

# Innovativeness as Precondition for Business Excellence in Public Utility (Communal) Companies

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This article presents a new business excellence model for PUC (communal), especially in countries in transition as one way to business excellence. The new model has proven successful in a multinational company's daughter company in Slovenia in practice as well as in comparison with companies performing the same activity. We are aware that there are no universal models for success, but there are tools which make it easier to reach. Of course, one single tool will not make a company successful. It must have a unique (original) and requisitely holistic business model to succeed. And talking about unique, i.e. different from others, brings us to innovativeness – the main topic of this research as the background of business excellence, including the PUC. The presented new model has been evolving over ten years and proved successful in practice.

**Keywords:** business excellence, business excellence model, innovativeness, public utility companies, requisite holism

## 1 The selected problem

In present conditions, the survival of individuals, organisations as well as countries depends on the level of their competitiveness, which is expressed in their success. Innovativeness, expressed in excellent quality and comprising both current and past innovation, contributes to the competitiveness and quality of all life – not just that of products, procedures and services – and belongs therefore to preconditions of competitiveness (Mulej 1994: 177).

Due to rapid changes in market and technology, management has to deal with an increasing number of problems, and fresh ideas are becoming more important than the established models. Each model is in itself just another tool. Using tools or models only means repeating the already known patterns. Nevertheless, today's economies should be familiar with models: this is like speaking a foreign language, or even more, like knowing how to survive in the market.

Research has shown that good companies use more than 10 basic managerial techniques at the same time, but only 1/3 of them have realised the management's expectations, or only 1/5 of the organisations have improved their business outcomes using them. Nevertheless, articles in Harvard Business Review, Business Week and The Economist highlight successful companies that would never have existed without managerial models, but include innovation of them in their practice permanently.

In our research the emphasis was on innovativeness in the business excellence model for public utility-companies, because of their specific nature: public ownership and local monopolies in most cases, little market pressure for innovation.

### 1. Definition of innovation

There are several definitions of innovation different from each other. We will use the following (EU 1995: 4): "The term "innovation" is somewhat ambiguous: in common parlance it denotes both a process and its result. According to the definition proposed by OECD in its "Frascati Manual", it involved the transformation of an idea into a marketable product or service, a new or improved manufacturing or distribution process, or a new method of social service. The term thus refers to the process. On the other hand, when the word "innovation" is used to refer to the new or improved product, equipment or service which is successful on the market, the emphasis is on the result of the process. We will modernise this old definition with newer findings: IBM (2006) found with a world-wide survey that innovation of the business style is even more crucial than the technological innovation. Collins (2001) and Collins, Porras (1997) as well as Chesbrough (2003), Chesbrough et al (2006) found the same as Mogensén (1981) had found in 1926: innovation of management toward open innovation, including all employees and all bright individuals and teams around the world replaces the old management style very pro-

ductively; 'the thinking tank and the working tank division of organizational members' is much less efficient and effective than the modern management style 'we all think, we all work, we all invent, and we all innovate in interdisciplinary creative co-operation' (for details see: Mulej, 2007). Thus, creativity of employees can be tackled and activated best (Guštin, 2007; Šek, 2007; Škafar, 2006). And the organization can make good progress (Potočan, Mulej, 2007; Rebernik et al, 2007).

Thus, we find the following definitions of innovation too narrow:

- Innovation is a newly developed idea, product or technology intended for customers, who perceive it as a beneficial novelty. It is the process of identifying, creating and presenting the benefits of a new product or service, which has not existed on the market before (Kotler, Keller 2006).
- Successful introduction of new products or services is the precondition for creating a leading position on the market (Loewe, Dominique 2006: 26).
- Process innovations include presentation of new elements included in the production or service of an organisation (new raw materials, new equipment, and necessary production of products or implementation of services) (Afuah 1998: 14.).
- Innovativeness is the condition for companies to maintain their competitive capacity (Cottam Ensor 2001, 89).
- Companies can create competitive advantage on the market through new ways of performing their activities, which means added value for the customer, or in other words, innovation (Porter 1990).

