

**Testimony of
E. David Spong
Foundation for the Malcolm Baldrige National Quality Award
American Society for Quality
Fiscal Year 2012 Budget Hearing
Baldrige Performance Excellence Program
before the
House Committee on Appropriations
Subcommittee on Commerce, Justice, Science and Related Agencies
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Mr. Chairman and distinguished members of this Subcommittee, my name is David Spong. I am honored by and appreciate the opportunity to testify before you today. I represent the Foundation for the Malcolm Baldrige National Quality Award, Inc., and am a lifetime member as well as past chair of the Board of this Foundation. I am here today as the president of the American Society for Quality (ASQ). I am here to tell you about a program that may seem small in size and funding but is very large in the way it affects our country, its citizens, companies, customers, and right now maybe most importantly, jobs.

The program currently is funded at \$9.6 million annually based on the enacted FY 2010 budget but President Obama's FY 2012 budget recommends reducing funding for the program by \$2.2 million from his FY 2011 proposed level of \$9.9 or \$1.9 million from the FY 2010 enacted level. He further and recommends a study during 2012 to explore outside funding for the program. I am hopeful that the Congress doesn't make the same mistake in your budget. In fact, Congress should increase the funding for this program, not decrease it. I will stress today how well the Baldrige program addresses the urgent need to make U.S. organizations stronger at the lowest possible cost as well as the extent to which taxpayer's dollars are leveraged toward that goal in a way that is truly exemplary. So, my goal is to impress upon you that the Baldrige program should get more funding and continue to be managed by NIST.

The Baldrige Performance Excellence Program was established in 1987 as a result of Public Law 100-107 with the purpose of strengthening U.S. competitiveness. To show the importance of strengthening our competitiveness, the Baldrige program was set up within NIST, an agency of the U.S. Department of Commerce, which, for more than a century, has helped lay the foundation for innovation, economic development, and quality of life in America. Although the Baldrige office guides the overall program, the program involves a public-private partnership where principal support for the program comes from the Foundation for the Malcolm Baldrige National Quality Award, not from government funding. **Here we are again in a very challenging time and the Baldrige Program could again help get our economy back on track.**

As our country continues to discuss ways to meet the economic challenges and global competition facing our nation and the necessity to make some concessions to help solve our national debt and deficit problems, **we already have a program that benefits the United States**

by driving economic development through increasing business productivity, workforce efficiency and job creation.

In the early and mid-1980s, many industry and government leaders saw that a renewed emphasis on quality was no longer an option for American companies but rather a necessity for doing business in an ever-expanding and more demanding competitive world market. The Baldrige Program was established to promote the awareness of performance excellence as an important element in competitiveness and was envisioned as a standard of excellence that would help U.S. companies achieve world class quality. From the outset, Congress anticipated how applicable the Baldrige concepts would be for organizations beyond the business sector, and it since has expanded the Award to include the education, health care, and nonprofit sectors so the reach of the Program expands to all sectors of the U.S. economy including government which I emphasize because I know our government could improve and work more efficiently by using the Baldrige criteria. Baldrige is now accepted as a proven methodology to manage all types of organizations.

It's the only U.S. public-private partnership dedicated to improving U.S. organizations so they can compete globally. **It educates business, education, health care, and nonprofit organizations on best practices in performance excellence.** The Federal funding is in fact, only a small measure of the total amount of hours, funding, and value contributing to the Program. Yet the government support is significant as it provides the integrity, consistency and continuity the program needs and without an efficient and effectively managed program, the entire stakeholder system would collapse.

Studies by NIST, universities, business organizations, and the U.S. General Accounting Office have found that the benefits to organizations using performance excellence approaches, such as the Baldrige Criteria, include increased productivity, improved profitability and competitiveness, and satisfied employees and customers. Award recipients have found that by applying the Baldrige Criteria they created a culture for change and excellence within their organizations that ultimately improved customer service, workforce morale, increased growth, profitability and institutionalized a process for continuous learning and improvement.

