

CHAPTER NINETEEN

Reframing Quality Management

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Introduction

During the 90s, many writers began to either question the efficacy of quality management, or suggest that the rapidly changing social and organizational environment was raising questions that the traditional form of quality management could not adequately answer. Aune (1998, 1999) was emphasizing the emergence of the multi-stakeholder organization and the need to extend quality thinking beyond the customer. Radder (1998) argued that quality management should adopt a stakeholder perspective; treat each stakeholder as a customer and go beyond customer satisfaction to stakeholder delight. Also Foley, Barton, Busted, Hulbert and Sprouster (1997) began to draw attention to quality management not having an *explicit* theoretical foundation. Stimulated by the works of Foley (2000 a and b, 2001, 2005) on the relationship between quality management and the multi-stakeholder organization, Foster and Jonker (2003, 2007) and Foster (2005) proposed a form of quality management that is sufficiently different to warrant being described as a new (third) generation. This paper is a continuation of the line of questioning suggested by Aune, Radder, Foster and Jonker (and a growing number of others) and an attempt to identify where those questions have taken, or might take, quality management. To address those issues our paper is presented in two parts.

Part I looks at the history of quality management until 2000 and shows that quality management has been changing since it was first formalized by Walter Shewhart and popularized by Crosby, Deming and Juran. Part II introduces the Multinational Alliance for the Advancement of Organizational Excellence (MAAOE) and argues that following its fifth meeting in Sydney in January 2006 it has become possible to identify the principal features of what appears as the outline of the next stage in the evolution of quality management. In Part II quality management is presented as a *theory* of management that can be viewed as an evolutionary step and a formalization of the Aune/Radder notion that customers are one of many stakeholders *that must be satisfied if the organization is to have long-term success*. In this view, customer satisfaction is a *means* to achieving the aim of the organization and may be (and most often is) constrained by the need to satisfy other stakeholders. The development of an *explicit theory* of quality management provides a foundation and reference point that until now lacks in the quality management literature. The paper concludes with an identification of those issues that must be addressed before third generation quality management can be promoted as a guide to organization success. Although much has been done to draw quality management back from the brink of extinction and give it twenty first century relevance much work remains; the most difficult issues probably remain.

PART I

Like other management concepts, quality management has undergone several changes since it was formalized by Walter Shewhart in the 1930s, adopted in post World War II Japan and popularized throughout the world in the books and seminars of American management entrepreneurs in the 1980s. Perhaps the most significant feature of the post-war evolution of quality management was its neglect by management scholars and capture by a few quality consultants, each of whom adopted different views on the quality concept and promoted their particular form of quality management as the “one best way”.

The application of Shewhart’s work on quality control and on the use of its associated methods and statistics-based tools to identify and reduce process variation, later led to Shewhart’s ideas being described as a method for managing the whole organization. This evolution became known as quality management and later popularly described as Total Quality Management, or TQM. Although there were to be many variants, quality management provided the foundation for an international standard on quality assurance (ISO 9000) and many quality and business excellence awards, starting with the Deming Prize in 1951. Few saw it at the time, but those differing interpretations, the often simplistic ways quality management was promoted, and an almost exclusive emphasis on doing and neglect of empirical research, were to lead to its eventual rejection as a management fad.¹

¹ It is important to here draw the distinction between the suggested ways to work (PDSA, process approach) and the statistical tools of quality management, which have grown in use and relevance, and the whole-of-organization management model that gave pre-eminence to the customer and saw quality of product and service as the guiding strategy for all organizations at all stages in their development.

Given the complexity of organizations, the accelerating change occurring in the environment in which organizations operate, and the lack of a clear definition of TQM it is not surprising that TQM met with mixed results. In those circumstances, it is perhaps surprising that TQM had the success it did. Put differently TQM has had a checkered history. Many authors (e.g., Garvin, 1988; Dale, 1999) have traced the evolution of quality management and used its several distinctive forms for describing that history. Dale, for example, describes four levels of quality management; inspection, quality control, quality assurance and TQM. Although any such classification has its difficulties identifying the points of transition, and our approach is no different in that respect, we have chosen a temporal rather than a characteristics perspective and look at four periods: before 1930, 1930-1980, 1980-2000 and 2000 - to the present.

Managing for quality before 1930

It is not difficult to find historical examples of practices to assure that customer needs relating to quality are met, and that managing for quality has an ethical component: “do to your customer what you would want others to do to you when you are a customer”. A well-known example of an attention to quality is the medieval artisan guilds, which included crafts such as blacksmiths, weavers, masons, architects, bakers and butchers, with each guild setting and enforcing standards for good workmanship and ethical conduct. Perhaps the best example of quality control measures taken by the guilds is the masterpiece procedure where to gain membership an apprentice had to produce a “masterpiece” for examination by the guild masters. Besides establishing and maintaining product standards, the guilds also determined how much could be expected from a workman - a task later assumed by the trades unions.

With the onset of the industrial revolution and the widespread use of interchangeable parts and machine tools, the role of the guilds declined and they soon disappeared as a major force for achieving product quality.² In 1778, Honoré Blanc began producing firearms with parts that were interchangeable rather than uniquely manufactured for a single weapon (Quinn and Kovalevsky, 2005). This principle of producing parts to a system of pre-constructed filing jigs quickly made mass production viable for all sorts of products, and factories with workers able to do a specific well-defined task quickly replaced the artisan capable of producing an entire and unique product. First the guilds, and later the trades unions regulated such matters as how many bricks a bricklayer could be expected to lay each day, or how much coal a worker should shovel (Taylor, 1911). If workers did more than the regulated amount, piecework contracts would be adjusted so the worker had to do more for the same pay. Frederick W. Taylor had noticed that this arrangement led to soldiering, i.e., to stall and work slowly, and concluded that this would have negative consequences for both worker and employer.

Taylor observed that manual labor could be made more efficient by simplification and standardization of work tasks and proposed separating the functions of execution and

² Mass produced and interchangeable mechanisms were used in some half a million arbalests in Liang Hsiao Wang's army in 160 B.C (Hansson, 2002, p. 112).

control and sharing attendant productivity gains between the workforce, owners and consumers (Taylor, op.cit., p.114):

It does seem grossly unjust when the bare statement is made that the competent pig-iron handler, for instance, who has been so trained that he piles 3 6/10 times as much iron as the incompetent man formerly did, should receive an increase of only 60 per cent., in wages.

It is not fair, however, to form any final judgment until all of the elements in the case have been considered. At the first glance we see only two parties to the transaction, the workmen and their employers. We overlook the third great party, the whole people,- the consumers, who buy the product of the first two and who ultimately pay both the wages of the workmen and the profits of the employers.

Henry Ford further extended Taylor's ideas by adopting large-scale moving assembly line manufacturing to produce cars at a markedly lowered cost.³ Ford identified standardization as central to cost reduction; which he reflected in his admonition that you could have the model T in any color – as long as it was black. Ford's view of standardization was extended not only to how work was to be arranged, but also to production layout; sometimes of entire plants (Ford, 1926, p.82):

We believe (and it was fully developed in *My Life and Work*) that no factory is large enough to make two kinds of products. Our organization is not large enough to make two kinds of products. Our organization is not large enough to make two kinds of motor cars under the same roof.