Every organisation should set up its own model for achieving business excellence – but without innovativeness, no model will survive over a longer term. But its definition of innovation must be requisitely holistic to meet the Mulej and Kajzer law of requisite holism (1998) by including all essential viewpoints and all their essential relations and resulting synergies. A single viewpoint causes too many oversights, but it is close to normally narrow specialists; they are unavoidable, but contribute much more when working in creative co-operation of interdisciplinary teams. Then, innovation can result best of all.

## **2. Available tools for linking innovation and business excellence in PUC**

Managers have different tools (models) at their disposal to implement their business model; in PUC, the to-be presented business excellence model with emphasis on innovativeness, people and management – which is specific for PUC – is one of such tools. In PUC management pressure can and must be stronger than market pressure that has not been usual so far. PUC can assess itself against this model in the same way as against the European Quality Award Model (now: European Excellence Award), and in this way follow its year-to-year improvement as its way to business excellence. This model links business success, business excellence, and innovation most explicitly, although still insufficiently explicitly in its

elaboration (SZK 2007). Still, with inclusion of nine areas of evaluation and adding 'learning and innovation' as the ground to all of them, this model meets the Mulej and Kajzer law of requisite holism (1998) best of all. So does the to-be presented model for PUC.

We will focus on innovations and business excellence in PUC in Slovenia as an example of a country in transition, on the need for a business excellence model in PUC, and present the proposed model, the main characteristic of which is that innovativeness is the condition for business excellence. The reason for our concentration on this type of companies is the experience that the general model does not fully match PUC specifics: it presupposed more market pressure than PUC experience and makes a too indirect link between innovation and learning as the ground and excellence as the outcome. In addition, PUC in Slovenia and other countries in transition are only starting to learn about market laws and forget about the monopolistic positions. Thus, PUC in transitional countries need innovation of culture and related innovation of management style, before other types of innovation can become acceptable, such as business program, technology, organization, and methods, be them incremental or radical, and be them attained inside or outside employees' and/or partners' job duty (Mulej 1994: XIV).

## **2 Research objectives**

The objective of this research was to draw up and propose a new model, which would be better than the internationally recognised European Quality Award (EQA-EFQM) Model, or its derivative, the Slovenian Business Excellence Prize (PRSPÖ) Model, in terms of matching the special features of a public utility company by synergy of innovation and quality/excellence. The present EQA-EFQM Model was analysed to find out to what extent innovation was taken into account and what was its influence. The particular emphasis was on innovations of business management's culture and style as preconditions for other innovations. Through a comparative – and also quantitative – analysis of data of PUC, we tried to prove the thesis that the new model was more appropriate for PUC than the official one, especially in transition conditions typical of Slovenia. We also compared the practice of transitional PUC with international practice of the multi-national company Saubermacher.

## **3 Summary of empirical finding about the existence of the problem**

On the basis of the literature available to us, and through survey analysis, we found that PUC in Slovenia, as an example of a country in transition, pay little attention to innovation and business excellence. But both are important also for PUC. Several international examples of mostly private PUC endeavouring in this direction prove this. More than this, there are many innovations in the

international experience concerning the natural environment, since it will see a breakthrough in the 21<sup>st</sup> century. Nevertheless, some innovation has been detected in Slovenia, especially in private PUC, although not in publicly owned PUC. In the nineties, Slovenian PUC did not pay much attention to this issue. They only started addressing it with the introduction of ISO 9001 standards into some PUC. (Škafar 2006).

Considering the constantly growing number of competitive private, local and foreign PUC, we hope it is not too late for the survival of local PUC (especially those owned by municipalities).

In literature (studying not only PUC, but also wider) in the field of innovation we found that, according to the innovativeness index calculated by Deloitte & Touch, Slovenia lags behind Estonia, Czech Republic, Hungary, Slovakia, and also most West-European countries. It achieves particularly poor results on some of the ten indicators constituting the innovativeness index<sup>1</sup> (where Slovenia ranks 25th among 30 European countries), such as industrial investments into R&D and in technological cooperation (Koražija 2004, 68).

