Revisiting two Malcolm Baldrige National Quality Award Winners:

Organizational Focus:
Eastman Chemical Company
Pal's Sudden Service

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ABSTRACT

The Malcolm Baldrige National Quality Award program has been in operation since 1988. During this period, a variety of firms and organizations have received the honor of winning the award. In this study, two prior winners, one large fortune 500 chemical company and the other, a small fast food restaurant chain are revisited. The contrast between these two companies is striking, yet both of them are benefited from the Baldrige experience in different ways. Moreover, the award itself has changed over the years with the addition of two categories and a stronger emphasis on results, to such extent that some wonder if the Malcolm Baldrige Award is still about excellence in quality.

KEY WORDS: MALCOLM BALDRIGE AWARD, QUALITY

INTRODUCTION

Winning the Malcolm Baldrige National Quality Award has become a goal that many businesses strive to obtain. The award demands instant respect and admiration from others in the industry. There have been relatively few winners since its inception in 1987 (Jones, 2004). Organizations that have been able to achieve this honor often find themselves turned into miniature tourist attractions for those interested in business. Individuals from around the world flock to these companies in order to obtain valuable knowledge and insight.

Pal's Sudden Service and Eastman Chemical Company are both past winners of the award and each provides an excellent example of Malcolm Baldrige award-winning practices. The two companies are located less than a mile apart in Kingsport, TN making it possible for us to tour both facilities in a short amount of time. Pal's is in the fast-food business while Eastman manufacturers and distributes chemical-based products around the world. It would be difficult to find two companies in more different businesses, but the Malcolm Baldrige practices apply to each. Presented on the following pages is a brief recap of the award criteria, a study of each of the two companies, and an assessment of the award's value after several years of operation.

AWARD CRITERIA

In 1987, witnessing fierce competition from foreign organizations, the United States Congress created the Malcolm Baldrige National Quality Award in order to raise awareness about the importance of quality and performance excellence as a competitive edge. The award was envisioned to entice domestic companies into being better prepared to compete globally. The Baldrige Award is given by the President of the United States to businesses, manufacturing and service, small and large—and to education and health care organizations that apply and are judged to be outstanding in seven areas viz. leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resource focus; process management; and business results. Currently, three awards may be given annually in each of the following categories: manufacturing, service, small business, education, and health care. The judging of each entrant is accomplished by strict standards. If there is not an entrant available that meets all of the criteria, then no award is given. Past winners have not benefited from a lack of competition, but instead, have earned each reward on the merits of the organization. The Baldrige performance excellence criteria are a framework that any organization can use to increase overall performance. Each of the criteria is used to improve the quality of the product or service. Following seven categories make up the award criteria:

1. **Leadership**

   This criterion examines how effectively senior management guides the company to better serve its customers. Leaders are critical in not only developing the goals of an organization, but also effectively communicating these ideas to all employees. An important aspect of leadership is how well the organization addresses its responsibilities to the public and practices good citizenship. This is increasingly important in today's business environment. The public has begun to require organizations to not only be good businesses, but also responsible corporate citizens.

2. **Strategic Planning**

   An organization is graded in this area based on how well it establishes, plans, and implements its strategic direction. Once an overall vision is created by the leaders, the organization must be efficient and timely in the fulfillment of this goal. Strategies that are slow in implementation open the door for possible competitors. Those that require excess resources place a drain on the organization and subtract from the overall benefit.

3. **Customer & Market Focus**

   Customer focus is about reorganizing the services or products of an organization around the customer's needs and wants. By creating processes that are geared to better serve the customer, organizations can adapt more easily to trends and provide more value in the marketplace. This shouldn't be viewed as a process to boost short-term sales numbers. Organizations can hopefully develop meaningful, life-long relationships with customers.

4. **Measurement, Analysis, and Knowledge Management**

   It is difficult, if not impossible, to manage an activity that cannot be measured in some way. Often, managers want to obtain as much data and information as possible regardless of its usefulness. Many incorrectly believe that more data lead to a more informed decision. This is usually not the case. Only relevant data should be kept and measured, and key performance measures should be acted upon.

5. Human Resource Focus

A common attribute of successful organizations is a talented and motivated workforce. It is not enough to just hire talented individuals to fill needed positions. Employees have to be aligned with the company objectives and strive to meet the requirements. Also, management needs to create a sense of empowerment for the workforce. This is accomplished through the sharing of information, responsibilities, and also rewards. Employees should have an opportunity to learn and grow within the organization.

