

**International economic relations**

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**IMPLEMENTATION OF EFQM AND BSC MODELS  
FOR STRATEGIC DEVELOPMENT  
OF THE ENTERPRISE IN THE CONTEXT  
OF A SYSTEMIC CRISIS**

**Abstract**

In recent years, fast growing of global progresses which caused by technological and informational developments. And also enhancing of products variation has forced companies to perceive importance of continuous improvement process to get operational effectiveness and also to create core competence to sustain in the competitive environment. So the organizations are trying to choose the best methods to identify their weakness and strengths, improve them and adopt them with the organization strategic objectives in order to yield the best achievements in performance.

For the strategic development of a firm in a systemic crisis, it is necessary to combine and synergize the existing models of business perfection, but there is no single correct way to combine and implement different models, so we need to consider all the variations and choose the most optimal one. The main purpose

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of this work is to develop a methodology for increasing the value of business perfection models for the strategic development of enterprises in a systemic crisis and its implementation.

This article is presented total view of these two models and proves the feasibility of combining them in order to conduct the benefits of combining these two frameworks. Moreover, after recognizing the weaknesses and powers of each model, the possibility of using them at the same time has been evaluated and then the influence of combination model on Implementation and Evaluation of Organizational Strategies and Performance has been investigated.

### **Key words:**

Balanced scorecard (BSC), European Foundation for Quality Management (EFQM), systemic crisis, strategic development.

**JEL:** M11, M21.

### **Actual scientific research and issues analysis**

Recent researches have examined that the traditional frameworks and tools of performance measurement which entirely was based on financial measurements is not compatible. Most companies that used financial measures focused on short-term results. Non-financial measures have been perceived to be more forecast of future performance and more beneficial in controlling performance (Crabtree & Debusk, 2008). For instance, Ghalayini and Nobel (1996) identified eight general limitations of traditional performance measures, which based on a traditional cost management system:

- use lagging metrics
- are not incorporated into strategy
- are difficult to implement in practice
- tend to be inflexible and fragmented
- contradict accepted continuous improvement thinking
- neglect customer requirements

They have also identified some limitations related to traditional manufacturing system and its strong focus on enhancing productivity, reducing cost and increasing profit, which may somehow deflect attention from developing quality, credibility and delivery and also establishing short lead time, flexible capacity and efficient capital extension<sup>1</sup>.

At the result of these limits, new measurement systems have appeared in two main groups. the first group has a main goal of operational effectiveness and the second one aims to yield a proper strategic position. so many tools, framework and models have been designed and suggested by the specialists in each group like Deming Prize and Malcolm Baldrige Award (Jacob, Madu, Tang, 2004) but European Foundation for Quality Management (EFQM) framework in first and BSC in the second more extensively have accepted by the organizations.

In addition to the reported direct use of the EFQM Excellence Model as a strategic tool, many researchers report the use of the outputs of self-assessment as an integral part of the business and strategic planning process within organizations. In this respect the model can be seen to provide a linkage between improvement activities in an organisation and strategic direction.

## **The statement of basic materials and Conclusions**

### *EFQM*

The EFQM Excellence Model was introduced at the beginning of 1992 as the framework for assessing organizations for the European Quality Award<sup>2</sup>. The EFQM Excellence Model is based on the accepting and consistent realizing in everyday practice «Eight Basic Rules of Excellence» that is adapted to the European conditions, the principles of the Total Quality Management (TQM), which implemented in the strategic management process guarantee the success of the enterprise, its development and strengthening of the market position<sup>3</sup> (See Figure 1).

The EFQM Excellence Model, a non-prescriptive framework based on nine criteria as shown in Figure 2<sup>4</sup>.

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<sup>1</sup> Kaplan, R.S. and Norton, D.P. (2008). The Execution Premium. Harvard Business School Press, Boston, MA. Linking Strategy to Operations for Competitive Advantage.

<sup>2</sup> Santos. M. L., I. Alvarez-Gonzalez. L. (2007). TQM and firms performance: An EFQM excellence model research based survey. Journal of Business Science and Applied Management, Volume 2, Issue 2, 21-42.

