
The New EFQM 2010 Model for Business Excellence and its Fundamental Concepts in Light of the Economic Crisis

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The current economic crisis has led a large number of companies in various economic sectors to enter into predatory competition. Because of competitive pressure, businesses are forced to optimize their strategies and business processes in order to strengthen efficiency, productivity and sustainability. Rapid improvement is especially important to small and medium-sized companies that do not dispose of adequate financial assets to successfully withstand a longer lasting crisis.

This study examines the most significant areas in which businesses can gain competitive advantages and thus even profit from a crisis that leads to adjustment of the markets. To achieve this objective, the authors will commence with a comparison of the revised EFQM 2010 model to the previous version. More particularly, they will display the 8 fundamental concepts of the new EFQM model. In a further step, they will demonstrate how businesses and business consultants apply these concepts in light of the foreboding economic and financial

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situation.

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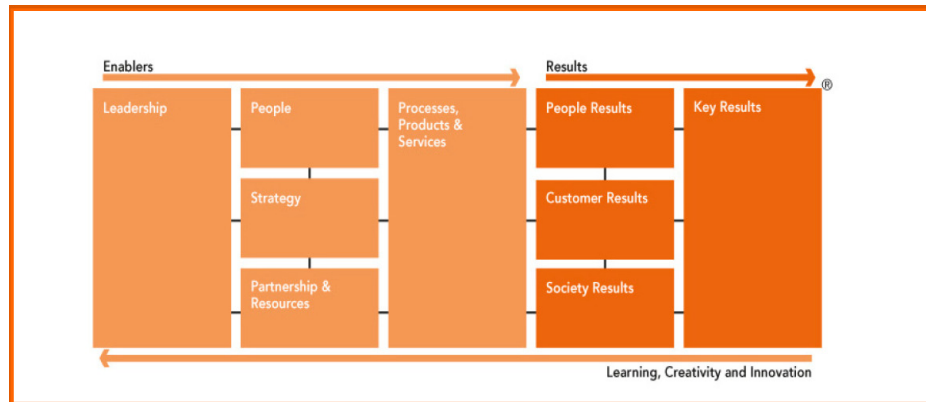
JEL classification: *M00, M14*

1. Introduction

In recent years, the significance of comparing businesses to each other has risen. Many different Business Excellence models exist. However, in the economic and scientific communities of the European Union, the EFQM model has achieved high recognition. In May 2009 – and thus in the middle of the financial and economic crisis-- the Board of Governors of the EFQM Foundation formally requested an update of its Business Excellence model. The EFQM Foundation states that its request for the update was influenced by a variety of stakeholders such as members, assessors, partners, trainers, learning networks and even EU representatives (Gemoets, 2009, p. 4). Therefore, the revised model accounts for up-to-date factors for Business Excellence with crisis-induced changes already implemented. In a lecture in Strasbourg, European Parliament, Prof. dr. Höptner, appointed commissioner for Europe by the Minister for Economics of Baden-Württemberg, Germany director of the Steinbeis-Europa-Zentrum, stated that in times of crisis, SMEs (small and medium enterprises) usually reach their highest levels of innovation (Höptner, 2010).

Figure 1

The EFQM 2010 model (Gemoets, 2009, pp. 1)