Obviously, the problem needs a new solution.

## 4 Research theses

In order to meet the set objectives and help solve the detected problem, we formulated the following theses for the research:

- Market pressure would rarely force PUC into business excellence and thereby into innovative performance, or at least not to such an extent as it would force manufacturing or commercial or other service companies, which are facing an excess of offer over demand in their markets.
- Therefore, PUC have to use management pressure in addition to market pressure in order to fully implement innovative performance instead of routine performance, and through this, advance their business excellence instead of the earlier business quality.
- The EFQM/EQA Model does not lay enough stress on innovativeness, especially on non-technological innovation, such as innovation of organisational culture, managerial style, organisational and co-operation methods, which are important factors on an organisation's way to business excellence. It is introduced (together with learning) into the general foundation of the Model, but merely in principle, and without details or guidance.
- In order to reach business excellence, innovativeness should be more strongly integrated in the EFQM/EQA Model as a condition for business excellence, and a new model should take this into account

and be more appropriate than the given general model is for PUC. This model should include the complete invention/innovation process and its management; both should be designed on the Dialectical System Theory (Mulej, 1974, 1975, 1976, 1979, 1992, 2000; Mulej, Ženko, 2004; etc), its Law of Requisite Holism should be implemented, for the Entropy Law to be prevented from taking place. The Law of Hierarchy of Sequence and Interdependence, which – among other – makes the final outcome depend on objective and especially subjective starting points, exerts an essential influence. When these factors are streamlined into innovation and business excellence (at a requisite level of holism), good results are much easier to attain, although not automatically. There is also the influence of the people involved, who need a lot of attention and work. Both groups of guidelines from the Dialectical System Theory should therefore be used.

- A complete range of interdependent factors is therefore needed to attain business excellence, including products/services, procedures, committed people, co-operative leaders and an organisation that will hold all these together. This broadness of thought is neglected by the present EFQM/EQA Model, and even more so in practice, which is prevailingly oriented into procedures, i.e. the production rather than organisational procedures.
- Saubermacher&Komunala has been using the EFQM/EQA Model for several years to attain business excellence, but at the same time it was building its own model, which, according to the experiences gained so far, is more convenient for attaining business excellence. This makes Saubermacher&Komunala different from other comparable companies in Slovenia as well as within the international company Saubermacher, although it has not reached the expected (sufficient and necessary) degree of integrity as yet.

## 5 Field research

In Slovenian PUC, the link between business excellence and innovation is weak. This has been shown by a survey conducted during this research. The survey has also shown that PUC constituting the international PUC Saubermacher are oriented into business excellence, and that innovation plays an important role on their way to business excellence. The reason for this lies in the fact that their parent company has been persisting on this way for more than 20 years and that it requires from its companies at home and abroad to go a similar way. Of course, it

<sup>1</sup> The innovativeness index consists of ten different indicators. Among other, it takes into account investments into R&D, investments into technology, entrepreneurship, deployment of the risk capital fund, technological co-operation, direct foreign investments, investment stimulations and political stability. - Let us leave aside, that this index says nothing about the production and marketing phase of the invention-innovation process, thus tackling invention phase much more than innovation.

depends on individual companies/their managers how successful this way will be.

The way to business excellence can be made easier by using different models. Thus we have tried both the old and the new EFQM/EQA Model and summarized the Slovenian Business Excellence Prize ("PRSPO") Model. This model, which was in force until 2002, was also used by the PUC Saubermacher&Komunala on its way to business excellence. It has been established, however, that the model should be completed/updated for the needs of this PUC and its activity. Although PUC (i.e. its management) laid emphasis on innovation, they knew too little about innovation, so they would need better knowledge and its implementation in practice.