<sup>3</sup> J. Michalska, (2005). Quality costs' analysis in the selected production process in material engineering, Materials and Technologies 3, 137-140

<sup>4</sup> Eskildsen, J.K. and Dahlgaard, J.J. (2000), «A causal model for employee satisfaction», The TQM Magazine, Vol. 11 No. 8, pp. 1081-1094

Figure 1

**Eight Basic Rules of Excellence**

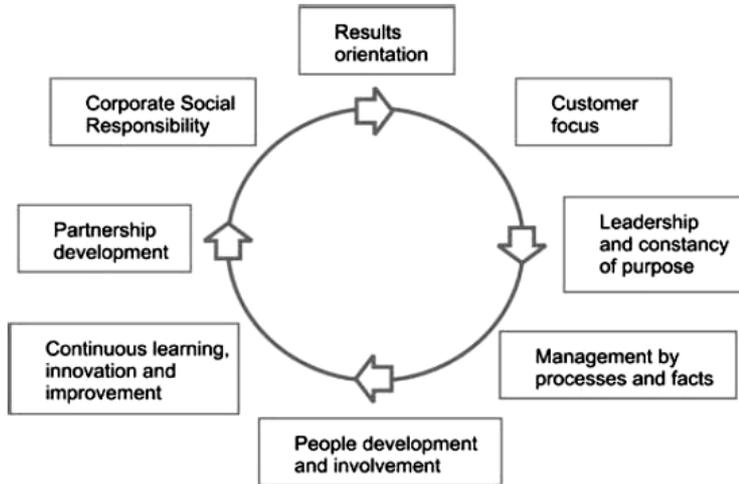
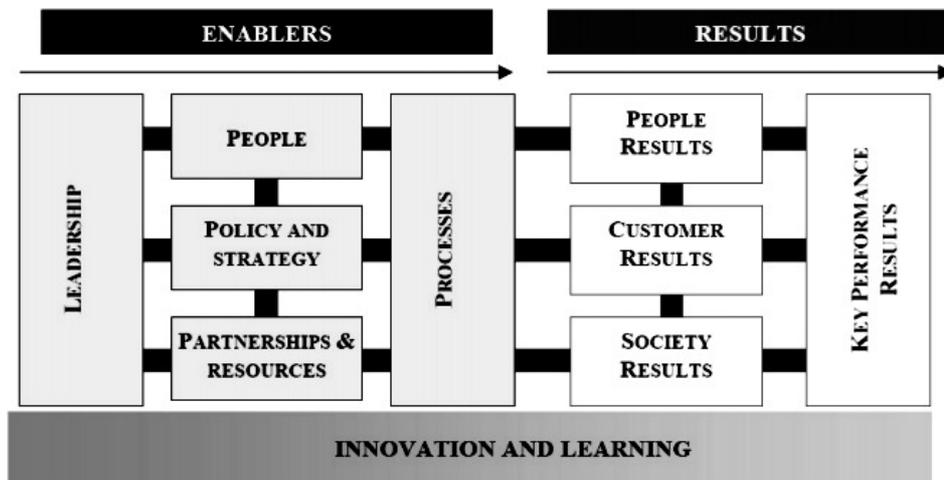


Figure 2

**EFQM Excellence Model**



Five of these are «Enablers' (leadership, people, policy strategy, partnership and resources, and processes) and four are 'Results' (people results, customer results, impact on society results and business results). Organizations can use the model and the process of self-assessment to improve performance. It is flexible and can be applied to organizations of any size, in the public and private sectors. It is now the most widely used organizational framework in Europe and has become the basis for the majority of national and regional Quality Awards.

### *BSC*

The balanced scorecard (BSC) is one of the most highly touted management tools today. The Balanced Scorecard Approach has been developed at the Harvard Business School by Kaplan and Norton since the early 1990s. It is an essentially multi-dimensional approach to performance measurement and management that is linked specifically to organizational strategy and fortune 500 companies are increasingly using it.<sup>5</sup> A survey found that approximately 50 percent of Fortune 1000 companies in North America and 40 percent in Europe use a version of the BSC.

It suggests that as well as financial measures of performance, attention should be paid to the requirements of customers, business processes and longer-term sustainability. Thus four areas of performance are defined (Now labelled as financial, customer, internal business and innovation and learning), and it is suggested that up to four measures of performance should be developed in each area (Figure 1 shows the BSC framework).

The BSC is now being listed as a value methodology along with cost-benefit analysis and return on investment; it is being used to help change organizational culture; and several companies have reported improved operational efficiency and profitability as a result of using the BSC.

