

December 2000

# BALDRIGE: Serving Shareholders and Stakeholders

## Baldrige Boosts the Bottom Line

Across the nation and around the globe, CEOs are feeling pressure to deliver consistent improvement in earnings growth regardless of the economic environment in which they are working. This pressure is exerted by their companies' shareholders and boards of directors. When companies are also followed closely by institutional investors and market analysts, the pressure intensifies as the focus shifts from basic performance to the expected rate of increase in revenues and earnings.

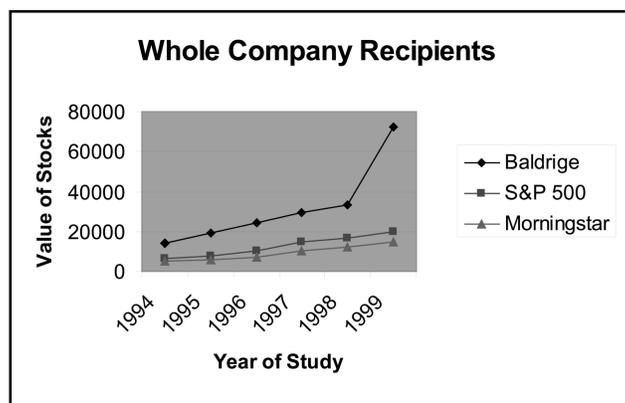
A select group of CEOs has been successful in addressing this demand head-on. They improved their bottom line while satisfying customers and empowering employees—a true win-win for all. All incorporated the Baldrige Criteria for Performance Excellence into their organizations. What they did is evident when you compare the performance of the Baldrige Index, an annual study of hypothetical stock investments, to the performance of Standard & Poor's (S&P) 500 or to Morningstar's large cap blend funds.

*Solectron Corporation's bottom line is enhanced by our ability to perform and produce products at a higher level of quality and lower cost than our competition. Because we use the Baldrige Criteria and receive the recognition accorded to Baldrige Award winners, doors have opened to us that might otherwise have been closed. It is much easier to approach and attract leading companies when you are perceived as a winner.*

*Rich Allen  
Corporate Director of Quality  
Solectron Corporation*

## Baldrige Index Beats the Market by Nearly 5 to 1

For the last six years, the National Institute of Standards and Technology (NIST), manager of the Baldrige Award program, has "invested" a hypothetical \$1,000 in each of the "whole" company winners: ADAC Laboratories, Eastman Chemical Company, Federal Express Corporation, Motorola, Inc., and Solectron Corporation. The investments are tracked annually. New organizations are added to the study following the announcement of Award recipients each November, and adjustments are made as needed for stock splits. An equal amount is hypothetically invested in the S&P 500. In the most recent study, NIST found that the group of whole company winners outperformed the S&P 500 by 4.8 to 1, achieving a 1,101% return on investment, compared to S&P's 228% return for the same period. A comparison to large cap blend funds, the category of mutual funds monitored by Morningstar, Inc.\* that best matches the Baldrige Index, showed the group of Baldrige whole company winners outperforming the average return (148%) for these funds by 7.4 to 1.



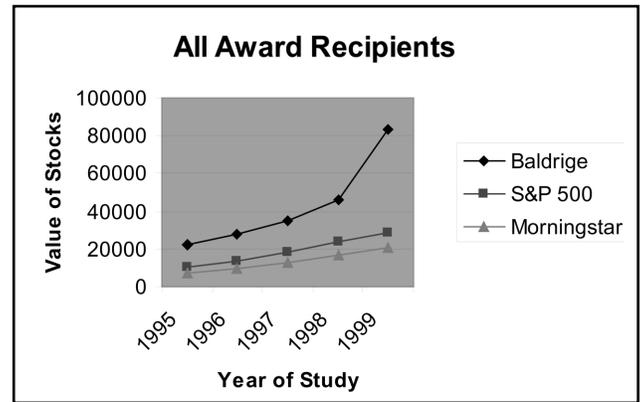
A second comparison that tracks all award recipients—the whole company winners and the parent companies of 18 subunit winners—underscores this success. The group of all award recipients achieved an 841% return on investment as compared to the S&P 500 return of 222%. This group also outperformed by 6.4 to 1 the

*continued on the next page*

## Baldrige Index Beats the Market by Nearly 5 to 1 *(continued)*

average return of 131% for the large cap blend funds monitored by Morningstar. For subunits, the sum invested is \$1,000 multiplied by the percent of the whole company's employee base represented by the subunit at the time the award is granted; the same dollar amount is invested in the S&P 500 and Morningstar on the same day.

\*Although data are gathered from reliable sources, Morningstar cannot guarantee completeness and accuracy.



## Baldrige Index Findings Are Validated by Other Research

The correlation between companies that are the recipients of quality awards and bottom line results is also evident in other research. A case in point is an independent study conducted by Kevin Hendricks, University of Western Ontario, and Vinod Singhal, Georgia Institute of Technology, that also shows a correlation between quality and business results. This five-year study of more than 600 recipients of various quality awards shows that award recipients experienced a 44% higher stock price return, a 48% higher growth in operating income, and a 37% higher growth in sales as a whole than the control group, consisting of firms similar in size and operating in the same industries. Award winners also experienced significant improvement in employment and asset growth and return on sales. A copy of the results of this study may be obtained by contacting Dr. Singhal by telephone (404-894-4908) or e-mail (vinod.singhal@mgt.gatech.edu) or Dr. Hendricks by telephone (519-661-3874) or e-mail (khendricks@ivey.uwo.ca).

## Experience the Criteria's Impact on Your Organization—Start with a Self-Assessment

Although few organizations receive the Baldrige Award, the impact of the Baldrige Criteria on American industry is significant. Approximately 150,000 copies of the *Criteria for Performance Excellence* are distributed each year. Many organizations use the Criteria for self-assessment, a strategic component in their quest for performance excellence.

In addition to using the Criteria as a management tool, some companies seek independent, expert feedback by submitting an award application. For these organizations, the feedback report all applicants receive is generally considered the most valuable aspect of the process. Each report contains the findings of Baldrige Examiners, experts with diverse backgrounds who volunteer their time to evaluate each organization's strengths and opportunities for improvement. In many cases, the feedback report becomes the organization's road map for its journey to performance excellence.

### *Criteria for Performance Excellence*

*Leadership*

*Strategic Planning*

*Customer and Market Focus*

*Information and Analysis*

*Human Resource Focus*

*Process Management*

*Business Results*



### For more information, contact

- Rich Allen, Corporate Director of Quality, Solectron Corporation, at 408-956-6719.
- Harry Hertz, Director, Baldrige National Quality Program, at 301-975-2036 or nqp@nist.gov.

Visit the Baldrige Program's Web site at [www.quality.nist.gov](http://www.quality.nist.gov) for a general overview.