Slovenian PUC are too strongly focused on structural rather than process-based organisation, ownership and price. For the most part they are owned by municipalities. Breaking of PUC into small entities is a further problem, since every municipality wishes to have its own PUC. This is of course not rational. In addition, PUC are too concerned about solving current problems in their field of activity, and are paying less and less attention to development, competitiveness and business excellence. But there are also PUC who start thinking differently. These are mainly PUC, which are partly or fully privately owned, and have been forced to do so by the competition in the recent years. This can be noticed in investments into and management of construction of purification plants, water distribution and sewage networks, waste management, etc. Of course, competition is much weaker here than e.g. in the car industry. But as public utility activities are becoming more and more important, both from the environmental and user's point of view, the need for a business excellence model is understandable.

## 6 The proposed new model and comparisons between PUC based on it

PUC are somewhat different from others in the world market, hence we believe that the generally known models used by PUC should be adapted to suit the particularities of PUC. And this has been taken into consideration by the proposed model (Škafar, 2006).

The business excellence model that could be appropriate for PUC is summarised in Figure 10, after some details in Figures 1 – 9. It can be seen from the theoretical part of this article that the old PRSPO and EFQM Models do not lay special stress on innovation and motivation, whereas the new PRSPO and EFQM Models, which have been established in the recent years, already point out innovation, but with no serious elaboration. The proposed new model was developed in PUC Saubermacher&Komunala d.o.o., working in economical waste management. Based on the results obtained, the proposed model could, in our opinion, prove to be successful also in PUC with other activities. The essential feature of the

model is that it highlights innovativeness, motivation (of people), communication, and management.

The model was tested for appropriateness in terms of success by a quantitative analysis of the results of a survey conducted in Slovenian publicly owned PUC (14), privately-owned PUC (9), Saubermacher companies in Slovenia (4) and the multinational company Saubermacher, Austria. Follow some comparisons between the proposed model used in the company Saubermacher & Komunala (which features as 100% implementation in the tables in Figure 1 – 9) and the other PUC mentioned above.

The following abbreviations are used:

- SA: Saubermacher Austria
- SS: Saubermacher companies in Slovenia
- KJP: Publicly owned PUC in Slovenia
- PP: Privately owned PUC in Slovenia

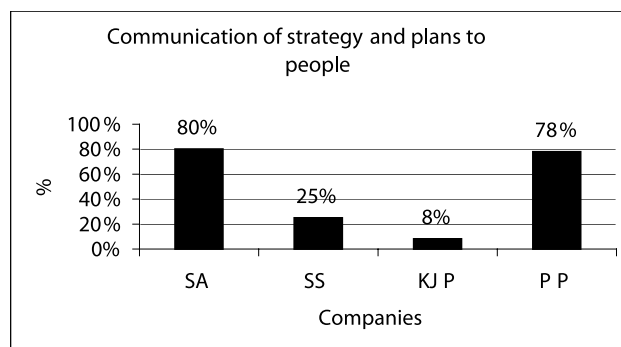


Figure 1: Strategies and plans are communicated to people

Comment: A successful organisation communicates its strategies and plans to its people. It can be seen that only 8% of Slovenian publicly owned PUC act in this way.

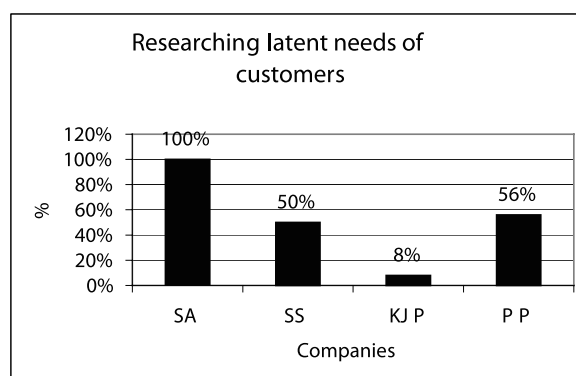


Figure 2: Researching latent needs of customers

Comment: Researching latent needs of customers represents the basis for innovation and possible changes. Only 8% of publicly owned PUC conduct such researches. The results are as shown (loss or low balance).

