

SUCCESSFUL LEADERSHIP STRATEGIES IN BEST PRACTICE SMALL
BUSINESS ORGANIZATIONS (SBOs): A CASE STUDY

by

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Abstract

The researcher conducted a qualitative case study with three Malcolm Baldrige-winning small businesses to explore leadership strategies used when implementing success performance excellence initiatives. Little literature was found in the area of small businesses and performance excellence initiatives, and this study added three rich success stories as examples for other small businesses.

The case study collected data from telephone interviews within three distinct levels of employees in each organization and performed a documents/web sites review. The following four research questions were answered: (a) what roles leaders played, (b) what strategies leaders used, (c) what challenges leaders faced, and (d) how leaders overcame obstacles. Many similarities were identified amongst the companies.

Leaders' roles encompassed being actively involved and developing long-term strategies, communicating consistent messages, and being accessible to employees. Leadership used three strategies: (a) studied quality concepts as a team and learned from others; (b) aligned individual goals with organizational objectives; and (c) involved employees through teambuilding, knowledge building and recognition. Two major leadership challenges were communication and lack of resources. Dealing with resistance to change required constant communication from the top of the organization. Leadership overcame challenges they faced through teamwork and communication. Information sharing and learning were constant initiatives in these three Baldrige-winning companies. A small business Performance Excellence Model identified four evolutionary stages (a) exploring stage, (b) aligning stage, (c) building stage, and (d) improving stage.

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CHAPTER 1. INTRODUCTION

Introduction to the Problem

For the past several decades, evidence increasingly demonstrated a propensity for failure of organizational performance excellence and quality-based initiatives. Studies showed that up to 70% of organizations believed that quality efforts had no positive impact on organizational performance (Beer, 2003). Some scholars found that companies executed failed performance excellence initiatives because they had not gained the commitment of employees and lacked management support during implementation (Wilkinson, 2004). In addition, many organizations that initiated performance excellence initiatives gave up long before they saw any concrete results (Daily & Bishop, 2003; Gallear & Ghobadian, 2004; Warwood & Roberts, 2004). With an abundance of literature focused on failed attempts at executing performance excellence initiatives, research addressing successful outcomes was more limited.

Whether organizations succeeded or failed in their performance excellence efforts depended in large part on how those initiatives were led (Kilian, 1992; Townsend & Gebhardt, 1996). According to the Gallear and Ghobadian (2004) study of international quality award winners, leadership commitment and vision were pre-existing conditions for successful performance excellence initiatives. Weymes (2003) also found that successful organizations had leaders who developed strong organizational relationships, then transferred their knowledge to other people. Similarly, Dess and Picken (2000) discovered that when leaders empowered employees at all levels, innovation occurred and organizations became stronger. The high failure rate of performance excellence

initiatives highlighted a need to further explore specific strategies leaders used to achieve success and how they overcame challenges along the way.

While case study literature existed on leadership success executing performance excellence initiatives, the majority of it was focused on large organizations. Harrington (2004) identified five best practices leaders should use to achieve improved organizational performance, but the study was specific to large international corporations. Likewise, Soltani, Van Der Meer and Williams (2004) studied quality improvement strategies and its effect on leaders' performance appraisals of employees, but the findings pertained to large organizations. In addition, Hung (2004) found that leadership must link two factors--people and organizational processes--to implement a TQM strategy effectively, but again this research only addressed large companies.

While few in number, Small Business Organizations (SBOs) have received national recognition for successful quality improvement efforts. With respect to the Malcolm Baldrige National Quality Award (MBNQA)--an internationally recognized quality award (Gradig & Harris, 1994) that provides a universal framework for organizations to model their performance excellence initiatives (Blackburn & Rosen, 1993)--18 Baldrige awards have been given to small businesses from 1988 to 2007 (*Baldrige National Quality Program: 1988-2007 Award Recipients' Contacts and Profiles*, National Institute of Standards and Technology). For the purpose of this research, a small business is defined as a company or subunit with 500 or fewer employees (National Institute of Standards and Technology, n.d., *Baldrige National Quality Program: 2005 Criteria for Performance Excellence*). The strong emphasis in

the literature on leading large organizations to performance excellence has created new opportunities to study smaller organizations from a leadership perspective as well.