Great efforts were put into standardization as means to both reduce costs and to increase productivity when mass production was introduced. Production layouts from assembly lines to jigs were developed so high-quality products could be produced by newly hired and untrained workers rather than skilled merchants. As was soon to be discovered, however, scientific management was but one piece of the quality puzzle and the drive for increased productivity could sometimes reduce quality.

Walter Shewhart, who had a similar appreciation of standardization to that of Taylor and Ford (he worked as an inspection engineer at the Western Electric Hawthorne Works in the 1920s) developed the then radical idea of not inspecting products to maintain quality, instead manufacturing processes should be controlled using statistical techniques, so defective parts were not produced. Shewhart argued that inspection was costly, the rework of rejected parts was avoidable expenses and that not only could quality be measured, it could also be controlled. If the processes were controlled using statistical considerations, the variability of products could be reduced and quality could be improved (Shewhart, 1931). The genius of Walter Shewhart was to show the relationship between the long-established discipline of statistics and quality of product.

Development of metrics and statistics before 1930

Measurement and the use of data to guide decision-making and improve the quality of products is inextricably associated quality management and no discussion of the history of quality management would be complete without reference to the role of statisticians and statistical

³ Isambard Brunel had used moving boxes between workstations, a forerunner to moving assembly lines with subdivision of labor for production of blocs used in British ship making. Replaceable parts manufacturing had been combined with moving assembly lines for wagon making in the 19th century (Hansson, 2002, pp. 396).

methods. Aristotle's causality, the inductive empirical reasoning and empiricism of Galileo Galilei, Francis Bacon, John Locke and other philosophers and experimentalists, Pascal's probability, the recognition that variation attends all activities, and that decisions should be based upon "factual evidence" are defining features of the scientific revolution. One historical example of actions taken to control variation relates to acceptance sampling. The problem of using sub-samples to estimate the quality of a population was addressed in test procedure of coin weights in "The trial of the pyx". This procedure, dating from the 12th or 13th century, involved placing every 15th British coin produced in a box called pyx to be controlled later (Stiegler, 1977);

Another significant milestone in the relationship between statistics and quality management occurred when sampling statistics were exposed to formal significance tests by William Sealy Gosset, who in 1908, while working on quality improvements at the Guinness Brewery, identified the t-distribution (Student, 1908). Ronald Aylmer Fisher. Fisher expanded on the t-distribution to develop a testing procedure, and Analysis of Variance (ANOVA) and made many other significant contributions to statistics, including laying the foundations for factorial designed experiments to analyze experimental data (Fisher, 1925).

First generation quality management: 1930-1980

Today few deny that it was the work by Shewhart (1931, 1939), particularly his notion of assignable causes of variation and development of statistical process control, that laid the foundation of quality management, and that its first generation started with the ideas contained in his now famous, May 16, 1924 "one page memo". It was Shewhart (Shewhart 1931, p.53) who differentiated between an objective and a subjective side of quality and argued that the customer was the only true judge of quality.⁴ The objective side of quality was the properties of an object, the subjective side dealt with the goodness of an object about its use, cost, esteem and exchange. Shewhart stated "*it is the subjective side that is of commercial interest*" (ibid. p.54), but also that the role of the engineer is to transfer these wants into physical measures, and to establish the means to ensure these measures are constantly met. Whereas Ford continued to cut costs and streamline production, General Motors focused on increasing customer value. As Sloan (1964, p.154) commented:

Chevrolets internal statement of policy at this time was that it was our objective to get public reputation for giving more for the dollar than Ford. As a matter of fact, when Ford and Chevrolet were considered on a comparable-equipment basis, the Ford price was not far below that of Chevrolet. On the quality side we proposed to demonstrate to the buyers that, though our cars cost X dollars more, it was X plus Y dollars better. To, we proposed to improve our product regularly. We expected Ford, generally speaking, to stay put. We set this plan in motion and it worked as forecast.

After World War II, companies throughout the world sought to satisfy a market that was in short supply of everything. "Competition, in this period, was largely confined to production – that is, whatever a manufacturer could make, customers were waiting to purchase" (Sloan, 1964, p.439). A natural consequence of the thirst for products was that

⁴ The Danish brewer Carlsberg offers an excellent contemporary illustration of this point by advertising their beer as "Probably the best beer in the World". Carlsberg argues that while they do everything they can to make the world's greatest beer, the determinant of whether the beer is the best is made the consumer; not the brewer.

the quality was of lesser importance; almost any product, however defective, could be sold. This ambiguity, to on the one hand acknowledge the needs of customers, and on the other, ignore them when customers have to buy what they are offered is symptomatic and reflects the accordion-like demand for customer driven improvement activities. When competition is fierce, customer satisfaction is critical to organization success.

The next, and too frequently overlooked stage in the development of quality management (indeed, the first formal description and *teaching* of quality *management* to industrialists), was the six week courses conducted in 1949 and 1950 for Japanese managers by five members of the staff of Supreme Allied Commander, Pacific (SCAP) General Douglas MacArthur. Those courses conducted by Homer Sarasohn, Charles Protzman, Wilbur Magil, Frank Polkinghorn, and Gilbert Weeks, and the relationship between MacArthur's office and the Union of Japanese Scientists and Engineers (JUSE) led to an invitation to Deming (in 1950) and Juran (in 1954) to visit Japan. These invitations had the purpose to extend the work of Sarasohn and his colleagues to a wider selection of managers – Sarasohn, et al., had dealt exclusively with the telecommunications industry. The courses presented by Deming under the aegis of the Union of Japanese Scientists and Engineers (JUSE) focused on statistics, in which field he was an acknowledged authority. Juran on the other hand focused on the use of the quality methods and its statistical tools to manage the *organization*. A key message was that quality was defined by the customer, while lack of commitment to quality related to lack of commitment on corporate strategy. The graduates of the first course were later active in spreading the techniques and messages they learnt (Maclean, Harvey and Hayward., 2001).

Many commentators on this period of the development of quality management in Japan now acknowledge that it was Juran, through his emphasis on the relevance of quality for top management, who made the most significant impact on Japanese management. Juran's role and the importance of his contribution to quality management and the Japanese renaissance have been obscured by naming the Japanese national quality award after Deming. Written as a standard against which Japanese industry could be assessed for product reliability and quality, the Deming Prize became the first formalization of the quality management methods. Given that the American Society for Quality Control had not been established until the cessation of hostilities in 1946, the creation of a quality management standard in 1951 represented an astonishingly rapid institutionalization. This was a society where, given the destruction of not only much of the industrial infrastructure but also the institutions that supported it, a relative vacuum attracted ideas that were easily translated – or in Sarasohn's case, could be presented in the native language.⁵

⁵ Quality management literature is replete with suggestions that quality management and even quality control were not understood and applied only rarely by US industry in the 50s and 60s – certainly that was the message conveyed by the 1980 CBS television program that brought W. Edwards Deming to prominence. Two matters would suggest that to be something of an exaggeration. First, as mentioned, the American Society for Quality Control was formed in 1946 and in 1953 had a membership of over 4500, in 53 local sections, including one in Canada and another in Mexico. This essentially statistics focused organization chose not to become a section of the prestigious American Statistical Association on the grounds that quality control was wider than the statistical techniques known by that name [Van Rest, 1953]. Second, there is the Van Rest report [ibid] of the visit to the USA in 1953 of a British delegation from the

Although there will always be differing opinions on the contributions of Sarasohn, Deming and Juran to quality management in general and the industrial recovery of Japan in particular there is little argument they *and JUSE* collectively created the foundation for a management phenomenon that would transform world markets, give new meaning to the word quality and promote quality management as the magic formula for managing all organizations.