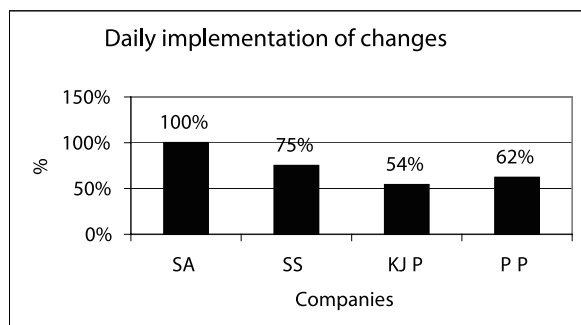


Figure 3: Daily implementation of changes

Comment: The percent of daily implementation of changes is rather high. However, of all the respondent groups the lowest percent (54) is reached by publicly owned PUC.

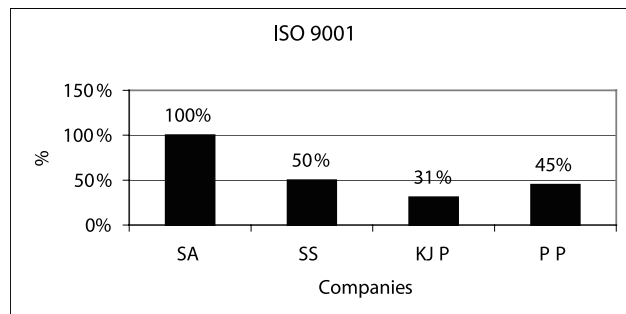


Figure 4: ISO 9001

Comment: The use of the standard ISO 9001 provides the basis for the model. It can be seen from the graph that only 31% of publicly owned PUC use this standard.

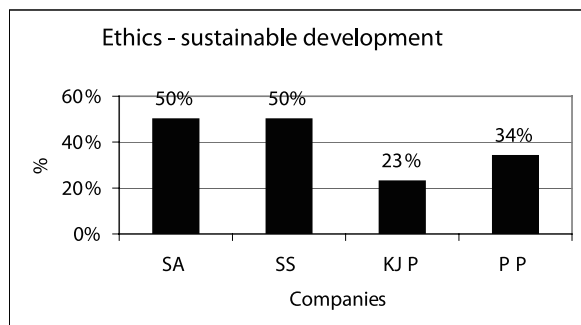


Figure 5: Ethics – Sustainable development

Comment: It can be seen from the graph that publicly owned PUC lay little importance on ethics and sustainable development (only 23% of companies consider ethics and sustainable development in their work). With regard to the activity, a higher percent would be expected, at least in terms of sustainable development (the activities of these PUC being water, waste and energy management).

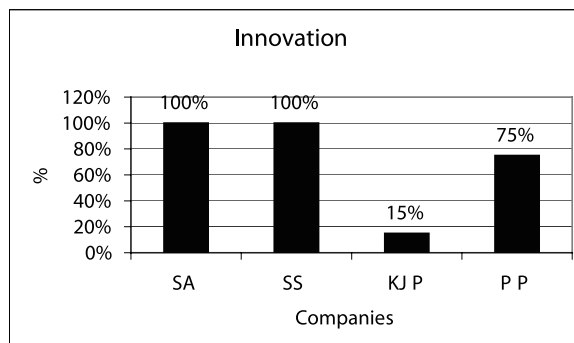


Figure 6: Innovation

Comment: Innovation as one of the pillars of the model is important in only 15% of publicly owned PUC. The high percent in all other PUC (at least partly) proves that innovation is an important success factor of the organisation.



Figure 7: Satisfactory communication

Comment: The percent of communication as one of the pillars of the model is rather high. Surprisingly enough, it amounts to only 50% in the PUC of Saubermacher in Slovenia, while it amounts to 69% in the publicly owned PUC. The importance of communication, as defined in the theoretical part herein, proves that a successful company is held together through communication.