Large corporations and small organizations have distinctive characteristics, suggesting a need for SBO-specific research on a leader's role in achieving successful performance excellence initiatives. For instance, SBOs that operate as suppliers to large corporations are increasingly required to meet performance excellence standards (Nelder & Skandalakis, 1999). However, senior leaders in SBOs are often individual owners who, compared to leaders of large organizations, have less familiarity with performance excellence processes and fewer resources to dedicate to such efforts (Haksever, 1996). Working in relatively flat organizations, SBO leaders form closer relationships with employees, suppliers, and customers because infrastructures are less bureaucratic than big corporations (Lee, 2004). Also, SBO leaders are typically more involved in day-to-day work activities than leaders of large organizations (Chowdhary & Saraswat, 2003), making it easier to create a personalized organizational culture (Schein, 1983). The differences in leading a SBO versus a large organization suggest that success factors in implementing performance excellence initiatives in these two environments may also be different. SBO leadership behaviors and the organizational cultures they create to sustain performance excellence initiatives have not been studied as extensively as large corporations, leaving opportunities for research specific to small businesses.

Background of the Study

The quality movement emerged in the United States and many theories evolved from scholarly research. Quality experts developed their philosophies, but failed

initiatives were plentiful in research. As American companies strived to improve performance, leaders continued to pursue quality as a business model in their organizations. A drive for excellence eventually led to formalized assessment programs and national quality awards for recognition.

The Quality Movement Takes Hold in America

After World War II, American industries focused on increased productivity and product standardization. Frederick W. Taylor, the American father of “scientific management,” believed standardization would result in “maximum output of energies and resources” (Scott, 2003, p. 39). As American organizations focused on productivity, product quality suffered. By the 1970’s, the American economy had decreased while global competition had increased (Kilian, 1992). American organizations had invested in large infrastructures to support mass production activities without considering future demands of a global marketplace, leaving few organizations ready for a “global society” (Senge, 2003, p. 2). Faced with rising costs and increased global competition, American businesses turned to performance excellence initiatives as a way to improve quality and respond to changes in the environment.

The Total Quality Management Movement

During the 1980’s, the concept of Total Quality Management (TQM) developed into a business model that strived to improve quality and customer satisfaction while decreasing costs (Beer, 2003). Despite difficulties and many false starts, American business leaders recognized the need to increase quality as a competitive strategy against the Japanese industries (Juran, 1988). By the 1990’s, quality improvement efforts were accepted in some capacity, but without little agreement on what it meant or how to define

success (Boaden, 1997). Market trends emphasized the value of participating in supply chain management programs, benchmarking, and conducting quality self-assessments--all cornerstone programs that evolved from the quality movement (Taylor, 1995; Reiman & Hertz, 1996; Nelder & Skandalakis, 1999). As global competition continued to increase and quality improvement efforts were more widely practiced, performance excellence initiatives implemented in large organizations became the subject of research for many quality experts.

The Philosophy of Quality Gurus

Throughout the quality movement, numerous researchers have brought forth their respective theories. Rajagopal, Balan and Scheuing (1995) summarized the philosophy of several well-known quality gurus in a few words: Deming created 14 points for management, Juran preached quality as fitness for use, Ishikawa incorporated statistical tools into quality circles, Crosby focused on conformance to requirements, and Peters emphasized leadership and customer orientation. While many of the early quality authors did not use the term TQM, most of the quality concepts used today can be found in their scholarly work.

As quality experts emphasized different aspects of quality improvement, common theories emerged from performance excellence initiatives. Rahman (2004) viewed improvement theories as “soft” or “hard” elements (p. 414). Leadership and employee involvement concepts represented the soft quality initiatives, and the use of quality tools and process management represented the hard side of improvement efforts (Rahman, 2004). Even today it is not clear how quality practices have impacted successful performance excellence efforts, as evidenced by the high failure rate of these initiatives.

