



From total quality management to corporate sustainability based on a stakeholder management

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Abstract

Purpose – The purpose of this paper is to analyze the development of total quality management (TQM) from the very beginning to the present and to give a proposal for a redefinition for the future.

Design/methodology/approach – To reach this purpose, experiences and problems from the past are described and corporate sustainability as a new frame discussed.

Findings – Many attempts to imitate the “Japanese Way” in Western companies failed, because they were only using some instruments (often focused on product quality) and not understanding the necessity of a fundamental change of culture. Globalization and international competition lead to the introduction of National Quality Awards and their use by a growing number of companies. But the term of “quality” was not promoting these concepts, therefore all international award models do not use the term quality any longer. And as TQM has also been driven by consultants, many companies gave up this approach. As the contents of TQM are still a necessity for any organization, one has to look for a new headline representing identical contents. Using, e.g. the early ISO definition of TQM one can see that sustainable success has been related to a stakeholder approach. Therefore, corporate sustainability based on a stakeholder approach would be a future-oriented concept to replace the name of TQM – but not the content.

Originality/value – This paper shows a new – or until now not extensively discussed – perspective for the understanding of TQM.

Keywords Total quality management, Sustainable development, Corporate strategy, Stakeholder analysis

Paper type General review

Experiences in the past

Looking back on a journey beginning after the world war II in Japan, one can realize that (product) quality is depended on much more than inspection and using tools of quality assurance. Quality has been understood in a “companywide” sense as the quality of the whole corporation – instead of the quality of a product (Ishikawa, 1985). The term “Total Quality Control” was also used by Feigenbaum (1956). In Europe first books including the title *Total Quality Management (TQM)* have been published by Oakland (Oakland, 1989), Zink (Zink, 1989) and in the following year (1990) the Journal *Total Quality Management* edited by Gopal K. Kanji has been introduced.

There are different definitions for TQM: taking the term as such, it describes a management approach and therefore a systemic concept based on a broad definition of quality involving all members of an organization (total). In the British Standards Authority (1971) defined TQM as follows (BS 47778, Part 2):

A management philosophy embracing all activities through which the needs and expectations of the customer and the community, and the objectives of the organization are satisfied in the most efficient and cost effective way by maximizing the potential of all employees in a continuing drive for improvement.



This definition, as van der Wiele (1998) mentioned:

... seems to fit with the broader views in quality management, in which quality management becomes synonymous with “good management” and the focus is not longer on the specific quality activities, but on all aspects of managing the business.

One year later an ISO definition of TQM has been published. The (old) ISO 8402 (1992) defined TQM as a:

Management approach of an organization, centered on quality, based on the participation of all its members and aiming at long-term success through customer satisfaction, as well as benefits for all members of the organization and for society.

This definition – though given up by ISO in the meantime – will be relevant for the further discussion because of its stakeholder-orientation.

Seeing the success of companywide approaches in Japan many Western companies tried to imitate the “Japanese Way” but often failed because they were only using some instruments but not understanding the necessity of a fundamental change of culture. As TQM was brought to the USA some ten years earlier than to Europe (Melan, 1998, p. 127), first reports of failures in the implementation of TQM appeared in the early 1990s – and surveys by US consultancy firms showed that two-thirds of the implementation processes have been given up (Brown *et al.*, 1994). But similar reports came also from the UK (Smith *et al.*, 1994). The primary reasons for failures (or success) are leadership, management commitment and involvement, established need and strategic view (long-term) (Brown *et al.*, 1994; Smith *et al.*, 1994). Similar experiences have been made in Europe (Dahlgaard *et al.*, 1997; Zink, 1997). This situation has been partly different in companies taking a more “structured way” in introducing TQM by using the models of the international quality awards based on self assessment approaches like the US-American Malcolm Baldrige National Quality Award (MBNQA) (United States Department of Commerce, National Institute of Standards and Technology (NIST, 1988)) or the European Quality Award (EFQM, 1992). Some ex-post-studies show that especially the award-winning companies achieved – among others – improvements in their financial performance (Centre of Quality Excellence, 2005).

But here too the success rates have to be considered as mentioned above: regarding any major change of an organization like business re-engineering or lean management or the realization of a Toyota like production system no more than a third of the companies gain the success they have intended (Zink, 1997).

Quality as a problem

As mentioned before, the failures have been related to inadequate implementation of TQM mainly caused by a missing leadership approach or the willingness and ability to change the culture. This might also be connected with the fact that these concepts and even the National Quality Awards included the term “quality”. Though many of the “gurus” tried to implement a new understanding of quality, in many companies TQM has been understood as a quality management concept as described in the ISO 9000 Standards. Therefore, top management did not see the necessity to be involved but delegated the tasks to a TQM manager. In Western countries quality has been related with product quality for many years – and in some countries the quality of products was on a high or reasonable level because of huge efforts in quality assurance based on inspection. Globalization and international competition showed the limits of such approaches and then the introduction

of National or Regional Quality Awards presented a broader perspective which has been used by a growing number of companies. But here as well the term “quality” was not promoting these concepts, therefore, all international award models do not use the term “quality” any longer. The European Quality Award now is the EFQM Excellence Award based on a “Model for Excellence” (before Business Excellence). The MBNQA is based on “Criteria for Performance Excellence” and the Australian Business Excellence Awards are using a “Business Excellence Framework”. Comparing for example the 1989 MBQNA with the 2007 MBNQA shows, that the term “quality” has been totally eliminated and that the Award Model now is focusing on the quality of the whole organization without mentioning the term “quality” itself.

