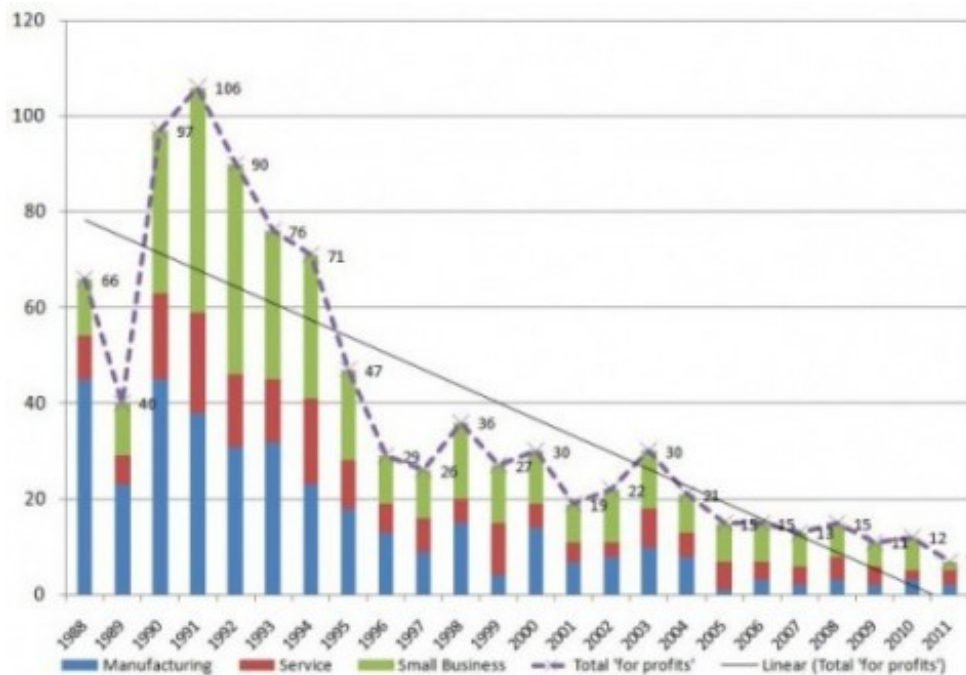


How the Baldrige ‘Theory of Business’ can become more useful, more actionable

<http://baldrigeOFI.com/baldrige-theory-business-actionable/>

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The Baldrige Award program (initiated in 1988) was set up specifically to assist the for profit elements of the U.S. economy. Baldrige, however, has not provided much information/data about its acceptance/use by the for profit sector. The only [readily available Baldrige performance data](#) relating to the for profit sector is displayed in the accompanying graph. The trend line (see graph) indicates for profit total applications have steadily declined for 20 years — from a peak of 106 in 1991 to just 7 in 2011! Little wonder that a majority of the President’s bipartisan Fiscal Commission voted to eliminate taxpayer funding of the Baldrige Award. (continued below graphic)



NIST data for Baldrige application volume - 'for profit' businesses

Learning from the Baldrige decline

Jim Collins' (author: "Good to Great" and "Built to Last") most recent book is titled "[How the Mighty Fall](#)". The book provides insights and advice relating to factors that likely lead to the demise of an organization. However, the best insight/advice is in the September-October 1994 Harvard Business Review article titled "[Theory of Business](#)" (reprint 94506). In the HBR

article, management guru and world renowned business thought leader [Peter F. Drucker](#), contends that *Every organization, whether a business or not, has a theory of the business*. Frequently, "a company that was a superstar only yesterday finds itself stagnating and frustrated, in trouble and, often, in a seemingly unmanageable crisis . . . (because) the assumptions on which the organization has been built and is being run no longer fit reality!"

Drucker's Theory of Business – in brief

Drucker characterizes the assumptions that comprise an organization's Theory of Business by stating:

"These assumptions are about markets. They are about identifying customers and competitors, their values and behavior. They are about technology and its dynamics, about a company's strengths and weaknesses. These assumptions are about what a company gets paid for. They are what I call a company's *theory of the business*. . . . A well-articulated Theory of Business helps organizations understand *what to do*."

Drucker's lists four specifications for an organization's Theory of its Business:

1. *The assumptions about environment, mission, and core competencies must fit reality.*
2. *The assumptions in all three areas have to fit one another.*
3. *The theory of the business has to be tested constantly.*
4. *The theory of the business must be known and understood throughout the organization.*

Drucker observes that "eventually every Theory of Business becomes obsolete and then invalid. . . ."

