TQM Paradigm Shift in The Context of Change Management

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At the end of the past century the development of economics obtained some new trends. Three important processes proceeded: fast development of IT, globalization, and formation of stakeholders’ groups. All economic sectors have to accept new principles and modus operandi as a sequence of these processes and forming environment as a worth. It appeared that a part of the pressures to which organizations had to react were beyond the grasp of their management. Sustainable business approach requires mega risks to be identified and their potential impact on the future of the business understood. Particular emphasis is made on compliance risk management and collaborating and engaging with organizations’ stakeholders to manage and share the risks. The contemporary quality management should be discussed in context with the implementation of the triple-bottom line strategies for simultaneously creating economic, social and environmental value.

TQM is one of the most commonly used change management tools. Therefore it becomes important to evaluate if the evolution of TQM is at the same pace with rapidly changing environment and business conditions. Traditional approach to evolution of the concept of quality management from inspection to control, assurance, and, finally, to total quality management, at first sight does not tell a lot about relation of quality function and external pressures for the organization.

The recent goal of quality movement is achieving business excellence, and many of today’s business excellence models are focusing strategies not just to financial results, but also attending to the social and environmental impact of businesses. However, the integrity and systematic approach to management of social and ecological risks are rather seldom seen as source of competitive advantage. Under the recent globalization of markets and businesses, the environment is one of the most significant components of businesses. TQM, as a management philosophy, has elevated the implementation of quality management practices from operational to strategic level. Sustainability cannot be separated from evolution of TQM, since sustainability itself should be defined as the ability of organization to adapt to change in the business environment, to capture contemporary best practices, and to achieve and maintain competitive performance. The evolution of TQM therefore always evolves along with the changes in the business environment.

The scientific literature is assuming TQM to be evolved to strategic TQM and sustainable TQM, both of which may contribute to successful organization management and coping with emerging changes of business environment.

Keywords: total quality management, sustainable development, stakeholders, compliance risk, changes.

Introduction

Globalization, new technologies and knowledge management issues are determining new challenges for organizations, and thus new risks. New approaches to risk are often interchangeable with the sustainability issues. A long-term sustainability of a business requires mega risks to be identified and their potential impact on the future of the business understood. The most effective risk management is likely to require engagement with all the organization’s stakeholders. It becomes a very important task to successfully integrate mega risks into overall strategy of a particular organization. The scientific problem is that part of the pressures to which organization need to react are beyond the grasp of their management, and due to different nature of recent transformations the formerly widely known change management tools are not applicable in this situation. The most simple and probably most successful approaches to such pressure management will be outlined further in this paper.

The aim of the paper is to determine trends of contemporary TQM by formulating main principles for organizations to manage pressures beyond their direct competence.

Object of the research – most significant external pressures on activity of a contemporary organization.

The research methods are systematic analysis, synthesis, prognostication, review, induction, and deduction.

Changes in Business Environment

Some authors notice (Collerette et al, 2001) that “it has become something of a cliché to say that organizations have gone through a lot of changes in recent years”. Indeed, changes of business environment are common for all periods and decades, but the recent transformations have something significantly different inside.

As Castells (1996) says, already in the 1960-1970s the development of the world and the societies gained new features. Almost at the same time three each other interacting processes took place. First, rapid development of information technologies, that exceeded all forecasts for the sector; second was described as globalization, which highlighted the significance of the environment as of global unifying connection, and the third process was formation and increased pressures of different non-governmental movements and stakeholders’ groups. The aforementioned processes and reaction influenced by them stipulated development of the new social structure – net society, new kind of economics, and new virtual culture.

The most of the current transformations are associated with external pressures. External pressures may be under-
stood as pressures for change, associated with a number of global phenomena. Alais Rondeau already in 1999 proposed a matrix (see Figure 1) of the major changes currently affecting organization (Collerette et al, 2001).