Another development might be relevant too. When ISO reviewed its quality management system in 2000, among others a lot of “TQM” ideas have been integrated – especially the customer- and process-orientation (ISO 9000, 2005, p. 11). In addition ISO 9004:2000 is furthermore a “model which offers help to develop a management system out of the minimum requirement status into a total quality management (TQM) sphere” (Seghezzi, 2001, p. 864). Though the ISO quality management systems fulfill the demands of a broader TQM approach, the problem is that these developments are driven by the national quality associations. Here, again the “image-problem” is coming up: top management normally is not the customer of these associations!

A last point to mention is that TQM has also been driven by consultants, and consultants need new topics to survive. Therefore, many companies gave up TQM and replaced it, e.g. by the balanced scorecard (Kaplan and Norton, 1996) or six sigma (Harry and Schroeder, 1999). Some authors suggest that TQM could have a revival under a new name: six sigma (Green, 2006). As six sigma has the same “quality image” like TQM in many companies, a “real” revival will not be possible. Therefore, another suggestion has to be discussed.

TQM and corporate sustainability

Without any doubt, the contents of TQM are still a necessity for any organization; but why than replace it? One of the causes could be that TQM – like the Toyota Production System – was never understood correctly by most companies (Liker, 2004). “Redefining” an already used term, will not bring the momentum needed for a turnaround. If it has been a consultancy product or a management fad as well, it does not make any sense to continue with this “headline” but what else can be done?

Coming back to the ISO definition of TQM one can see that sustainable success – based on continuous improvement – has been related to a stakeholder approach. But this stakeholder perspective can also be found within the EFQM Model for Excellence – or other international excellence models. The term “stakeholder” was coined by the Stanford Research Institute in 1963, and was referring to “those groups without whose support the organization would cease to exist” (Freeman and Reed, 1993 in DeWit and Meyer, 1998, p. 830). The term has been introduced to industrial management by Rhenman (1964 in Swedish, 1968 in English) and according to Rhenman (1968) an organisation’s stakeholders are those individuals or groups who depend on the company to realize their personal goals and on whom the company is dependent for its existence. Later on Freeman (1984) introduced the concept strategic

management, when he published his book *Strategic Management – A Stakeholder Approach* (Freeman, 1984). He used the term “stakeholder” for “those groups without whose support the organization would cease to exist” (Freeman, 1984, p. 13). But this concept did not reach a broad audience in the following years. In contrast, Rappaport’s (1986) book on “Shareholder Value” gained an increasing interest in the USA at first, and later also in other Western countries. As the title describes, Rappaport developed a new way of evaluating a company’s success in placing a long-term success for shareholders in the first place. In practice especially analysts misused Rappaport’s concept in applying it for short-term evaluation. The negative consequences of a short-term orientation combined with stock options for management have been discussed by Kennedy (2000). The wrong interpretation of Rappaport’s concept might have influenced USA but also European finance scandals of the last years – and this philosophy surely caused a large number of huge layoffs (Zink, 2005).

This misunderstanding and misuse of the shareholder value concept started a worldwide discussion about corporate governance (Clark, 2005), but also about corporate social responsibility (CSR) (Zink, 2003). In Europe CSR is understood as a concept where companies integrate social and environmental concerns in their business operations on a voluntary basis by going beyond compliance and investing more into human resources, the environment and their relations with stakeholders (European Commission, 2001, 2002). The European Commission (2001, 2002) has a growing interest in the concept of CSR as part of sustainability and launched a Green Book to promote a series of activities in this field. Within the United Nations (UN) the former Secretary General, Kofi Anan, started in 1999 the UN Global Compact initiative, seeking to advance responsible corporate citizenship in a time of globalization (UN Compact Office, 2007). The topic of CSR has also been included in the “Portfolio” of the European foundation for quality management (EFQM, 2004). All these concepts are based on a stakeholder approach. Among others the European Union has initiated an European Multistakeholder Forum on CSR (European Commission, 2004).

Besides, these more political activities there is also a growing discussion concerning the role of business in society, respectively, in tomorrows society by academics (e.g. the John F. Kennedy School of Government at Harvard University), but also by business itself (e.g. the World Business Council for Sustainable Development). There has also been an international research project supported by the A. P. Sloan Foundation asking the question whether there is a need for redefining the corporation. The redefinition of the corporation – as a result of this research project – reads as follows:

The corporation is an organization engaged in mobilizing resources for productive uses in order to create wealth and other benefits (and not intentionally destroy wealth, increase risk, or cause harm) for its multiple constituents, or stakeholders (Post *et al.*, 2002, p. 17).