Common Theories of Performance Excellence Initiatives

Opinions varied, but some quality authors did agree about what was needed for successful performance excellence initiatives. Early supporters of quality concepts found that successful performance excellence initiatives required support from top leadership, active participation from employees, and a cultural change or shift in the organization (Lemak, Mero, & Reed, 2002). While opinions varied about what management practices supported performance excellence initiatives, most literature suggested that strong leadership was central to successful organizational outcomes (Stone, 1995; Crosby, 1996; Trahan & Burke, 1997; Walters, 2001; Higgs & Rowland, 2005). Since the overall goal of performance excellence initiatives is to improve organizational performance, the absence of leadership support and commitment for performance excellence initiatives could lead to failure during implementation.

Failure of Performance Excellence Initiatives

As quality initiatives increased, research theories varied on what organizations needed to do to constitute success or failure when implementing performance excellence initiatives. To this point, Black and Porter (1995) believed that organizations viewed the same quality concepts from different perspectives. Bennett and Kerr (1996) contended that successful implementation of performance excellence initiatives required systems thinking and a process orientation. However, Simons (1999) found that leaders needed to win the commitment of people at all levels of the organization to continually improve. Likewise, Rao, Youssef, and Stratton (2004) believed that leaders needed to commit to change and create a quality culture to properly implement performance excellence initiatives. Moreover, Beer (2003) focused most of the blame for failures on leadership

for neglecting to follow through on what they said they would do. In summary, the scholarly literature on quality efforts invariably pointed to the role of leadership as a pivotal element in the success or failure of performance excellence initiatives.

The Malcolm Baldrige National Quality Award (MBNQA)

In 1988, the United States took an active role in the quality movement and created the Malcolm Baldrige National Quality Award (MBNQA) to recognize organizations that achieved performance excellence. Managed by the National Institute of Standards and Technology (NIST), the Baldrige award created a paradigm shift for American leaders (Townsend & Gebhardt, 1996). Since its inception, the MBNQA has become a national symbol of quality, and award winners have become world-class examples for others to model (Durity, 1991). Essentially, the MBNQA provides a universal framework for large and small organizations to improve quality. However, only 18 SBOs have actually won the MBNQA (*Baldrige National Quality Program: 1988-2007 Award Recipients' Contacts and Profiles*, National Institute of Standards and Technology), which has resulted in a limited number of SBO-specific performance excellence best practices.

Statement of the Problem

Research discovered many failures when implementing performance excellence initiatives (Bennett & Kerr, 1996; Warwood & Roberts, 2004; Higgs & Rowland, 2005). Even though scholars did not agree on the reasons for so many failed attempts, most literature claimed the role of leadership had a significant effect on implementing successful performance excellence initiatives. For instance, Gallear and Ghobadian (2004) found that a leader's role in creating cultural change was extremely important for

successful quality implementation. Throughout literature, scholars continued to highlight strong leadership as a precursor to successful performance excellence initiatives (Bass, Avolio & Goodheim, 1987; Beer, 2003; Hung, 2004).

While studies explored the role of leadership in successful performance excellence initiatives, research predominantly focused on large organizations (Yusof & Aspinwall, 1999). Since 58 of the 76 MBNQA winners through 2007 have been larger organizations (*Baldrige National Quality Program: 1988-2007 Award Recipients' Contacts and Profiles*, National Institute of Standards and Technology), SBOs have a limited number of small companies to benchmark with respect to leading successful performance excellence initiatives. Additionally, only seven SBOs applied for the MBNQA in 2007 (National Institute of Standards and Technology, *Malcolm Baldrige Quality Award Application Data—1988-2007: Fact Sheets from NIST*). Given the differences between large organizations and SBOs (Powell, 1987; Ghobadian & Gallear, 1997; Visser, de Coning, & Smit, 2005), and the lack of SBO-specific literature on leading performance excellence efforts, more scholarly research in this arena is needed.

