



TenStep Supplemental Paper

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Adding Value to Business Excellence

A primer on one of the most prestigious awards for business excellence in the US

‘Excellence models’ and awards that business organizations abroad compete to win are known world over. One of the most popular among them is the Malcolm Baldrige National Quality Award of the USA. Today, this award has become a core driver of America’s economic strength. In short, the award has served as a model for making quality a national priority apart from disseminating best practices across the USA.

Looking back!

The time was the mid 1980s. Obituaries were being written for many manufacturing organizations in the US as competition from Japan and West Germany become intense. Productivity was at an all time low, as market share had shifted to these countries for better products and benefits.

In an attempt to improve national competitiveness, the 1987 Congress Summit of the US instituted the Malcolm Baldrige National Quality Award. Commemorating a Secretary of Commerce, this award promotes an understanding of performance excellence, continuous improvement and sharing of successful performance strategies.

The priorities!

For the first time, quality was recognized at the national level as a key factor in the competitiveness of manufacturing organizations. The Malcolm Baldrige National Quality Award primarily aimed to:

- Promote quality awareness
- Recognize achievements of various businesses
- Publicize successful quality strategies

Organizations competing for the Baldrige Award aim at:

- Delivering ever-improving value to customers
- Improving overall operational performance

Many of us would question the prudence in trying to understand an award system for which we are not competing. However, aren’t above goals crucial for every organization, irrespective of their size, location and product types?

The value one could gain in understanding the Baldrige process is how the criteria would apply to any company and the processes within it. Agreed, successful strategies differ from industry to industry or even for organizations within an industry. The Baldrige Award system can nevertheless be used as a template to evaluate a company’s situation and plan its future course.



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The award is based on certain core values and concepts, which are encapsulated into seven criteria. *These are updated annually to ensure that they facilitate changing business trends, continuous learning and improvement. It is interesting to note that most organizations that apply for the award receive extensive feedback on their quality policies. They also use the same criteria for internal quality assessment.*

Initially, the award covered only manufacturing and service organizations, with special provisions for Small and Medium Enterprises (SMEs). However, in the year 1999, education and health care organizations also became eligible with minor modifications in criteria. The popularity of the Award grew with time as it proved motivating and other nations began instituting similar awards.

A recent survey revealed that organizations that account for about 60% of the dollar value of the US economy are either past winners, contributors to the award process or use the Baldrige Award criteria for internal improvements.

To begin with, the Baldrige Award is based on a set of seven criteria that are built on a foundation of core values and concepts. These core values and the seven criteria framework are:

- Updated annually
- Re-written extensively every second year
- Non-prescriptive and outcome oriented

The Baldrige system gives more than 50% of its emphasis on outcomes. While the system facilitates best practice and process improvement, the need is to achieve good results.

The following are the core values and concepts that form the 'heart' of the Baldrige Award:

1. Visionary leadership
2. Customer-driven quality
3. Organizational and personal learning
4. Valuing employees and partners
5. Agility
6. Focus on the future
7. Management by innovation
8. Management by fact
9. Public responsibility and citizenship
10. Focus on results and creating value
11. Systems perspective

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The above values and concepts form the foundation for integrating key business requirements into a results-oriented framework, which in turn forms the basis for action and feedback.

Following is a brief description of the core values and concepts:

1) Visionary leadership

Every senior leader in any organization must set directions, clear and visible values and high expectations keeping in mind the interests of the organization, its employees, customers, suppliers and stakeholders. For this they should ensure creation of strategies, systems and methods that help achieve excellence, stimulate innovation, apart from building knowledge and capabilities. They can thus inspire and motivate the entire workforce to develop and learn, to contribute and be innovative. They should be true role models in terms of their ethical behavior and personal involvement and planning, communication, coaching, employee recognition, review of organizational performance and development of future leaders. This helps in reinforcing values and expectations while building leadership, commitment and initiative throughout the organization.

2) Customer-driven excellence

Customers judge quality and performance. Hence, an organization has to consider all of its product/ service features and all modes of customer access that add value for customers and lead to satisfaction, preference, loyalty and eventually referral. Customer-driven excellence has both, current and future components, i.e. understanding today's customer desires and anticipating future needs apart from marketplace offerings. Various factors throughout a customer's purchase, ownership and service experiences influence value and satisfaction.

Customer-driven excellence necessitates much more than merely meeting specification, reducing defects, errors and complaints. It contributes to a customer's view of an organization and is hence an important aspect of customer-driven excellence. Moreover, an organization's success in recovering from mistakes and defects is equally crucial for retaining and building customer relationship.

Customer-driven organizations not only address the product/service characteristics that add value for customers, but also those features that differentiate products/services from competing offerings. This calls for new/modified offerings, combinations of products and services, customization of offerings, rapid response or special relationships.

In short, customer-driven excellence is a strategic concept directed not just to growth, market share gain and customer retention. It also demands constant sensitivity to changing and emerging market requirements that drive customer satisfaction and retention. This demands awareness of technological developments and competitor offerings backed by rapid and flexible response to market and customer requirements.