6. Process Management

Every process inside an organization must be designed, implemented, and modified in order to add value for the customer. Processes should be analyzed in order to be improved or replaced. Improvements to key processes attempt to accomplish one or both of two main objectives. A process might be modified in order to provide greater quality and added customer value. Also, the process could be changed to reduce costs while still maintaining current quality.

7. Business Results

Most businesses exist in order to generate a profit for their shareholders. This is often how success is judged. Even non-profit organizations attempt to maximize their resources to achieve the greatest possible impact. The financial results from virtually any organization play a key role in its overall success. However, this does not strictly mean placing a monetary value on success. A balanced-scorecard approach is applied that includes how the organization performs in terms of customer satisfaction, finances, human resources, supplier and partner performance, operations, governance and social responsibility, and how the organization compares to competitors.

Many articles have been written about the Malcolm Baldrige Award since its creation in 1987. Analysts from around the world have studied the business models and practices of its winners. Numerous studies have shown that Baldrige winners generally outperform their peers in the industry on operating income, sales growth, asset growth, employee growth, return on sales, return on assets and stock price gain. While most of these organizations continued to make strides, some found their success to be short lived. The Wallace Company, a 1990 Baldrige winner, filed for bankruptcy in 1992 only a few years after winning the award (Baldrige award, 1995). This example is just to show that the Malcolm Baldrige Award does not guarantee success in the future. Companies must continue improving on the practices that made them a winner in the first place.

ORGANIZATIONAL FOCUS OF THE COMPANIES UNDER STUDY

1. Eastman Chemical Company

Eastman Chemical Company was founded in 1920 to produce photographic chemicals for Eastman Kodak Company. Eastman Chemical became an independent publicly traded company in 1994 (Eastman, 2005). Eastman Chemical supplies billions of pounds of chemicals, fibers and plastics for numerous products. Dr.

Robert Russell, former Eastman Consultant and Department Chair of Business Administration at Emory & Henry College, describes the chemical industry as “an industry where pennies make a difference”. In 1988, Eastman submitted an application for the Malcolm Baldrige Award but did not win (Milliken, 1996). Even though their first application process was a failure, much insight and knowledge was gained throughout the process. Management realized the potential the award had to offer and would go on to win in the large manufacturing category in 1993.

Management at Eastman Chemical Company was exceptional during the late 1980’s and early 1990’s. Their commitment to Total Quality Management (TQM) was a reflection of the Malcolm Baldrige Award. Leadership was responsible for the social, process, and structural change that took place at Eastman (Deavenport, 1994). Eastman’s decision to force decision making down the pyramid and to empower employees immediately added value to their operations. Also, their willingness to make information readily available (control charts, financial information, market share) created a more unified and trusting organization. The new strategic structure involved management defining goals and measuring organizational performance through measurement/analysis and awarding performance through continuous positive feedback.

During the period leading up to the first application, management realized the importance of producing products around customers. “Customer and market focus was perhaps the most attractive organizational practice contributing to the winning of the Malcolm Baldrige Award (R. Russell, personal communication, April 4, 2005)”. When Eastman customers opted for other suppliers for products so closely identified with their own, it indicated that their traditional system was not producing quality, but producing compliance (Deavenport, 1994). Customer and market focus became the primary concept at Eastman Chemical Company on which other business objectives were based.

According to Dr. Russell, Human Resource Management (HRM) was outstanding during his time spent with the company. Eastman Chemical had been an organization committed to quality through its people beginning in 1986. During the period leading up to their first application process, management began to implement effective methods for increasing motivational levels in their employees. Skills, authority, and motivation were the three key success factors that were improved to obtain added value from employees (Milliken, 1996). Training became more extensive to increase skill levels and more low-level authority was given to increase responsibility and job satisfaction. However, motivation was the most difficult aspect of their employee initiatives. Many personnel were hesitant to contribute to process improvements though their own actions because they felt new lean processes would contribute to layoffs. To respond to this management promised that no layoffs would ever occur in response to quality improvements (Milliken, 1996). Monetary incentive and positive feedback aided in the success of employee empowerment and process improvements. In addition, many managers had attended a W. Edwards Deming conference and performance appraisals were stopped in 1990 (Milliken, 1996).

