

# Third Generation Quality Management: From Atoms to Bits, or Quality Management in the Knowledge Society

Kevin J. Foley  
Australian Organisation for Quality

We cannot get far in the study of organizations or of anything else unless we have some kind of theoretical "model" as a guide to perceiving what is essential in the midst of the immense mass of subordinate detail.

Kenneth Ewart Boulding  
*The Organization Revolution*, [1968, p. xviii]

My gloomy prognosis is that we in the West will spend the rest of the century getting fully on top of the quality crisis. Even that pace will not be realized if we continue to try to solve basic management problems by clever exhortations or by narrow techniques.

Joseph Juran  
*Address to the European Organization for Quality Congress*, Barcelona, [1966]

## Abstract

This paper is based on the observation that the world of the organisation has changed in a fundamental way over the past several decades as we have inexorably moved to the third major shift in the history of humankind, i.e., from the industrial to the knowledge age. Given that shift it should be no surprise to find that many of the assumptions of TQM, which were established in the eighties and before, are either not now valid, or at very least should be re-examined. For example, it now seems axiomatic that, a) quality of product and service (however it is defined) is not the appropriate *strategy* for all organisations at all stages of their development, b) customers are one of several entities capable of affecting organisation viability if their wants and expectations are not met, i.e., customer satisfaction is not synonymous with organisation success, c) customers are not always a stakeholder, and d) quality is *a* means to organisation success and not an end. If there is a single message in this paper it is that the true test of the efficacy of *any* management model must be that it assists the contemporary organisation to achieve sustainable success – the 21<sup>st</sup> century organisation has more than one stakeholder, increasingly relies on a resource whose value increases with use and functions in an environment characterised by unprecedented volatility and speed of change.

In the Spring of 1994, amid mounting reports of the failure of quality management, the *American Academy of Management Review* (in an issue dedicated to quality management) delivered a devastating criticism of quality management. Despite many advocates of quality management ignoring the injunctions of those management scholars and blaming failures on obtuse management, by the mid 1990s it was clear to most observers that quality management was at a fork in the road where the options were either revision and redefinition or the last rites. In 1997, the author (with four leading figures in the Australian quality movement) proposed that the first step in any such revision should be to underpin quality management with an *explicit* theory. As Foley (2000a and b; 2004 and 2005), Foley, Hensler and Jonker (2007), Foster and Jonker (2007) and Bergquist, et al., (2008) extended that notion quality management began to take a shape significantly different from that promoted in the 80s and early 90s. The first part of this paper describes the quality management that emerged from those studies. The second part uses the organisation sustainability model developed by Foley and Zahner (2009) to a) demonstrate how quality, as a strategy *and* as a

methodology and set of techniques, applies to the 21<sup>st</sup> century organisation and b) explain the paradox that the emergence of knowledge as a dominant resource reduces the use of quality as a guiding strategy while increasing the importance of quality of product as a contributor to organization success.

## **Introduction**

While it is undoubtedly true, to some degree or other, that every management issue we examine is in a somewhat confused state, and discussion is more readily identified as fragmented rather than coherent, it seems that quality management is more in need of pause and reassessment than most. The recent suggestion by a number of authors (Foley, Foster, Jonker, Bergquist, Garvare, Johansson and Hensler) that quality management has entered a third stage in its development gives particular strength to that suggestion. While it is not clear *exactly* when the transition from second to third generation quality management took place, or as Bergquist et al., have commented, “who ... in the quality management story represents Hans Christian Andersen’s “little child” who exclaimed “But he has nothing on at all”, there is evidence to support both a date and several of what appear to be key influences.

Following Bergquist, et al., (2008) the most obvious, and easiest to document, point of departure from second to third generation quality management is the Spring 1994 special issue on *The Academy of Management Review*. The collection of papers contained in that journal brought a critical mass of *management* scholars (to be distinguished from the management entrepreneurs/quality management technologists who had dominated quality management literature up to that time) to the subject. As Bergquist, et al., (ibid. p. 512) observed:

...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.

Although a number of management *scholars* had written about quality management prior to 1994 (e.g., Garvin, Scott, Cole, Hermel) those works were infrequent and isolated and

were more often directed to joining the quality bandwagon than offering critical analysis. Coincidentally, 1994 marked a deepening of the author's interest in, and concern with, quality management.

In Australia, 1994 saw the first concerted, strident and public criticism of quality management; a concern that brought the principal elements of Australia's technical infrastructure together as the Wider Quality Movement and caused Standards Australia (then the principal certifier against ISO 9001) to conduct a study which would, *inter alia*, examine the role of quality management in Australia's technical infrastructure.<sup>1</sup> By 1997, and fuelled by public conflict between those promoting total quality management or TQM (the Australian Quality Council) and those promoting quality assurance (Standards Australia), criticisms of quality management reached the daily and business magazine media and were of such concern that the Wider Quality Movement formed a committee (under the chairmanship of the author) to report on those criticisms.<sup>2</sup> The subsequent report<sup>3</sup> was the author's first opportunity to express a number of concerns about quality management that emerged after presenting the *Foley Report*<sup>4</sup> to the Australian Parliament in 1987. The three principal concerns were the lack of an *explicit* theory (hence no agreed definition of quality management), the premise that the quality strategy was appropriate to all organisations and the corollary that customer satisfaction

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<sup>1</sup> Foley, Kevin; Horwood, S. and McCluskey, R. 1994, *Australia's Technical Infrastructure: Strategic and International Perspectives*, Sydney: Standards Australia

<sup>2</sup> Those criticisms had such impact that they attracted the attention of the Australian government, which in 1986 established a national enquiry into the matter. The Wider Quality Movement was an *ad hoc* committee comprising the chairman and CEO of each of the principal organisations in Australia's technical infrastructure.

<sup>3</sup> Foley, Kevin; Barton, Richard; Busted, Kerry; Hulbert, John and Sprouster, John. 1997, *Quality Productivity and Competitiveness: The Role of Quality in Australia's Social and Economic Development*, Sydney: Standards Australia.

<sup>4</sup> *Committee of Review of Standards and Accreditation and Quality Control and Assurance*, Canberra: Commonwealth Government Printer, 1987. A principal outcome of that report was that Standards Australia cancelled its excellent (but National) quality management standard and adopted the recently published international quality assurance standard ISO 9000. As Foley, Clegg and Castles (2005) have commented, acceptance of this recommendation transformed the focus and fortunes of Standards Australia.

(delight?) would lead to organisation success, and the lack of empirical support.<sup>5</sup> The report to the Wider Quality Movement took the first tentative step toward creating the Sarasohn<sup>6</sup> theory of quality management which was outlined in Foley, Hensler and Jonker (2007), and Bergquist, et al., (2008) and appears as *one* of the theories of management *generated* by the Foley/Zahner Organisation Sustainability Model.