3) Organizational and personal learning

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This includes both continuous improvement of existing approaches and adaptation to change thus creating new goals and approaches. Learning has to be embedded in organizational operations. This implies that learning is:

- A part of the daily routine
- Practiced at personal, work unit and organizational levels
- Helpful in solving problems at source (root cause analysis)
- Focused on organization wide knowledge-sharing
- Driven by opportunities to do better and create changes

Sources for organizational learning include employees' ideas, customers' inputs, Research and Development (R&D), best practice sharing and benchmarking. Outcomes of organizational learning include:

- Enhanced value to customers through new and improved products/services
- Development of new business opportunities
- Reducing defects, errors, wastes and related costs
- Improving responsiveness and productivity
- Effective use of resources
- Enhancing organizational performance in terms of public responsibilities and service

Success of employees depends greatly on opportunities available for practicing new skills and personal learning. Hence organizations need to invest in employees' personal learning and create opportunities for continuous learning. Job rotation and knowledge/skill-based pay are some ways of doing so.

On-the-job training is not only an economical way to facilitate personal learning, but also helps align training with organizational needs and priorities. Computer and Internet based aid training and learning initiatives.

Personal learning leads to:

- Satisfied and versatile employees
- Organizational cross-functional learning
- Better scope for innovation

Learning should be directed not just towards creating better products and services, but also towards being more responsive, adaptive and efficient.

4) Valuing employees and partners

An organization's success depends to a large extent on the skills, knowledge, creativity and motivation of employees and partners. Valuing employees implies committing to their satisfaction, development and welfare. Today's employees have diverse workplace

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and home-based needs. Hence, valuing employees involves flexible work practices tailored to meet such needs. Challenges encountered here include:

- Demonstrating top management commitment/ leaders' commitment to employees' success
- Recognition beyond the regular compensation system
- Scope for development and progress within the organization
- Sharing organizational knowledge to enable employees to serve customers better while meeting the organization's strategic objectives
- Creating an environment that promotes risk-taking

Any organization has two types of partnerships, internal and external. Internal partnerships are limited to employees and involve employee development, cross training and creating work teams. External partnerships can be with customers, suppliers and educational/training institutions. Strategic alliances also fall under this category. External partnerships enable an organization to enter new markets, apart from providing opportunities to create new products and services. It also helps blend core competencies and other vital capabilities of partners.

5) Agility

Agility is the capacity for rapid change and flexibility, thus becoming a key ingredient for success especially in competitive markets. Organizations today face ever-shortening cycle times for introduction of new/improved products and services, apart from faster and more flexible response to customers. Improvements in response time require simplification of work units, processes and also the capacity for rapid changeover from one process to another. Cross-trained employees are valuable assets in such demanding situations.

In order to meet competitive market challenges, organizations need to focus their attention on design-to-introduction (of products/services) cycle time. Concurrent engineering (carrying out stage-to-stage integration of activities from research, concept to commercialization) is valuable here.

Time is critical and time-based performance like cycle time has become a key process measure. Focusing on time improvements drives simultaneous improvements in organizational, cost, quality and productivity.

6) Focus on the future

This requires understanding short and long-term factors that influence business and marketplace. Market leadership and sustainable growth demand strong future orientation and willingness to make long-term commitments to key stakeholders like customers, employees, suppliers, stockholders, partners, the public and the community at large. An organization should anticipate factors like customers' expectations, new business and partnership opportunities, technological advancements, and the evolving e-commerce environment. Apart from these, future planning must focus on new customer and market

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segments, regulatory requirements, community/society expectations and strategic moves by competitors. Strategic objectives and resource allocations have to accommodate these factors. Organizations that focus on the future, work to develop employees and suppliers. This apart they create opportunities for innovation and help anticipate public responsibilities.

7) Management by fact

Measurement and analysis of performance is crucial for any business. These measurements should provide critical information/data about key processes, outputs and results. Performance measurement requires vital statistics like customer, product and service performance in addition to operational, market and competitive performance. Employee, supplier, cost and financial performance are equally crucial.

What exactly is analysis? Analysis implies extracting larger meaning from data and information to support evaluation, decision-making and operational enhancements. Data can be further used to determine trends, projections, and cause and effect. Analysis supports planning, reviewing overall performance, improving operations, change management, and comparisons with competitors or 'best practices' benchmarks.

The performance measures or indicators should represent factors that lead to improved operational, customer and financial performances. In order to align all these activities with an organization's goals, a comprehensive set of measures or indicators tied to customer and organizational performance requirements has to be evolved. It is also very important to periodically evaluate and upgrade performance measures/indicators to support goals better.