. The first signs of fundamental change rarely appear within one's own organization or among one's own customers. Almost always they show up first among one's noncustomers. Noncustomers always outnumber customers. . . . (A) preventive measure is to study what goes on outside the business, and especially to study *noncustomers*. The first reaction of an organization whose theory is becoming obsolete is almost always a defensive one. . . . The tendency is to put one's head in the sand and pretend that nothing is happening. The next reaction is an attempt to patch But patching never works."

To illustrate his position, Drucker cites multiple examples including that of department stores in the late 1980s. "At their peak (in the 1970s), department stores served 30% of the U.S. nonfood retail market." Department stores tenaciously focused on the needs of the 30% of the market that was theirs but "they paid no attention to the 70% of the market who were not their customers. . . . Because department stores looked only at their own customers, they did not recognize this change (the emergence of the importance of short shopping cycle times to baby boomers). . . . By then, business was already drying up. And it was too late to get the baby boomers back. The department stores learned the hard way that although being customer driven is vital, it is not enough. An organization must be market driven too."

A revised Baldrige Theory of Business

A privately sponsored market investigation of Baldrige noncustomers concluded that the Baldrige Award occupies an untenable/undesirable market position in the minds of most organizations. The results were so negative in the for profit market segments that the entire study was terminated early. Nonetheless, the study generated useful insights including one almost identical to the situation Drucker cites for department stores in the early 1990s. The long Baldrige cycle time (including the many weeks required to generate an application for Baldrige) makes Baldrige inherently useless in today's hyper competitive, global economy whose participants must change at Internet speed.

Like the noncustomers of department stores, Baldrige noncustomers repeatedly emphasized the importance of short cycle times. They stated it was critical to be able to obtain prompt, actionable, easily understood advice. The Baldrige feedback must be available within hours (not months) of requesting it. In addition, the legaleze of today's Baldrige criteria and feedback ensures Baldrige is not even considered by most entities, especially those in the 'for profit' sector.

Noncustomers expressed positive interest in an executive level, online, interactive, gap analysis tool whose output included calibrated, consistent/repeatable scoring plus comparisons to Baldrige winners with specific suggestions tied to winner "best practices". The noncustomers stated such feedback needs to be available promptly (same day or sooner).

Non Baldrige customers universally stated that an award was of little value in today's global economy. Some cited prior Baldrige winners who had used the Baldrige award to maximize exit value (e.g., via fat parachutes) for the CEO and/or senior executives but who did not share the value with the workforce. A few specifically cited Solectron as giving Baldrige a bad name because Solectron executives not only sold out without sharing but the next management team pursued extreme cost cutting on the backs of employees and suppliers.

Conclusion

According to Drucker, the Baldrige theory of its business is the set of "assumptions on which the (Baldrige) organization has been built and is being run." NIST's own data (see graphic) show the demise of Baldrige is reflected in a long, steady trend that predates the current economic downturn by more than a decade. The very slow, pre-Internet era (late 1980s) cycle times and other outdated assumptions Baldrige was designed for are significant reasons for the demise of Baldrige.

Jim Collins points to a possible Baldrige solution in his book, "How the Mighty Fall", when he states "decline, it turns out, is largely self-inflicted, and the path to recovery lies largely within our own hands." Peter Drucker offers congruent advice when he states "The tendency is to put one's head in the sand and pretend that nothing is happening. The next reaction is an attempt to patch But patching never works. . . . (go) outside the business, and especially study *noncustomers*". **Both**

Collins and Drucker bluntly state that Baldrige itself is responsible for its decline and must be the one to identify and drive needed changes.

Author's note: Healthcare (primarily community hospitals) is the only applicant category embracing Baldrige in recent years. However, by 2013, the [new Medicare and Medicaid payment incentives](#) issued by the [Centers for Medicare and Medicaid Services](#) will likely cause hospitals to join with the for profit sector in demanding prompt, timely, actionable, understandable and convenient feedback/advice. Indeed, long Baldrige cycle times are already becoming unacceptable to visionary healthcare organizations.

PS: Interested parties may wish to read the December 23, 2009 Wall Street Journal article titled "[Rethinking one's Theory of Business!](#)" by L. PRASAD, *Indian Institute of Management Bangalore*

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