Of the veritable multitude of forces shaping the changes in quality management that could be identified in the mid 1990s three can be singled out as significant.

*First*, and most profound, was the transformation from a manufacturing to a knowledge society, which although occurring over a long period had become obvious by the mid 1990s and could be readily observed to be reshaping society; indeed, Peter Drucker had observed as early as 1985 that “processes are not organized around energy in the physicist’s meaning of the term ... [but rather] ... around information”.<sup>7</sup> That change would likely have demanded that quality management change in the way described in this paper – it was really demanding that the quality management being promoted by Crosby, Deming and Juran should have been challenged in the 80s.

*Second*, there was the decline in influence of the quality gurus, Crosby, Deming, Feigenbaum, Juran and Kauro Ishikawa. By the mid 1990s Crosby, Deming and Ishikawa had died and Juran and Feigenbaum had aged to the point of being largely inactive.

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<sup>5</sup> Of lesser, but nevertheless significant concern was the reference to *continuous* improvement and the lack of any explicit attention to what Kenneth Boulding, (1968) referred to as the “essential features” of the organisation.

<sup>6</sup> After Homer Sarasohn who was the first to *formally* develop an approach to management that *explicitly* put quality first and saw it as a *constrained* optimum. As Chief of the Industry Branch of the Civil Communication Section of the Supreme Command for the Allied Powers (SCAP), former US Army paratrooper and radio engineer Homer Sarasohn was directed by General Douglas McArthur to help reconstruct the Japanese communications industry. Sarasohn and his colleagues, Charles W. Protzman, Wilbur Magil, Gilbert Weeks and Frank Polkinghorn predated the work of Deming, Juran and Feigenbaum in Japan by several years. Indeed, it was Sarasohn who proposed that Deming should be invited to replace Shewhart, who was the first choice of Ichiro Ishikawa (Union of Japanese Scientists and Engineers - JUSE) but was unable to accept an invitation from SCAP, on behalf of JUSE, due to ill health. In June 1949, in Tokyo, Sarasohn and Protzman began a series of seminars entitled *The Fundamentals of Industrial Management*.

<sup>7</sup> Peter F. Drucker, *Innovation and Entrepreneurship*, London: Elsevier, 1985, p.3

Addressing this issue Clegg, et al., (2008, p.311) have argued that those quality entrepreneurs had exerted a significant negative power on quality management:

The quality management gurus (particularly Deming) were able to use their gurdum to present quality management in a way that restricted discussion on aspects such as empirical support, theory and history and write about in a way that distorted events and embellished their own position. As Bergquist, Foley, Garvare and Johansson ... point out the power of the gurus to obfuscate, avoid questioning and criticism was diminished only by advancing age and death - Crosby died at the age of 85 in 1989, Deming at 93 in 1993 and Juran at 103 in February 2008.

The works of the quality gurus are characterized by unsupported assertion, silence on issues such as implementation, a distortion of the facts (especially in relation to the contributions of others) and a failure to acknowledge the body of management thought, management principles, strategies and techniques upon which quality management is so clearly built and depends.

*Third*, quality management began to fail on a large scale in the mid-1990s. Contrary to the opinion of its promoters, and their unquestioning acolytes, that failure was *not* the result of misunderstanding or incorrect implementation - although both those circumstances were in evidence. Quality management failed because the Emperor *was* essentially naked and in very many (too many) respects quality management offered advice that would lead to failure rather than the promised success.

### **The Elements of Third Generation Quality Management**

Notwithstanding its early stage of development, a lack of empirical support (for the model *per se*, rather than its parts) and the inevitable plethora of unanswered questions, Bergquist, et al., (op.cit.) point to three features that most clearly distinguish third generation quality management from its predecessors:

- **A stakeholder perspective and identification of the customer as *a* stakeholder rather than *the* stakeholder.**

The recognition that even the smallest of organisations have a multiplicity of interested/affected parties and many stakeholders (interested/affected parties with the *power* to impede achievement of the organisation aim if their wants and expectations are not met) is perhaps the pivotal difference between second and third generation quality management. As Bergquist, et al., (ibid. pp. 521-522) have argued:

It is from the numerous interested parties (that would number in the millions for many organizations) that the organization identifies its stakeholders. Stakeholder wants and expectations 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 and b). Stakeholders must be sufficiently satisfied not to act to inflict unacceptable damage on the organization. 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 wants and expectations 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.<sup>8</sup>

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.<sup>9</sup> Such an organization has been summarized by Hensler and Foley (2007) as a matrix of stakeholders and stakeholder interests (wants and expectations) 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 behaviour (and their dynamic interaction) is essential for organization success.<sup>10</sup> Some of the values of interested parties will be directly impacted 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 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. Those concerns then 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 new stakeholder – the bio-physical 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) will remain such, *until its concern is either taken up by an existing stakeholder, or it acquires the force and mechanisms necessary to directly influence the organization....*

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<sup>8</sup> Garvare and Johansson, (2007) argue that organisational excellence, in terms of promoting both organisational sustainability and global sustainability, implies that the organisation should aim to satisfy, or preferably exceed, the interests of its stakeholders without compromising the ability of other interested parties to meet their needs.

<sup>9</sup> Not all stakeholder wants and expectations (of which there are many) are strategic imperatives. In another of its difficult decisions the organisation must (as they must with interested parties) select from the many, those interests that could invoke organisation-threatening action by the stakeholder – it is those few that become the strategic imperatives of the few that have become stakeholders. Organisations do change their aim; however, that does not appear to happen often - and for many not at all.

<sup>10</sup> The task of identifying stakeholders is decidedly difficult and organisations often get it wrong. However, despite those difficulties an organisation's stakeholders remain relatively stable – in the broad description if not in membership. Establishing the *interests* of those stakeholders has a difficulty several magnitudes higher – these can change quickly and in quite fundamental and unpredictable ways.

Discussing the organisation/stakeholder relationship in the corporate context Foster and Jonker (2008, pp. 481-482) comment:

We therefore see the corporation or business enterprise as a collaboration of multiple and diverse constituencies and interests leading to a nexus of contacts and contracts. In general these contacts and contracts are with entities that we refer to as stakeholders. Our stakeholder view of the corporation integrates stakeholder relationships within the firm's resource base, its industry setting, and its socio-political arena into an analytical framework in which we make a distinction between the social context and the business context in which a company operates simultaneously. Our central proposition is that organizational value can be created (or destroyed) through relationships with stakeholders of all kinds: resource providers, customers, suppliers and social and political actors. Therefore, effective stakeholder engagement involving the creation and management of relationships with various stakeholders for mutual benefit in the short and long term is a critical competence for corporate continuity and a defining characteristic of Third Generation Quality Management. However, stakeholder engagement is of relevance only in terms of the outcomes that result – the value creation that occurs as a result of that engagement. This will only occur if that engagement influences the nature and operationalisation of the business proposition or business strategy - the essence of any business enterprise.

