of their relative strengths, especially with regard to flexibility, in order to implement the principles of excellence as efficiently as large companies.

Hendricks K.B. and Singhal V.R. (2001) have concluded that small businesses could benefit from the use of the EFQM model because, being a smaller company, it can enhance understanding of the core needs of clients and organizational learning can be more effective, for example, by organizing teamwork, thereby reducing their costs of excellence implementation.

Within the framework of this research, the author hypothesizes that the level of performance of EFQM criteria depends on the size of the company.

293 Latvian enterprises participated in the evaluation of the level of criteria implementation of the EFQM business excellence model. The survey was organized in 2016. According to the statistics database of Latvia, in the research participated 25 % of Latvia's large enterprises (total number in 2016 year was 238) almost 10 % of Latvia’s medium enterprises (total number for 2016 was 1 592) and almost 1 % of Latvia’s small enterprises (total number for 2016 was 8 575 ). (Latvijas Statistikas Parvaldes datu baze, 2016). 73 or 25 % of participating companies were small enterprises, 158 or 54 % - medium enterprises and 62 enterprises, or 21 % - large enterprises. The participating enterprises represented different fields: trade, IT services, catering, construction, car repair shop, financial services, and marketing services. The European Excellence Model requires each of the criteria to be evaluated according to the five defined elements of the RADAR method: (European Foundation for Quality Management, 2016) Results, Approach, Deployment, Assessment and Review. The evaluation of Latvian enterprises’ compliance with the EFQM model criteria was performed basing on the results of the evaluation matrix and approach criteria and their evaluation methodology.

In order to evaluate the approach criteria (leadership, staff, strategy, partnerships and resources, processes, products and services), the following values out of 100 for each criterion were used. 0 meant that there was no evidence or they were worthless; 25 - meant that there was some evidence; 50 – there is relevant evidence, 75 - meant that there was obvious evidence, and 100 - comprehensive evidence of application of a particular criterion. In order to evaluate the results’ criteria, customer related results (image of the organization, communication, responsiveness etc.), staff related results (motivation, involvement, recognition, awards etc.), company related results (image of the company, responsiveness in contacts etc.), main operation results (financial results of economic activities of the company – turnover, price of shares etc.), the following values were applied: 0 meant that no results were obtained or information collected was not relevant; 25 meant that ¼ of the results show positive tendency and/or satisfactory performance for at least 3 years; 50 meant that around ½ of the results show positive tendency and/or consistently good performance for at least 3 years; 100 meant that all results show positive tendency and/or consistently good performance for at least 3 years. Maximum number of points in two criteria “staff-related results” and “society-related results” was 100, meanwhile the maximum number of points in criteria “customer related results” and “key performance results” was 150.
In general, the implementation of nine European Excellence Model criteria for SMEs and large companies was assessed also by respondents. Half of the respondents rated the criteria in the company with a score of 75 (median -75), the most commonly reported score is 75 points (moda-75) (scoring scale 0 to 100); the mean value of the criteria ranges from 64.38 points to 72.83 points. The highest mean value scores (above 70 points) are observed in three criteria: customer-related results (arithmetic mean of 70.38, mode and median 75); partnerships and resources (arithmetic mean 71.47 mode and median 75), processes, products and services (arithmetic mean 72.83, mode and median 75).

Two of these criteria (customer-related outcomes, partnerships and resources) are part of the Opportunities (Approach) model and one (customer-related outcomes) is part of Results section. This points to the interdependence of the model's criteria, the lower the criteria for the Approach Criterion, the lower the indicators of the Results criteria. The main statistical indicators for assessment of the implementation of the European Business Excellence model criteria for large enterprises and small and medium-sized enterprises are reflected below in Table 1.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Small and medium enterprises</th>
<th>Large enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Arithmetic mean</td>
<td>Median</td>
</tr>
<tr>
<td>1. Leadership</td>
<td>63.41*</td>
<td>75.00</td>
</tr>
<tr>
<td>2. Strategy</td>
<td>64.81**</td>
<td>75.00</td>
</tr>
<tr>
<td>3. People</td>
<td>63.36**</td>
<td>50.00</td>
</tr>
<tr>
<td>4. Partnership &amp; resources</td>
<td>72.45*</td>
<td>75.00</td>
</tr>
<tr>
<td>5. Processes, products &amp; services</td>
<td>71.20</td>
<td>75.00</td>
</tr>
<tr>
<td>6. People results</td>
<td>68.93</td>
<td>75.00</td>
</tr>
<tr>
<td>7. People results</td>
<td>67.35</td>
<td>75.00</td>
</tr>
<tr>
<td>8. Society results</td>
<td>64.44**</td>
<td>75.00</td>
</tr>
<tr>
<td>9. Business results</td>
<td>63.47**</td>
<td>75.00</td>
</tr>
</tbody>
</table>

*p < 0.005; ** p < 0.001
Source: author's calculations based on survey data

In all criteria of the EFQM business excellence model, large companies have higher evaluations in comparison to small and medium-sized enterprises. The greatest difference is observed in performance of the 8th criterion (society-related results), the arithmetic mean for the small and medium-sized enterprises is 64.44, the mode 75 and the median 75.00; while the arithmetic mean for the large enterprises is 76.61, the mode 75 and the median 75.00. This may indicate that, in the case of large companies, bigger attention is paid to company's image indicators for the particular criterion; therefore, the performance is higher in comparison to the SME.