In order to understand the value of Baldrige you've got to understand the program as more than an award to honor companies. There's a lot more to obtaining a Baldrige Award than balloting. While the CMA, SAG, and MTV all help us celebrate our best – **Baldrige has at its heart a much more fundamental, and essential purpose - our nation's vitality.**

There is a misconception that the Baldrige Performance Excellence Program is primarily an awards program. While the Baldrige Performance Excellence Program is widely known for managing the Malcolm Baldrige National Quality Award, its main mission is to provide education and global leadership in promoting performance excellence. In fact, the awards are only the culmination of the evaluation process that scores of organizations undertake each year, both at the national level through the Baldrige Performance Excellence Program and through many non-funded parallel state and local programs. **These evaluations are supported by the efforts of thousands of volunteer experts who help these organizations improve their performance and competitiveness.** It is estimated that these volunteers, leaders from all sectors

or our economy, contribute over 120 hours each annually, **collectively 149,000 hours, at a conservative estimate of value at \$8.8 million, to improving U.S. organizations, as an act of patriotic service to their country.** So, the Award may be the most visible part of the Program, but the intention was not to simply give out awards, but to establish role model organizations that would share their successful strategies with other U.S. businesses.

An October 2001 study of the economic impact of the Baldrige Program, prepared for NIST by economists Albert N. Link and John T. Scott, conservatively **estimated the net private benefits associated with the Program to the economy as a whole at \$24.65 billion.** When compared to the social costs of the Program of \$119 million, the Baldrige Program's social benefit-to-cost ratio is 207-to-1 (*Economic Evaluation of the Baldrige National Quality Program*). In another 2004 study, *Building on Baldrige: American Quality for the 21st Century*, it states, **"more than any other program, the Baldrige Award is responsible for making quality a national priority and disseminating best practices across the United States."** The Baldrige Foundation has commissioned a reprise of the social benefit-to-cost ratio study this year, and it is expected that the ROI will be even significantly higher since the last time the study was done.

The Baldrige Program is a **very strong example of an appropriate use of taxpayer dollars, and has a long-term track record of excellent return on taxpayer investment** for the greater good of our nation. The Foundation would not be financially capable of achieving the goals and mission of the effort. Currently, the Foundation leverages the total program funding by providing to the NIST and the federal government funding on average of \$1.2 to \$1.5M annually for the training of examiners, printing of the criteria, the award crystals, and award ceremony. The Foundation cannot financially support the day-to-day staffing required to administer all the educational benefits this program provides and still maintain the integrity and patriotic element of the program if it were privatized.

Beyond this, countless other organizations use the Baldrige Performance Excellence Criteria as a framework for improving their operations. **The program has been emulated by numerous national award programs throughout the world,** which use the Baldrige Criteria for their own national quality programs. Criteria are distributed at the rate of more than 2,000,000 downloads per year on the Baldrige Program Web site. With that in mind, the government is contributing just **\$5 per user of the Criteria.** With the network of state and local programs reaching thousands of organizations at the local level and the Award recipients sharing their best practices all across the country, the small government investment is leveraged into a national network that helps U.S. organizations improve performance, increase innovation, and ensure sustainability.

In addition, **the Baldrige Performance Excellence Program is a government and industry partnership, with over 90% of the support, including in-kind contributions, provided by the private sector.** The federal government's contribution is used by NIST to manage the Program. Application fees are charged to cover expenses associated with distribution and review of applications and development of feedback reports.

The private Foundation for the Malcolm Baldrige National Quality Award has raised an endowment currently valued at approximately \$18.5 million. This endowment funds many other Program expenses, including the printing of Program materials and the annual Presidential

Award ceremony, and it provides a subsidy for the review of applicants with fewer than 500 employees and nonprofit K-12 education organizations.

Baldrige recipients serve as model organizations for everyone else to learn from, and emulate. Through Baldrige, “best practice” becomes something more than I like your idea. It becomes documented, data driven, evidence based examples of performance excellence. These examples reach every sector of the economy – manufacturing, small business, service, healthcare, education, and the nonprofit sector (including public service.)