○ **An explicit theory of quality management.**

First described in Foley, Hensler and Jonker, (2007), the theory of quality management underpinning third generation quality management is not only different from other theories of quality management by being explicit; it is different in the way it has been constructed. Rather than being asserted (and implicit) as other “theories”, the Sarasohn theory of quality management is *derived* from a behavioural model of the multi-stakeholder organisation, and is strategy dependent, i.e., it is applicable only to those organisations that have chosen quality as their guiding strategy.

The salient features of the Sarasohn theory have been described by Bergquist, et al., (op. cit. pp.526-527):

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.*

1. It is expressed succinctly as a theory, and not as a definition, or a set of principles, points, steps, etc.
2. Quality of product and service appears as an explicitly constrained optimum.<sup>11</sup>
3. It can be unambiguously linked to a widely accepted theory of organization behavior.
4. 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.

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<sup>11</sup> 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.

5. 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.*
6. 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 other than quality.
7. 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 Hensler, Foley, 2007, matrix) it may not always be a strategic *imperative*. Furthermore, if it is a strategic imperative it may 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.
8. Applies only in those circumstances where the organization has adopted a quality first strategy.<sup>12</sup>
9. It *follows* strategy. It is the whole-of-organization strategy that establishes the criteria for selecting a management theory.

○ **A distinction between quality management as a whole-of-organisation *strategy* and the methods and tools of quality management.**

The ability to separate quality as a whole-of-organisation strategy from the methods and tools of quality management (and their application) allows third generation quality management to show that however widely applicable quality as a whole-of-organisation strategy might be, *it is not applicable to all organisations*. Interestingly, the definition of strategy adopted by third generation quality management helps explain how quality management could be promoted as having relevance to all organisations at all stages of their development. If, as so often seems to be the case, quality management was seen to be a collection of methods and tools to be applied to processes to reduce variation (and concomitantly reduce costs and increase quality), and their *application* regarded as *the quality strategy*, then quality management can be said to be an essential component of *any* whole-of-organisation guiding strategy - including those that make no reference to quality.

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<sup>12</sup> Contrary to the view promoted in the TQM literature many organisations *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 other than quality of product and service as the *primary focus* of their management system. However, that is not to say that quality is not a strategic imperative and 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-organisation strategy, has universal validity.

Third generation quality management does not suggest that organisations adopting a strategy other than quality will not have a commitment to producing a quality product or service; it simply specifies that quality is not the *primary* focus of the organisation. Nor does it suggest that a strategy other than quality would preclude an organisation from establishing and maintaining the highest quality product or service – Ben and Jerry’s Homemade would be an example of an organisation that does not have a quality first strategy (at least quality first is not part of the corporate rhetoric) yet produces a high quality product. Microsoft and Apple would be examples of organisations that have gone to market with a less than high quality (faulty?) product in order to (successfully) satisfy another strategy, *and in doing so sustain success*.<sup>13</sup>

As Bergquist, et al., (ibid. pp. 527-528) have commented:

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 wants and expectations 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 bio-physical 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 adverse effect, 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.

After an examination of Foley, Hensler and Jonker (op. cit.) and Foster and Jonker (2007 and 2008) four more elements can be added to the above list.

- **An explicit recognition that organisations 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.**

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<sup>13</sup> The decision to adopt quality as the organisation strategy is fundamental, complex, and far more difficult to make than first appears. Certainly it is not as simple as accepting the dictum of TQM that it is no decision at all, i.e., the quality first strategy is not only relevant for *all* organisations it is a necessary condition of success.

Hensler and Foley (2007) have described the contemporary organisation as an intentional, living, learning social organism, (Barnard, 1938; Senge 1992; De Geus 1996; Brunsson and Sahlin-Andersson), “a site of continuously evolving human action” (Tsoukas and Chia, 2002); “something organic which intends to survive” (Beer, 1974, p.99) and “a dynamic open system”, a “complex dynamic system poised at the edge of order and chaos”, that does not operate within rigid clearly defined boundaries but rather ecosystems or webs where dynamic interdependencies prevail (Follett, 1924, 1940; Orton and Weick, 1990; Handy, 1995; Bradley, 1997; Limerick, et al., 1998).

Foster and Jonker (ibid. p.298) describe the organisation as:

...a social artefact, not a product of nature. "People create them. People make them what they are, and people might have chosen to make them differently" (Donaldson and Dunfee, 1994: 257). As Penrose (1959: 9-10) stated so eloquently almost fifty years ago: "A firm is by no means an unambiguous clear-cut entity; it is not an observable object physically separable from other objects, and it is difficult to define except with reference to what it does or what is done within it". Organizational reality is therefore socially constructed. The organization is a social artefact constructed and defined through a process of social interchange between participants and the collective goals that are being sought through this interchange.

Foley, Hensler and Jonker (op. cit.p.25) have argued that successful organisations:

- Regularly scan and *engage* with its environment to identify stakeholders and stakeholder wants and expectations, and search for enabling technologies. Identification of stakeholders is neither as obvious nor as simple as might first appear. This is especially evident when it is appreciated that there are often many different types of stakeholder within each stakeholder category, and each is likely to have very different wants and expectations; and even if the wants and expectations are the same the organization response may need to be different.
- Identify, and appropriately act upon those matters *on which it is believed* stakeholder support and loyalty depend.
- Adopt, construct, implement and manage an organization strategy – a significant feature of the sustainability model is its demonstration that guiding strategies are *created* by the organization and not something to be selected from a list, or a textbook. While many organizations will use the same term to describe their strategy (e.g., quality) the components of that strategy (the strategic imperatives and their characteristics) will render it unique.
- Identify the management theory, methodology, procedures and tools best able to assist with the organization strategy – whether or not they are called theories or models or something else, *all* organizations must find a way of abstracting from the overwhelming complexity they face.
- Establish an effective method of engaging with stakeholders and presenting information relating to actions/plans to meet stakeholder wants and expectations.