Another seldom recognized source of ideas for Japanese quality improvement was the American technical assistance program to Japan that ran from 1955 to 1962 and took 3,568 individuals in 345 teams from Japan to study business methods in the US. During that period more than 100 American management consultants and engineers crossed the Pacific to spread the gospel of productivity and quality within large Japanese firms. At the same time, the Japan Productivity Council was formed to provide information on modern management methods to Japanese industry. Tiratsoo (2000), argues that the technical assistance program, though long overlooked in the management literature, had a profound impact "...concerning specific techniques and processes, especially those intrinsic to the discipline of industrial engineering ... at the very heart of efficient manufacturing".

In the 60s and 70s, the benefits of quality management were beginning to manifest themselves in world markets and many US writers, most of whom had been involved with statistics to identify and reduce variability (usually in manufacturing processes) began to promote quality management as the way to combat Japanese competition. By this time Japanese competition had obliterated entire US industries and threatened to do the same to others. Two of those writers were W Edwards Deming and Joseph Juran. It was the writings and promotions of Deming and Juran that set the parameters that would frame almost all descriptions and applications of quality management for decades and define what we have identified as second generation quality management – a generation that would begin with an explosive growth in the application of quality management (or most often some one or more aspects of it), an equally explosive growth in quality management consultants (Deming, Juran, Crosby and Feigenbaum being widely regarded as management gurus), and quality management viewed as a panacea. The definition of quality moved closer to, or was regarded as synonymous with customer satisfaction and harmonized with the growing consumer rights movement that had been stimulated by Ralph Nader's 1966 book *Unsafe at Any Speed* [Meeker, 1977].

Anglo-American Council on Productivity to study "inspection methods and organization in the light engineering industry". The leader of that delegation, Edward D. Van Rest, reported:

To the statistician the most striking development is the wide meaning given to the words 'quality control'. Over here, and indeed there, the name was for long reserved for the statistical technique involved in controlling a manufacturing process by sample inspection at the time of manufacture. The new conception of the meaning and scope of quality control accepts this as one of the tools but applies the name to the wider management function of ensuring that what is made by a manufacturing organisation is what was intended.

Although Shewhart had discussed the cost of measures that had to be taken due to poor quality in 1931 (Shewhart, 1931, pp.27-28), Juran popularized the idea into the notion of cost of poorly performing processes, and questioned the role of the then common salvage department, and stated that process improvements were the route to “extracting the gold in the mine”. To assess processes’ capacity to produce products within specification limits, Juran introduced a statistical measure of the quality of a production process; the capability index, C_p . Another step taken by statisticians to aid process improvement of manufacturing processes was taken in the 1950s when Fisher’s ideas of factorial experimentation (which had been developed for agricultural purposes) were put to industrial use by George Box and his co-workers. Box and his colleagues recognized that in the industrial setting, experiments could be run in much shorter times, allowing for more complex experimental designs and a sequential approach to experimental work. Designs that not only compared different treatments, but also estimated optimal operating conditions, were introduced by the response surface methodology of Box and Wilson (1951). Factorial designs were also used when process-variability was targeted by Genichi Taguchi, who popularized the notion of achieving product and process robustness (Taguchi and Wu, 1980).

By 1980 quality control had given way to quality management and the methods and tools that were vital for the rapid acceptance of quality management were in place and well refined. Furthermore, most of those who were to become the impetus behind quality management (with the notable exception of Deming) had established themselves as prominent figures in the quality movement.

Second generation quality management: 1980-2000

When this period started, quality management was in the ascendant. Feigenbaum, Crosby and Juran had published their first works on quality (Juran and Feigenbaum as early as 1951) and an obscure Washington DC based statistician named W. Edwards Deming working from the basement of his home was soon to be the focus of a National Broadcasting Corporation television program titled “If Japan Can ... Why Can’t We.” By 1982 Deming had published his first book on quality and it became increasingly evident that quality management should not be considered as a sub-discipline of business management, shoulder to shoulder with financial management, logistics management, procurement etc., but a concept for managing the organization. Quality management was sweeping the world and Crosby, Deming and Juran were at the center of an *international* quality movement. However, despite its impact on organization activity, quality management received only scant attention from *management* scholars and as a result the word of the quality gurus went largely unquestioned.⁶

⁶ Here it is useful to distinguish *management* scholars from those mathematicians and statisticians that played a major role in developing what came to be described as quality management technology. In contrast to management scholars and economists working on the organization, and particularly the business firm, the contribution of mathematics and statistics has been profound; indeed it is those disciplines that have essentially defined quality management. It can be argued that those scholars “captured” quality management, with the result that it was widely regarded as a set of tools rather than a whole-of-organization management strategy.

Though many new quality management experts emerged during the 80s (each country generating its own) there was little deviation from the models described by Crosby, Deming and Juran. Somewhere toward the end of the 80s it was becoming evident that perhaps quality management either did not apply to every organization always, or maybe it was more complicated and difficult to implement than its promoters had suggested. That awareness was the result of a growing number of applications proving difficult (and expensive); many not producing the promised results and sometimes a costly disaster.

As reports of quality management failures began to multiply, there were three discernible responses. First, the gurus (particularly Crosby and Deming) continued their promotions in much the same way as before, often suggesting that failure was due to a lack of understanding by managers. Second, an ever-increasing number of organizations rejected quality management as a whole-of organization strategy and while continuing to use its methods sought other management concepts; there were many to choose from. However, the irony was that many of those alternatives were nothing more than cleverly renamed components of quality management. Third, an increasing number of practitioners and management scholars began to look closely at quality management. As a result, negative comment reached a level that could no longer be ignored. One common criticism was that there was no widely accepted description of either quality or quality management. By this time, the position of the gurus and their followers had become so differentiated and so entrenched that it was difficult to find a satisfactory answer to the question: What is quality management? To some extent that issue was overcome by the “creation” of the term TQM, which had the side effect of uniting Deming and Juran in opposition to it.⁷

About the time quality management was undergoing its first scrutiny (Garvin, 1988; Hermel, 1989) and troublesome issues were being identified, the International Organization for Standardization (ISO) produced a quality assurance standard – ISO 9000. That standard, first published in 1987, was essentially an extension of American military standards (Z1.1, Z1.2 and Z1.3) through the Allied Forces Quality Assurance Plans (AQAP) and British, Canadian and Australian quality system requirements standards. At that time, or marginally later, many countries decided to follow the Japanese Deming Prize example and develop a Quality Award based on a set of criteria that defined high quality business operations. The most notable of those awards were those created by the US government (the Baldrige) in 1987 and the European Foundation for Quality Management (EFQM) in 1991. Both ISO 9000 and the award criteria provided a consistency and a way of assessing the efficacy of quality management that had until now been difficult if not impossible to achieve – despite an increasing use of the acronym TQM to describe quality management, there was no universally accepted description.

⁷ When asked about TQM Deming responded “...there is no such thing. It is just a buzzword. I have never used the term, as it carries no meaning” (Boaden, 1997, p, 156). Juran (1991, p.51) commented: “As far as measuring the [TQM] results that have been achieved, there’s a big information vacuum out there. Hardly anything useful is going on as far as evaluating results.”