A major strength of the balanced scorecard approach is the emphasis it places on linking performance measures with business unit strategy. This appears to be a very weak area in many organizations and the technique provides a practical approach to addressing this issue. The framework of the four perspectives of the BSC helps to translate strategy into objectives and measures. The four perspectives are financial, customer, internal process, and learning and growth. The critical success factors created in each of the four perspectives are balanced between long term and short term, as well as internal and external factors that contribute to the business strategy<sup>6</sup>.

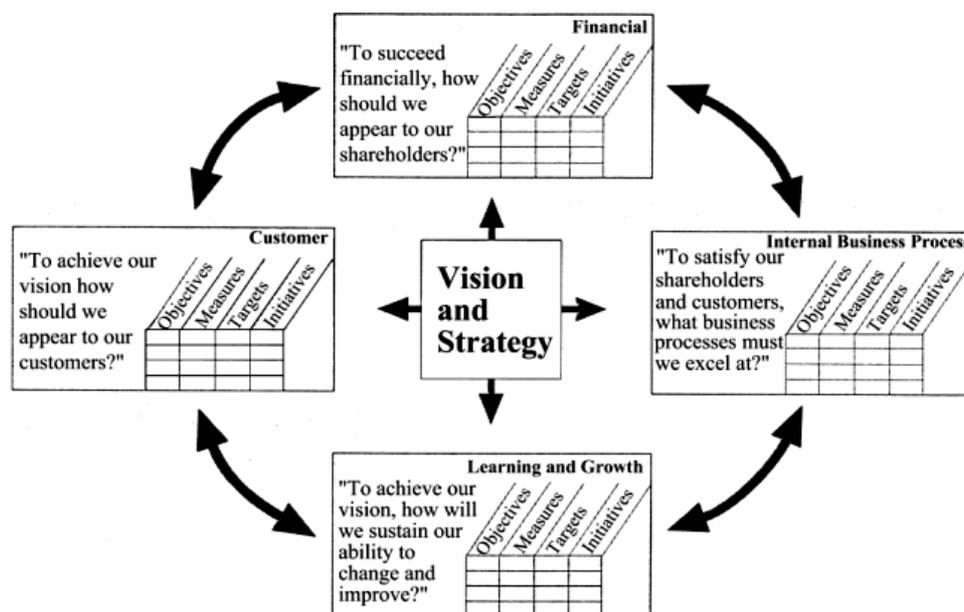
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<sup>5</sup> Lussier. R. N. (2006). Entrepreneurs use a balanced scorecard to translate strategy into performance measures, *Journal of Small Business Management*

<sup>6</sup> Staff (2002). «Balanced Scorecard Tool Drives Performance,» *Association Management* 54(2), 26-27.

Figure 3

The BSC: a framework to translate a strategy into operational terms<sup>7</sup>



The Balanced Scorecard is thus a potentially powerful tool by which senior managers can be encouraged to address the fundamental issue of effectively deploying an organization's strategic intent. It focuses on establishing links between strategic objectives and performance measures; it also pays some attention to measuring the achievement of the components of the strategic plan the organization has espoused.

#### Comparison of BSC and EFQM

The BSC and EFQM are tools that use measures of an organization's performance to drive organizational improvement, generally by highlighting current

<sup>7</sup> Kaplan, R. S., and D. P. Norton (1992). «The Using the balanced scorecard as a strategic management system,» Harvard Business Review. January-February 1996: 76.

shortfalls in performance, in areas of particular concern or interest to management teams.<sup>8</sup> In the first glance these two models are very similar to each other.

Similarities like common goal, common ideas, both of them are behavior assessment models and are trying to improve behaviors and are base on cause and effect but in spite of this similarities, it is essential to know that the two approaches come from very different backgrounds and are designed and used using different processes, further, their essence and history are different and each of them provides different profits.

EFQM is a framework designed to assist organizations achieve business excellence through continuous improvement in the management and deployment of processes to engender wider use of best practice activities. It enables the calculation of scores against a number of criteria that can be used for either internal or external «benchmark» comparisons.

It is hoped that the results of these relative comparisons will lead to increased focus on improving key process performance, and so generate «business excellence», while BSC is a framework that expresses an organization's strategy as a set of measurable goals from the perspectives of owners/investors, other external stakeholders, and the organization itself. If these goals and associated measures, and targets are well chosen, the Balanced Scorecard will help managers focus on the actions required to achieve them, so helping the organization achieve its overall strategic goals and realize its strategic visions.