In this context, organizational wealth is understood as “the summary measure of the capacity of an organization to create benefits for any and all of its stakeholders over the long-term” (Post *et al.*, 2002, p. 45).

This definition is strongly connected with the idea of corporate sustainability: the concept of sustainability has been discussed for years within the international community. The Rio de Janeiro Conference on Environment and Development in 1992 has been an important step to promote these ideas. Sustainability there has been understood as resting on three pillars: economic growth, ecological balance and social

responsibility (Department of Economic and Social Affairs (DESA, 1992). The main idea of sustainable development is to achieve the lasting satisfaction of human needs. Fulfilling needs requires capital provided by nature and created by people. Maintaining or even increasing the aggregated capital stock is a precondition for giving future generations the same resources as previous ones had. Based on this concept and including the future-orientation (and therefore a long-term orientation) corporate sustainability could be defined as follows (Dyllick and Hockerts, 2002, p. 132):

- Based on the three-dimensional concept, a sustainable corporation considers not only economic but also social and environmental prerequisites and impacts of its actions as well as the interdependencies between them.
- Corporate sustainability requires a long-term business orientation as a basis for satisfying stakeholders' needs now and in the future.
- A sustainable corporation follows the rule to live on the income from capital, not the capital itself. This rule is applied to all kinds of capital: financial, natural, human, and social capital.

According to this, in a sustainable corporation, environmental and social aspects will be added to the set of business objectives – as already described in the context of CSR. Corporate sustainability means to overcome conflict of goals between economic, environmental and social issues, combining long-term economic success with conserving the biophysical environment and social responsible actions. Goal conflicts need to be changed into goal congruence to create a win-win situation between the dimensions of sustainability. Then the overall performance of a corporation is not only determined by financial results but also by its environmental and social performance (Steimle and Zink, 2006, p. 2356).

In the last few years more and more corporations committed themselves to the vision of sustainable development. The results of a study conducted by the global environmental management initiative (GEMI) and business for social responsibility (BSR) show a growing engagement in sustainability and 94 percent of the managers state, that this topic will have more important impacts on the business strategy over the next five years (GEMI-BSR, 2006). These results are coincidental with a growing tendency to link sustainability (including CSR) with business strategy. This can, e.g. be found in the (further-) development of reporting initiatives, which intend to create more transparency to overcome the crisis of trust. Accountability is a non-profit organization working on social and ethical reporting including sustainability assurance and stakeholder engagement standards. One of their last publications (The Materiality Report) is aiming at the alignment of strategy, performance and reporting (Accountability, 2006). Similar developments can be seen in theory, e.g. looking at the new management model of the University of St Gallen, Switzerland, demonstrating the necessity of a stakeholder approach (Rüegg-Stürm, 2003).

Coming now back to TQM (with its stakeholder orientation in ISO 8402 from 1992) and the European Excellence Model (for measurement and documentation of stakeholder results) it is becoming obvious, that these (old) approaches could play an important role on the changed agenda of business.

Based on the three pillar model of sustainability the results criteria could be “regrouped” in seeing the key results as precondition for economic sustainability, the society and people results as representatives of social sustainability and the society

results enlarged by CSR results as the third, ecological pillar. Taking the time dimension, the idea of continuous measurement and improvement combines change with sustainability on a meta level. To reach even better results the assessment models could be customized (Conti, 2007, p. 126). The value or ethics dimension is part of the leadership criteria – and could be included in the people dimension. The enabler criteria include a resource-based approach (Ignacio *et al.*, 2005), and so contribute to maintain or increase the capital stock.

In this sense the above-discussed excellence models are valuable instruments to transfer the concept of corporate sustainability into practice. As these models are based on a TQM philosophy and process, corporate sustainability based on a stakeholder approach would be a future oriented concept to redefine the content, respectively, goals of TQM – by keeping the principal approach. This redefinition would take into account that the (long-term) survivability of an organization is related to the survivability of society – and therefore CSR has to play a stronger role within business. Taking a long-term perspective, this is also the only way to enlarge the shareholder value.

Conclusions

This paper discussed the development of TQM in the past (starting under a different name in Japan, coming in the 1970s to the USA and during the late 1980s to Europe). Quite soon the first papers on failures in introducing this concept have been reported. Not only the wrong approaches of implementation but also other developments have been responsible for having not too many success stories. Here, especially the linkage to “quality” and respective associations might have been not always helpful – because of a lot (correct or incorrect) prejudices. In this sense replacing TQM by six sigma would not solve the problems.

Based on current developments – especially the problem of a trust crisis, e.g. because of a wrongly understood shareholder value philosophy, the topics of stakeholder-orientation and sustainability are regarded of growing importance. As there are many similarities, it has been proposed to use the TQM philosophy and process integrated in respective excellence models to link it with corporate sustainability and related concepts. But just changing headlines would – this time again – not really help. There is also a need of change in corporate culture having people involvement as an important precondition.

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Further reading

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