THE CHALLENGE OF BEING OUTSTANDING

A LOOK BACK AND AHEAD AFTER 25 YEARS OF GUIDING BUSINESS EXCELLENCE

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Abstract: The management of organizational performance is a challenge faced by every business, nonprofit, and government organization. The attributes of an outstanding organization have evolved over time as complexity has increased and change has become constant. The Baldrige Performance Excellence Program has closely tracked these attributes and changes to always reflect the leading edge of management practice. What these attributes and changes are, the challenges CEOs and organizations face today, and performance management areas that will need attention in the future are explored.

Keywords: Baldrige Award, Baldrige criteria, CEO challenges, total quality management, organizational performance management, organizational change, organizational excellence

Leading an organization to excellent performance has been a challenge faced by business executives for as long as competition has existed. Measuring critical aspects of performance, choosing the right metrics, and designing the organization's structures and processes are integral to improving performance and striving for excellence. As global competitiveness has spread, as customer demands have increased, and as organizational challenges and complexity have grown, a constant redefinition of the attributes of excellence has been necessary. For more than 25 years, the Baldrige Performance Excellence Program (BPEP) has been at the forefront of organizational performance management, reflecting the constantly changing, leading edge of validated management practice. Using the BPEP perspective, I will explore how the leading edge of total quality management has evolved, the challenges it presents to organizations and organizational design today, and the potential challenges that lie ahead.

PERFORMANCE EXCELLENCE AND THE BALDRIGE PERFORMANCE EXCELLENCE PROGRAM

The Baldrige Performance Excellence Program (2013) defines performance excellence as an integrated approach to organizational performance management that results in (a) the delivery of ever-improving value to customers and stakeholders, contributing to organizational sustainability; (b) the improvement of overall organizational effectiveness and capabilities; and (c) organizational and individual learning. This definition is, firstly, results-oriented. Performance excellence requires processes that are well designed and coupled with the measurement of key results. A feedback loop from results achieved to process improvement makes sure that approaches and results keep pace with increasing demands and opportunity for growth and profitability. Secondly, performance excellence is related to dynamic organizational design. Excellence requires an organizational design that is responsive from the customers' viewpoint, that is characterized by internal effectiveness

and operational efficiency, and that achieves organizational learning and allows organization members to learn and grow.

The Baldrige Program and Excellence Criteria

The Baldrige Program was created in 1987 by an act of the U.S. Congress as a public-private partnership charged with three ongoing tasks: (1) identifying role model organizations and recognizing them with a Presidential award, (2) disseminating and sharing best practices from those organizations, and (3) establishing criteria for evaluating performance achievement and excellence. These Baldrige Criteria for Performance Excellence ("the Criteria") have been an evolving instrument for use by any organization wishing to take a systems approach to performance management and to self-assess strengths and opportunities for improvement. Originally designed for use just by business, the Criteria have been adapted over the last 25 years to address organizations in every sector of the economy (business, education, health care, nonprofits, and government). The Criteria comprise a set of inter-related questions organized into seven categories in the framework shown in Figure 1.

Source: Baldrige Performance Excellence Program. 2013-2014. Criteria for Performance Excellence. Gaithersburg, MD, U.S. Department of Commerce, National Institute of Standards and Technology. (http://www.nist.gov/baldrige/publications/business_nonprofit_criteria.cfm)

Fig. 1. Baldrige Criteria for Performance Excellence Framework

Categories 1, 2, and 3 are called the "leadership triad" because leaders have to set the tone and vision for the organization. They must make strategic decisions that set and keep the organization on track. They have to lead the focus on customers and design an organizational structure that encourages an emphasis on customers at every level of the organization, including front-line employees who are empowered to make decisions for the customer. Categories 5, 6, and 7 are called the "results triad" because they comprise the critical results (in the areas of product, service, and process; customers; workforce, leadership and governance; and financial and marketplace) as well as the workforce and operational processes that achieve those results. Category 4 is shown as the foundation of the system because an organization must manage by evidence, using data, analysis, and organizational knowledge as the basis for decision-making. Shown at the top of the framework is the Organizational Profile. Responses to the questions in this section set the organizational context for responding to all the questions in Categories 1-7. The Organizational Profile questions provide a snapshot of the organization, key influences on how it operates, and the main challenges it faces. The horizontal arrow in the center of Figure 1 indicates the feedback loop between the two triads

and the need for leadership to focus on and be guided by results. Both the framework and the Criteria questions have evolved over 25 years from an initial focus on product and process quality to the current focus on organizational performance and excellence.