By the mid-1990s, quality management had ceased to be considered the panacea as it was during the 80s; the influence of the gurus had waned, failures were being widely publicized, and in 1994 the American Academy of Management focused on quality management and published a special edition of *The Academy of Management Journal* on the subject. This first concentrated attention of leading management scholars offered an explanation to the increasingly frequent failure reports, and the special issue left little doubt that the lack of an explicit theory and empirical support for many of its tenets raised serious doubts about its efficacy. The following extracts from that journal illustrate that far from being a panacea, quality management was considered by those scholars as seriously flawed and that while the emperor may not have been naked he was looking a little shabby, and certainly not fully dressed.

Grant, et al., (1994, p.30).

TQM, on the other hand, has no explicit theory. Indeed, one of the reasons business schools have been unable to comprehend TQM's power and potential is that it appears intellectually insubstantial. Deming's "Fourteen Points", for example, combine seemingly commonsense principles of management ("institute training", "institute leadership", "break down barriers between employees areas", and "end the practice of awarding business on price tag alone") with a number of folksy, yet quirky, maxims ("drive out fear", "eliminate slogans, exhortations and targets for the workforce", "eliminate numerical quotas", and "adopt the new philosophy"). However, we argue that a set of theoretical assumptions does underlie the principles and techniques of TQM. Together, these assumptions constitute a management paradigm that contrasts sharply with the economic model (emphasis added).

Wilson and Durant (1994, p.137)

TQM applications are increasingly viewed with skepticism in the private sector, a skepticism influenced by anecdotal and empirical analyses stressing its decidedly mixed results (Mathews and Katel, 1992; Dumas, 1989; Clemmer, 1991; Mathews, 1993). Despite proponent's warnings not to expect short-term cost savings; many CEOs have grown cynical upon seeing little change in their companies' earnings statements. What is more, Mathews (1993, p.H1) reports that private sector consulting firms in the 1990s are thriving on the "TQM repair work" spawned by TQM "miscarriages and abortions" crafted in the 1980s.

By the end of the 1990s total quality management had lost much of its gloss, and was being widely criticized and rejected as a management fad. As one of the authors commented in February, 2000⁸:

As it has been presented in the early literature and at conferences (and sadly too often presented and promoted today) quality management reminds one of the fable of the blind men and the elephant. Descriptions of the key features, (leg, tail trunk etc – or perhaps only the extremities if those features) is excellent, but the extrapolation from them yields nothing like a meaningful picture of the whole. In the same way that each blind man forms a vision of the whole by examining a part (or a part of a part), promoters of quality management have written books and articles and presented seminars that have been about parts, or visions of the whole drawn from a knowledge of one or a few parts [Ackoff, 1999]. Like the blind men who, despite their care, skill and sensitivity, were unable to accurately describe one of nature's most extraordinary creatures, the literature of quality management has failed to identify something equally extraordinary – a rigorous and coherent

⁸ Foley, Kevin. (2000), "W(h)ither Quality Management", *Proceedings of the Fourth International and Seventh National Conference on Quality Management*, Sydney, p. 301.

management theory, uniquely appropriate to the needs of the contemporary business enterprise. Too often, to borrow from Albert Wohlstetter's remarks on theory and the social sciences [1967, p. 302], maps, brochures, the purchase of compasses, machetes, bush jackets, and rakish tropical helmets have been used as substitutes for an uncertain, hot and sweaty journey.

A not insignificant factor in the changing fortunes of quality management in the 1990s is that Edwards Deming died (in 1993), Juran entered his 90s, Crosby his 70s and Feigenbaum was in his 80s.⁹ Accompanying that loss of much of its life force was a steadily increasing critical literature and many reports of high profile organizations either failing after winning a quality award (Wallace), or quality management failing to live up to its promise – Florida Power and Light. Discussing those organizations and their experience with quality management Reed, Lemak and Montgomery (1996, p.202) observed:

It is clear that, similar to other management techniques, TQM is not a quick fix or a “golden egg” solution. TQM is a business-level strategy with components of process and content that both demand attention. As some Baldrige applicants and winners have found out, a slavish adherence to TQM processes, without sufficient attention to content, can not only be a frustrating exercise, but it also can be expensive.

By 2000 quality management was presented in many different guises; as ISO 9000, an Excellence model or Six Sigma, or as TQM. Byrne (1997) observed:

What's as dead as a pet rock? Little surprise here: It's total quality management. TQM, the approach of eliminating errors that increase costs and reduce customer satisfaction, promised more than it could deliver and spawned mini-bureaucracies charged with putting it into action.

Third Generation Quality management: 2000 – The present

Although it is not clear who in the quality management story represents Hans Christian Andersen's “little child” who exclaimed “But he has nothing on at all,” it does seem that by the mid-to-late 1990s it was becoming clear to an increasing number of those that had listened to the gurus and their acolytes that if the emperor were not naked, he was neither fully, nor well dressed.

By 2000 the position had been reached where most (but not all) of those who continued to promote the quality management of the gurus had left quality management behind to promote another management aid, often a variant or part of quality management with another name. The contributors to the Spring Issue of the 1994 *Academy of Management Journal* provided a spark for a revision of quality management, but it was not until 2000 that quality management could be clearly identified as evolving into a discernible new form. This form was created (by scholars, not consultants) through a combination of either, rejecting or modifying parts of what were previously the defining features of quality management.

⁹ Kaoru Ishikawa died in 1989 and Juran died on February 28, 2008 at age 103.

The quality management model that was accepted in the 1980s and 1990s had no explicit theory, little empirical support, and could be interpreted as assuming customer satisfaction to be a strategic imperative for all organizations at all stages of their development. Often, customer satisfaction was promoted as the organizational aim. Although the failure to understand the importance of theory and empirical research and a misinterpretation of organization reality would be reason enough to either reject the prevailing version of quality management or conduct a major overhaul, an obvious and compelling reason for leaving the quality management of the 80s and 90s behind was the shift that had occurred in that period from a manufacturing based to a knowledge based global economy.

MAAOE and third generation quality management

As mentioned earlier, despite many commentators (and even promoters such as Juran and Feigenbaum) suggesting the need for change, there was no particular force, or coherence to those suggestions until the Multinational Alliance for the Advancement of Organizational Excellence (MAAOE) was formed in November 1998. The initiative of forming MAAOE came from Professor Rick Edgeman (Colorado State University) and Professor Doug Hensler (University of Colorado). Edgeman and Hensler shared a concern that on the one hand there was a widespread and growing use of excellence models of management throughout the world, and on the other hand that those models, and quality management on which they were based, had attracted so little critical scholarly attention that they had neither a theoretical foundation nor substantive empirical support. Having easily convinced each other of the nature and importance of the problem, and the need for it to be brought to the attention of other management scholars, Edgeman and Hensler invited several colleagues whom they knew to be researching in the area of quality management and organizational excellence to a meeting at Colorado State University, Fort Collins in November 1998. At that meeting it was agreed that while there was a need for further research on quality management. With that objective in mind, those attending the Fort Collins meeting decided to create a formal organization (MAAOE) and under its aegis invite management scholars from around the world to attend a conference in Colorado in 2000.

Agreeing to establish an organization to be called MAAOE, the Fort Collins meeting set as its objective "...to become the premier interdisciplinary organization driving organizational excellence through creation, dissemination, and application of knowledge relevant to the advancement of organizational excellence". The meeting also chose to use "organizational excellence" to span the more common terms "business excellence" or "performance excellence" that were then in more prominent use. Besides establishing an objective for the organization, the meeting elected Rick Edgeman and Doug Hensler as joint Executive Directors of MAAOE, identified three guiding principles and agreed on a definition of organizational excellence. Those principles were:

Create and identify a critical mass of ideas and foster an international community of interdisciplinary scholarship focused on organizational excellence.