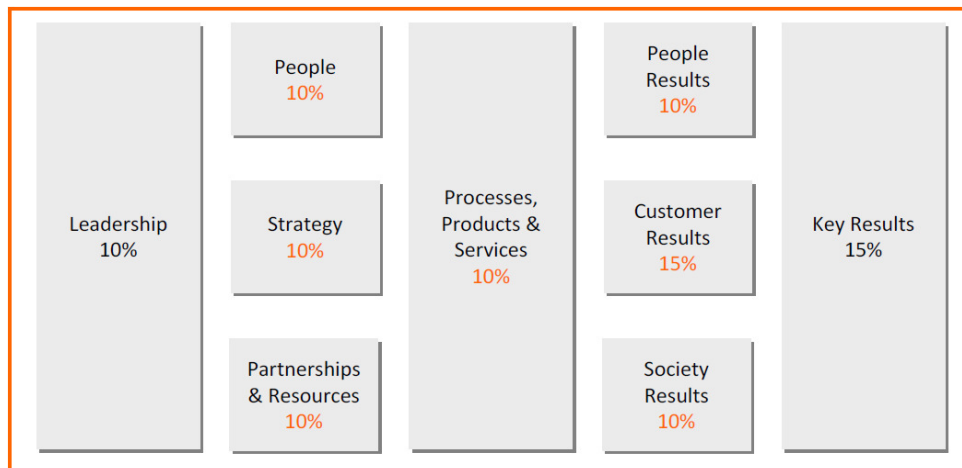


2. The new EFQM 2010 model in comparison to its previous version

Figure 1 shows the newest version of the model. In order to measure and compare business performance, 8 criteria have been set up by the EFQM and grouped into two main categories: Enablers and Results. Enablers represent factors that help companies achieve their desired results. Excellent businesses possess leaderships that support sustainable development, set up a consistent strategy, work effectively together with partners, make optimal use of resources and focus on people. Next to these factors, the processes, products and services are evaluated. On the results side, not only classical key results like market share and growth, turnover and profit are evaluated, but also soft factors such as the impact of the business processes on its own people, on the customers and on society. Long-term-focused activities such as corporate social responsibility are as important as shareholder value and other rather short-term-focused factors. According to Serban and Ghenta (Serban & Ghenta, 2009, p. 342), the EFQM-

model is used as a diagnostic model and serves as a basis for expansion that includes aspects of social and environmental responsibility. Using this model, companies learn to evaluate themselves and to measure the progress of their own continual development. This is difficult to do in prosperous times. It is more difficult to maintain this commitment in a time of rapid technological innovation cycles, rising international competition, fundamentally changing processes; frequent changes in the economic, social, and customer environment; and, last but not least, in a time of financial crisis.

Figure 2

Revised weighting of criteria (Gemoets, 2009, pp. 7)

Next to a simplification of terms, the weight given to each criteria was changed while still carefully maintaining the equal value between the capacity of an organization displayed by the five “enablers criteria” and the performance it delivers for its stakeholders measured by the four “results criteria”. Capacity and performance each account for 50% of the total. Figure 2 shows the new weighting percentages. While the criteria themselves have not changed significantly, there have been some shifts in the underlying fundamental concepts. In an analysis of the revised concepts, one can see that the content has been changed to promote a more balanced and sustainable view of business culture and processes. Figure 3 shows the new version of the EFQM fundamental concepts and its main changes.

Figure 3

The Revised fundamental concepts of the EFQM 2010 model
(Gemoets, 2009, pp. 8-9)

2010 version	2003 version	Main shift in content
Achieving Balanced Results	Results orientation	<i>Focus is now on developing the key set of results required to monitor progress against the vision, mission and strategy, enabling leaders to make effective and timely decisions.</i>
Adding Value for Customers	Customer Focus	<i>Focus is now on clearly defining and communicating the value proposition and actively engaging customers in the product and service design processes.</i>
Leading with Vision, Inspiration & Integrity	Leadership & Constancy of Purpose	<i>The concept is now more dynamic, focusing on the ability of leaders to adapt, react and gain the commitment of all stakeholders to ensure the ongoing success of the organisation.</i>
Managing by Processes	Management by Processes and Facts	<i>The focus is now on how the processes are designed to deliver the strategy, with end to end management beyond the "classic" boundaries of organisation.</i>
Succeeding through People	People Development and Involvement	<i>The focus is now on creating a balance between the strategic needs of the organisation and the personal expectations and aspirations of the people to gain their commitment and engagement.</i>
Nurturing Creativity & Innovation	Continuous Learning, Innovation and Improvement	<i>The concept now recognises the need to develop and engage with networks and engaging all stakeholders as potential sources of creativity and innovation.</i>
Building Partnerships	Partnership Development	<i>The concept has been extended to include partnerships beyond the supply chain and recognises that these should be based on sustainable mutual benefits to succeed.</i>
Taking Responsibility for a Sustainable Future	Corporate Social Responsibility	<i>The concept now focuses on actively taking responsibility for the organisation's conduct and activities and managing its impact on the wider community.</i>

3. Applications of the revised fundamental concepts of the EFQM 2010 model

This section will examine how businesses and business consultants understand the core concepts of the EFQM 2010 model and put them into practice, while giving due regard to the financial and economic crisis. To gain a holistic view of the current movements, the authors have studied current publications of renowned European business consultants regarding the 8 fundamental concepts of the EFQM 2010 model. For each of the concepts, several practical applications are proposed.

