

## Performance Excellence and the Baldrige User's Guide

The Baldrige Criteria Performance Excellence (CPE) model was created by Public Law 100-107, the Malcolm Baldrige National Quality Improvement Act, signed by President Reagan on August 20, 1987. The purpose of the legislation is to help improve the quality and productivity of American companies by promoting an awareness of performance excellence as an increasingly vital element in achieving a competitive edge. According to Heaphy & Gruska (1995), "when the first set of Criteria was released in 1988, the intention was to get this material in the hands of industry leaders, university professors, government organizations, and others looking for guidance on defining the elements of total quality leadership...the government never intended to have thousands of companies applying for the Award, but rather to have them use the Criteria for self-improvement" (p. 20). Millions of copies of the criteria have been distributed, and over 1,000 organizations have applied for recognition since the award was created. Additionally, many thousands of organizations have applied for their local or state awards as a stepping-stone to applying for Baldrige at the national level. The award is managed by the Malcolm Baldrige National Quality Award (MBNQA) Office, under the National Institute of Standards and Technology (NIST), within the Department of Commerce.

To find out if this original objective was being met, several researchers inquired into how organizations are using the CPE model. According to Bemowski & Stratton (May 1995), 44.2% survey respondents said they used the criteria for *department-wide informal* self-assessment, 41.3% said they used the criteria for *department-wide written* self-assessment, 36.6% said they used the criteria for *company-wide written* self-assessment, and 35.4% said they used them for *company-wide informal* self-assessment. In fact, only 23.9% of the respondents were using the CPE to apply for an award (p. 43). Knotts, Parrish, and Evans (1993) experienced similar results with a survey sent to the CEOs of Fortune 500 industrial and service firms and a survey sent to 120 small manufacturing and 120 small service firms. They found, overall, that 44% of the respondents used the criteria for internal assessment. Specifically, 88% of the Fortune 100 Industrial firms, 48% of the Fortune 101-500 industrial firms, 31% of the Fortune 500 Service firms, 17% of the small manufacturing firms, and 8% of the small service firms used the criteria as an internal assessment instrument (p. 50). More recently, a study conducted by Booz Allen Hamilton (2003) found that "more than 70 percent of leaders surveyed among Fortune 1000 companies said they are likely to use the Criteria for Performance Excellence" (p. 3). Ultimately, the motivation to use the CPE model to improve organizational performance is based on the expectation of improved results.

Several researchers have investigated the impact of using the CPE model on organizational results including financial performance. Evans and Jack (2003) confirmed the linkage between system improvement and results. In addition, Hendricks and Singhal (1997) found that "overall, the results provide strong evidence that firms that have won quality awards outperform a control sample on operating income-based measures. Over a ten year period, starting six years before to three years after the year of winning the first quality award, the mean (median) change in the operating income for the test sample is 107% (48%) higher than that of the control sample (p. 1271)." More recently, Jacob et al. (2004) found that "award winners are more successful firms and are valued higher by investors. However, the award itself has not created value, since it did not create any value differences subsequent to the firms receiving the awards (p. 911)." These research findings, along with the financial and market results (levels, trends and comparisons) of the individual award recipients, support the conclusion that organizations that are **effectively** using the CPE model enjoy the associated benefits of improved financial performance.

The use of the CPE to improve performance has increased worldwide. This has not only spread to additional sectors, such as education, healthcare, non-profit, and government organizations, but also has spread around the United States and around the world. According to NIST, in the United States, there are 49 active CPE-based award programs in 41 states. In addition, approximately 79 award programs are located across the world. For example, in addition to the Deming Prize, there is a CPE-based award in Japan. Elements of the CPE are also used in the European Quality Award (EFQM) and Canadian Awards for Excellence (NIST 2004 Presentation). Given the growth in both the types of organizations and the geography, we conclude that the CPE have truly become a global benchmark, and the CPE have become accepted as a worldwide standard for performance excellence.

The definition of success for organizations of all types (profit seeking, non-profit, and government) is continuously changing and increasingly complex. From the mid 1940s to the 1970s the limited global competition allowed business leaders in the United States to focus mainly on financial results. The “party” ended sometime around 1980 when Xerox woke up to a situation where the Japanese were selling copiers in the US for what it was costing Xerox to make them (Kotter and Heskett, 1992). During the 1980s quality became a key success factor and was directly linked to market and ultimately financial success. In the beginning many proposed that high quality was simply too expensive. However organizations eventually discovered that high quality resulted in reduced cost and increased market share or as Phillip Crosby wrote in a book by the same title - *Quality is Free!* As the service industry and in particular the knowledge worker industries increased in size and importance they discovered that talented passionate people are also a key to high quality and financial performance. During the 1990s successful organizations became quite good at “connecting the dots” or as FedEx called it - “people, service, profit” (AMA 1991). The “bar” is being raised once again to include sustainable results in three key areas - financial, environmental, and societal or as Elkington, Emerson, and Beloe (2006) call it - the triple bottom line. This book is designed to help leaders understand: (a) the fundamentals of performance excellence (Part 1); (b) their organization’s context, processes, and results; and (c) how to lead the journey to performance excellence including organization diagnosis, design, and transformation (Part 3).