Disseminate knowledge relevant to organizational excellence for the purpose of positively affecting organizational practice.

Encourage the application of knowledge relevant to the advancement of organizational excellence through organizational practice, and to ensure and participate in the application of knowledge in practice.

Organizational excellence was defined as:

The overall way of working that balances stakeholder concerns and increases the probability of long-term organizational success through operational, customer-related, financial and marketplace performance excellence.

The first MAAOE conference was organized by Edgeman and Hensler and held at Estes Park, Colorado in August 2000. The conference was opened by Sean Conlan – President, European Organization for Quality, attracted one hundred and twenty attendees, received keynote addresses from Harry Hertz (Director, Malcolm Baldrige Award Program and Frans Stevens, (CEO, Dutch Quality Institute), and heard 40 papers that were later published as, *Proceedings of the 1st International Research Conference on Organizational Excellence in the third Millennium*. Support for the conference, the high quality of the papers and three days of stimulating discussion left little doubt that the concerns first shared by Hensler and Edgeman, and later with many international colleagues, were widely supported and there was a strong demand for MAAOE to hold at least one further meeting. It was agreed that a second meeting would be organized by Philippe Hermel and held at the University of Versailles in September 2001. Presented in both French and English that meeting attracted one hundred and sixty attendees from thirty countries, heard seventy eight papers on the theme “*Towards A Sustainable Excellence: Strategy, Quality, Innovation*”, and published two volumes of *Proceedings*. Later meetings following the same pattern as the Estes Park and Versailles meetings have been held in Paisley, Scotland and Melbourne and Sydney, Australia. For the Sydney meeting, the form changed from a regular conference call to an invitation only event. A deliberate decision to gather fewer people to the conference was made by Hensler and Foley to provide more time for discussion of each paper, appointing discussants for each paper. The reason for the change was the feeling that conferences where people attended to *present*, not to *learn* was unsuited for driving the evolution of quality management.

The reason for describing the evolution and work of MAAOE is that the story of the development of third generation quality management and the role of MAAOE in that reframing has not yet been told. However, the principal motive for bringing the MAAOE role in the re-framing of quality management to the readers attention is that if quality management is to be revived it is important that this point in its history does not suffer from being untold and obscured as the nodal points of Japan in the period 1946 and 1954 and ISO 9000.

Although many members of the MAAOE group presented papers on quality management at both MAAOE and other conferences after 2000, it was not until the Sydney meeting in January 2006 that those earlier papers could be said to have coalesced into what Foster and Jonker dubbed “Third Generation” quality management. The model that emerged in Sydney, although in an early stage of development, emphasized:

The need for an explicit, unambiguous and empirically supported theory.

Customer satisfaction through quality of product and service is a means and not an end.

The shift from a manufacturing to a knowledge based global economy where information, not energy, is the fundamental driver.

The predominance of multi-stakeholder organizations.

Recognition that organizations are part of society – they impact and influence society by their actions (and sometimes their very existence) and are themselves influenced and impacted by society.

The need to recognize the existence of increasing returns industries and organizations.

The strategic imperative of organizations seeking sustained success is the satisfaction of *all* stakeholders.

Although there is little that is contentious in those assumptions, the same cannot be said about the next steps on the path to reframing quality management to become relevant for the twenty first century manager.

PART II

Quality management for the third millennium: Features, issues and directions for further work

The three features that most clearly distinguish third generation quality management from its predecessors are, a) a stakeholder perspective (and identification of the customer as *a* stakeholder rather than *the* stakeholder), b) an explicit theory of quality management, and c) a distinction between quality management as a whole-of-organization *strategy* and the methods of quality management.

The stakeholder perspective

The organization environment has *fundamentally* changed since the introduction of quality management and this provides the stimulus for a reframing (revivification) of quality management, but the point of departure from TQM is the recognition that organization success depends on satisfaction of the interests of *all* stakeholders. Stakeholders are that sub-set of interested parties that are capable of causing the organization to fail or of inflicting unacceptable damage if their interests are not satisfied. Stakeholders are distinguished from interested parties by having both the means of bringing their wants to the attention of the organization, and by their ability to act if those wants are not met – stakeholders can be viewed as interested parties with *power*.

The significance of the stakeholder perspective does not lie primarily with whom the organization identifies as a stakeholder (and what are identified as stakeholder interests) but in its introduction of the notion that *stakeholders, and their interests*, are the basis for organization behavior. It is that behavior, which establishes the relevance of a management aid/theory. A stakeholder view adds four features to the discussion of the contemporary organization and quality management that warrant specific mention:

First, it brings the recognition that in whatever way an organization perceives its environment; it must *always deal explicitly* with several interested entities, e.g., shareholders, customers, suppliers, employees and government. Customers are always *responded to* (they purchase product), however, that response is not *necessarily* about customer interests. In many organizations, customers are not stakeholders and the relationship between the organization and its customers is simply that of a transaction. In such cases, individual customer needs could be ignored without consequences.

Second, it focuses on the organization aim, and the importance of distinguishing between the organization aim and organization strategy. For most business organizations, the aim is to create, and sustain, a return (*including* a profit) sufficient to satisfy the needs and expectations of those who put their resources at risk to establish it, i.e., shareholders in the business organization – the actions taken to achieve that aim describe the organization strategy. When there are more than one stakeholder (as is invariably the case), the pursuit of a return sufficient to satisfy the shareholder, for example is constrained by the often contemporary need to satisfy other stakeholders; or conversely the ability of the business organization to satisfy its non-shareholder stakeholders is constrained by the need to earn a profit sufficient to satisfy shareholders.

Third, it ensures that non-market goods and resources are neither neglected, nor given secondary importance. Non-market goods range from open-access wilderness area recreation to health and safety improvements, and across resources as different as ozone layer and clean water. These resources can become stakeholder interests that are of identical importance to the organization as those relating to market goods and resources.

Fourth, it neither ignores competitors and product markets, nor suggests that sustainable success is achieved *if and only if* organizations always correctly identify their stakeholders and every stakeholder imperative is responded to immediately it is identified – such a situation has probably never occurred in the history of organized activity. The stakeholder perspective suggests that sustainable success will come to organizations that have a stakeholder rather than a competitor perspective; are sensitive to and engage their environment (they make fewest stakeholder/interested party identification errors), can recover quickly from (inevitable) stakeholder/interested party and stakeholder wants and expectations identification errors, and be sufficiently innovative/clever/adaptable to juggle conflicting and often rapidly changing stakeholder wants and expectations. This position is supported by the observation that the social environment in which the organization must function contains many values that are impacted by the organization (some of those values are *created* by the organization) and that competitors do not impact the organization *directly*, but through the values of the organization's stakeholders.

Stakeholders

It is from the numerous interested parties (that would number in the millions for many organizations) that the organization identifies its stakeholders. Stakeholder interests are often different, interdependent, in conflict, and in flux, and how they are expressed and met can take many forms, including politics and bargaining (Freeman, 1984; Schrader, 1993; Andriof, Waddock, Husted. and Rahman 2002; Foster and Jonker, 2004 a, b).