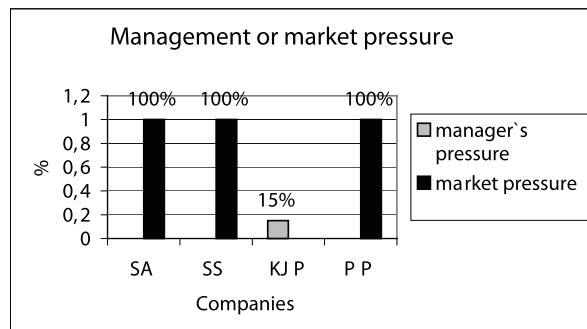


Figure 8: Management or market pressure

Comment: In PUC Saubermacher&Komunala they have established that management pressure is important for the success of a public utility company in a country in transition; this is why management pressure is higher than

market pressure here. The information in the Figure 8 shows that only 15% of publicly owned PUC are aware of this; it explains why publicly owned PUC are ineffective and inefficient. Management pressure should definitely be higher.

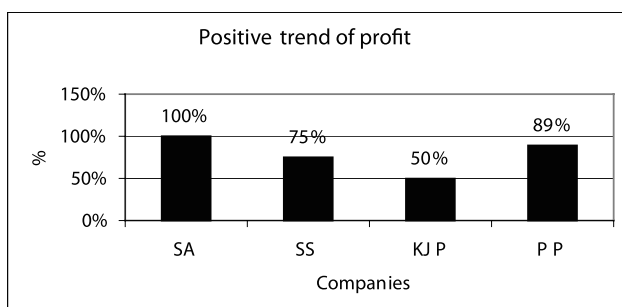


Figure 9: Positive trend of profit

Comment: The result of all nine graphs can be seen here. Failure to use the elements of the new model can also bring too poor financial results, because the shows the decision-makers lack of requisite holism.

## 7 The proposed new business excellence model for PUC – a summary

Figure 10 shows the proposed business excellence model for PUC in countries in transition – tested in the PUC Saubermacher&Komunala d.o.o.

PUC should first lay the foundation. PUC's "rules of the game" should be the "base stone". The processes and efficient working procedures should be defined. These could be laid down in a manual to show that there is order in PUC. Order could be achieved by obtaining the ISO 9001 Quality Certificate (of course, it is not the certificate that matters, but the necessary arrangements for innovation of the established old habits). As the activities of PUC concern the environment (water, waste, waste waters management...), considering sustainable development is a must, otherwise the consequences could be disastrous for both the environment and the service users (infections, diseases, water pollution...). The environmental management system, ISO 14001, could be very useful here. For approaching business excellence, PRSPO or EQA/EEA Models could be used. These would help PUC in self-assessment, while external experts assessing submitted PUC document would tell PUC and its observers about its progress on the way to business excellence. The Quality System (ISO 9001), the Environmental Management System (ISO 14001), the Social Accountability System (SA 8000) as well as the Health & Safety at Work System, already constitute a part of the PRSPO and EQA/EEA models. It is essential that all these tools be integrated to serve as a prototype of the company's functioning. Since, as mentioned before, PUC deal with the natural environment and are as such under the watchful eye of the public (especially at the local levels, but also wider), ethics are vital to a long-term effective performance. PUC are therefore recommended to draw up their Codes of Ethics.