## **Part 1: The Fundamentals - Four Dimensions of Performance Excellence**

The first step in to understand the fundamentals of performance excellence. Part 1 of the book describes the four dimensions of management system design: (1) the organization context; (2) the design principles; (3) the organization system; and (4) the maturity models that describe the path to performance excellence. The key organizational factors establish the unique context of the specific organization. They help to determine what is **relevant** and **important** to the particular organization. The design principles (a.k.a. core values and concepts) are the key characteristics of high performing organizations and the desired characteristics of the management systems. Performance excellence is achieved by focusing on the organization as an interdependent system of processes, activities, and practices that make up the three essential competencies - strategic leadership, execution excellence, and organizational learning. Finally, the path to performance excellence helps to define the current maturity level of the systems as well as where the organization is on the performance excellence journey and helps identify the next stage(s) of development. A solid understanding of these four dimensions and how they apply to the organization, provide a solid foundation to diagnose, design and build a high-performing organization.

## **Part 2 – The Profile, Processes, and Results**

The second step is to understand the organization’s context, systems (processes), and the current performance results (levels, trends, and comparisons). Part 2 of this book addresses the five context areas, 30 process areas, and 6 results areas of the CPE model. Each of the 41 sections in the book follows a similar pattern of: foundation, examples, questions, worksheets, assessment, blueprint, system integration, and thoughts for leaders. Each section begins with a foundation which is an introduction to the basics of the particular area to address. This is a common sense description of what the CPE questions in the particular area to address are asking. Following the foundation, a mix of business, healthcare, and education examples are included to help “bring alive” the key elements of the particular areas to address. These tangible real world examples are included courtesy of the individual Baldrige Award recipients and other world-class organizations. For the convenience of the reader, the actual CPE questions are presented verbatim. "Fill-in-the-blank" worksheets are provided to help writers and assessors collect and organize information about the organization’s context, processes, and results. Completing these worksheets will help the writing team develop responses to the CPE in the form of an award application. After the team has filled in the worksheets, assessment questions are provided to help the team quickly “take the temperature” of the organization by providing a rough estimate score. The blueprints provide a "visual version" of the CPE. These flowchart style diagrams depict the logic flow and relationships of the elements found in the particular area to address as well as linkages to other CPE areas to address (context, system, and results). The system integration section supports the blueprints by describing the nature of the relationships (linkages) to other areas to address. This section provides descriptions of the linkages depicted in the blueprint and their relationships to other CPE areas (context, system, and results). Thoughts for leaders are included for each section and typically use brief anecdotes

to bring the concepts alive for the leaders of the organization. In some cases, they provide leaders a view of why this portion of the criteria should be important to them. Regardless of whether an organization is working toward an award or simply interested in improving performance, these 41 sections on the CPE model are the basis for organization **diagnosis** (self-assessment), **design** (planning for improvement), and **transformation** (successful implementation).

### **Part 3 – The Journey**

The third step is to understand the three main activities involved with leading the journey to performance excellence, diagnosis, design, and transformation. The journey to performance excellence is one of learning. This is true for both the organization and every individual in the organization including leaders. Ford and Evans (2001) and Latham (1997) found that the CPE self-assessment and improvement cycle is essentially an organizational learning cycle. There are no “silver bullets” or quick fixes to achieving performance excellence for any organization. In addition, the learning cannot be delegated to the quality or performance excellence department, consultants, or middle management. Senior leaders must learn and lead the learning in order for the organization to achieve and sustain performance excellence.

Part 3 discusses how to conduct a self-assessment (diagnosis) of the organization’s processes and results, redesign the systems and processes using a design studio approach and framework, and lead the transformation to successfully implement the new designs. The diagnosis chapter describes a process for developing a written application for either an award process evaluation or an internal or third party evaluation. The design chapter describes a three phase approach (discovery, diagnosis, and design) and framework to design or redesign the management systems. The transformation chapter describes the implementation of the new designs to transform the organization.