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<thead>
<tr>
<th>Economic sources</th>
<th>Technological sources</th>
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<tr>
<td>- globalization of the economy</td>
<td>- NTIC</td>
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<tr>
<td>- rising competition</td>
<td>- data interchange</td>
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<td>- shift of a mass economy to a knowledge-based economy</td>
<td>- integrated management systems</td>
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<td>- knowledge management</td>
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<tr>
<th>Political sources</th>
<th>Technological sources</th>
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<td>- market deregulation</td>
<td>- labor diversification</td>
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<tr>
<td>- uncertainty of control structures</td>
<td>- decline of traditions and hierarchy</td>
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<td></td>
<td>- growth of autonomy</td>
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<td></td>
<td>and of free will in social choices</td>
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Figure 1. Sources of major change in the organizational environment (Collerette, Schneider, Legris, 2001)

It is evident that management of an organization moves from a situation where the future could be controlled by concentrating on internal forces, to a situation where the one must deal with many external pressures.

Organization change management is a broad discipline and many authors of recent times are working on this subject (Abrahamson, Hamel, Brabec, Castells and others). The most common proposals for change management are step-by-step, revolution-type approach, some call for caution in the face of change viewed as a “fashion”, and all are right – there cannot exist just one and single “correct” change management approach leading to organizational success.

Globalization has prompted a shift in organizations’ concerns about risks from local to global. Researches (WBSCD, 2004) are starting to identify it as a mega risk, encompassing all risks the organization can face in the 21st century. Mega risks are often unprecedented in their potential scale and cost. Therefore a systemic approach should be taken for addressing these risks, as they cannot be tackled in isolation from each other. Taking a wider approach, mega risks, whether traditional or emerging, are large-scale risks or mega-trends that can impact societies, human health, the environmental and the business sector, etc. The sources of these risks may be natural events, social and technological developments, or political actions. Political upheavals, cross-border litigation, environmental pressures are just some of the mega risks that face the corporate sector. Dealing with them requires far-sightedness and innovation. While many risks have local origins, their impact may rapidly become global. Mega risks are generally too large and too complex to be managed or mitigated by any single stakeholder.

The risk is magnified by the global communications and IT, which help to balance power between people, corporations and nations by enabling businesses, governments and society to scrutinize each other and share information. Corporate reputations may be destroyed in a matter of days, especially in a new knowledge based economy, when organizations depend on intangible rather than physical assets.

Stakeholders Pressure

The stakeholders in an organization are the groups, beings or systems that are affected by the organization’s operations and whose support is required to safeguard the organization’s future (Crosbie, Knight, 1995). Awareness of stakeholders grew in the 1980s, and interest on the issue was still increasing, as the balance of power was shifted from the producers to customers (Kaplan, Norton, 2004), and continued to move forth to stakeholders.

Stakeholders are those who have an interest in a particular decision, either as individuals or representatives of a group. This includes people who influence a decision, or can influence it, as well as those affected by it.

Based on the character of their activity methods the stakeholders are considered to be A-type and B-type ones. A-type stakeholders are “pushing” the organization (e.g. market players), while B-type stakeholders are “pulling” it (public opinion, legislation, regulation, supervision institutions) (Belz, Strannegard, 1997).

The most popular stakeholders’ groups are:

- A-type: customers and organizations protecting customers’ rights; shareholders; employees and unions; competitors; distributors; suppliers; financial institutions.
- B-type: national and international institutions for environmental regulation and supervision; mass media and NGOs.

Figure 2. Stakeholders’ pressure during product cycle (Čeplinskis, Žirgutis, 2001)

A-type and B-type stakeholders have impact on any product or service. Numbers 1-7 in Figure 2 identify product cycle (mining (and similar), supply, manufacturing, logistics, using, remake, utilization). Below are the organizations not fulfilling any eco- and socio-driven activity, and above are the ones maximizing sustainability approach in particular stage of product cycle. A-type stakeholders are pushing the organizations to implement sustainability principles from above, and B-type stakeholders are pushing for the same goal. Thus, the total implementation of principles of sustainability goes up.

The organization’s internal and external stakeholders are evaluated to determine the amount of influence each
can exert on the organization’s policies and practices, and the amount of leverage the organization has on its stakeholders (Lee et al, 1999).