Business results and financial improvements were quickly seen after receiving the recognition associated with winning the award. Eastman Chemical Company improved in all areas related to the award criteria and benefited greatly from the public relations and marketing. However, the short-term benefits greatly exceeded the long-term benefits. Management became too fixated on short-term performance. "Enhancing their image on Wall Street and improving analyst opinions has contributed to their recent short-coming (R. Russell, personal communication, April 4, 2005)." In fact, the financial gains of the mid 90's were followed by 5 to 8 years of disappointing performance.

It has become evident that the company gradually abandoned the strategies that made them the first organization to receive the Malcolm Baldrige Award in the large manufacturing category. According to Nancy Ledford, Senior Corporate Communications Representative, they no longer have internal representatives to share successful strategies and methods that aided Eastman Chemical Company in pursuing the prestigious award. "Eastman Chemical Company is focusing on other performance measurements, particularly Six Sigma to enhance performance objectives (N. Ledford, personal communication, April 22, 2005)." She also mentioned in the years following the award they have pursued becoming ISO 9000:2000 certified in their various divisions to maintain efficient quality conformance.

"The primary reason that Eastman pursued the Malcolm Baldrige Award was to gain recognition in their industry (R. Russell, personal communication, April 4, 2005)." This is an interesting comment because it implies that the organization pursued the award primarily for external purposes. In fact, Earnest Deavenport, former chairman and Chief Executive Officer of Eastman Chemical Company, said "Eastman, like other Baldrige Award winners, didn't apply the concepts of total quality management to win an award. We did it to win customers. We did it to grow. We did it to prosper and to remain competitive in a world marketplace (National, 2005)."

2. Pal's Sudden Service

Pal's Sudden Service is a fast food organization, which was first established in 1956 by Fred 'Pal' Barger. It is a regional organization with only 19 locations in Tennessee and Virginia. Currently, all of their facilities are within a 64 mile radius of Kingsport, Tennessee. Pal's is most notable for its unique store layout, and focused approach of bringing value to customers (Pal's, 2005). The following information about Pal's organization was attained through a personal interview of Mark Smelser on April 7, 2005, Owner/operator of restaurant # 17. Pal's basic business model is quite unique in the fast food industry. Pal's does not discount its menu items and does not offer combo meals. Management believes that the products should remain the same price at all times. "Consistency will promote business focus and continue to add value to our operations (M. Smelser, personal communication, April 12, 2005)". The ability to continually focus and add value to operations in an industry characterized by low-margins and competitive pricing is a key success factor for Pal's Sudden Service. Pal's gained national recognition in 2001, winning the Malcolm Baldrige Award for quality. Pal's systematic approach of delivering hotdogs and hamburgers to customers is very efficient and effective, unique in the fast food industry.

Pal's president, Tom Crosby, has led the company to national recognition by establishing excellent relations and maintaining strict processes expected of all his restaurant managers. The managers of each restaurant are owner /operators. Mr. Crosby has set a precedent throughout the organization by empowering them to make individualized decisions. Each owner/operator has to continually improve his or her knowledge of business operations by reading one book per month and reporting the findings to the president and other owner operators at organizational meetings. Pal's has a strong culture of continuous improvement, which was initiated by the company president.

Pal's owner/operators form the strategic planning unit of the organization. Before the company changes any of its operations or processes, the team is assigned to investigate the situation. An example includes Pal's examination of the potential use of credit cards at its locations. Pal's currently does not accept credit cards. The team of owner/operators has investigated the matter for two years and will soon present its findings to the entire organization.

Pal's strategic planning is unlike other organizations, because Pal's does not change its operations very much. Pal's register is not computerized like other fast food chains, because its investigative team found that having a new system would interfere with its efficient process. Once a group of owner/operators comes to a conclusion about the implementation of a new system or process, the new system or process is tested at only a few restaurants. If the new system or process works well at the test restaurants, then the new system or operation is applied to the other restaurants. The time from an idea to its implementation takes years.

Pal's has very organized records of data concerning every aspect of the organization. All owner/operators in the Pal's organization have the same information. Pal's has standardized all operations. Every pencil, file, notebook, broom, or freezer unit has a proper place designated by headquarters. Every employee knows his or her job, and thus the manager (owner/operator) does not have to monitor and direct every movement made by the employees. During the long interview of Mark Smelser, he was not involved in any of the operations. He stated that, "The employees are trained well enough that they don't need constant supervision by a manager, and that gives me the freedom to focus on more important matters facing the restaurant."