Dealing more directly with the relationship between the organisation and society Foster and Jonker, (2008, pp. 477- 478) comment:

Organizations are operating in both a business and societal environment. The acceptance of this ‘double’ environment has gradually led to the recognition of various groups of traditional stakeholders (such as

employees, suppliers and stockholders) and new stakeholders (such as NGO's, Governments, and local communities). It has been shown that both groups of stakeholders have an impact on the way a company operates. This is reflected in the stakeholder model of the corporation which now seems to be well accepted. The essence of our earlier proposal that we are entering a Third Generation of Quality Management is that companies should recognize that they operate in a world of stakeholders and that they need to respond, in one way or another. This requires the creation of different forms of value that reflect their differing demands. However, because these stakeholders represent different interests, conflicts and dilemmas are inevitable. Business has been operating for decades in a tradition of one-dimensional economic value creation. What this movement suggests is that additional forms of value creation need to be recognized and accepted. Some respond by developing the 'business case' for CSR and SD. While this is an interesting and even a promising development, the focus of this pursuit of a business case remains chiefly on singular economic value creation.

- **Organisations continuously *monitor and engage* their environment to identify improvements and implement those that are identified as contributing to the organisation aim.**

Organisations continuously, or nearly so, monitor and engage their environment to identify changes that would improve some aspect of their operation. However, as kaizen (but not the TQM interpretation of it) would suggest the organisation identifies and acts upon *only* those ("good") improvements that would add value – why would it do otherwise? As Foley, Karapetrovic and Wraight (2008, p.401) have pointed out:

"Continual or continuous" improvement is perhaps the most distinguishing and oft referred to feature of quality management (and ISO 9000), however, if taken literally (as is very often the situation with expressions in a standard – particularly a requirements standard such as ISO 9001) it represents management guidance of the worst kind. In addition to being impossible to achieve, except for some machine processes, it is an incorrect translation of "kaizen". The Japanese word "kaizen" consists of the symbols "kai" meaning "to change" and "zen" which means "good". Together this means "changing for the better" or making those changes that add value to the organization (Bergman and Klefsjö, 2003). Organizations can continuously (or nearly so) engage with and monitor their environment to identify changes that would improve some aspect of their operation. However, as kaizen (but not the ISO 9000 interpretation of it) would suggest, the organization acts *only* upon those ("good") improvements that would add value *to the organization*.

Arguments that the customer is more important than other stakeholders have intuitive appeal, but they ignore the *reductio ad absurdum* nature of unqualified continual improvement of quality of product and service – or any other activity for that matter. Those arguments also ignore the evidence that suggests concentration on the wants of the customer can inhibit the development of new products and services (innovation) not yet conceived by the customer; yet when produced causes existing "customer satisfying" products and services to be rejected.

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

Although this feature of third generation quality management is encompassed by the recognition that customers may not always be a stakeholder, the contrary notion that quality is an end in itself (because customer satisfaction equals organisation success) has been a prominent part of the promotion of quality management it is given separate mention. As Bergquist, et al., (op. cit. pp.523-524) remark:

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 socio-economic context of third generation quality management contains organisations and industries whose principal asset is knowledge, activities are subject to increasing returns and whose strategies may emphasize innovation, agility and speed to market, rather than quality**

To have contemporary relevance third generation quality management must encompass organisations that experience increasing returns, or operate in an industry characterized by increasing returns; if for no other reason than to identify with a large and rapidly growing area of organisation activity that places less (or a different) emphasis on quality as a strategy, because their route to success is likely to be different to that of organisations that experience diminishing returns. To be successful organisations that experience increasing returns must, above all, be adaptive. Being first into the market is often *the* determinant of success – other matters such as reputation, quality of product are often given little if any serious attention until *after* a product or service is in the market. To be first in the market often results in a product that is known (by the producer, but not the customer) to be faulty. While this strategy may lead to short-term success it may not lead to sustainable success; even if faults can be quickly corrected. It may well be that such a strategy creates a reputation for poor quality that can become an opportunity for a rival quality focused product to enter the market and become dominant and reap the rewards of increasing returns that the first into the market (with a faulty product) strategy did not achieve – or achieved only temporarily. We mention this point here because it has

an important bearing on organisation strategy and the applicability of the theory of quality management. Does an organisation adopt the first into the market strategy as its primary objective and leave the issue of product quality to be dealt with later (often as a response to customer complaints) and run the risk of being overtaken (and perhaps forced out of the market) by a rival who has used the theory of quality management (given primacy to quality) to effect its strategy and has entered the market with a superior product. Or, does an organisation use the theory of quality management to guide its market strategy and run the risk of being beaten to the market and not being able to catch-up with or overtake a product that was clearly faulty when it entered the market

Unlike the relatively well defined traditional market, where diminishing returns prevail, increasing returns markets are not so well defined and organisations cannot optimize in the traditional sense. In those environments, where success is cumulative and self-reinforcing, the ability to innovate and adapt moves from being one of many strategic imperatives to that of the organisation's guiding strategy. It is in these environments that organisations identifying the customer as a stakeholder but giving primary attention to a strategic imperative such as adaptability or innovation rather than quality of product and service are most likely to be found.

Looking back over those features of third generation quality management it seems clear that it is the shift of focus from the customer to the stakeholder that most clearly separates it from second generation quality management. Most, if not all of the other features of third generation quality management either result from or are dependent on the primary emphasis being on stakeholders rather than customers. If that observation is correct the first step in the refinement of third generation quality management should be a closer examination of that premise and in particular on how the stakeholder/interested party is defined and who (the organisation, the stakeholder/interested party or "society") determines who will be a stakeholder/interested party.

The focus of third generation quality management on a larger group of interested/affected parties than customers also raises the question: Is that shift to *all* interested/affected parties (which would number in the millions and possibly billions for organisations such as Google and Microsoft), or the sub-set described by Foley (2004), Foley, Hensler and Jonker, (2007), Bergquist, et al., (2008), and Foley and Zahner (2009) as stakeholders, i.e., interested/affected parties with power? Because organisations are most unlikely to identify all interested/affected parties (let alone identify all interested/affected party wants and expectations) the former approach is not operational and therefore untenable, *unless it were to include a criterion or set of rules that guide the organisation to deal with those interested/affected parties and those wants and expectations that have relevance to achieving the organisation aim.*

Foley (2004 and 2005), Foley, Hensler and Jonker, (2007), Bergquist, et al., (2008) and Foley and Zahner (2009) have addressed that issue and operationalised third generation quality management by defining the stakeholder as a sub-set of all identified interested/affected parties, and *deriving* a set of rules for engaging and responding to their wants and expectations – rules that relate to the task of achieving the organisation aim over the long term.<sup>14</sup> As discussed below Foley and Zahner (2009) have used that definition of the stakeholder to construct an *organisation* sustainability model, which in its consideration of quality as *one* of the wants and expectations of stakeholders, and as a strategy for guiding the organisation to sustainable success, *generates* a form of quality management identical to that described above.<sup>15</sup> Furthermore, that model allows

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<sup>14</sup> Stakeholder identification is not characterised by certainty and accuracy. Decisions taken about who is a stakeholder and what are the stakeholder imperatives would be characterised by incrementalism and improvisation. Plausibility is often the basis for decision and doing something is better than doing nothing because it provides cues with which to make subsequent sense.