**Figure 3.** Stakeholder Analysis (Lee, Shiba, Wood, 1999)

The nature and type of stakeholders’ pressure needs to be explained in more detailed. The new claim on business is partly a result of the relative growth of wealth in Western society (Parston, 1997). Unlike the charitable donations that many businesses make, accountability for social results is enduring. The people outside the commercial organizations begin to exert a new pressure on those inside them to be more concerned about public issues. It is expected that business should be made in a way that recognizes public concerns, if not by producing some sort of social benefit, at least by ensuring that no contributions to any type of social harm is made. There is growing demand in the society for businesses that could be a part of the community. Thus, coherent responses to the growing pressure for social outcomes should be developed and implemented.

Socially responsible organizations will no longer be defined by their financial limits, their ownership, their products, or their organizational charts but rather by their roles in society. Parson says (1997), “Tomorrow’s organizations will produce social results, not just profits”.

Many companies today recognize that achieving excellence in environmental, safety, health, employment, and community practices are part of their long-term value-creating strategy. At a minimum, achieving good regulatory and social performance is a long-term objective. Beyond just complying with local regulations and expectations, however, companies that excel in critical regulatory and social processes can enhance their reputations among customers and investors, and also help to attract and retain valuable employees who take pride in their companies’ roles in improving environment and the community (Kaplan, Norton, 2004).

With the economy and the equities markets increasingly unpredictable and faith in corporate governance in steep decline, it is not surprising that stakeholders of all types have growing interest in the sustainability of companies. Yet the word sustainability remains ambiguous and politically charged, particularly within the lexicon of business. When, as is commonly the case, the term is limited to encompass environmental management or social equity, sustainability is often perceived to be at odds with fiduciary responsibility and unlinked to business strategy (Funk, 2003).

Corporate sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.

The sharing information on, and the responsibility for, risk is a developing area of modern approaches to risk management. Many organizations recognize that their performance, and the performance of their customers and suppliers, is intrinsically linked, and that sharing risk is ultimately beneficial to all concerned (WBSCD, 2004).

**Compliance Risk Management**

Compliance risk can be defined as the risk of legal or regulatory sanctions, financial loss, or loss to reputation a organization may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice (BCBS, 2003). Compliance risk is sometimes also referred to as integrity risk, because an organization’s reputation is closely connected with its adherence to principles of integrity and fair dealing.

Compliance with laws, rules and standards helps to maintain the organization’s reputation with, and thus meet the expectations of its customers, markets and society as a whole. Although compliance with laws, rules and standards has always been important, compliance risk management has become more formalized within the past few years and has emerged as a distinct risk management discipline.

The exact approach chosen by organizations in individual countries and industries depends on various factors, including their size and sophistication and the nature and geographical extent of their activities.

Organizations are governed by a complex web of regulations, laws, voluntary codes, industry codes and corporate policies. The business internalization processes often lead to increasing extent of different regulations, and the proper compliance to all of them becomes beyond competence of the organization’s management bodies. The one cannot comply with something about what existence does not even know. For example, after joining the European Union, many Lithuanian organizations faced new challenges of the open market, and the increase in the attention paid to compliance could be observed.

Compliance is directly related to protecting organization’s license to operate. Formally, “license” is just an incorporation procedure with subsequent outcomes. Organizations get their “official” license to operate from regulators and legislators, and undoubtedly should comply with their regulations and laws. But organizations also get an “unofficial” license to operate from the community, which is why it is important for businesses to meet public expectations through compliance with voluntary codes, industry codes, etc. (PWC, 2004). Organizations are under pressure to foster goodwill among the societies in which they operate. They are seen as powerful, and having the means to support improvements, and they are expected to contribute accordingly (WBSCD, 2004).

The applicable laws, rules and standards are likely to have various sources, including primary legislation, rules and standards issued by supervisors, market conventions, codes of practice promoted by industry associations, and
internal codes of conduct applicable to the staff members of the organization. They are likely to go beyond what is legally binding and embrace broader norms of integrity and fair dealing.

Compliance is not only about removing the risk, it is also about realizing value. Being able to demonstrate that they comply with both official and unofficial requirements can also help organizations to enhance their reputation, create greater loyalty among customers and employees, lower the cost of capital, decrease approval times for projects, etc.