Twenty-five Years of Change

Before describing the history of performance management and change as reflected in the 25 years of BPEP's operation, it is important to look at the larger history of the quality movement. The history of quality can be traced to 1959 and U.S. Mil-Q-9858 (Mil-Q-9858A, 1963). This military document was the quality specifications document attached to military procurements starting in 1959. In the 1980s, American products were characterized by unsatisfactory quality, customer dissatisfaction, and cost overruns. The U.S. turned to the quality tools that had led other countries, like Japan, to deliver superior products at significantly lower cost. During this time period, the ISO 9000 series of standards (ISO 9000 – Quality Management) were first implemented and were based on many of the requirements contained in Mil-Q-9858A. Also during this period, the law was passed that created the Baldrige Program. True to the needs of the time and the then-current leading edge of validated practice, the first version of the Criteria was focused on product and process quality improvement and delivering customer satisfaction by providing high-quality products.

In the early 1990s, quality tools gave way to a more systematic approach called total quality management or TQM. While not intended in its design, in practice TQM resulted in many process improvements that may or may not have been strategically important. By the late 1990s, TQM was considered by many to be just another fad like HBO, ZBB, and other three-letter acronyms. In the 21st-century, the quality movement is still active and continues to evolve. In the minds of its thought leaders, quality has evolved to its current focus on overall organizational performance management and excellence.

Performance Excellence Then and Now

Twenty-five years ago being outstanding in the individual categories of the Criteria made for a role model organization. This placed little strain on organizational structure, since each piece of the organization operated somewhat independently. Now the Criteria are characterized as a system, indicated by the two-way arrows in Figure 1. It is these interrelationships that cause effectiveness as an organization, delivering value to all stakeholders.

Over the past 25 years, product quality assurance gave way to quality management and now to overall organizational excellence. Managers used to talk about human resource utilization. Now they focus on the workforce as a vital stakeholder, that of an internal customer. There has been a similar evolution in focus on the customer. Satisfying customers with the product or service when it is delivered is not enough. Today, the goal is to engage customers for the long-term so they will be loyal, repeat customers and even advocates for your brand. This means not only having all workforce members capable of delivering excellent service to the customer at the time and point of contact, but also playing a role in long-term customer relationship management.

At the systems level, several profound changes have occurred. Organizations have superseded quality planning departments, with a life of their own, with strategic planning and thinking processes that look holistically at delivering total value to the customer, the workforce, the community, and the stockholders or owners. With a need to deliver ever-greater value, continuous improvement of processes has been complemented by a focus on innovation that leads to breakthrough (discontinuous) change in products, services, processes, and business models.

CHALLENGES

In 2012 (Leading Through Connections, 2012) and in 2013 (The Customer-Activated Enterprise, 2013), IBM conducted CEO and C-suite studies, respectively. The 2012 study involved 1,700 leaders globally in face-to-face interviews. The 2013 study involved 4,000 C-suite executives in 70 countries. The purpose of both studies was to understand

what leaders saw as the key performance management challenges and the focal points for them as leaders. The outcomes of these studies align with many of the challenges we have addressed in the evolution of the Criteria and in how leading organizations are approaching their operations. Both studies address issues of connectivity and the need for design of work systems that go beyond the traditional organizational structures and boundaries. Both studies conclude that organizations need to engage more consistently and strategically with customers. Organizations need the analytics and knowledge to engage with customers as individuals. They need to open up their systems to more customer influence, engaging them in collaboration at the boardroom level and in contributing to business strategy. Front-line employees need to be empowered through the organization's values to share in a sense of purpose, so they can be responsible decision-makers for the organization. Leaders place an increasing focus on social and digital networks to spur innovation and interaction. Lastly, these studies conclude that organizations have to look for partnerships with customers and others outside their boundaries to spur innovation and cause disruptive thinking.