<sup>15</sup> In addition to defining the stakeholder Foley and Zahner, (2009, pp. 22-23) argue that it is the organisation that identifies the stakeholder. They comment:

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) do in fact have the ability 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. have the ability to influence organizational 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/affected party. From the perspective of the organization, however, (and that is the perspective taken by this book) at any given time the only interested/affected parties that influence the strategic

organisation success to be examined from the perspective of society, i.e., from the perspective of those stakeholder and non-stakeholder interested/affected parties whose wants and expectations the *successful* organisation is able to ignore, without consequential effect on the organisation aim. Put differently, the Foley/Zahner sustainability model identifies organisation success, organisation responsibility and the organisation performance/society expectations gap as inextricably related aspects of one of the most important features of contemporary society - the organisation/society interface.

While what has been said thus far can be accepted as a snapshot of third generation quality management, it is certainly not the end of the story. As readers of the cited papers will readily appreciate, it is not even the beginning of the end; rather it is (with apologies to Winston Churchill) possibly only the end of the beginning.

## **The Foley/Zahner Sustainability Model: Quality management in the knowledge economy**

As mentioned above, Foley and Zahner (2009) have described the principal features of third generation quality management. The remainder of this paper uses the Foley/Zahner Sustainability Model to show how third generation quality management applies to organisations that seek to achieve sustainable success in a knowledge economy.

The Foley/Zahner sustainability model started with the modest objective of describing a behavioural model of the contemporary organisation as a reference point for a theory of quality management that would have twenty first century relevance and avoid what they

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decisions of the organization are those that *the organization identifies* (correctly or incorrectly) as stakeholders. It is those interested/affected parties, which are judged by the organization to have wants and expectations that must be met (who may or may not identify themselves or be identified by others as stakeholders, and may or may not have the influence attributed to them) that are referred to throughout the book as stakeholders. Ideally, organizations would identify all entities with the ability/power to impede organizational success if their wants and expectations are not met (i.e. stakeholders c and d would be identical — but organizations do not function in a certain world and mistakes are made).

(and many others) saw as major deficiencies in TQM, which had been developed in circumstances profoundly different from those of the 21<sup>st</sup> century. While it was understood that this was not a simple task of inserting a theory into the existing TQM framework it was not fully appreciated that the need to relate the theory of quality management to organisation success/sustainability would lead inexorably to the organisation/society interface (and its organisation performance/society expectations gap), and demand a major overhaul of quality management and its reframing as Third Generation Quality Management.

Rooted in the contemporary organisation the Foley/Zahner sustainability model begins with an axiom: *All organisations have stakeholders that have wants and expectations that must be satisfied if the organisation aim is to be achieved.* That behavioural model of the organisation extends to a sustainability model with two further assumptions; the organisation has a long term perspective and adopts a strategic approach to achieving its aim: *Organisations achieve sustainable success if they select a stakeholder-based guiding strategy and optimize the stakeholder imperatives encompassed by that strategy; while satisfying all other stakeholder imperatives, at least cost.* As mentioned earlier when discussing the theory component of third generation quality management, the sustainability model generates a different management theory for each whole-of-organisation guiding strategy, i.e., it generates the Sarasohn theory of quality management when quality is the adopted strategy : *Organisations 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.*

In the same way, the Foley/Zahner sustainability model would propose that organisations choosing a strategic imperative other than quality to describe their guiding strategy would be guided by a theory of management appropriate to that strategy. For example, if the organisation strategy were innovation the sustainability model would generate a theory of innovation management (which for organisation specific reasons may be described differently) that could be expressed as: *Organisations that adopt as their guiding strategy the need to be innovative and give primary management attention to creating innovative*

*competence and capability will achieve sustainable success if the stakeholder imperatives encompassed by that strategy are optimized, while satisfying all other stakeholder imperatives at least cost.*

As those theories suggest, it would be unusual if describing the appropriate theory of management were as simple as addressing the wants and expectations of a single stakeholder (e.g., the customer) and a single strategic imperative, such as quality of product. In the case of the quality strategy it seems clear that many stakeholders other than customers include some feature of quality of product and service in their preference or objective function. Employees, suppliers and management may each view quality of an organisation's product differently and each may be dissatisfied if some quality feature is not present. For example, management may see product quality that would create customer loyalty as less than that necessary to satisfy what it sees as a reputational requirement. That is to say that any chosen strategy, however much it may seem to be associated with one stakeholder (e.g., quality and the customer) may draw on the imperatives of many (perhaps all) stakeholders to identify the components to be optimized by that strategy - *significantly, the Foley/Zahner sustainability model provides the information necessary to make that decision.*

The Foley/Zahner sustainability model has five features that distinguish it from other models of management.

*First*, it takes a stakeholder perspective. Organisation behaviour is determined by its *raison d'être* – its aim or purpose, how it sees itself, and how it interprets its environment.

*Second*, it assumes that organisations optimize a guiding strategy.

*Third*, it proposes (derives) a unique management theory for each organisation strategy – management theory follows strategy.

*Fourth*, it explicitly recognizes uncertainty, risk, variation and change as ever-present features of the contemporary organisation.

*Fifth*, by identifying (some) stakeholder wants and expectations as strategic imperatives on which stakeholders must be informed (and engaged) it describes the audit demand function and in doing so, a) demonstrates the need to redefine the way organisations

report to their stakeholders and, b) explains why audit (independent attestation) is playing an increasingly important role in establishing stakeholder loyalty.

The organization that provides the foundation and the focus of the Foley/Zahner sustainability model can be viewed as comprising four components: purpose (the aim), context (the organizational environment), *who* must be addressed to satisfy that purpose (stakeholders), and *what* must be addressed — the wants and expectations of interested/affected parties identified as imperatives. Interested/affected parties with imperatives are the organizations stakeholders. Such an organization can be summarized in the form of a matrix, such as Figure1 where stakeholders and their wants and expectations form the axes and the organizational environment is a third dimension that shapes the organizational aim and is the source from which stakeholders are drawn.<sup>16</sup> Shaded cells identify specific stakeholder wants and expectations and unshaded cells reflect the reality that stakeholders have neither the same wants and expectations, nor the same concern with all organizational impacts.