The second largest difference between the benchmarking level for SMEs and large enterprises is the 9th criterion (key performance results), with arithmetic mean of 63.47 for the small and medium-sized enterprises, the mode 75 and the median 75.00, meanwhile for the large enterprises the arithmetic mean is 75.41, mode 75 and median 75.00. The smallest difference is observed in the assessment of the 7th criterion (staff-related results). The arithmetic mean value for small and medium-sized enterprises is 67.35, mode 75 and median 75.00, meanwhile for large enterprises
the arithmetic mean value is 68.15, mode 75 and median 75.00, respectively. The author concluded that the overall assessment for SMEs and large enterprises varies, SMEs show lower results, which can be caused by various problems associated with SME operations, including limited resources. The arithmetic mean is higher for large enterprises compared to SMEs but standard deviation and variation are generally smaller for SMEs compared to large enterprises. The performance level of the EFQM Business excellence model can depend on understanding of the quality of business executives of the enterprises and SMEs. Depending on the strategy, enterprises can achieve high levels of excellence not in all criteria but in some – especially important for them.

Values of European Excellence Model criteria implementation in the company according to Spearman’s rank correlation coefficients are presented below in Table 2.

### Values of European Excellence Model Criteria implementation in the enterprise according to Spearman’s rank correlation coefficients

<table>
<thead>
<tr>
<th>No.</th>
<th>Criteria</th>
<th>Leadership</th>
<th>Strategy</th>
<th>People</th>
<th>Partnership &amp; resources</th>
<th>Processes, products &amp; services</th>
<th>Customer results</th>
<th>People results</th>
<th>Society results</th>
<th>Business results</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Leadership</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Strategy</td>
<td>,333**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>People</td>
<td>,378**</td>
<td>,375**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Partnership &amp; resources</td>
<td>,254**</td>
<td>,343**</td>
<td>,308**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Processes, products &amp; services</td>
<td>,335**</td>
<td>,375**</td>
<td>,373**</td>
<td>,328**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Customer results</td>
<td>,265**</td>
<td>,349**</td>
<td>,322**</td>
<td>,257**</td>
<td>,352**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>People results</td>
<td>,310**</td>
<td>,286**</td>
<td>,414**</td>
<td>,263**</td>
<td>,356**</td>
<td>,366**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Society results</td>
<td>,312**</td>
<td>,414**</td>
<td>,334**</td>
<td>,297**</td>
<td>,415**</td>
<td>,380**</td>
<td>,404**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Business results</td>
<td>,382**</td>
<td>,418**</td>
<td>,460**</td>
<td>,317**</td>
<td>,437**</td>
<td>,383**</td>
<td>,396**</td>
<td>,505**</td>
<td></td>
</tr>
</tbody>
</table>

Source: author’s calculations based on survey data

The author concluded that were weak, positive, statistically significant correlations between the performance criteria of the EFQM model in the enterprise such as "strategy", "people ", partnership and resources", “processes, products and services” etc. Except two criteria - "main operating results" and "company-related results ", as evidenced by the Spearman’s rank correlation coefficient values (0.254 ≥ r ≤ 0.460, p < 0.001). The interconnection between the criteria "main operating results" and "society-related results" was moderate positive with relevant value of the Spearman’s rank correlation coefficient (r = 0.505, p < 0.001).

The EFQM model the mean to develop a systemic approach that balances social and technical best practices to improve results and a system overall. The author thinks that an equivalent effort in improving leadership and systems may lead to greater effects in large enterprises according their opportunities.

**Conclusions, proposals, recommendations**

1) The research confirms the author’s hypothesis that the performance level of the EFQM criteria depends on the size of the enterprises.

2) The statistical indicators of the evaluation of EFQM model criteria implementation show that the highest mean value (above 70) is evident in three criteria: customer-related results,
partnerships and resources, processes, products, and services. Two of these criteria (customer-related results, partnerships, and resources) are part of the Opportunities (Approach) section and one (customer-related results) is in the part of the Results indicating the interdependence of the model's criteria.

3) The overall assessment for SMEs and large enterprises varies, SMEs show lower results, which can be caused by various problems associated with SME operations, including limited resources. Thus, the performance level of the EFQM model differs.

4) The performance level of the EFQM Business excellence model can depend on the size and structure of enterprises, on understanding of the management’s perception of quality. The EFQM model criteria can achieve a high of excellence in some, but not all criteria. The choice of practices to use should be aligned to the organization’s strategy as well as its needs.

5) SMEs can take advantage of their relative strengths, especially regarding flexibility, to comply with the criteria of the EFQM model. The flexibility of SMEs can compensate the lack of resources to ensure benchmarking or monitoring.

6) The values of European Excellence Model Criteria implementation in the enterprise according to Spearman's rank correlation coefficients shows weak, positive statistically significant correlations between the evaluation of the EFQM model implementation criteria in the company (except two criteria - "main operating results" and "company-related results"), as evidenced by the Spearman’s rank correlation coefficient values (0.254 ≥ r ≤ 0.460 , p < 0.001). The interconnection between the criteria "main operating results" and "society-related results" was moderate positive, the value of Spearman’s rank correlation coefficient was statistically significant (r = 0.505, p <0.001).

7) Due to relatively low ratings of SMEs in performance of the "leadership/management" criterion of EFQM model compared with large enterprises, it is advisable to evaluate periodically (at least once a year) the performance of the managers of the company (communication with employees, change management, etc.) and take to measures to resolve the identified problem. EFQM business excellence model entails that organizations need an effective leadership in order to set an appropriate climate to achieve excellence.

8) Considering the low results of the large enterprises in performance of the 7th criterion "staff-related results" of EFQM business excellence model, it is advisable to evaluate at least on annual basis the staff satisfaction survey results, which would help to understand the situation in the company.

9) The Latvian National Quality Association should inform entrepreneurs about the possibilities to apply the EFQM model, for example, model as self-assessment tool, what can help to identify the company's strengths, which form the company's competitive advantages and areas to be improved in order to make the company competitive, because there is insufficient information available especially about EFQM model.

Bibliography