Employees receive 100 to120 hours of training before they attempt to make a hamburger or hotdog. This is very unique in the industry, but Pal's maintains that proper training is crucial for producing excellent quality and service. Every process is captured and labeled in the form of a flow chart. Flow charts clarify how to make hotdog and hamburgers, wash dishes, sweep the floor, cut tomatoes, etc.

Pal's has maintained a 20% market share in its region of operation, and has produced outstanding financial results. Although the company's financial statements are not made public, individual monthly sales range from $110,000 to $130,000 per month, depending upon the time of year. Pal's continues to excel in its market by maintaining its steady approach of providing customer value. Pal's has maintained a quality rating (judged by customers) of 97 percent. This type of quality is fueled by extremely fast service and quality control. Pal's is able to take an order and serve the order to the customer in 20 seconds. Pal's also maintains an extremely clean process, which has produced the highest ratings from Tennessee health inspectors in the state. Internal inspectors, armed with high standards, ensure that each restaurant is prepared for unexpected inspections. This has contributed to a 97 percent organizational inspection score in an industry averaging around 80 percent.

Pal's Sudden Service has maintained its core business philosophies by maintaining strict control over its operations. The organization does not sell franchises, which does not allow Pal's to compete on the national or global level. Pal's has built a very successful business in its region, and has been nationally recognized for maintaining stellar operations. Pal's has used the national recognition from the award to promote its business to others. Pal's has also tried to help other organizations through programs which communicate good business practices.

Pal's Sudden Service, unlike Eastman Chemical Company, has continued to reap the benefits of continuing the processes which contributed to achieving Baldrige success. They continually seek opportunities to share successful strategies with other organizations. It would not be surprising to see Pal's Sudden Service receive the award for a second time in the small business category.

CONCLUSION

The principles of the Malcolm Baldrige award provide an organization with guidelines to compete in today's global market place. The ideas envisioned in 1987 have encouraged many US organizations to adopt and implement entirely new practices. Although there were some initial growing pains, the results of this effort have been mostly positive. For many organizations, an award is secondary to its normal business practices. These organizations would be performing these activities regardless of receiving a national award for doing so. These companies continue to profit, not only financially, but also in increased customer, employee, and public relations. Companies are witnessing first hand the benefits of focusing on quality.

As mentioned previously, several of the past Baldrige award winners did not perform as well financially in subsequent years. At least one of these even filed for bankruptcy. It is important that companies realize that the work is not finished after the award is won. A culture of continuous improvement is a necessity. Any organization in a state of stagnation is bound to fail. Competitors, both foreign and domestic, are always looking for the slightest advantage. Processes and activities need to be constantly redesigned, improved upon, and tested in order to keep pace with the changing business environment.

Something else has changed over time. The Baldrige Award criteria have been revised to the extent that business results account for nearly half the number of the points allotted. The award itself, according to Schonberger (2001, P.1) has "strayed a good deal from its emphasis on quality". Moreover, the language of the award has lost its prescriptive orientation and has shifted to open-ended questions more reflective of general management. There is an eight-year time difference between when Eastman Chemical Company won the award in the manufacturing category and Pal's Sudden Service won in the small business category. The extent to which revised criteria played a role is uncertain. It is not uncommon, however, for business results to be affected by circumstances that have little to do with quality practices. Companies may select the wrong technology, make a poor acquisition, enter an economic downturn, or experience market conditions beyond their control. This very point is made with regard to prior winners, Motorola and Xerox (Schonberger, 2001).

The Baldrige Award has been well worth the investment according the economic evaluation conducted on behalf of the National Institute of Standards and Technology (Link and Scott, 2001). The cost to the Institute and organizations applying for the award averages about $7 million per year, with the cost going up due to the addition of two categories, education and health care. However, the benefits to winning companies and other organizations using the criteria are estimated to be in the billions of dollars, to the extent that a cost/benefit ratio of 1-to-207 has been reported (Link and Scott, 2001, p.37). Many companies continue to use the Baldrige criteria for internal assessment, supplier certification, and corporate quality awards.

The case studies in this report have focused on two very different companies. However, the principles for each remain the same. These ideas are universal and can be applied to virtually any business. Regardless of the industry, quality comes first and should be built into the process. As Mr. Smelser of Pal's Sudden Service stated, "It just happens we are in the hamburger and hotdog business. I guarantee you that if we sold shoes, we would be the top shoe seller around."

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