The IBM findings parallel very closely recent changes to the criteria which encompass mastering the use of social media, cultivating and managing innovation, and designing effective work systems that involve employees, partners, suppliers, and collaborators. Social media play important roles in these processes: reaching customers and potential customers, connecting employees with leaders and each other, coordinating with suppliers and partners, and as a source of data and research information. To foster innovation, senior leaders need to set the climate. They need to provide resources and infrastructure support. They need to prioritize and re-prioritize to focus the organization's resources. And, leaders need to have a tolerance for failure. They should reward significant efforts that succeed and encourage intelligent risk-taking. The design of work systems is a strategic concept that maximizes workforce potential, protects intellectual property, and seeks efficiency through partnerships and effective use of suppliers.

Lessons Learned

Some of the lessons learned from 25 years of observing organizational excellence have a profound impact on organizational structure and design. To meet today's needs, organizations need to appreciate that change is occurring more rapidly. They need to be agile and have the ability to reconfigure aspects of their operations and interactions to address challenges and opportunities. Organizations have to deal with more complexity than ever before, complexity that arises from customer desires, market demands, regulatory requirements, and partnering relationships. Lastly, organizations have to anticipate that the bar is always being raised. The best organizations are accelerating their performance, and newer competitors are closing the gap.

Challenges Ahead

While I obviously have no crystal ball for predicting the future, I would like to speculate on some of the changes ahead that will once again challenge organizations and organizational design. Social responsibility is becoming an increasing influence on business choices. It is a growing driver in the selection of suppliers, customer decisions on purchases, and business-to-business relationships. With growth in global markets, and the competing interests of protecting national and regional economies, there will be growing tension between globalization and local protectionism. This will drive pressures for local sourcing and will lead to dynamic and varying policies and customs in the developed and emerging economies. There has long been regional enterprise integration in some countries, such as the keiretsu in Japan. The tension between globalization and regionalism may foster more of these relationships in the future. Lastly, the protection of intellectual property may lead to modifications in IP laws and law enforcement as well as decisions that favor insourcing rather than outsourcing of manufacturing.

Organizational leadership and performance management are already complex. To address the substantial challenges that organizations will face in the years ahead, every organization should ask itself on an ongoing basis:

1. Is our organization doing as well as it could?
2. How do we know?
3. What and how should our organization improve or change?
4. What structures and processes will support the redesigned organization?

PERFORMANCE EXCELLENCE AND ORGANIZATION DESIGN

Recently, Burton (2013) synthesized the future of organizational design in three themes. It is worth exploring the challenges ahead as they impact each of these themes.

Creating a Cohesive Sociotechnical System

I discussed above the increase in complexity of work system design resulting from the challenges that C-suite executives face. Dividing the work to perform it both inside and outside the organization, in the most effective and efficient manner, and then assembling a meaningful whole will require continual agility to accommodate both globalization and regional protectionism. Global partnering and supply chains will likely be impacted by the location of the supplier and the changing business and legal/regulatory environment in that country or region. Evolving IP policies and practices will permit more outsourcing or encourage protecting IP through partnering only in certain countries and/or expanding the work done inside the organization.

Boundaries of Newer Organizational Forms

Organizations may look for more formal structures with their partners, perhaps including a merger, to seek efficiencies, guarantee supply chains, and protect IP. Social responsibility and the need for transparency will encourage greater customer influence in the boardroom. What organizational structures might be envisioned to accomplish these relationships and to be agile as key customers or markets change?

Time, Change, and Innovation

As confirmed in the IBM reports cited above, in order to be successful in the future ideas and innovations will have to come from the organization's workforce, partners, suppliers, and customers. This will result in new relationships, and when valuable IP is developed, ownership has to be shared. There could be significant challenges when these developments are across regions or cultures with different laws and customs. Remaining agile while locking in intellectual property and partnerships is key to making decisions today while preserving tomorrow's opportunities.

The need for cohesive sociotechnical systems, new organizational forms, and speed and agility will be major considerations in ongoing strategy development and are likely to result in shorter planning and execution cycles. Organizations will be looking for simplicity in their processes to handle complexity in the global business environment as they seek to achieve high performance and organizational excellence.

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