3.1 Achieving Balanced Results

In order to manage a company, a vision, a mission and strategies have to be developed and implemented by the top management. To monitor the company's success, a key set of results must be identified and monitored so that appropriate decisions can be made. According to Scherer, good management can be measured by key business success factors (Scherer, 2009, p. 177). Therefore, good management is the transformation of knowledge into customer utility. A quality management system is well able to help and guide those efforts. Next to the EFQM model, ISO 9000 and the environmental management systems EMAS and ISO 14000 have gained acceptance and propagation even in governmental organizations (Kaufmann, 2008, pp. 423-429).

3.2 Adding value for customers

Von Fournier asserts that customer satisfaction is no longer the only important factor in customer relations (von Fournier, 2010, p. 11). According to his view, quality will become a standard demand of customers. Because discounters nowadays offer a wide variety of high quality products, many SMEs have problems selling their products. In

light of this fact, von Fournier encourages SMEs to make fans out of customers, which often can be accomplished through personal contact, emotional marketing and extra services. Even a small enterprise that produces machines needs to think about adding color to its products, selling values and about upgrading its marketing methods to modern standards. Businesses that offer services need to think about how to individualize their processes in order to more precisely meet the needs of their customers. Added customer value in the 21st century is achieved by excellent service, innovation and creativity.

3.3 Leading with Vision, Inspiration, and Integrity

Modern management methods emphasize management by vision rather than management by pressure, force and severity. If examined in large scope, visionary management tends to be more effective than authoritative management (Scherer, 2009, p. 177). Vision includes drawing a picture of what customer satisfaction means in relation to the various business activities. Leadership, in this sense, means leading the company with the market as guide in an effort to fulfill the expectations of customers regarding the products and processes (Baldus, 2010, p. 23). The most important factor for this process is the motivation of management and employees. According to Baldus, this motivation can be illustrated in key questions that need to be asked. For example: What drives us? What is important to the customer? In light of this, what are our values? What parameters determine our actions? Therefore management with vision, inspiration and integrity is closely linked to and derived from adding value for customers.

3.4 Managing by Processes

The EFQM model steers organizations through a network of interdependent and interrelated systems, processes and facts. The systematic implementation of policies, strategies, operational

objectives, and plans is ensured and accomplished through a clear and integrated network of processes. These are effectively implemented in daily operations, managed and continually improved. Decisions are based on facts and reliable information regarding the current and forecasted performance, on process and system capacity needs, on expectations and experience of stakeholders, as well as on the performance of other organizations including the competitors. Based on reliable indicators, risks are identified and managed effectively. In this way, the companies are managed in a highly professional manner. Appropriate preventative measures are developed and implemented which are designed to create and maintain a high level of confidence among the stakeholders.

3.5 Succeeding through People

The employees' contribution, their development and their involvement need to be identified and understood; the present and the future competencies need to be implemented into the policies, the strategies, the operational objectives and the plans of the organization. Managements promote these competencies by consistently and actively developing and supporting their employees. Personal development is encouraged and supported, thus creating the opportunity for employees to achieve their personal potential and to fully participate in the company. By implementing the EFQM model, companies empower their employees to adapt and to implement the necessary changes into their activities or in their personal development. Companies recognize the growing importance of intellectual capital in their employees and use their knowledge and know-how for the benefit of the employees and of the organization. They develop a reward system for the employees as a means of creating commitment and loyalty to the organization. By creating collective values and a culture of trust and by supporting personal initiative, companies maximize the potential and the active

participation of their employees and use this equity to generate and to implement improvements.

3.6 Nurturing Creativity and Innovation

In 1943 Thomas Watson, CEO of IBM estimated the world market for computers at a mere number of five. His legendary misjudgment shows how difficult it is to push innovations. But even though this innovation made its way into the world markets in large numbers, wrong estimates were repeatedly made in the same business branch. In 1977, IT expert Ken Olson stated that, in his view, no one would ever need a computer at home. Today people have reasons to think about second or third PCs for their homes. It is important to understand, first of all, that revolutionary innovations often solve problems that were not known to customers up to this point. Fifteen years ago, we all were able to manage our bank transactions, reserve tickets, get information, and send messages without worrying about a failing internet connection. It was simply not there and therefore was not needed for everyday life. Secondly, even experts in certain areas are often not able to foresee innovations in their area of expertise.