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<sup>16</sup> Stakeholders and stakeholder wants and expectations are illustrative only and are listed in alphabetical order to avoid the impression that one stakeholder, or one category of stakeholder wants and expectations, is inherently more important than another. Moreover, some stakeholders and stakeholder wants and expectations identified in Figure 1 apply only to the business organization.

Stakeholder wants and expectations	Customers	Employees	Government	Local community	Management	Bio-physical environment	Shareholders/ investors	Suppliers
Adaptability								
Environmental impact								
Financial probity								
Employee health & safety								
Information security								
Innovation								
Investor/ owner/ shareholder value								
Legitimacy								
Quality of product								
Reputation/ esteem								
Risk (profile)								
Strategy and plans and planning								
Social responsibility								
Trust								

*Figure 1 The multi-stakeholder organization and its stakeholder wants and expectations*

When extended to identify those stakeholder wants and expectations regarded by the organization as strategic imperatives and an assessment is made as to the risk associated with not effectively satisfying a strategic imperative Figure 1 takes the form of a strategy map such as Figure 2, which identifies a complex organizational environment where every interested/affected party is assumed to have one or more imperatives (and each is therefore a stakeholder), and every category of wants and expectations is a strategic process, because each contains one or more imperatives - a row without an imperative is not a *strategic* process..<sup>17</sup>

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<sup>17</sup> Each stakeholder imperative is likely to require both a different *form* of response (money, improved working conditions, adherence to a law or regulation, etc.) and a different urgency of response, such as immediate to an extended delay before adverse action could be expected. That characteristic is represented in Figure 2 by expressing each strategic imperative as a column whose height (low, medium, high) reflects the risk associated with failing to respond appropriately.

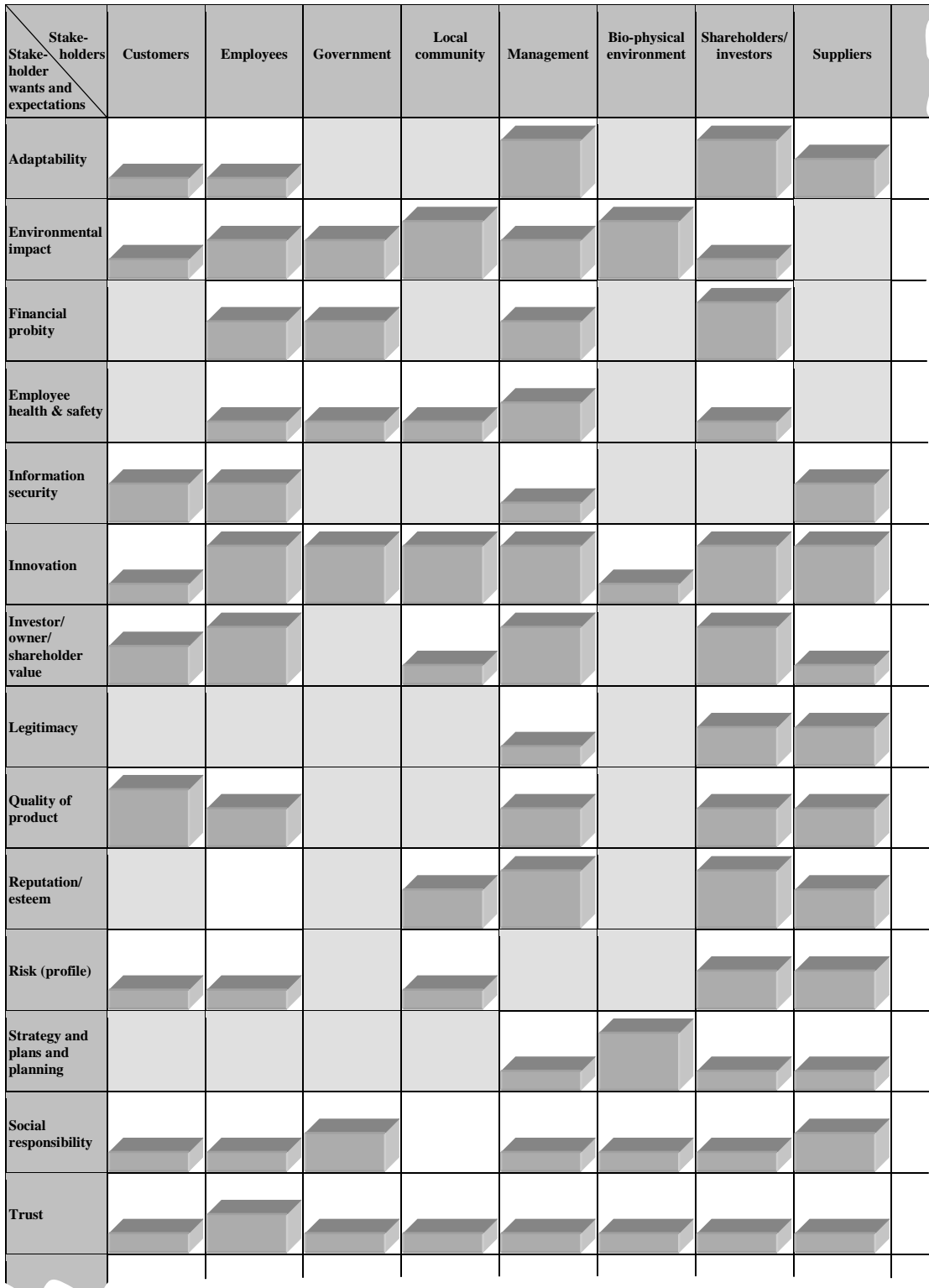


Figure 2 An innovation-directed organization

By identifying the organizational stakeholders, their imperatives, and the risk associated with each imperative, Figure 2 provides the information necessary to make the strategy decision, design each strategic process, and, by the design of each strategic process, shape the character *and structure* of the organization. If, as assumed in this hypothetical example, innovation is the chosen strategy, Figure 2 also identifies: a) the wants and expectations to be optimized and the stakeholders to whom those imperatives apply; b) the management theory to guide construction of an innovation-focused organizational management system (which must be capable of satisfying *all* stakeholder imperatives at least cost); and c) the need to inculcate an innovative culture to support the strategy.