8) Managing for innovation

Innovation simply means making meaningful changes to improve an organization's products, services and processes to create better value. Innovation is no longer restricted to the purview of Research and Development (R&D) teams or senior leaders. Anyone, anywhere within the organization can come up with innovative ideas that are beneficial for processes, products or services. Organizations should be led and managed such that innovation becomes part and parcel of daily work culture.

9) Public responsibility and citizenship

An organization should understand its responsibilities to the public and the need to practice good citizenship. The responsibilities relate to business ethics and protection of public health, safety and the environment. They also include operations, apart from the life cycle of products and services. It is essential to emphasize resource conservation and waste reduction at source. Planning should anticipate consequences of production, distribution, transportation, use and disposal of products. Through effective planning, organizations can prevent problems, provide for a forthright response when problems occur and make available information and support required to maintain public awareness, safety and confidence.

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The product design stage is critical from the point of view of public responsibility. Design impacts production processes and subsequently the content of industrial and municipal wastes. Hence, environmental issues should be taken care of in the early stage of design.

An organization can provide leadership and support to public purposes within the limits of its resources in order to practice good citizenship. These could be in terms of community education and healthcare, environmental excellence, resource conservation, community service, apart from improving industry and business practices. Leadership as a corporate citizen also calls for influencing private and public partnership in such purposes.

10) Focus on results and creating value

An organization's performance measurements is evident in its key results. Such results have to create and balance value for its key stakeholders - customers, employees, stockholders, suppliers and partners, the public and community on the whole. This helps in building loyalty and contributes to overall economic growth. The use of a balanced combination of leading and lagging performance measures helps communicate and analyze short and long-term priorities, monitor actual performance and provides a clear basis for improving results.

11) Systems perspective

The Baldrige award forms a systems perspective for managing an organization to achieve performance excellence. The core values and seven Baldrige Criteria form the integrating mechanism of this system. However, for successful management of overall performance, organization-specific synthesis and alignment of Baldrige core values is required. Synthesis implies building upon key business requirements keeping in mind the organization as a whole including strategic objectives and action plans. Alignment means using key measures/indicators to link key strategies with processes, apart from aligning resources to improve the organization's overall performance and customer satisfaction.

Hence, systems perspective implies managing an organization as a whole, as well as its components to achieve success.

The essence of the above core values and concepts are encapsulated in the seven Baldrige Criteria, which are sub-divided into 19 performance-oriented items. A scoring pattern is developed based on the approach, deployment and results achieved (by organizations) for each of these sub-items. Thus, an assessment provides a profile of strengths and improvement opportunities based on 19 basic requirements. The Baldrige criteria are a diagnostic assessment, which go beyond most performance reviews. These criteria (with total score allotted on a scale of 1000) along with the sub-items and the break-up of scores allotted to each are listed below.

1. Leadership (125 points)

1.1 Organizational leadership (85)

1.2 Public Responsibility and citizenship (40)

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2. Strategic planning (85 points)

- 2.1 Strategy development (40)
- 2.2 Strategy deployment (45)

3. Customer and market focus (85 points)

- 3.1 Customer and market knowledge (40)
- 3.2 Customer satisfaction and relationships (45)

4. Information and analysis (85 points)

- 4.1 Measuring organizational performance (40)
- 4.2 Analysis of organizational performance (45)

5. Human resource focus (85 points)

- 5.1 Work Systems (35)
- 5.2 Employee education, training and development (25)
- 5.3 Employee well-being and satisfaction (25)

6. Process management (85 points)

- 6.1 Product and service processes (55)
- 6.2 Support processes (15)
- 6.3 Supplier and partnership processes (15)

7. Business results (450 points)

- 7.1 Customer focused results (115)
- 7.2 Financial and market results (115)
- 7.3 Human resource results (80)
- 7.4 Supplier and partner results (25)
- 7.5 Organizational effectiveness results (115)

However, the above criteria are non-prescriptive as:

- The focus is on results, not on procedures, tools or organizational structure. Organizations are encouraged to develop and demonstrate creative, adaptive and flexible approaches for meeting basic requirements.
- Selections of tools, techniques, systems and organizational structure usually depends on factors such as business type and size, the organization's stage of development, employee capabilities and responsibilities.
- The use of such criteria channels various activities in consistent directions with minimal need for detailed procedures, centralized decision-making and process management.

In today's business environment, where strategy and goals change over time, the Baldrige criteria have tremendous impact. They enable action-oriented cycles of learning via feedback and results. These cycles of learning take place in four stages:



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- Planning, including design of processes, selection of measures and deployment of requirements
- Execution of plans
- Assessment of progress, considering internal and external results
- Revision of plans based on assessment findings, learning, new inputs and new requirements

Using the above criteria judiciously ensures that strategies are aligned with goals and performance excellence simultaneously creating the right balance between stakeholders, employees, and long and short-term objectives.

According to one Baldrige Award winning company, the Baldrige process enables an organization to take a long, hard look at its practices, its people and customer relationships, both in objective and measurable ways. After all, the process is not just about receiving an award; it is about discovering what an organization really is and that is what winning is all about!