Moreover, BSC drives continuous improvements in processes within an organization versus EFQM that focuses management agenda on achieving strategic goals and supports two way communications of strategic priorities and organizational performance. Both of them is flexible and should be use within the strategy, culture and aims of the organization.

Important goal of both are in special areas. BSC is concentrated on four aspects and EFQM is concentrated on nine aspects. EFQM is not mentioning especial program and strategies while BSC help the managers by means of strategy plan. None of these models is helping managers for aiming. Furthermore, both of them, little thing has been mentioned about reword while in previous version of EFQM on 1999, it was not mentioned anything about it. The importance of information feedback has been indicated in both models. Table 1 shows the differences and similarities of BSC and EFQM<sup>9</sup>.

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<sup>8</sup> Shulver. M., Lawrie. G. (2007). «The Balanced Scorecard and the Business Excellence Model». European Institute for Advanced Studies in Management, 8th Manufacturing Accounting Research Conference: «COST AND PERFORMANCE IN SERVICES AND OPERATIONS» held at University of Trento.

<sup>9</sup> Otley. D. (1999). «Performance management: a framework for management control systems research» . Management Accounting Research, 10, 363-382.

*Possibility of using EFQM and BSC as a combination framework*

Regarding the similarities and differences of these two models which explained above, this question arose that «which one is better, using BSC and EFQM together as a combination model or use each of them individually». Because of the fundamental differences, it is better to employ both of these models together then superior results will be gotten. At continue, it is described that how BSC could be used to concentrate and indicate EFQM and also by using the EFQM how can strengthen the influence of BSC.

Table 1

**Differences and Similarities of BSC and EFQM**

Similarities	Differences
Both of them have cribbed structure	EFQM is based on total quality management
There is no obvious ways for successful performance	(TQM) principals while BSC model is base on organization expected strategy
There is relation between reward and encouragement systems	Information feedback is different in these 2 models
Both of them concentrate to the customers' profit	BSC is more flexible than EFQM
Both of them are sponsored and committed with an entire management team	

Movement From BSC Toward Superiority After recognition the strategic behaviour of organization, its aims, indicators and the manner of performance by means of BSC, it is valuable to improve the quality level of processes which supports the aims and indicators to achieve strategic goals that are necessary. By using the self assessment information, organization can have a greater recognition for achieving its strategic goals (Figure 4).

Figure 4

**Supplementary of Superiority Model**

BSC	Strategy	Improving Superiority Level	Maintaining High Level Quality	Competition Value
	Nonstrategic	Improvement Until the Level of Quality Acceptability	Eliminating Extra Investment	Organization's Efficiency Sign
		Weak Points	Strength Points	

Using the model of superiority can fill the gap of acting between what the organization is and what will be at 2 or 5 years. These tools can be used as an indicator of time and assets which are needed for the process to determine the aims by BSC<sup>10</sup>.

Movement from Superiority Toward BSC is shown, using the EFQM provide a well understanding of the processes' strengths and weaknesses which have been obtained. Although as a result of activity evaluation, it can be realized what processes need to be improved, which processes are suitable, or in comparison with other organizations in what areas are noble but, it is not understood which areas are priority strategic or what kind of actions will result in even more valuable for improving the organization's activities.

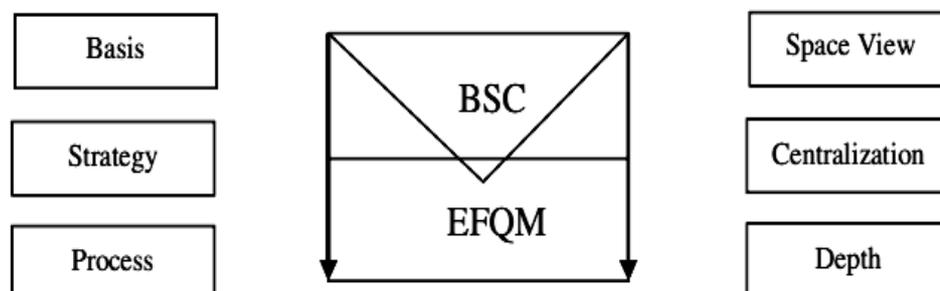
Then, in order to priority setting and resource allocation measures to strategic focus areas, BSC can be used as a tool. Spend time and money to improve weak areas in the self-assessment process had been diagnosed, but do not have strategic importance, is not necessary.

