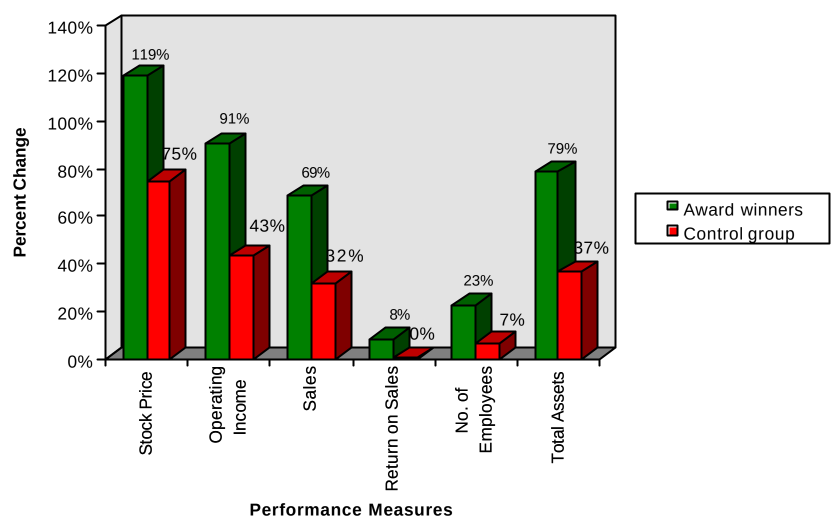
Quality Award Winners also Improve Financial Performance

A recent study by Dr. Vinod Singhal of the Georgia Institute of Technology and Dr. Kevin Hendricks of the College of William and Mary provides hard evidence that the effective implementation of TQM principles impacts bottom-line business results. The 5 year study of more than 600 quality award winners showed that, as a whole, they experienced significant improvement in the value of their common stock, operating income, sales, return on sales, employment, and asset growth.

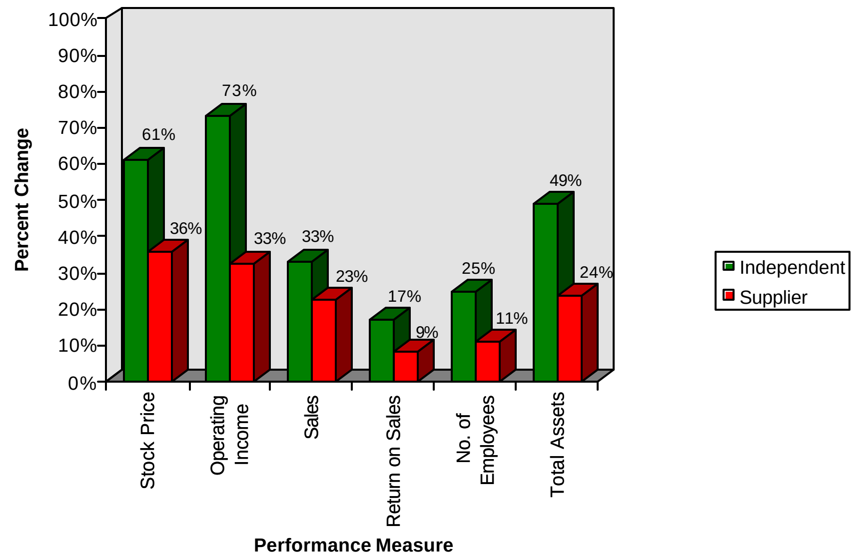
Drs. Singhal and Hendricks compared the financial performance of nearly 600 quality award winning firms against a control sample of firms similar in size and operating in the same industries. Both groups were tracked over a five year period starting one year before to four years after the award winners won their first award. The award winners averaged significantly larger increases in several measures of financial performance than the control group (Figure 1). Award winners experienced a 44% higher stock price return, a 48% higher growth in operating income and 37% higher growth in sales compared to the control group. Award winners also outperformed the controls on return on sales, growth in employees, and growth in assets.

Average % Change in Performance Measures (Figure 1)



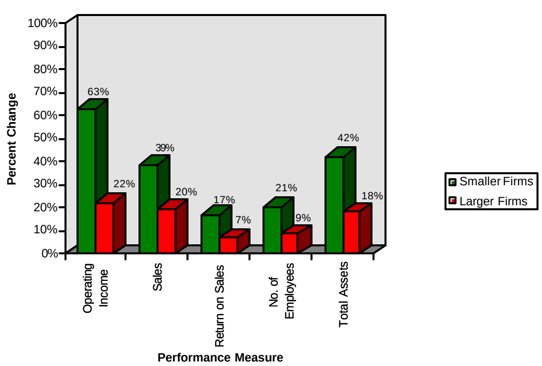
One interesting finding was that firms who win state awards (such as the Georgia Oglethorpe Award) or other independent quality awards, experienced better results than those winning supplier awards only (Figure 2). After adjusting for the performance of the controls, the independent award winners averaged a 61% increase in stock returns, 73% increase in operating income, 33% increase in sales, 17% increase in return on sales, 25% increase in employment and 49% increase in assets - all of which are well above the increases experienced by firms winning supplier awards only. This evidence provides a compelling case for why firms should use criteria such as the Georgia Oglethorpe Award for planning, training and assessment, and why various state and federal agencies should support such award initiatives.

Comparison of 'Independent' and 'Supplier' Award Winners
Average % Change in Performance Measures (Figure 2)

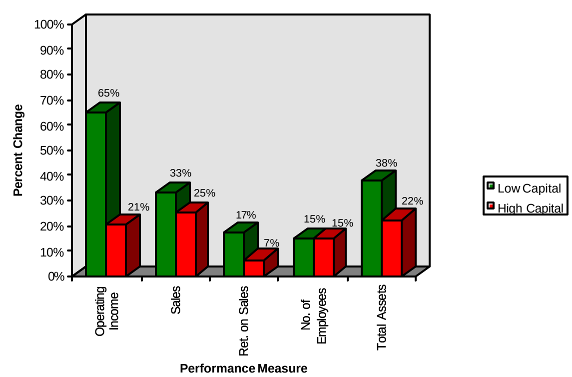


There is a common perception among smaller firms that performance excellence are more applicable to larger firms. The findings indicate that this perception may not be true. After adjusting for the performance of the controls, smaller award winners averaged a 63% increase in operating income, 39% increase in sales, 17% increase in return on sales, 21% increase in employment, and 42% increase in assets - all of which are well above the increases experienced by the larger award winners (Figure 3). Similarly the findings indicated that lower capital intensive award winners do significantly better than higher capital intensive award winners (Figure 4).

Comparison of Smaller and Larger Award Winners
Average % Change in Performance Measures (Figure 3)



Comparison of Lower and Higher Capital Intensive Winners
Average % Change in Performance Measures (Figure 4)



In summary, the results of this study indicated that effective adoption of performance excellence principles embedded in various quality award criteria do make good economic sense. To obtain a copy of this study contact Dr. Vinod Singhal at (404)-894-4908, e-mail: vinod.singhal@mgt.gatech.edu. To obtain a copy of the Georgia Oglethorpe Award Criteria and/or more information about the award itself, please contact the Georgia Oglethorpe award office at 404-651-8405.