Stakeholders must be sufficiently satisfied not to act to inflict unacceptable damage on the organization.¹⁰ However, because some stakeholder wants and expectations are regarded by the stakeholder as more important than others the failure to satisfy the less important wants and expectations will not prompt a reaction from the stakeholder.

Faced with that reality, and an appreciation that quality of product and service may not always be the organization's guiding strategy, and customers may not always be a stakeholder, a substantive issue to be surmounted in the reframing of quality management is to explain how organizations deal with the demands, wants and expectations of all those *identifiable* (many will remain unidentified) as having an interest in, or are affected by the operations of the organization. To deal with this issue third generation quality management takes its second substantive step away from TQM, the Excellence models and ISO 9000, by *operationally* defining the stakeholder as: *Those interested parties whose demands must be satisfied if the organization is to achieve sustained success.* Customer satisfaction may still be optimized, but this is limited by the constraint of having to avoid violating the interests of other stakeholders.¹¹

The multi-stakeholder organization that is the focus of third generation quality management can be viewed as comprising five components; a constant (an invariant core element – the aim) and four variables; interested parties, stakeholders, the stakeholders interests, and the organization's (social) environment.¹² Such an organization has been summarized by Hensler and Foley (2007) as a matrix of stakeholders and stakeholder interests with the organization environment as a third dimension that shapes the organization aim and is the source from which stakeholders are drawn.

Third generation quality management suggests that a deep knowledge of stakeholders, the universe of interested parties from which stakeholders are drawn (and may return), and the values that shape stakeholder behavior (and their dynamic interaction) is essential for organization success.¹³ Some of the values of interested parties will be impacted directly by the *activities* of the organization, while others will be influenced indirectly by the very existence of the organization. Sometimes, concerns about those impacts may become

¹⁰ It is the nature and extent of the impact on the organization *aim* and not the nature and extent of the stakeholder reaction that determines whether a stakeholder reaction is regarded as unacceptable.

¹¹ Garvare and Johansson (2007) argue that organizational excellence, in terms of promoting both organizational sustainability and global sustainability, implies that the organization should aim to satisfy, or preferably exceed, the interests of its stakeholders without compromising the ability of other interested parties to meet their needs.

¹² Although the expressions "stakeholder interests" and "strategic imperatives" are sometimes used interchangeably, not all stakeholder interests (of which there are many) are strategic imperatives. In another of its difficult decisions the organization must (as they must with interested parties) select from the many, those interests that could invoke organization threatening action by the stakeholder – it is those few that become the strategic imperatives of the few that have become stakeholders.

Organizations do change their aim; however, that does not appear to happen often - and for many not at all.

¹³ As mentioned earlier, the task of identifying stakeholders is decidedly difficult and organizations often get it wrong. However, despite those difficulties an organization's stakeholders remain relatively stable – in the broad description if not in membership. Establishing what are the interests of those stakeholders has a difficulty several magnitudes higher – these can change quickly and in quite fundamental and unpredictable ways.

sufficiently widespread, and articulated in such a way, that existing stakeholders will use *their* instruments to influence the organization, e.g., customers boycotting a product because a company has used child labor. In other situations, those impacts create concerns of such strength and distinction that they generate their own instruments of *direct* influence. Then, those concerns enter the objective function of the organization, not as an interest of an existing stakeholder (as in the example of child labor and customers) but as a stakeholder – the environment can be seen as having followed such a path. An interested party (*albeit* one that may have a high public profile, and the affected social value might be widely discussed), and will remain such, *until the concern is either taken up by an existing stakeholder, or it acquires the force and mechanisms necessary to directly influence the organization.*

Customers

Besides providing an operational definition of stakeholders and using the term “*interested parties*” to describe the myriad of developed, developing, waning, ever-changing values of those who comprise the organization environment, the difference between third generation quality management and its predecessors is perhaps best illustrated by its treatment of the customer.

Third generation quality management rejects the notion that expending resources on “the customer,” via quality improvement will always add value to *the organization*. As Rust et al. (1995, p.58) has pointed-out, there is sufficient evidence to show that concentration on the needs of the customer can inhibit the development of new products and services (innovation) not yet conceived by the customer, yet when produced cause existing products and services to become redundant:

...the quality revolution is not without its casualties...And firms that have been lauded for their quality orientation have run into financial difficulties, in part because they spend too lavishly on customer service. For example, the Wallace Company won the Malcolm Baldrige National Quality Award in 1990. However, the high levels of spending on quality that enabled them to win the Baldrige also produced unsustainable losses, and within two years they were bankrupt (Hill, 1993). Similarly, Florida Power and Light spent millions to compete for Japan’s prestigious Deming Prize (Wiesendanger, 1993). Inattention to rising costs caused a backlash by ratepayers, resulting in its quality program being dismantled (Training, 1991).

From the experiences of these companies, and common sense, it is clear that there are diminishing returns to expenditures on quality. Improving quality helps up to a point, but past that point further expenditures on quality are unprofitable. Of course, many quality improvements result in a reduction in costs that more than makes up the quality expenditures (Bohan and Horney, 1991; Carr 1992; Crosby 1979; Deming 1986). However, such improvements are more prevalent in manufacturing and the more standardized services (e.g., fast-food restaurants) than they are in the highly customized, big-ticket services that constitute the growth industries of the information age (e.g., electronic information services) (Fornell, Huff and Anderson 1994). This is because customization inhibits economies of scale and thus makes individual improvements less cost-effective (Anderson, Fornell and Rust, 1994).

Campbell (1996, p.706) is less subtle in his warning to those who do not see the customer as one of many stakeholders; that must be satisfied if an organization is to succeed.

The past 25 years have seen a swing of the pendulum to surplus capacity. Customers have unrivalled choice; suppliers must be competitive to survive. However, as ...was explained in ISO 9004-1: 1994, satisfying customers must be balanced by operational efficiency to ensure that competitive

prices and delivery of the goods or services can support the continuing existence of the organization. “*Delighting customers*” is a popular phrase but has a hollow ring if the company bankrupts itself in the process (emphasis added).

Although we have on several occasions indicated that third generation quality management is far from a form that can be presented as model for achieving organization success, the reader could easily get the impression that it is near to that stage of development. While we think the quality management glass is “half full” many would believe it to be “half empty”. For example, the stakeholder notion that underpins third generation quality management, while having both strong intuitive appeal and substantial empirical support, is not as simple and straightforward as might first appear.¹⁴ The first complication is that not all individuals or entities identified as interested parties (and usually grouped together as customers, shareholders, employees, etc.) are stakeholders. Furthermore, each stakeholder will have many wants and expectations that range from the imperative (if not met the stakeholder would act against the organization; e.g., take legal action) to the trivial or minor. In which case the organization must make a judgment (as it must do to classify interested parties as shareholders, customers, etc., and identify the stakeholder element of each category) as to which stakeholder wants and expectations are “imperatives”, and which can be either ignored, or put aside for consideration at another time. When an organization that adopts a “quality first” strategy, it may well be that although every stakeholder has quality of product included among their wants and expectations, it is only those of the customer (and then only *some* of those) that must be responded to as a strategic imperative – *if the customer is a stakeholder*.¹⁵

Another difficulty with the stakeholder notion is its ambiguity. At any time, at least four individuals or entities may be described as a stakeholder. There are those that are, a) self declared, b) identified by another entity, c) are able to influence organization behavior, and d) are identified as a stakeholder by the organization. Self declared stakeholders and those identified by another entity may be *real* stakeholders (i.e., are able to influence organization behavior) and they may also be identified by the organization as a stakeholder, or they may have no power to influence and be treated by the organization as a non-stakeholder interested party. From the perspective of the organization, however (and that is the perspective taken in this paper), the only interested parties that influences the strategic decisions of the organization are those that *the organization identifies* (correctly or incorrectly) as stakeholders. It is those entities (who may identify themselves or be identified by others as stakeholders, and may have the influence attributed to them by the organization) that we call stakeholders.¹⁶ Ideally, organizations strive to identify all entities with the ability to impede their aim if their interests are not

¹⁴ Our view of the stakeholder differs from what currently passes for stakeholder theory. The principal difference is that we interpret stakeholders from the perspective of the organization; we describe stakeholders as we believe *organizations* see them.

