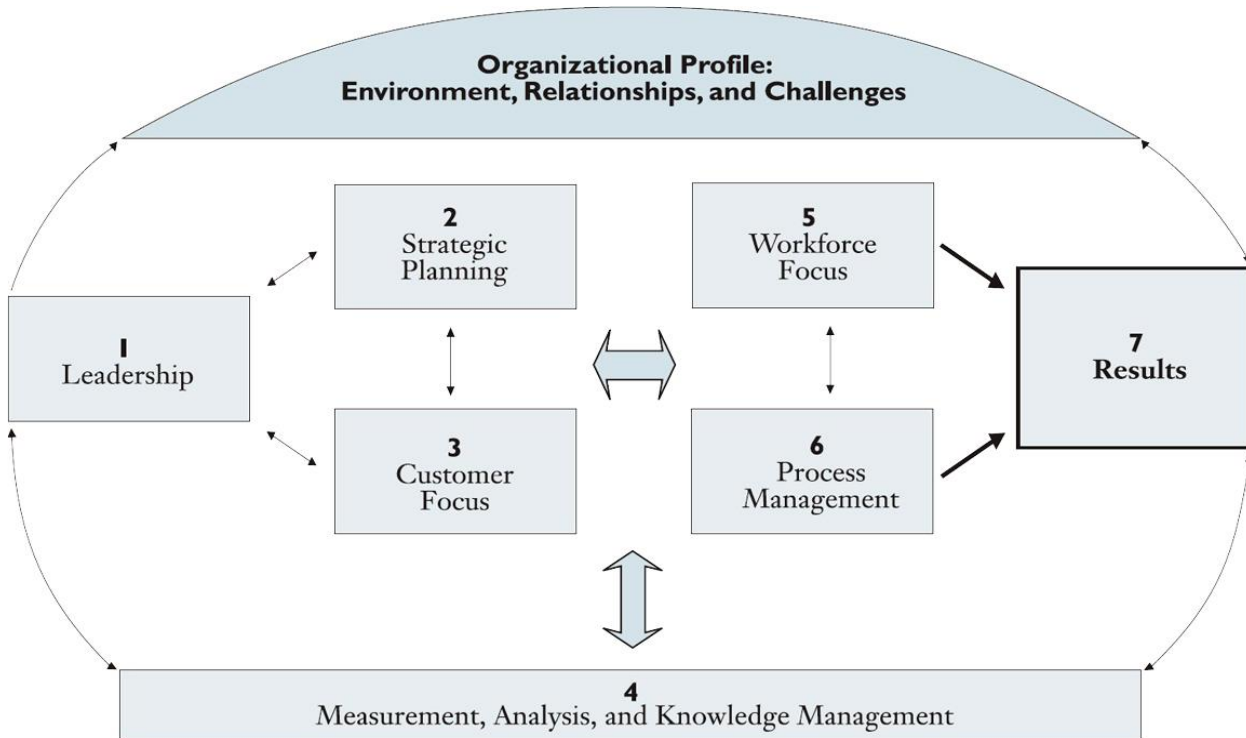# Criteria for Performance Excellence

By MICHAEL REAMES AND GABRIEL KEMENY

What comes to mind when you hear the phrase "Criteria for Performance Excellence"? Is it a clichéd expression? Do you consider it a non-starter? Is it intuitively obvious to the most casual observer?

The two founding partners of ProcessGPS (Michael Reames and Gabe Kemeny) have recently completed the rigorous training program to become members of the Board of Examiners for the Malcolm Baldrige National Quality Award for 2010. The National Quality Award uses the Criteria for Performance Excellence as its standard for companies seeking the recognition that this award provides.

Baldrige Criteria for Performance Excellence Framework

To be sure, addressing all of the Criteria is not easy. Then again, nothing in business that is worthwhile is easy to attain. On the other hand, the Criteria will help an organization's senior leaders to think and act strategically. They will help you to align your processes and resources. They will help you to engage your

workforce and your customers. Are these worthwhile goals? If yes, do you have a set of actions to attain them?

Organizations that decide to take initial steps toward the Criteria can accelerate their progress by taking just a few minutes to scan a set of questions called the "Organizational Profile." The Baldrige Program Office also offers a useful free booklet entitled *Getting Started with the Baldrige Criteria for Performance Excellence* (see it at the website: http://www.nist.gov/baldrige/enter/new.cfm). Even if a company does not intend to submit an application for a Baldrige Award, the simple act of aligning a management system to the Criteria can help an organization to make remarkable progress in achieving worthwhile goals.

