

IMPROVING SMALL BUSINESS PERFORMANCE: LESSONS LEARNED FROM MBNQA WINNERS

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—Abstract —

The purpose of this paper is to present common key factors from Malcolm Baldrige National Quality Award (MBNQA) winners on small business category. Recently, four small businesses have won the MBNQA namely MidwayUSA, Freese & Nichols Inc, K & N Management and Studer Group. It is appear that MBNQA criteria which have adopted philosophy of quality management are helping small business to achieve their goals. However, MBNQA criteria not precisely inform about the way “how to do”, rather focus on “what to do”. Hence, a model is needed to draw their experiences to enhance the understanding about how to improve small business performance. For doing so, this study has grasped lessons learned and proposes a phase based model to be applied for increasing small business performance. The model consists of 4 focuses namely: customer intimacy, process and planning, workforce engagement, and community building. Each focus correspond to the phases namely introduction, promotion, and institution.

Key Words: *MBNQA, small business, case studies, phase-based model.*

JEL Classification: M00, O32.

1. INTRODUCTION

Small businesses play a critical role in economic development (Servon, Fairlie, Rastello, & Seely, 2010). Improvement of the small business performance is crucial. Small business constantly face challenges as they respond to changing environmental factors such as the emergence of worldwide markets, marketing clouds, depth and range of better quality products and demand for faster delivery (Gupta, Chahal, Kaur, & Sharma, 2010). Small business is designation for forms of a certain size which fall below certain criteria (that varies from country to country) in terms of annual turnover, number of employees, total value of assets, etc (BusinessDictionary, 2012).

The Malcolm Baldrige National Quality Award (MNBQA) was a program established in 1987 by US Congress to raise awareness for the importance of quality. MBNQA is a program managed by The National Institute of Standards and Technology (NIST), a non regulatory federal agency within the US Department of Commerce. The award is given annually to companies in three different categories. These categories are manufacturing, service, and small business, while education and health care were added in 1999. In this study, four small business winning the prestigious MBNQA (Malcolm Baldrige National Quality Award) in small business criteria during 2009-2010: MidwayUSA in 2009, Freese & Nichols Inc, K & N Management and Studer Group in 2010. To apply for the award, organizations must submit details showing their achievement and improvements (NIST, 2011). It is clear that the MBNQA which have adopted philosophy of quality management are helping small business to achieve their goals.

The reasons behind the choice of MBNQA winners are improvement they made in the area leadership; strategic planning; customer focus; measurement, analysis, and knowledge management; workforce focus; operations focus; and results. However, the MBNQA criteria are what-to-achieve approach, which did not mention how-to-achieve the goals. It is obvious that there is a need to draw their experiences to enhance the understanding about how to improve small business performance. Therefore clear concepts of quality management implementation in small business are discussed. Research questions are then answered by lessons learned from MBNQA winners experience followed by introducing model to be applied for increasing small business performance. This article will conclude with a brief look at some of the point remark.

2. LITERATURE REVIEW

There is no universally accepted definition of the term small business (Holmes & Zimmer, 1994). The Bolton Committee (1971) attempted to overcome this problem by formulating what they called an 'economic' definition and a 'statistical' definition. The economic definition regarded firms as being small if they satisfied three criteria: (1) relatively small market share; (2) managed by owners or part-owners in a personalized way; (3) independent, in the senses of not forming part of a large enterprise. The statistic definition designed to quantify the size of the small firm in different sector (Storey, 2006). The definition of small business used in MBNQA refers to "The Small Business Act" (1953) which define small business as one that is independently owned and operated, organized for profit, and not dominant in its field. In a more detailed level, the definition is formulated in quantitative measures, different for each business sector. These detailed guidelines issued by U.S. Small Business Administration (SBA, 2012).

In theory building regarding small business, d' Amboise & Muldowney (1988) attempt to develop management theories for small business using five perspectives: task environment, organizational configuration, managerial characteristics, success-failure and evolution. Task environment consists of area 1: classifications of small business in terms of their interactions with and vulnerability to the environment and area 2: interaction with the environment as a function of the owner-manager's personal traits. Organizational configuration consists of area 3: classification of small businesses according to structure; area 4: the relationship between behavioral aspects of organizational design and the size of the firm. Managerial characteristics consists of area 5: the characteristics of entrepreneurs and the difference between the owner-manager and the entrepreneur; area 6: the relationship between motivations and orientations and area 7: appropriate goals, objectives, and strategies for the small firm. Success failure consists of area 8: success requires a preoccupation with the financial situation of the firm. Evolution consists of area 9: growth models & corresponding management preoccupations; and area 10: global models that interrelate several variables.