In addition to establishing that organization exist and function in a social context where some interested/affected parties are seen *by the organization* to be more important than others and some of the wants and expectations of those interested/affected parties are seen *by the organization* to be more important (to achieving the organizational aim) than others, Figure 2 also:

- Gives *graphic* illustration of a gap between organizational performance and societal expectations — the juxtaposition of imperative and non-imperative wants and expectations of stakeholders identifies *one component* of that gap
- Identifies hitherto hidden or otherwise obscured stakeholder interrelationships
- Points to unmet stakeholder wants and expectations as latent and requiring special attention
- Gives the lie to the TQM notion that there is no place for strategies other than quality. Figure 2 highlights the importance of distinguishing between quality as a strategy and as a set of tools and techniques. It is that distinction which explains away the apparent anomaly of a *strategy other than quality* being chosen despite quality of product appearing as a strategic imperative for many (if not all) stakeholders

## **The Ambiguity of Sustainability**

As each of us looks at the world we see different things and we see the same things differently. As Stewart Clegg, et al., (2008) and Jan Jonker and Jacob Eskildsen (2008) have reminded us, in that act we are what Karl Weick has termed “sensemaking”.

The Foley/Zahner sustainability model is neither more nor less than a *sense* of what successful organisations do, why they do what they do and why they do not do all that society demands of them. In the first instance the model deals with *organisation* sustainability and does not purport to lead the organisation to achieve or even contribute to a sustainable bio-physical environment (though it may), or produce a “good corporate citizen” (though it may also achieve, or contribute to that end); rather it is directed to identifying those actions an organisation *must* take to achieve long-term success; where success relates to achieving the organisation aim; however that may be defined.

While some organisations will need to meet environmental and other social norms (particularly those proscribed in legislation) to be sustainable, the Foley/Zahner sustainability model proposes that meeting those norms is a *necessary and sufficient* condition for *organisational* sustainability only in those circumstances where failure to meet those norms will threaten achievement of the organisation aim. The notion of what is socially responsible behaviour may be too diffuse and/or unclear to be understood and responded to, or it is clear but those making the demand are not able to influence the organisation to respond; and furthermore are unable to influence an entity that does have such power to act on their behalf. In that circumstance (if the organisation has correctly judged its stakeholders and their imperatives) the organisation could (at that point in time), without material penalty, choose to ignore what may be widely regarded as a social responsibility.

Given that focus, some may see the Foley/Zahner sustainability model as legitimising actions that degrade the bio-physical environment, or treat employees badly – as indeed some sustainable organisations do; and may do so over their entire life. That is not the intent. On the contrary, despite the model having one body of information, that

information has two faces – one guides the organisation to sustainable success (and demonstrates the *reality* that such a circumstance can be achieved without the organisation meeting all the demands society places upon it), while the other shows those whose wants are not satisfied what they can/must do to change that situation, i.e., for stakeholders to have *all* their wants and expectations treated as strategic imperatives and for non-stakeholder interested/affected parties to become stakeholders.

While any degradation of the bio-physical environment, or breach of widely held social norms is to be deplored, globalization and improvements in education and communication suggest that *significant* breaches are less and less likely to occur and when they do are unlikely to be long lasting - if an issue, or affected entity were to subsequently acquire the ability to materially influence achievement of the organisation aim were its wants not met (i.e., become a stakeholder imperative) and the organisation did not recognize and respond to that change in position, the organisation would either incur unacceptable costs and/or cease to be sustainable. Organisations that are successful today while ignoring the wants and expectations of customers and employees and violating widely held social values should not expect that situation to continue – today's interested/affected party may be tomorrow's stakeholder. The universe of interested/affected parties is in flux and moving inexorably (but painfully slowly in too many cases) toward reducing the organisation performance/society expectations gap.

Whether or not the gap between organisation action and interested/affected party expectation (which is not seen as exclusively or even dominantly moral as Frooman 1999, p.192, suggests) is minor or significant, or of short or long duration, and however unacceptable that gap might be, its detrimental effect needs to be set against the societal reality that creates it and the loss of social and economic benefit that occurs when organisations fail because they have applied resources to activities unrelated to their sustainability. On this issue it should be noted that the Foley/Zahner sustainability model does not describe and explain *all* organisation behaviour and all resource allocations - it offers no explanation of activities relating to non-stakeholders, other than to identify such actions as *discretionary*. What the model *does* say about those activities is that they may

be conducted *if and only if* they do not diminish the organisation's capacity to satisfy its *stakeholders*. This not to say that those activities are either insignificant or unimportant (they are often significant and are certainly important to those who benefit from them); it is only to say that they are not *necessary* to achieve sustainable success.<sup>18</sup>

It as an *inherent* feature of the sustainability model that it not only explains *why* there is a gap between interested/affected party wants and expectations (which includes the wants and expectations of those members of a stakeholder *classification* who are not regarded as stakeholders, e.g., some customers) and organisation action, it also identifies *what* interested/affected parties must themselves do to close that gap and/or what others such as government, another institution (e.g., the United Nations, International Labour Organisation, Consumers International), or an *existing* stakeholder can do on their behalf to close the gap. Those aspects of the model make a positive contribution to both understanding and resolving the broader issues of the role of the organisation in society *and* global sustainability.

### **Social responsibility**

The Foley/Zahner sustainability model argues that “society”, “responsibility” and “duty” are empty and misleading expressions – *unless* they are supported by an explicit reason and a criterion to show how organisations may respond, and to whom. Organisations *cannot (or should not) be held to have a duty to something that cannot be identified in a way that can be responded to*. The argument that the wider community (which is described as the organisation environment because many organisations have a stakeholder that is described as the “local community”) is the crucible of social values which, when impacted by an organisation causes the organisation to identify some (but certainly not all) of those interested/affected entities as stakeholders, is also to be contrasted with much of the literature on the social responsibility of organisations.

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<sup>18</sup> It appears axiomatic that at any given point in time an organisation could either have insufficient resources to meet the imperative wants and expectations of one or more stakeholders (and have to use bargaining or some other mechanism to delay action), or have more resources than are required to satisfy all stakeholder imperatives. On the other hand it also appears axiomatic that *over time* the organisation will tend toward showing neither a surplus nor a deficit i.e., the organisation will be *tending toward* (but unlikely to ever achieve) the “balanced state” referred to by Boulding [1950]

The social responsibility literature (particularly that relating to the business organisation) argues that society is a stakeholder and that organisations must respond to that stakeholder because it has a *responsibility* to do so. Although the literature is not unanimous (and is sometimes silent) about the basis or rationale for organisations having a *responsibility* to the society in which it operates, that obligation does appear to be based on three related premises.

*First*, the organisation is a social entity, created for society (by law in most cultures in the case of the business organisation) by the instrument society created to deal with community issues (government) and its responsibility to society extends beyond that of meeting the explicit demands (laws) of government.

*Second*, organisation impact (on a social value) implies a responsibility.

*Third*, organisations either have discretionary resources (i.e., resources surplus to those necessary to create and maintain loyal stakeholders) or are prepared to risk failure in order to satisfy a non-imperative want and/or expectation.