So, to get started, consider the Organizational Profile, which is critically important because

- It is the most appropriate starting point for self-assessment and for writing an application;
- It helps you identify potential gaps in key information and focus on key performance requirements and results;
- It is used by the Examiners and Judges in application review, including the site visit, to understand your organization and what you consider important (you will be assessed using the Criteria requirements in relation to your organization's environment, relationships, influences, and challenges, as presented in your Organizational Profile); and
- It assists an organization in preparing an initial self-assessment. If you identify topics for which conflicting, little, or no information is available, it is possible that the Organizational Profile can serve as your complete assessment, and you can use these topics for action planning.

Perhaps your organization does not currently address all of these elements; in this case, the organizational profile can become an excellent checklist for identifying relevant gaps. We have found in general that more mature organizations can answer all of these questions readily. For example, it is a sign of organizational maturity to be able to articulate how you define success competitively. Similarly, mature organizations understand their specific core competencies and set up effective supply chains to ensure that these core competencies can continue to prosper in their marketplace.

Perhaps, on the other hand, your organization has a grasp of all of the elements of the organizational profile. If this is the case, you may be ready to take your organization to the next level of maturity, that of true Performance Excellence using the Baldrige Criteria. You are in very good company – just consider the profiles of recent award recipients at http://www.nist.gov/baldrige/baldrige recipients2009.cfm.

Adopting the Baldrige Criteria as a roadmap for one's journey to organizational excellence is compatible with any continuous process improvement efforts you are undertaking. This includes Lean, Six Sigma, or any other methodology. The Baldrige Criteria are not prescriptive; they only require that you have an appropriate *approach*, that you have *deployed* it comprehensively, and that your well-deployed approach generates *results*. The Criteria address the critical processes of your business and establish a clear expectation that you implement a systematic approach for creating, maintaining, and improving processes. Although the Criteria seem complicated when one first encounters them, it's really a rather elegant and simple concept.

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Organization Description:

a. Organizational Environment

1) What are your organization's main product offerings? What are the delivery mechanisms used to provide your products to your customers?
2) What are the key characteristics of your organizational culture? What are your stated purpose, vision, values, and mission? What are your core competencies and their relationship to your mission?
3) What is your workforce profile? How do you segment your workforce or employee groups? What are their education levels? What are the key factors that motivate them to engage in accomplishing your mission? What are your organization's workforce and job diversity, organized bargaining units, key benefits, and special health and safety requirements?
4) What are your major facilities, technologies, and equipment?
5) What is the regulatory environment under which your organization operates? Are there occupational health and safety regulations; accreditation, certification, or registration requirements; relevant industry standards; and environmental, financial, and product regulations?

b. Organizational Relationships

1) What are your organizational structure and governance system? What are the reporting relationships among your governance board, senior leaders, and parent organization?
2) What are your key market segments, customer groups, and stakeholder groups, as appropriate? What are their key requirements and expectations for your products, customer support services, and operations? What are the differences in these requirements and expectations among market segments, customer groups, and stakeholder groups?
3) What are your key types of suppliers, partners, and collaborators? What role do they all play in your work systems and the production and delivery of your key products and customer support services? What are your key mechanisms for communicating and managing relationships with them? What role, if any, do these organizations play in your organizational innovation processes? What are your key supply chain requirements?

Organizational Situation:

a. Competitive Environment

1) What is your competitive position? What are your relative size and growth in your industry or markets served? What are the numbers and types of competitors for your organization?
2) What are the principal factors that determine your success relative to your competitors? What are any key changes taking place that affect your competitive situation, including opportunities for innovation and collaboration, as appropriate?
3) What are your key available sources of comparative and competitive data from within your industry? What are your key available sources of comparative data from outside your industry? What limitations are there in your ability to obtain these data?

b. Strategic Context: What are your key strategic challenges and advantages (business, operational, and human resource)? What are your key strategic challenges and advantages associated with organizational sustainability?

c. Performance Improvement System: What are the key elements of your performance improvement system, including your evaluation, organizational learning, and innovation processes?