Performance improvement research in small business is not a new field. Churchill & Lewis (1983) develop a framework relevant to small and growing business and also key management factors to success. The research use a combination of experience, a search of literature, and empirical research. The framework that evolved from this effort delineates the five stages of small business growth: (1) existence; (2) survival; (3) success; (4) take-off; and (5) resource maturity. They

identified eight key management factors are prominent in determining ultimate success or failure, four relate to the enterprise and four to the owner: (1a) financial resources; (2a) personnel resources; (3a) systems resources; (4a) business resources; (1b) owner's goal for himself or herself and for the business; (2b) owner's operational abilities in doing important jobs; (3b) owner's managerial ability and willingness to delegate responsibility and to manage the activities of others; and (4) owner's strategic abilities for looking beyond the present and matching the strengths and weakness of the company with his or her goals. In this context, it is established that although there is an overlap between entrepreneurs and small business owners, both of them are different definition. Small business owner is an individual who establishes and manages a business for the principal purpose of furthering personal goals, the owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires; entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth, he or she is characterized principally by innovative behaviour and will employ strategic management practices in the business (J. W. Carland, Hoy, Boulton, & Carland, 1984).

3. RESEARCH FRAMEWORK AND METHODOLOGY

In formalizing this study, two research questions proposed, which are: what are common key factors can be learned from MBNQA winners on small business category? And based on the MBNQA winners experience, how to model improvement implementation to increase small business performance?

The objective of this research is to obtain lessons learned from MBNQA winners on small business category and build a model for improving performance for the excellent small business. Authors attempt to provide recommendations for small business in early steps to improve small business performance.

The research methodologies used are empirical study of performance improvement in small business, examining the best practices from the recent winners of MBNQA on small business, grasping the common key factors, and defining the phases for increasing small business performance. Data is collected through literature surveys i.e. Application summary of MBNQA, annual report, press release, newsletter, and other related materials. This methodology is supported by Eisenhardt (1989), and Patton and Appelbaum (2003) in its capability of offering advantages which cannot be found in more quantitative research methodologies. Eisenhardt (1989) critically suggests that, there is no ideal number of cases. However, a number between 4 and 10 cases usually works well.

4. MBNQA SMALL BUSINESS WINNERS

The four winners of the MNBQA small business are studied thoroughly for their program and achievement they made. Following are brief profile for each winners and its main quality journey:

- 1) MidwayUSA, winner of 2009, is a family-owned catalog and internet retailer offering for shooters, reloaders, gunsmiths, and hunters. Several of their performance highlights are as follows.
 - Midway USA's customer satisfaction rating reached 93 percent, up from 91 percent in 2008.
 - Sales growth rate near 25 percent for 2008, compared to 10 percent for the competitor.
 - Net income as a percentage of sales grew from 2.5 percent in 2003 to nearly 10 percent in 2008.
 - The annual aggregated employee satisfaction survey score has improved from about 60 percent favorable in 2002 to 82 percent in 2008.

- 2) Freese and Nichols Inc, winner of 2010, is a multidiscipline consulting firm that offers services in engineering, architecture, environmental science, planning, construction services, and program management. Few milestones of their performance such as:
 - For the past four years, Freese and Nichols has achieved revenue growth between 12 and 16 percent, exceeding the industry benchmark in 2009 by 10 percentage points.
 - Freese and Nichols has a strong ability to build long term client relationships, retaining 42 percent of its key accounts for more than 30 years and 71 percent for more than 10 years.
 - Recognize as one of the top 25 "Best Companies to Work for in America" (2009) by the Society for Human Resource Management; "2010 Top Workplace" among mid-size companies from The Dallas Morning News; and one of the Civil Engineering News "Top 40 Best Civil Engineering Firms to Work For" in multiple years.

- 3) K & N Management, winner of 2010, is a developer for Rudy's "Country Store" & Bar-B-Q and the creator of Mighty Fine Burgers, Fries and Shakes,

two fast-casual restaurant concepts. Their major achievements are as follows (K & N Management, 2012):

- Guest satisfaction rate for food quality, hospitality, cleanliness, and speed of service, and value at least 4.7 on a 5-point scale, outperforming the best competitor.
- Increased average unit sales from just over \$ 3 million in 2000 to more than \$ 7.5 million in 2010 (for food sales only).
- From its inception in 2007 through 2010, annual unit sales increased from just over \$ 2 million to more than \$ 3.5 million (which is triple the unit sales of its best competitor).
- Gross profit has exceeded the industry standard of 40% in every year from 2001 to 2010, reaching nearly 47% in 2010.
- Over 95 percent of K&N Management team members report they are proud to work for the company. In 2010 the Austin American-Statesman named the firm “the best place to work in Austin.”

4) Studer Group, winner of 2010, is a health care consulting firm providing coaching, teaching, and evidenced-based tools and tactics to health care organizations and rural hospitals throughout the United States. A highlight of their major performance are as follows (Studer Group, 2012):

- Annual revenue grew from less than \$5 million during period 1999 to 2001 to \$45 million for 2009 to 2010.
- Revenues grown more than 30 percent annually since 2001, exceeding the Association of Management Consulting Firms (AMCF) average of 10 percent annual growth.
- Sustained high levels of CEO satisfaction and overall satisfaction with its coaching services. Since 2006, satisfaction ratings have ranged from 4.6 to 4.9 on a 5-point scale, exceeding the Service Performance Insight (SPI) best benchmark of 4.3
- Named as one of the “Top 25 Best Small Companies to Work for in America” by the Society for Human Resources Management and the Great Places to Work Institute in 2008, 2009, and 2010.