The Malcolm Baldrige National Quality Award and the Baldrige Award recipients constitute the visible centerpiece of the Baldrige Program. However, the Program’s enabling legislation designates it as an outreach and education program designed to encourage performance excellence not only in applicants for the Award but also in a much broader base of organizations that do not apply for the Award. A report, *Building on Baldrige: American Quality for the 21st Century* by the private Council on Competitiveness, said, **“More than any other program, the Baldrige Award is responsible for making quality a national priority and disseminating best practices across the United States.”**

The Alliance for Performance Excellence, a 501(c)3 nonprofit that represents 33 Baldrige-based state quality award programs nationwide, strongly supports the mission and continuity of the Baldrige Performance Excellence Program (BPEP) program. The number of state and local, regional, and sector-specific award programs has grown tremendously. In 1991, only eight state and local award programs existed. Today there are 37 state and local, regional, and sector-specific quality award programs. These programs have been especially successful in reaching out to locally-based small and medium-size organizations. The state and local programs have become a feeder system to the Baldrige Award. In the last 14 years, 45 out of the 60 Baldrige Award recipients also have won their state’s highest-level quality award. The state and local programs greatly extend the reach and impact of the Baldrige Program. State and local programs have distributed tens of thousands of paper and electronic copies of the Baldrige Criteria, including 20,788 paper copies in 2009 alone. The criteria at the state level are Baldrige-based, with most being word-for-word copies. This has helped the Baldrige Performance Excellence Program reach a widespread audience.

In addition to the state and local network, an international network has evolved and as of January 2010, there were 95 international quality/performance excellence awards (besides the Baldrige Program), most of which either use the Baldrige Criteria or some derivative of the Criteria.

In keeping with the continuous improvement philosophy of the Baldrige Program, the Criteria are updated regularly (every two years) through a consensus process to stay at the leading edge of validated management practice. The Criteria have evolved significantly over time to help organizations address a dynamic environment, focus on strategy-driven performance, and address concerns about customer and workforce engagement, governance and ethics, societal responsibilities, and long-term organizational sustainability. **The Criteria have continually progressed toward a comprehensive, integrated systems perspective of organizational performance management.**

The year-to-year changes to the Baldrige Criteria have been evolutionary. However, since the Baldrige Program's inception over 20 years ago, the changes to the Criteria have been revolutionary. They have evolved from having a specific focus on manufacturing quality to having a comprehensive strategic focus on overall organizational performance, competitiveness, and sustainability. , the Baldrige Criteria have changed over time to reflect the changing challenges faced by U.S organizations. While the history of management theory in the United States is littered with outmoded fads, most of these fads were tools that had a short shelf life. By contrast, the Baldrige Program reflects a nonprescriptive and dynamic systems approach to performance excellence. It is a system of assessment that does not prescribe the tools an organization should use, leaving those decisions to the organization itself. While specific tools go in and out of fashion, the Baldrige Criteria, which define what constitutes performance excellence, have remained and continue to evolve. What it takes to be competitive today is much different than 20 years ago. Award recipients are sharing much different strategies today that help other U.S. organizations meet today's challenges.

The Baldrige is far more than just an awards program; it's a culture of performance excellence. While the Program has touched hundreds of thousands of American citizens in overwhelmingly beneficial ways, it directly provides a significant economic payback to America far in excess of the underlying cost of the program. From the employees of the Program applicants (those who apply for the award and use the Baldrige framework to improve their operations) to the customers of these organizations who benefit from the focus on customer service and efficient management structure, participants in the Baldrige community strive to implement the principles of Baldrige in a way that measurably improves the fabric of American society.

It would send an unfortunate and misguided signal if we eliminated a program or reduced a program that our government has supported for over two decades as the model in performance excellence. Certainly this is not the right message to our U.S. Business (Large and Small) organizations, educational institutions, health care organizations, and non-profit/government agencies that have learned firsthand how beneficial the Program is. And, with the popularity the Program has gained globally, it would not be a positive message to other countries.

I respectfully urge that you vote to invest in the Baldrige Program. The net return on the annual investment in the Program cannot only be measured in positive payback dollars, but in the sustainability of organizational performance excellence. Once you review the facts, I'm sure you will agree that the \$10 million appropriation for the program is one of the best investments taxpayers can make to promote economic growth, improve America's competitiveness, and contribute to the goal of reducing our national debt and deficit.

Respectfully submitted,

E. David Spong