¹⁵ Those entities treated as customers are not always the final consumer of the product and service. In many cases (perhaps most) the interests of the customer (who may be the distributor or wholesaler) may be different from the final consumers'.

¹⁶ A measure of the significance of this difficulty, and the need for empirical research, is that the author's themselves are yet to reach a consensus.

met, i.e., stakeholder c and stakeholder d would be identical – but organizations do not function in a certain world and mistakes are made.¹⁷

Besides those issues there is the matter of the latent stakeholder identified by Garvare and Johansson, (2007). It seems likely that while identifying stakeholders as they have been described in this paper, organizations would also identify those entities likely to become stakeholders. Unfortunately, we do not know whether such identification occurs (or, indeed if there are other classifications of the non-stakeholder universe) and were it to occur we have no evidence of the role that exercise and those potential or latent stakeholders play in organization decision-making.

A theory of quality management

Foley, Hensler and Jonker [2007] have described the management theory that supports third generation quality management as: *Organizations that identify the need to adopt quality of product as their guiding strategy will achieve sustainable success if the stakeholder imperatives encompassed by that strategy are optimized; while satisfying all other stakeholder imperatives, at least cost.*

Besides being explicit, that theory differs from other “theories” of quality management in many ways.¹⁸

It is expressed succinctly as a theory, and not as a definition, or a set of principles, points, steps, etc.

Quality of product and service appears as an explicitly constrained optimum.¹⁹

It can be unambiguously linked to a widely accepted theory of organization behavior.

It does not rely on the ideas of one author; rather it is drawn from an extensive management, economics (particularly the theory of the firm) and quality management literature.

It distinguishes between the organization aim and the strategies necessary to create and perpetuate (sustain) the organization – *quality of product is not the aim, it is a means of achieving the aim.*

It distinguishes between quality of product and service as an organization’s guiding strategy and the methods of quality management, which may be used to support an organization strategy besides quality.

It suggests that although quality of product and service is likely to be a strategic process in most organizations (i.e., one of the rows in the Foley, Hensler and Jonker matrix) it may not always be a strategic *imperative*. Furthermore, if it is a strategic imperative it may

¹⁷ The task of identifying stakeholders (and also their interests) is often assisted by those who identify themselves, or are identified by others as stakeholders. Such identifications direct the organization to interested parties that should be examined to determine whether they are stakeholders.

¹⁸ By deriving a theory of management from the stakeholder-satisficing behavior of the multi-stakeholder, knowledge based organization, and *explicitly* identifying that theory as the theory of quality management, third generation quality management overcomes what has until now been a major impediment to the understanding and effective application of both traditional (Crosby, Deming, Juran) and contemporary descriptions of quality management.

¹⁹ The pursuit of ever-higher levels of quality may be curtailed for reasons unrelated to constraints set by other stakeholders. For example, the perceived optimum may be achieved before any other stakeholder constraints are met, or expenditures on the quality process may incur diminishing returns.

be such because of a want or expectation of a stakeholder *besides the customer*. Just as customers are not the only or most important stakeholder, the customer is not the only stakeholder concerned about quality of product and service.

Applies only in those circumstances where the organization has adopted a quality first strategy.²⁰ It *follows* strategy. It is the whole-of-organization strategy that establishes the criteria for selecting a management theory.

While highlighting the universal applicability of the methods of quality management, the distinction drawn by third generation quality management between those methods and quality as an organization strategy also draws attention to the need to distinguish between sustainable success of the *organization* (which application of the theory is presumed to achieve) and bio-physical sustainability, and its handmaiden, corporate social responsibility. If, as the theory suggests, organization success is achieved by satisfying only those stakeholder interests identified as imperatives, and stakeholders represent only *some* of those whose values are negatively impacted by the organization, the quality strategy is perhaps *less* likely to reduce impact on the environment and/or lead to greater social responsibility than strategies that give primacy to those issues. If sustainable success can be achieved without responding to the interests of non-stakeholder interested parties and some stakeholder interests are not effectively articulated by those affected (some are not detected until long after a violation has occurred) and many (those regarded as non-imperative) can be, and *are*, ignored by organizations without consequence, it seems that irrespective of the strategy (and methods) adopted to achieve the organization aim, the sustainable success/violation of social values anomaly will persist.

However, although third generation quality management is not the answer to reducing the gap between societal expectations and organization performance it *does* offer a different way of addressing that profoundly important concern.

Unlike other social entities such as the family, organizations use resources to create a product, and to do that they must recompense the providers of those resources. The nature and extent of that recompense is a function of the social values (which differ from culture to culture and within cultures over time) that prevail in the environment in which “payment” is made. Put differently, the lower and the upper limits to what investors, managers, employees, customers etc., may expect for their services is dictated for the most part by the values prevailing in the society in which the service is provided. Organizations that do not meet the interests (specifically those regarded as imperatives *by the stakeholder*) of any one of their stakeholders will not achieve sustainable success.

²⁰ Contrary to the view promoted in the TQM literature there are many organizations that *do not* identify the customer as a stakeholder, and furthermore there are also many that identify the customer as a stakeholder but choose to use a strategic imperative besides quality of product and service as the *primary focus* of their management system. However, that is not to say that many of the values, methodologies and tools of first and second generation quality management, are invalidated by other strategies. On the contrary, the PDCA methodology, the process approach, and statistical process control have *universal* validity. It is the magic of the methodologies and tools of quality management that they *concomitantly* enhance quality and reduce cost. Which is very different from the proposition (as was too often made with first and second generation quality management) quality, as a whole-of-organization strategy, has universal validity.

Even if organizations *do* satisfy all those interests regarded as imperatives by stakeholders (even in the improbable situation where all interested parties are stakeholders) an organization performance/society expectations gap will still exist because, as mentioned above, non-imperative interests would be unmet. There would be no gap only in the impossible to imagine situation where all interested parties could be identified, all were stakeholders, all interests were imperatives, and the organization could satisfy those interests.

One conclusion to be drawn from this third generation quality management perspective on the organization/society interface is that since: the social values that determine the resource costs of the organization, the inability of the organization to identify and satisfy all interested party interests, and the delayed impact of some organizational outputs on social values there is little gain to be had from moralizing about the *existence* of the organization performance/society expectations gap. Moreover, it is misguided to place the entire blame (as some have) for the existence of that gap (and the responsibility for correcting it) on the organization.