Table 1 describes the profile of four winners of the MBNQA small business.

Table 1: Profile of MBNQA Small Business Winners

Profile	MidwayUSA	Freese & Nichols Inc	K & N Management	Studer Group
Annual Revenues	\$185 million	\$80 million	\$50 million	\$47 million
Employees	243 full-time and 100-part-time	449 persons	450 persons	119 persons
Corporate headquarters	Columbia, Missouri.	Fort Worth, Texas	Austin, Texas	Gulf Breeze, Florida
Year founded	1977	1894	1993	1999

5. PHASE BASED MODEL

In the organizational change theory, a sequence phase or phase based model is not a new approach which is useful especially on practical aspects. This is due the feature of the phase based approach for aligning the activities to enhance the understanding on implementation complexity. This study has grasped lessons learned by analyzing those companies mentioned above, and proposes a phase based model to be applied for increasing small business performance.

The following description is summary of the lesson learned from the four studied companies. The pattern of their improvement can be grouped into four major focuses, namely: customer intimacy, process and planning, workforce engagement, and community building. Furthermore, the improvement activities are classified into three phases from introduction, promotion, until institution. Introduction phase is an initial set up activities in a company in which the activities takes zero cost or low cost. Promotion phase is the activities which are as a follow up of the initial activities for incremental improvement. Institution phase focus on more creating new standard or system of the organization and perform integration of improvement activities into the cycles of business practices at entire levels. The summary of phase based model can be seen on table 2.

Table 2: Summary of Phase Based Bodel

Focuses	Introduction	Promotion	Institution
Customer intimacy	- Participating in its core business activities to gain more insight into customer needs and desires. - Tasking salaried employees (including senior leaders) with	- Uses a variety of qualitative and quantitative methods to listen to partners and customers to obtain actionable information and feedback on products, services and support. - Ongoing listening and	- Defines standards of Behavior that specify and define customer contact requirements. - Operating a highly organized complaint management process that helps company analyze complaint

Focuses	Introduction	Promotion	Institution
	spending hour each week on the phone taking orders and answering customer requests.	learning approaches are used to maintain a list of key requirements that are aligned with key business drivers.	trends and categories, identify products with higher-than-expected return rates, and respond quickly when there is a problem.
Process and planning	<ul style="list-style-type: none"> - Monitoring regularly for responding to short term changes in customer demand while still planning for long term needs. - Reviewing internal data, benchmarking best practices inside and outside the industry, and studying books, research, and publications. 	<ul style="list-style-type: none"> - Defines key work and support process requirement and measures, and management of project delivery to meet key requirement. - Responding complaints quickly and effectively, through analyzing root cause and determining opportunities to prevent future problems by improving processes continuously. 	<ul style="list-style-type: none"> - Improving operations by regularly featuring, and providing a feature for communication so customers can suggest additions to the product line. - The company's performance against its key requirements is systematically measured and communicated throughout the workforce.
Workforce engagement	<ul style="list-style-type: none"> - Support high performance work and engages the workforce by clearly communicating performance expectations, providing challenging work, and promoting effective communications. - Use both quantitative and qualitative methods to determine the key factors that affect workforce satisfaction and engagement. 	<ul style="list-style-type: none"> - Selecting employees for leadership development based on their support of the company's core value of customer driven excellence, in addition to other performance based criteria. - Promote sharing of skills, knowledge and diverse ideas through project management structure, employee training and standing teams. 	<ul style="list-style-type: none"> - Develop high performance work and workforce engagement through an integrated system of performance goals, professional development, feedback to employees, and compensation/ recognition. - Establishing open door communication policy deployed to board of management through the policy handbook.
Community building	<ul style="list-style-type: none"> - Encourages employees to volunteer by regularly highlighting 	<ul style="list-style-type: none"> - Allocating certain percent of annual profits for supporting keys communities. 	<ul style="list-style-type: none"> - Establishing Foundation for providing financial support for education

Focuses	Introduction	Promotion	Institution
	opportunities to make a difference and then recognizing those efforts.	- Support many community organizations, sponsorship (financial support and attendance) of many local events and organizations, and by employees who volunteer.	and training in the core business areas. - Monitoring and measuring community support through total volunteer hours and total donation dollars.
	- Partnered with local community through involvement in charitable donations and events.		

6. CONCLUSION

This study proposes a model for enhancing the understanding about how to improve small business performance. The model is grasped from lesson learned of four small businesses which won the MBNQA namely MidwayUSA, Freese & Nichols Inc, K & N Management and Studer Group. The model consists of four focuses namely: customer intimacy, process and planning, workforce engagement, and community building. Each focus correspond to the phases namely introduction, promotion, and institution. Since MBNQA criteria not precisely inform about the way “how to do”, rather focus on “what to do”, hence this study will beneficial for managers, academicians, and practitioners to enhance their understanding by providing insight information in sequence matter for improving small business organization in order to gain competitive advantage. Moreover, this model will benefit for increasing the level of success of small business on their quality journey for performance excellence and sustainable growth through case studies.

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