Of course in these areas least acceptability should be covered. Moreover, with conducting the evaluation, the noble points of organization are identified which may not be strategic, subsequently, additional investment and investiture should be avoided in these areas and organization's resources should be guided in the direction of the weak processes with the strategic priority (Figure 6).

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<sup>10</sup> John DAVIES (2004). THE IMPLEMENTATION OF THE EUROPEAN FOUNDATION FOR QUALITY MANAGEMENT'S (EFQM) EXCELLENCE MODEL IN ACADEMIC UNITS OF UNITED KINGDOM UNIVERSITIES. Source: <http://usir.salford.ac.uk/14853/1/DX231063.pdf>

Figure 5

**EFQM Model that makes BSC Model Exhaustive**

Thus, BSC is employed as a supplemental self-assessment tool for strategic priority setting. Therefore, resources are assigned to the important strategic areas that need improvement, not only in areas where businesses have contained low self-assessment score<sup>11</sup>.

Combined use of BSC and EFQM, and combined them together will ensure that organization will do appropriate actions with the knowledge that they will improve organization's performance. According to the above, it can be concluded that each of the BSC and EFQM, in the range of preeminent business organization, have a special place and they can be used together to cover the weaknesses of each other. In fact, intelligent application of these two models, processes and management will be strengthened. Some organizations have tried the merger of these two models to develop a new model. Such actions cause complexity, not fully understanding and coverage of the models and finally using them inappropriately.

While both models with the full understanding and considerate their strengths and weaknesses, they can be used together effectively. Most of the managers, with regard to the amount of resources spent and the high volume measures of self-evaluation process are worried<sup>12</sup>.

<sup>11</sup> Henrik Andersen, Gavin Lawrie and Michael Shulver (2000). «The Balanced Scorecard vs. the EFQM Business Excellence Model». Source: [http://pc-freak.net/international\\_university\\_college\\_files/business\\_scorecard/Balanced%20Scorecard%20vs%20Business%20Excellence%20Model.pdf](http://pc-freak.net/international_university_college_files/business_scorecard/Balanced%20Scorecard%20vs%20Business%20Excellence%20Model.pdf)

<sup>12</sup> Maxime Sottini (2009). «IT Financial Management: Best Practice». Source: [https://books.google.com.ua/books?id=ndxEBAAQBAJ&pg=PA218&pg=PA218&dq=efqm+kpmg&source=bl&ots=A\\_OI8oOUaV&sig=HSdBgoEG8WEy2IOSIKALIdteSPw&hl=ru&](https://books.google.com.ua/books?id=ndxEBAAQBAJ&pg=PA218&pg=PA218&dq=efqm+kpmg&source=bl&ots=A_OI8oOUaV&sig=HSdBgoEG8WEy2IOSIKALIdteSPw&hl=ru&)

To these group managers, EFQM is very time consuming and complex model. Furthermore, lack of communication between strategic management and quality improvement activities will cause that managers face to a large number of improvement projects with no priorities. Although some managers believed that the use of the EFQM model improves the master communication, planning and participation by employees, but evidence indicates that overall business is not improved. Thus the Balanced Score Card model was introduced to cover two weaknesses of EFQM model which are as follows:

- 1) Lack of strategic orientation
- 2) Need to focus on improvement activities.

### **Conclusion**

This article was aimed to show the path to organizations which have separated approaches in strategic and total quality management, in order to get the framework to apply strategic and operational activities with using BSC and EFQM as the best tools in each one at the period of systemic crisis.

The research proved the feasibility of combining these two famous models and brought them together as a combination model and suggests organizations to use it in order to get improvements in implementing and evaluating strategies and performance by proving these hypothesis in Isfahan municipality complex which is totally similar to municipalities all over the world using up to dated performance tools and frameworks. So the feasibility of combining model and the influence of using this model on improvements in implementing and evaluating strategies and performance were proved.

This article has limitations which should be considered when interpreting the results. it should mention this fact that when the organization can use this combination model or is it really suitable to use the model in everywhere in organizational life cycle so one of the most important matters that left unmentioned in this study was the infrastructures of implementing each BSC and EFQM models and also the overlapping ones.

It's essential for organizations to find and analyze their position in organizational life cycle and then decide to which models are suitable for them so using this combination model is profitable when the organization have experienced the strengths and weaknesses and all characteristics of two models and

recognize the advantage of using the integrated framework. Therefore for further studies, investigating the infrastructures and conditions of implementing the combination model is suggested.

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