To effectively minimize risks and realize the value of compliance, organizations must treat it as a business process, not a legal issue. Compliance must become a part of their culture (PWC, 2004).

Compliance risk management is most effective when a organization’s culture emphasizes high standards of ethical behavior at all levels of the organization. The senior management should promote an organizational culture that establishes through both actions and words the expectations of compliance by all employees (incl. management) with laws, rules and standards when conducting the business. A strong compliance culture may contribute to effective corporate governance (BCBS, 2003). The emphasis on appropriate culture, senior management’s commitment and involvement of all employees are related to principles of total quality management.

### Figure 4. New perception of the risk nature (WBCSD, 2004)

Depending on their approach to risk management, organizations can be ranked as reactive, tactical and strategic. The traditional approach to risk has been fragmented, largely reactive and oriented toward the short term, and links to corporate policies were missing. The reactive organization manages risk only for legal compliance purposes and in response to a crisis. The tactical organization will be better prepared for risks, but it is the strategic organization that anticipates risks and actively drives value for the stakeholders.

The same approach applies to compliance risks, as well as the other kinds of risk. For example, the environmental risk management of any company usually can be described as crisis-oriented, cost-oriented, and enlightened, establishing strong corporate support beyond regulatory compliance (Fischer, Schot, 1993). Organizations should take a pro-active stance in order to be able adequately to anticipate the changes in legislation and regulations. The recent change management literature upholds the view that significant role in compliance risk management should be given for sustainability, i.e. compliance with economic, social and environmental issues.

### Figure 5. Compliance Paradigm Shift

Previous compliance paradigm shift from crisis management to anticipating risks, and recent from just legal to legal and unofficial compliance, is a true evidence of increasing attention to interests of organization’s stakeholders.

Compliance risk management should be regarded as a core risk management activity within the organization (BCBS, 2004). In recent business world risks are often perceived not just as problems, but also as opportunities. It is important to notice that organizations that invest in risk management to deliver just regulatory compliance will not get benefits of integrated risk management.

Corporate risk management is inextricably linked with wider issues of sustainable development. The adoption of sustainable development strategies by organizations can actively contribute to avoiding risk or minimizing adverse impacts. In order to understand their potential risk sources, organizations need to take a holistic approach that includes a consideration of sustainability as well as commercial, political and societal risks. A strategic approach to managing mega risk is essential to ensuring sustainable development, and satisfying needs of increasing number of stakeholders’ groups.

### Sustainable Quality Management

Since the 1980s, total quality management (TQM) was one of the most commonly used change management tools (Yong, Wilkinson, 2001). The question is, if the evolution of TQM was at the same pace with rapidly changing environment and business conditions, as described previously in this paper.

Traditional approach to the evolution of the concept of quality management from inspection to control, assurance, and, finally, total quality management, at first sight does not tell a lot about relation of quality function and external pressures for the organization. Still, those trends of changes in quality management concept should be explained in more detailed (Zhao, 2004, McDonald et al, 2002):

1. Quality as a quantitative aspect, emphasizing qualitative factors.
2. The reactive function of inspection changing to a preventative function, and to a proactive vision of quality.
3. Moving from focus on the final product, to quality on tasks and processes.
4. A global perspective of the organization has
emerged as a result of the increasing integration of different aspects of quality. Social and environmental aspects are now added to commercial dimensions of organization.

As a part of quality management evolution, the recent goal of quality movement is achieving business excellence. Zhao (2004) says, that many of today’s business excellence models focus predominantly on a single bottom line of financial results rather than also attending to the social and environmental impact of businesses. However, the top most common and widely used tools for measuring business excellence, The Malcolm Baldrige National Quality Award and the European Quality Award, are using wider approach. Principles of business excellence are linked with corporate social responsibility goals, i.e. these business excellence models are measuring, and therefore are promoting methods of managing external pressures. Society results, along with people results, partnership and resources, and customer results are among the key evaluation criteria. This is a true evidence of the quality management movement extending its scope to include social and environmental responsibility to address the changed demands of today’s business.

TQM is today seen as an organization-wide effort that emphasizes three core principles (Yong, Wilkinson, 2001):

- Customer orientation.
- Process orientation.
- Continuous improvement.