Purpose of the Study

The purpose of this study was to explore from a leadership perspective how Baldrige-winning small businesses succeeded in implementing performance excellence initiatives. In particular, this study examined how three SBO-led organizations successfully implemented performance excellence initiatives with respect to the following (a) the role that leaders of these organizations played in the process, (b) the strategies leaders used, (c) the challenges leaders faced, and (d) how leaders overcame

these challenges. The three SBOs examined in this case study were: (a) Los Alamos National Bank (LANB) of Los Alamos, New Mexico; (b) Pal's Sudden Service (Pal's) of Kingsport, Tennessee; and (c) Branch-Smith Printing Division (Branch) of Ft. Worth, Texas (*Baldrige National Quality Program: Baldrige Award Recipients 1988-2005*, National Institute of Standards and Technology). The three case study organizations had won the MBNQA in 2000, 2001, and 2002, respectively. In addition, this study provided a framework for analysis of common leadership themes amongst these three case organizations.

Research Questions

The following research questions guided this study:

1. What role did leaders of SBOs that have won the MBNQA play in implementing successful performance initiatives in their respective organizations?
2. What strategies did leaders of SBOs that have won the MBNQA use to implement successful performance excellence initiatives in their respective organizations?
3. What challenges did leaders of SBOs that have won the MBNQA use to implement successful performance excellence initiatives in their respective organizations?
4. How did leaders of SBOs that have won the MBNQA overcome the challenges of implementing successful performance initiatives in their respective organizations?

Theoretical Framework of the Study

The theoretical framework of this case study was based on leadership theories associated with a leader's role in pursuing performance improvement initiatives (Juran, 1988; Lemak, Mero, & Reed, 2002; Warwood & Roberts, 2004), and leadership was studied from three scholarly perspectives with respect to implementing quality strategies. The first perspective supported that top leadership support was needed when initiating quality strategies (Crosby, 1996; Yusof & Aspinwall, 2000; Beer, 2003, Lee, Rho, & Lee, 2003; Drucker, 2003), but successful implementation depended upon how well a leader created and managed a quality culture throughout the organization (Black & Porter, 1995; Bennett & Kerr, 1996; Rahman, 2004). The second perspective supported that employee involvement was even more crucial for successful quality implementation, and Lawler, III (1994) and Mohrman and Lawler, III (1996), found an overlap between the concepts of quality improvement and employee involvement programs. Additionally, Hung (2004) and Clemmer (1996) contended that change efforts were more successful when a leader actively engaged all employees in the quality process. The third perspective supported that organizations must be customer orientated (Donaldson, 1995; Rust, Danaher & Varki, 2000). While customer satisfaction has become an internationally recognized standard for improvement initiatives (Stading & Vokurka, 2003; Rahman, 2004), successful quality efforts have been linked with leadership support and employee involvement.

Significance of the Study

This study served as a guide to managing change for SBO leaders who were tasked with executing performance excellence initiatives in their own organizations. Change efforts are time-consuming and difficult to lead, and with a failure rate of more than 50% in the first year (Kotter, 1995), SBOs were not encouraged to pursue change projects. Traditional change methods were outdated and Worley and Lawler, III (2006) found that leaders now needed to contribute real scenarios about change efforts to provide a range of possibilities for organizations. This multiple case study provided genuine stories from small business leaders who had led successful organizational change and potentially could send powerful messages to other SBO leaders faced with initiating change in their organizations.

Another contribution of this study was to encourage SBOs to strengthen their competitiveness in the marketplace through the pursuit of quality improvement. Organizations with high quality products and services were perceived as providing better value to customers, giving quality-conscious organizations a competitive advantage over companies that did not pursue improvement strategies (Rust, Danaher & Varki, 2000). Not only did small businesses use performance excellence initiatives as a marketing weapon, SBOs that followed the MBNQA process used the award criteria as a catalyst to promote essential planning activities in their organizations (Natarajan, Boulton & Balakrishnan, 2000). The MBNQA process used by the three case study organizations provided SBOs with a legitimate framework from which to establish improvement initiatives to integrate with their own competitive planning strategies.