In light of the statements made above, it is crucial for businesses to focus on creativity and innovation. Optimizing business processes is not sufficient. If necessary, processes must be completely eliminated in favor of a better system. Creativity is the means of generating innovations. Employers and employees' creativity competence needs to be strengthened. Also, businesses must understand that problems, such as the current crisis, should be understood as a starting point for innovative products, services, and processes. Innovation could also be described as the competence to solve problems. If there are no problems at hand, business consultants suggest defining new problems. In 1972, Dutch ACM Turing Award winner Edsger Wybe Dijkstra stated: *“As long as there were no machines, programming was no problem at all; when we had a few weak computers, programming became a mild*

problem, and now that we have gigantic computers, programming had become an equally gigantic problem. In this sense, the electronic industry has not solved a single problem, it has only created them." (Dijkstra, 1972, p.1). The IT industry therefore did generate a lot of new problems while solving a few. Today this industry runs multi-billion dollar businesses.

Figure 4

Rating of the leading industrial nations in innovative competence (Deutsches Institut für Wirtschaftsforschung e.V., 2009)

Innovationsfähigkeit der führenden Industrieländer: Gesamtergebnis 2009.

Rang		Punktwert
1	USA	7,00
2	Schweiz	6,93
3	Schweden	6,76
4	Finnland	6,26
5	Dänemark	6,14
6	Kanada	5,24
7	Japan	5,22
8	Niederlande	5,03
9	Deutschland	5,01
10	Großbritannien	4,78
11	Korea	4,47
12	Frankreich	4,25
13	Österreich	4,15
14	Belgien	4,14
15	Irland	3,77
16	Spanien	1,79
17	Italien	1,00

A recent example illustrates the importance of innovations: The consumer that has recently bought an iPod has generated a whole new set of problems for himself. Now his interest in product affiliated items is sparked. He is confronted with the idea of buying a bag for his phone, ear plugs, apps and many more accessories. Those are all products that were not needed before. At the same time, other

products that were needed before (in this example maybe CDs, CD cases and a CD shelf at home) became obsolete. These items were all on the market just a few years ago. At the same time, the customer is confronted with compatibility issues for other electronic products; and in a short time, a new software generation shift – e.g. an update from mp3 to mp4 – might rekindle the whole process. German entrepreneur and secretary for foreign affairs Walther Rathenau stated: “The invention of a problem is more important than the solution to it. The question is more important than the answer.” (Rathenau, 1972). Many EU countries still have deficits en large in the field of innovation. The DIW (Deutsches Institut für Wirtschaftsforschung) conducts an annual study of the innovative strengths of leading industrial nations. Significantly, in 2009, two of the three leading countries were non-EU nations (USA and Switzerland). Figure 4 shows the latest overall results in which Germany and Great Britain are only mediocre in innovative abilities. Main findings of this study include the importance of education, of scientific research as well as of political support for innovative investments of private companies, for example, access to financial aids and attractive loans. In recent years, Germany has offered a number of state-supported corporate loans and has issued warranties through its state-run banks and other financial institutions (e.g. KfW Bank, Kreditanstalt für Wiederaufbau). These offers include investments in green energies and in other environmentally oriented areas and therefore combine innovative and sustainable elements.

Innovation is also supported by European politics. In his first state of the union address in Strasbourg, Manuel Barroso, president of the European Commission, envisions the EU to develop into an “innovation union” by the year 2020 (Barroso, 2010). Many EU subsidy programs have been implemented recently to support innovation on a European level.

3.7 Building Partnerships

In the past few years, networking on all levels has become more and more crucial for business success. Innovation and development as well as marketing management increasingly relies on social networks. The economic crisis has strengthened the importance of video conferencing to help cut rising travel budgets and has helped to find more efficient and less costly marketing strategies. In a recent study, business consultant Deloitte put it this way: “Who you know is increasingly more important than what you know”. In a similar way, trend scientist Matthias Horx speaks of the future society as a “network society”. However, networking is not a completely new concept. 400 years ago the mail monopolist family of Thurn & Taxis was able to obtain important licenses because of its well developed connections with political leaders of the time. Today, approximately 70 percent of all jobs in the USA are awarded to people with personal recommendations (Scherer, 2009, p. 94). For self employed entrepreneurs, chances to make a business deal are significantly higher with personal recommendations than without, especially if the service offer and quality is identical to that of a competitor. It has therefore become more and more important, especially for SME’s, to be present at various social events: from fairs, golf clubs, business clubs, and conferences up to regional and local events. Facebook and Twitter have boosted networking strategies. In the real estate industry, for example, many companies have understood the importance of social networking and have started facebook profiles and communities. At this year’s German national IvD real estate (Immobilien Verband Deutschland) convention in Mainz, networking was a dominant topic for lectures and business talks. Real estate leaders that have invested in social marketing during the last months reported remarkable success rates with this rather new marketing strategy. Even personal success with job positions rises with the presence of good networking competence. Manager magazines records that a manager’s career chances are boosted by the level of networking he is able to build up.