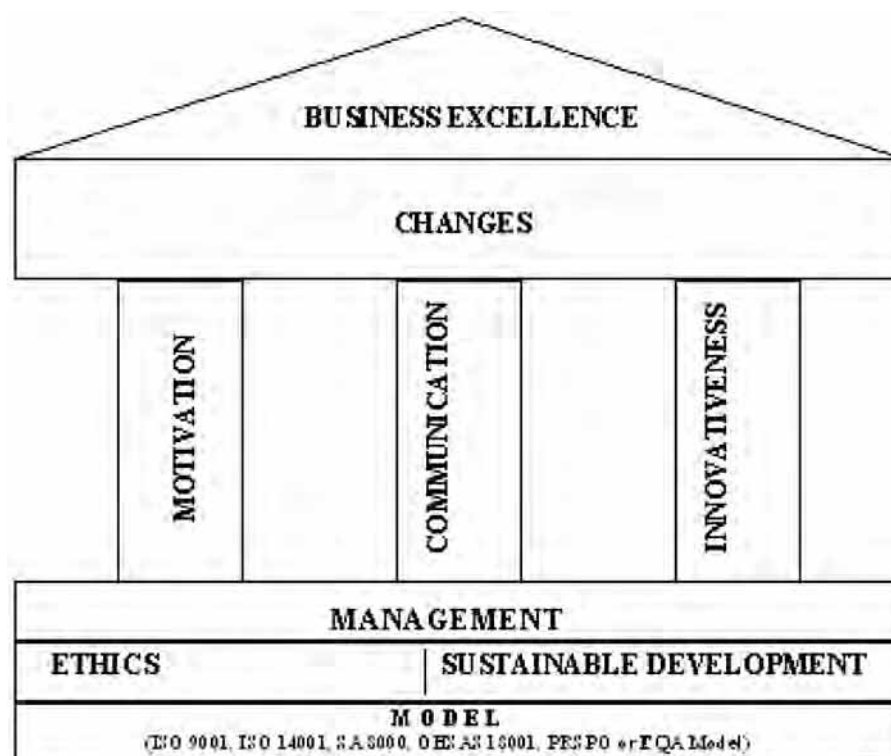


Figure 10: The proposed new model

Of course this is far from enough. We know from practice that procedures can be written down and set up in no time with the help of external consultants; however, these documents will not come to life, if people – especially the management – do not make them their own. Ambitious, motivated, innovative, and business-excellence-oriented management is very important.

In order to be able to perform in a turbulent environment, a leader will need more than just vision, energy, authority, and capability for strategic leadership. A contemporary leader will need additional qualities: to know how to show his/her weaknesses, to be able to manage several activities simultaneously using advanced IT solutions, to understand the people and know how to encourage them, and to identify and recognize the differences between them (Goffe, Jones 2000, 384).

The prerequisite for transforming an organisation into a learning organisation is to set up total management of business process improvements (Harrington Harrington 1995, 483).

There still exist far too many PUC with management that is too technically oriented, or management includes politicians. If we wish to have an excellent public utility company, this should be kept in mind when recruiting people.

In “sustainable” companies, which have been successful for decades, continuous management development ensures cultural advantage and represents the key factor of continuous business success (Collins, Porras 1994).

When the management of a PUC is success-oriented (toward satisfied customers, people, owners and society), and it has ethically designed principles, which it practices, it will be strongly trusted by people; this is extremely important. And if such management encourages creativity in its co-workers and partners as well as customers, and offers them freedom and possibility of generating ideas, they will in fact generate many ideas, improvements and other innovations. Innovation will be present in all activities within the PUC – from managing and organising to motivating and service providing. Motivation is one of the pillars of our new model. Only motivated and competent people are the source of innovation and partners in the organisation’s business excellence. Adaptable people with proper education and training will generate promising ideas more often, and will be more open to the ideas of others. The company’s culture and its innovative image will help attract and keep innovative staff (Trott 2003, 79). People diversity in terms of knowledge, experiences, personal features, cultures etc. will also have a positive impact on the improvement of innovation potential (Hyland, et al 2001, 198). Continuous changes will occur as innovation rather than as change of a detrimental type, and lead to business excellence, which can also be reached through strategic planning and implementing the plans. This can be called a case of the 3T model (Florida, 2005).

Last but not least, we should mention communication, through which individual parts of the company are inter-related with the people. This is extremely important

for internal relations as well as for the organisation’s relation with the environment.

The proposed new model differs from the EQA/EEA/EFQM Model in that a requisitely holistic range makes a dialectical system of interdependent factors; this is found, and experienced as, important to attain business excellence, including products/services, procedures, committed people, co-operative leaders and an organisation that will hold all these together. This is also in line with the experienced-based model of general Creech (1994). The importance of innovation as a condition of business excellence should be pointed out here (especially the innovation of culture and management as well as a practice of active cooperation).