Viewing the organization from the perspective of third generation quality management suggests that efforts to reduce the organization performance/society expectations gap are much more likely to be effective if it is accepted that such a gap will *always* exist and attention is directed to examining the *content* of that gap and finding ways to minimize how much it contains organization-related interests that are held to be of relatively major importance to interested parties.²¹ While the objective of the gap minimization approach is the same as that which focuses on the social responsibility of organizations (reduction of the organization performance/society expectations gap), the third generation quality management identifies a different source of the gap, proposes a quite different way of achieving that objective and shifts responsibility for closing the gap from the organization to society and does not apportion blame. Moreover, that view identifies the issues to be addressed (the unfulfilled interests of stakeholder *and* non-stakeholder interested parties) and shows how those issues can be addressed, and by whom. Attention is also drawn to the socio/economic consequences of stakeholders increasing their power and non-stakeholder interested parties becoming stakeholders is not always (or even usually) society positive, even in the long term. Such changes in the relationship between the organization and society can and do have a negative effect on some sections of society, e.g., products and services become uneconomic to produce and unemployment and social hardship occurs for some as organizations close, relocate, or use new technologies.

Of the many lessons to be learned from the third generation quality management perspective on the organization is that however large the system under examination, be it the individual organization, an industry, or bio-physical earth, it is neither meaningful nor accurate to use such terms as best, optimal or sustainable without qualification and without the caveat that all “solutions” are sub-optimal. As we have seen, the sustainable success position of most, if not all, organizations is almost certainly sub-optimal when viewed in the industry/region/country in which it operates – see Goldsmith et al., this volume for an example of sub-optimization in the Victoria (Australia) water industry.

²¹ Of course this raises the question of who determines what are “major” interests, i.e., whose values are used.

Conclusion

Although it may appear otherwise, a strong case can be made that most of the ingredients for third generation quality management are not new (and may well have been used by one or more of the first and second generation promoters) and have been available in the various and varied forms of quality management for forty or fifty years. While those ingredients often produced very different products, and were not put together to deal expressly with the contemporary multi-stakeholder organization, quality management has *always* encompassed many stakeholders (although not always clearly identified), *and* focused on the customer, see Klefsjö et al. (2008). In every one of its manifestations, quality management has sought to maximize customer value; albeit most often without explicit constraint.

One illustration of the ease of moving from second generation quality management (particularly the version associated with Juran) to its third generation, is to remove references to quality and replace “customer” with “stakeholder” (as we have done below) in the table used by Bisgaard in Chapter Two to describe *Juran’s Trilogy*.

<i>Quality Management: Juran’s Trilogy</i>		
<i>Quality Planning</i>	<i>Quality Control</i>	<i>Quality Improvement</i>
Determine who the customers stakeholders are; classify customer stakeholder segments Determine what the needs of each customer stakeholder segment are Design products with features and specifications that satisfy the needs of the customer stakeholder segments Develop products and processes that are capable of delivering the product or service Develop metrics and control mechanisms for monitoring and control Provide training in the delivery processes	<i>Planning for Control:</i> Develop an understanding of what needs to be controlled relative to customer stakeholder needs Develop a process flow diagram Choose what and where to control; control points Establish measures Establish goals and standards of performance <i>Executing Control:</i> <ul style="list-style-type: none"> Evaluate actual outcomes Compare actual outcome to goals Take action on the difference	Establish infrastructure for improvement Identify improvement projects Establish improvement teams Provide teams with resources, training and motivation: Diagnose root causes Find remedies; Improve Establish controls to institutionalize and hold on to the gains Disband the team

Some fifty years ago the quality management concepts (particularly SPC and PDSA²²) developed by Walter Shewhart were presented as a new, exciting aid to managing organizations in an environment where the customer took on an unprecedented importance – in an ever increasing number of markets the customer was emerging as a stakeholder. After an initial acceptance and widespread application by many organizations throughout the world, quality management went into decline (particularly that form associated with the works of US quality gurus: Crosby, Deming and Juran).

From its earliest days, quality management had several features regarded as its strengths and the principal reason for its rapid (explosive) growth and almost universal acceptance. For example, it eschewed theory and emphasized pragmatism. It was presented by consultants (several of whom had acquired guru status) in a simple, readily understandable language, reduced to a simple formula or slogan (e.g., “Quality is Free”) presented in a “standards” format, and its directions for use were a series of simple steps.²³ Quality management was focused on the customer and manufacturing industry – many saw customer focus as the principal reason for the success of Japanese products in US markets. Though not obvious at the time, (indeed for a long time) those apparent strengths were indeed a source of its failure. The failure to appreciate the importance of an explicit theory led quickly to a proliferation of definitions of quality management and an inevitable confusion to what it was. The lack of an agreed foundation (theory) also allowed parts, such as statistical process control to be promoted as the whole and encouraged the view that quality as a whole-of-organization strategy and its methods were inseparable. This added further to the confusion as to the true nature of quality management. The problems associated with the consideration of only “bits and pieces” of a complex issue have been described, most tellingly, by Joseph Schumpeter (1943, p.82) when commenting on the way economists had described economic development:

Both economists and popular writers have once more run away with some fragments of reality they happened to grasp. These fragments themselves were mostly seen correctly. Their formal properties were mostly developed correctly. But no conclusion about capitalist reality as a whole follows from such fragmentary analyses. If we draw them nevertheless, we can be right only by accident. That has been done. And the lucky accident did not happen.²⁴

²² The improvement cycle, described by Shewhart, became the Deming cycle in 1950 when despite Deming’s reference to the Shewhart cycle in his first lectures in Japan, the Japanese chose to call it the Deming cycle.

²³ Among the many remarkable and seldom discussed features of quality management, perhaps the feature that best explains both its explosive rise and precipitous fall has been the role played by standards. The foundation of quality management rests on *three* sets of documents that were written and promoted *as standards* in the late 1980s and early 1990s – each constructed at about the same time on different continents, by three different groups, using different approaches (and language) to describe and promote the same management methodology. Those different standards were:

- Literature by Crosby, Deming and Juran – each promoting their own book, and its summary “points”, “steps” and “principles” as *the* standard.
- The ISO 9000 family of standards.
- The Quality Award or Business Excellence Models.

For further discussion of this aspect of quality management see, Foley, Clegg and Castles, (2005)

²⁴ The parallels between the economists of the period to which Schumpeter was referring, and many purveyors of quality management, are too obvious to require further comment. For further discussion of this issue see Singhal and Hendricks, (1999).

Focus on the customer correctly identified the emergence of customers as stakeholders but that concentration distracted attention from two other equally significant trends – the decline of manufacturing (and its replacement by the knowledge economy) and entities besides customers (suppliers, employees, non government organizations) becoming stakeholders.

Third generation quality management is predicated on the view that the reasons why quality management has failed in so many of its applications and is often rejected today as a management aid (particularly in its TQM guise), are to be found in its lack of an *explicit* theory (every promoter seems to have their own *implicit* theory) and the rigor, coherence and empirical research that necessarily attend a management model that has an explicit theoretical foundation. Furthermore, unlike its predecessors, this form of quality management distinguishes between quality as an organization strategy and its methods and as a consequence does not purport to apply to all organizations at all stages of organization development – it applies only in those situations where “quality first” has been adopted as the organization guiding strategy. Though *not* universal in its application the management theory that underpins third generation quality management applies to a large (and rapidly growing) proportion of the world’s organizations – large, small, public, private, profit and not-for-profit.

With its explicit theory (derived from a view of the world that recognizes the contemporary organization to have a multiplicity of stakeholders) and qualified notion of customer sovereignty, third generation quality management offers a management model especially suited to the 21st century organization.

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