In an experiment with more than 60.000 volunteers in 166 countries, Duncan J. Watts of Columbia University confirmed that the “small world hypothesis” is also valid in today’s world wide data web: every person knows every other person around the world through an average of 6 other people by eMail. In addition to Facebook and Twitter, there is a variety of networking platforms. One of Europe’s fastest growing sites is XING. But there are a number of other websites such as LinkedIn, Myplace, Yasni, and others. Scherer recommends networking with new and unusual approaches. For instance, to get in contact with a certain person, he suggests giving an award. To earn media attention, big events could be organized or workshops and seminars offered. He also strongly recommends taking part in institutional organizations such as regional economic associations. (Scherer, 2009, pp. 94-103)

3.8 Taking Responsibility for a Sustainable Future

The EFQM model displays clearly that focusing on profit-oriented factors alone is no longer an adequate managing method. Stakeholders such as customers, politicians, social networks, employees and others demand an active part in a sustainable future and therefore help secure long-term survival of businesses. The new EFQM term goes beyond corporate social responsibility and calls for a company’s active involvement. The chemical company BASF, for instance, is involved in a number of educational activities in its headquarter region Metropolregion Rhein-Neckar, Germany. The CSR department offers scientific research equipment, teacher seminars and field trips to its plant in Ludwigshafen to kindergarten facilities, elementary schools and high schools. Even though none of these activities are offered for end customers, BASF regards these activities as investments into the region for current and future generations, which in turn will help recruit excellent employees for BASF both now and later. But SMEs have also understood the importance of CSR. In the real estate industry, this year’s third place winner award of IvDs and

IMMONET's "immoIdee" went to Käte Behrens, Kiel for inventing the "Kinderschutzbund Open" – a golf tournament that contributes its net profit to a non-profit organization (www.immo-idee.de, accessed on the 6th of September, 2010). Another example is the initiative of Michael Rosenbauer, founder and moderator of an 8.000 member XING real estate lobby group to support the financing of a non-profit organization aiding children with leukemia. He opened his latest newsletter with this story and even created a new website to support this cause (Rosenbauer, 2010).

4. Summary and conclusions

The revised EFQM 2010 model is an approach that fully meets all the challenges of SMEs. When applying this model, there is always the risk of emphasizing improvements on specific issues of the organization and neglecting the follow up and review of implementing sustainable development principles. Integration of quality management with environmental management as well as with core values of sustainable development can become like an adventure for some SMEs, because the multitude of activities on quality, environment, and sustainability are carried out simultaneously and without a systematic link between them. In comparison to the previous model, the weighting between criteria has been improved and has gained clarity. The updated fundamental values underline the more balanced and sustainable view of business culture and processes.

In times of crisis, SMEs enter into predatory competition. However, crises boost company efforts to withstand financial struggles and other crisis-induced threats. The EFQM model with its eight core values can help systematize those efforts in a holistic, effective way. Practical examples from the market as well as current publications of business advisors show that the eight core values are indeed followed by good practice organizations. Achieving balanced results can be accomplished by using an adequate quality management system such

as the new EFQM 2010 model. A QM (quality management) system also helps monitor and improve key business processes. Added value for customers is achieved by added services and emotional marketing methods. Companies must think beyond mere customer satisfaction. Furthermore, a key success factor is management by vision, inspiration and integrity: modern management methods focus on motivation rather than on authoritative management. This focus will in turn help SMEs view people rather than machines as their most important production factor. Creativity and innovation have long been fields of improvement for European companies. But recent investigation shows that stakeholders at all levels have understood the importance of these areas. Therefore one can expect that in the near future, European businesses will catch up internationally. The rise of social media networks has supported the core value of building partnerships: there are a number of indications that excellent businesses understand and apply new network opportunities and gain competitive advantages. Last but not least, according to the EFQM 2010 model, CSR activities should be understood as an active role of businesses in their surrounding communities. Excellent companies apply these principles in a multitude of ways.

Thus, in order to answer the question introduced in the XXIVth EURO conference in Lisbon: “Modeling of the economic crisis: Did we learn the lesson?”, we might be able to answer: Yes, the EFQM 2010 model is a credible and holistic answer to the crisis. Its principles are being applied by a large number of SMEs today.

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