The concept of customer focus is developing into meeting the needs of a broader group of customers including human stakeholders, environmental stakeholders and other interested parties in societal sustainability (Garvare, Isaksson, 2001).

TQM, as a management philosophy, has elevated the implementation of quality management practices from operational to strategic level. Sustainability cannot be separated from evolution of TQM, since sustainability itself should be defined as the ability of organization to adapt to change in the business environment, to capture contemporary best practices, and to achieve and maintain competitive performance (Prajogo, Sohal, 2004). The evolution of TQM therefore always evolves along with the changes in the business environment.

Figure 6. Ideological base for TQM development (James, 1996)

It is widely believed among scientist of TQM field, that TQM approaches may be applied to the future business environment, just the boundary conditions of TQM should be assessed and understood (Rahman, 2004). In stable environment, the TQM approach for continuous improvement is appropriate and effective. In the context of a recent uncertain environment, agility becomes a core competence for organization that must develop capabilities to adapt quickly to the changing environment. Therefore TQM theory should reconsider conception of continuous improvement as a contrary or supplement to innovation.

James (1996) has a vision of TQM development in the future as integrated system of four basic pillars:

- TTM – total transformation management
- TCM – total customer management
- TIM – total information management
- TRM – total resource management

There exists lack of the literature and empirical evidence of focus on the relationship between TQM and a corporate strategy (Leonard, McAdam, 2002). Leonard et al (2002) emphasize, that strategic quality management in many works is seen as the key to being competitive; however, the philosophy needs to emphasize integrity, environmental issues and social responsibilities as key elements.

Summarizing the above said, the scientific literature is assuming TQM to be evolved to strategic TQM and sustainable TQM, both of which may contribute to successful organization management and coping with emerging changes of business environment.

Conclusions

The most of the recent transformations in organizations’ business environment are associated with external pressures. External pressures are understood as pressures for change, associated with a number of global phenomena. External pressures are most usually experienced through activity of stakeholder groups. There exist plenty of methods to identify the stakeholders of an organization, their influence and level of leverage: still the most significant message to organizations is that impact of and to stakeholders should be managed.

The traditional approaches to risk should be rethought, as global businesses need to adopt more comprehensive risk strategies. Various sources and magnitude of risk have impact on long-term survival of organizations; therefore organizations should take a holistic approach to risk.

To address specific emerging compliance issues organizations should commit themselves to appropriate, timely and comprehensive compliance risk management, referring to compliance both as to legal-regulatory and unofficial one. Because risks are so complex and interrelated, organizations need to collaborate and engage with their stakeholders to effect changes, to assess, manage and share risks. A strategic approach to managing mega risk is essential to ensuring sustainable development.

In order to be successful in the future knowledge-based environment, companies will need to implement triple-bottom line strategies for simultaneously creating economic, social and environmental values.

Total quality management philosophy needs to be rethought in the context of recent transformations. The most likely and reasonable developments for contemporary total quality management should be made by incorporating approaches of sustainability and strategy to the concept of total quality management.
kai šie procesai tampa organizacijos kultūros dalimi.

Organizacijų požūtis į rizikos valdymą paprastai skirstomas į reaktyvų, taktinį ir proaktyvų, arba prevenčinį. Reaktyvų požūtį taikant išsiima organizacijos valdo vien tik atitikties teisiniams reikalavimams riziką; taktinį požūtį propagejo organizacijos įmonės gali gauti tik dėl to, kad jos veiklos atitinka teisines normas. Taktiniais požūtiais organizacijos veiklos veiksniai yra įvairios rizikos, o strateginiai, proaktyvus požūtis organizacijos veiklos veiksniai yra garsios rizikos veiklos. 

Visuotinės kokybės vadyba (VKV) laikoma viena iš pokyčių valdymo sferose. Svarbu nustatyti, ar VKV vystymosi tampa svarbus veiksnių verslo aplinkos ir verslo veiklos populiari. Tradicinė požūtis į VKV evoliuciją tuomet įgyja įvairiausias formų, o ekonominė požūtis į VKV evoliuciją įgyja įvairiausias formų. 

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