In addition, this study brought to light the quality journeys of smaller businesses, a distinctly different group of businesses considered to be the fastest growing sector of the American economy (Metzler, 2006). Small business growth has created jobs and provided necessary products and services through distribution chains that were not profitable for large corporations (Golden & Dollinger, 1993).

While an abundance of literature focused on large corporations that were early MBNQA winners (Ahire & Golhar, 1996), Deshpande and Golhar (1994) found that the pursuit of excellence strategies was more important for long-term survival of small businesses opposed to large corporations. SBO winners of the MBNQA have made it through the difficult execution phase of performance excellence initiatives (Kurkatko, Goodale, & Hornsby, 2001), and highlighting their quality journeys provided relevant role models and encouraged the pursuit of quality excellence as a strategy for long term survival among smaller organizations.

Finally, this study provided insight into how SBO leaders successfully involved employees in the quality process. Although top management was responsible for initiating quality efforts, leaders enlisted people in the organization to support the new direction (Trahant & Burke, 1997). In fact, Clemmer (1996) believed that improvement initiatives could only take place when they were combined with employee involvement. Likewise, Townsend and Gebhardt (2006) found that 100 percent involvement encouraged innovative ideas from employees that would otherwise be lost without quality initiatives. Since motivated frontline workers made a difference when quality failed (Rylander & Provost, 2006), it seemed that employee involvement and the human element played an important role in satisfying customers. Given that the human factor

was important for keeping satisfied customers, small businesses could learn established employee practices that supported quality initiatives from the SBO Baldrige winners featured in this study.

Definition of Terms

Benchmarking. A tool for identifying and learning from organizational processes that are better, and adapting that learning to improve your own organizational performance (Watson, 1992).

Customer-Focused Organization. A customer-oriented culture in which an organization concentrates on providing goods and services that meet customers' needs (Strong & Harris, 2004).

International Standards Organization (ISO). A network of institutions in 147 countries that serves as a monitoring organization for quality standards, and provides a reference framework and common language platform between suppliers and their customers (Renuka & Venkateshwara, 2006).

International Standards Organization (ISO) 9000 Registration. A practice of conforming and documenting organizational quality systems to enhance and facilitate trade among organizations (Reiman & Hertz, 1996).

Lean Manufacturing. Rigorous process thinking in manufacturing focused on reducing the number of steps and amount of time and information needed to serve the customer (Lean Enterprise Institute).

Malcolm Baldrige National Quality Award (MBNQA). Named after the former Secretary of Commerce, the award was established by the United States Congress in 1987

to recognize American organizations for their achievement in quality and raise awareness about the importance of performance excellence as a competitive advantage (Vokurka, 2001).

National Institute of Standards and Technology (NIST). An agency of the United States Commerce Department's Technology Administration that manages the MBNQA through the Baldrige National Quality Program (National Institute of Standards and Technology, n.d., *Baldrige National Quality Program: 2005 Criteria for Performance Excellence*).

Organizational Culture. Shared values or beliefs that guide the way people work in an organization (Gallear & Ghobadian, 2004).

Performance Excellence Initiatives. Deliberate, long-term organization strategies, such as total quality management, used to continuously improve the quality of products and/or services, lower costs, and increase customer satisfaction (Rahman, 2004).

Quality. Meeting or exceeding customer expectations at a cost that represents value to them (Harrington, 1987).

Small Business Entrepreneur. A commander of organizational strategy who is engaged in customer and supplier interactions while challenged to balance company interests with environmental constraints (Dollinger, 1985).

Small Business Organizations (SBOs). Companies or subunits engaged in manufacturing and/or providing services that have 500 or fewer employees (National Institute of Standards and Technology, n.d., *Baldrige National Quality Program: 2005 Criteria for Performance Excellence*).