The conclusion to be drawn from those premises is that the full extent of the “responsibility” of the organisation to the society in which it operates is rarely if ever met. While that observation may be widely, if not universally accepted as correct, its formulation does not help to close the real and possibly large gap between organisation action and organisation “responsibility” – it does not provide a guide for either organisation or societal *action*.

If the number of social values (many would be embryonic, at best) impacted by the organisation is effectively infinite, then for an organisation to take action it must be able to either find for itself, or be shown by society, a basis for discriminating between the important and the unimportant (the embryonic and the mature) and identifying the urgent – an organisation can respond to a demand or proposal *if and only if* that demand is able to be identified. In the absence of criteria to identify the “responsibilities” envisaged by those who propose that negative impact (however minor) equates to organisation responsibility, the organisation has no *rational* basis for doing other than restricting its response to the wants and expectations of those *it* identifies as stakeholders. Without

criteria to identify stakeholders and their interests, the organisation is left to either meet the wants and expectations of all identified interested/affected parties, or respond randomly – neither of those responses is feasible, nor practical; nor are they supported by practice. What is not in dispute in the debate about the organisation environment is that it is affected by the organisation, and is in turn the source of forces and actions that can affect organisation viability.

From the perspective of those interested in and/or affected by the organisation the sustainability model reveals a number of features of the organisation/ society relationship that are either obscured or ignored by much of the organisation responsibility literature. For example, the sustainability model shows that the organisation and the society (interested/affected parties) perspectives are inextricably related and that neither is more important than the other – indeed, they are opposite sides of the same coin. Furthermore, the sustainability model makes it clear that the business organisation is not the only organisation that contributes to the organisation performance/society expectations gap. The profit earning organisation may be the most prominent and ubiquitous organisation form and is perhaps where the organisation performance/society expectations gap is most readily identified, but it is only one of very many forms of organisation that do not fulfil all the wants and expectations of those who contribute to their activity and are interested in and affected by those activities. The complexity of this issue is illustrated by those organisations created by local, regional and national government organisations to reduce the gap created by other organisations also generate a performance/society expectations gap. That complexity (and indeed the interconnectedness of the activities of various organisation forms) is further illustrated by the less talked about contribution that many business organisations make to reduction of the performance/society expectations gap associated with government organisations. To satisfy the wants and expectations of their own stakeholders, business organisations often create or improve infrastructure such as roads and waterways and community facilities that coincidentally meet wants and expectations that are made by non-business stakeholders on (but not met by) government.

Organisations both create and impact social values and although seen by many as being *responsible* for what has been described as the organisation performance/society

expectations gap, they are one face of a situation that is dynamic, characterized by complex interdependencies and moral and ethical values that render macro, or global, resolution impracticable, if not impossible. While any one of those features present major difficulties (even when assessing the organisation performance/society expectations gap associated with a very small organisation in a small isolated community), it remains problematic as to which moral and ethical values should be used. However, in that restricted situation the range of moral and ethical values is unlikely to be so great that the performance/society expectations gap cannot be assessed with some confidence – a situation that reinforces the Foley/Zahner sustainability model suggestion that the gap is best considered at the micro or individual organisation, region/industry level. At the macro or global level the range of moral and ethical values is of such magnitude (some values being diametrically opposed) that in the absence of a *supra* global organisation with an ability to achieve consensus on moral and ethical values, attempts to find a global solution are likely to be not only fruitless but also counter-productive.

## **Summary remarks**

The Foley/Zahner organisation sustainability model has relevance for all societies and all organisations (at all stages of their development) that have a long term aim and adopt a strategic approach to achieving that aim. It can accommodate any strategy, generates a theory of management appropriate to each chosen strategy and as Foley, Hensler and Jonker (2007, p.25) have shown, the theory chosen to effect a quality strategy “...is different from TQM in several crucial respects”:

For example, although both may share a customer focus, TQM applies to *all* customers not only those that are identified as stakeholders. Quality is a strategic imperative in both approaches, but for TQM it is the *only* strategic imperative; and remains so for the life of the organisation. The sustainability model on the other hand identifies quality as *only one* of the many strategic imperatives and allows that it may *not* have primacy for the life of the organisation.

As a foundation for reframing quality management and a model for considering the dominant social problem of how to reduce the organisation performance/society expectations gap the Foley/Zahner sustainability model opens up avenues for research and discourse that are pragmatic (Yes! the context for assessing the efficacy of quality

management has changed significantly since the 1980s: Yes! there is an organisation performance/society expectations gap: Yes! organisations can be successful without being “responsible”). The model avoids the unproductive vilification of the business form of organisation and does not rely on abstract and culturally dependent notions such as “responsibility”, “morality” and “justice.”

With its knowledge society context (and application), a theory of quality management *derived from the behaviour of multi-stakeholder organisations*, and its distinction between quality as a strategy and as a set of cost reducing/quality improving techniques, the Foley/Zahner sustainability model offers a new foundation for quality management – a foundation that frees it from the shackles of TQM and places it at a new (third?) stage in a journey that effectively began with Walter Shewhart’s “one page memo” in 1924.

## **About the author**

**Kevin Foley** is an economist with a PhD from the Australian National University. He is a former Royal Australian Air Force officer, Research Economist with the International Wool Secretariat (London), Chief Research Economist with the Australian Wool Corporation, Member of Parliament, Member of the Board of the CSIRO, Chairman of the Australian Research and Development Board, and Vice Chairman of Standards Australia. He was a Foundation Director and served for ten years on the Board of Quality Assurance Services (now SAI Global).

Dr. Foley was Foundation Professor of Economics at Bond University, a Member of La Trobe University Council and Visiting Professor at Monash University, University of Melbourne, University of Versailles, France and Lulea University of Technology, Sweden. From 1998 – 2008 he was Adjunct Professor, Faculty of Business at the University of Technology, Sydney and from 2001 – 2007 was Chairman of the UTS, *Innovative Collaborations Alliances and Networks* [ICAN] Key Research Centre.

Kevin is a Founding Member of the Swiss-based *Bern Initiative* — an international group dedicated to global sustainability. He is a member of three national and two international standards development committees, leader of the Australian delegation to the International Organisation for Standardisation, co-Director (with Professor Douglas Hensler) of the Multinational Alliance for the Advancement of Organisational Excellence, and Patron and a Fellow of the Australian Organisation for Quality. Kevin has published extensively in the fields of economics, management, defence and government, he has presented invited papers in Argentina, India, Russia, Sweden, Cuba, Canada, USA, France, Denmark and Holland. In 2009 he was awarded the J M Juran

Medal in recognition of his outstanding contribution to the advancement of quality management in Australian industry, commerce and government.

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