## 8 Conclusions

PUC, especially those publicly owned, are not fully comparable with other companies locally and abroad; they are in many ways specific. Competition is growing, even in this field, and so are the requirements of service users. This is why the need for a business excellence model has appeared that would best suit PUC. The presented new model has been coming into existence in the company Saubermacher&Komunala for 10 years, and it is still being upgraded. It can be affirmed that the model has proven useful in this PUC, since this PUC is successful; it received PRSPO and represented Slovenia as applicant for the European Quality Award. Also, the quantitative analysis made on the basis of the summarised survey has confirmed the appropriateness of the model for PUC’s success.

This PUC has its “rules of the game” in place (ISO 9001/2000, ISO 14001, SA 8000 and OHSAS 18001). It has been self-assessing according to the PRSPO Model and thus following its improvements in all areas. It takes sustainable development into account. It has its Code of Ethics in place. Innovation management is in formation. This PUC has been laying great stress on innovativeness and motivation as well as communication, especially in the past three years when theoretical knowledge in these fields was added. Thus after 2002, the model started taking shape, which we are now proposing as a business excellence model to PUC, especially in countries in transition with a poor market pressure and the need to catch up very quickly. Of course, there is still a lot to be done in Saubermacher&Komunala. It will have to upgrade its business model and become a learning organisation. We suggest that innovativeness as the most important element of business excellence is included into its vision, mission, policy, strategy and tactics. Innovation strategy, tactics and operation need upgrading as well.

To summarise, the essence of the proposed new model lies in innovative control of innovativeness in all fields, and in motivation. There is great emphasis on communication, which is the basis of good co-operation. Written business performance rules (in this case ISO 9001, ISO 14001, SA 8000 and OHSAS 18001), with con-

tinuous improvements, the PRSPO or EQA/EEA Model, business ethics and sustainable development, are the foundations on which innovativeness, motivation, communication and continuous changes are based. The model should also take into consideration that due to the specific nature of PUC, management pressure should be stronger than market pressure, and that the organisation will only be excellent when both its service and procedures are excellent, when management is cooperative and committed. Innovative business should be achieved. Let us just mention the opinion of Florida (2005), who found out, together with his student Sam Youl Lee, that innovation is strongly related to specialised innovation potential and diversity. Richard Florida correctly states that we are moving into a creative era and society. Of course, the proposed new model takes 3T, creativity and innovation into account.

We find this model more useful and successful for PUC than the PRSPO and EQA/EEA/EFQM Models, because it is designed for the activities of PUC in countries in transition, and because it stresses innovativeness more, which is the basis of a company's success and existence.

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### **Inovativnost kot pogoj za poslovno odličnost v javnih (komunalnih) podjetjih**

V tem članku predstavljamo nov model poslovne odličnosti za javna (komunalna) podjetja, zlasti tista v deželah v tranziciji. Gre le za eno od poti do poslovne odličnosti. Ker pa se je v praksi model na konkretnem podjetju (hčerinsko podjetje iz Slovenije, ki je v sklopu multinacionalne družbe) ter v primerjavi s podjetji iz dejavnosti pokazal kot uspešen, menimo, da je vreden obravnave in uporabe v praksi. Zavedamo se, da univerzalnih modelov za uspeh ni, so pa zato orodja, s pomočjo katerih lažje pridemo do uspeha. Seveda za uspeh podjetja posamičen pripomoček ni dovolj. Podjetje mora imeti edinstven (samosvoj) in dovolj celovit poslovni model, da uspe. Ker govorimo o edinstvenem, kar pomeni drugačno od drugih, smo pri inovativnosti, ki je rdeča nit raziskave, ki smo jo opravili. Predstavljeni model je nastajal 10 let ter se pokazal v praksi za uspešnega.

**Ključne besede:** poslovna odličnost, model poslovne odličnosti, inovativnost, javna podjetja, zadostna in potrebna celovitost.