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Organizational Profile

Note 1: Although many of the words used in this article are intuitive and generally understood, there is always a possibility that an organization may have a differing perception of a specific word or a concept. For this reason, the Baldrige Criteria provide operational definitions of many of the terms used in the area of Performance Excellence. The glossary (below) specifically defines those terms used in the Organization Profile. For a complete glossary of terms, visit the Baldrige website and download the Criteria booklet.

Glossary of Terms

COLLABORATORS - Those organizations or individuals who cooperate with your organization to support a particular activity or event or who cooperate on an intermittent basis when short-term goals are aligned or are the same. Typically, collaborations do not involve formal agreements or arrangements.

CORE COMPETENCIES - An organization's areas of greatest expertise. Your organization's core competencies are those strategically important capabilities that are central to fulfilling your mission or provide an advantage in your marketplace or service environment. Core competencies frequently are challenging for competitors or suppliers and partners to imitate, and they may provide a sustainable competitive advantage. Core competencies may involve technology expertise, unique service offerings, a marketplace niche, or a particular business acumen (e.g., business acquisitions).

CUSTOMERS - Actual and potential users of your organization's products, programs, or services (referred to as "products" in the Criteria). Customers include the end users of your products, as well as others who might be their immediate purchasers or users. These others might include distributors, agents, or organizations that further process your product as a component of their product. The Criteria address customers broadly, referencing current and future customers, as well as the customers of your competitors. Customer-driven excellence is a Baldrige Core Value embedded in the beliefs and behaviors of high-performing organizations. Customer focus affects and integrates an organization's strategic directions, its work systems and work processes, and its business results.

DIVERSITY - Valuing and benefiting from personal differences. These differences address many variables, including race, religion, color, gender, national origin, disability, sexual orientation, age and generational preferences, education, geographic origin, and skill characteristics, as well as differences in ideas, thinking, academic disciplines, and perspectives. The Baldrige Criteria refer to the diversity of your workforce hiring and customer communities. Capitalizing on both provides enhanced opportunities for high performance; customer, workforce, and community satisfaction; and customer and workforce engagement.

GOVERNANCE - The system of management and controls exercised in the stewardship of your organization. It includes the responsibilities of your organization's owners/shareholders, board of directors, and senior leaders. Corporate or organizational charters, bylaws, and policies document the rights and responsibilities of each of the parties and describe how your organization will be directed and controlled to ensure (1) accountability to owners/shareholders and other stakeholders, (2) transparency of operations, and (3) fair treatment of all stakeholders. Governance processes may include the approval of strategic direction, the monitoring and evaluation of the CEO's performance, the establishment of executive compensation and benefits, succession planning, financial auditing, risk management, disclosure, and shareholder reporting. Ensuring effective governance is important to stakeholders' and the larger society's trust and to organizational effectiveness.

HOW - A description of the systems and processes that an organization uses to accomplish its mission requirements. In responding to "how" questions in the Process Item requirements, process descriptions should include information such as approach (methods and measures), deployment, learning, and integration factors.

INNOVATION - Making meaningful change to improve products, processes, or organizational effectiveness and to create new value for stakeholders. Innovation involves the adoption of an idea, process, technology, product, or business model that is either new or new to its proposed application. The outcome of innovation is a discontinuous or breakthrough change in results, products, or processes. Successful organizational innovation is a multistep process that involves development and knowledge sharing, a decision to implement, implementation, evaluation, and learning. Although innovation is often associated with technological innovation, it is applicable to all key organizational processes that would benefit from change, whether through breakthrough improvement or a change in approach or outputs. It could include fundamental changes in organizational structure or the business model to more effectively accomplish the organization's work.

KEY - The major or most important elements or factors, those that are critical to achieving your intended outcome. The Baldrige Criteria, for example, refer to key challenges, key plans, key work processes, and key measures—those that are most important to your organization's success. They are the essential elements for pursuing or monitoring a desired outcome.

MISSION - The overall function of an organization. The mission answers the question, "What is this organization attempting to accomplish?" The mission might define customers or markets served, distinctive or core competencies, or technologies used.

PARTNERS - Those key organizations or individuals who are working in concert with your organization to achieve a common goal or to improve performance. Typically, partnerships are formal arrangements for a specific aim or purpose, such as to achieve a strategic objective or to deliver a specific product. Formal partnerships are usually for an extended period of time and involve a clear understanding of the individual and mutual roles and benefits for the partners.

PERFORMANCE - Outputs and their outcomes obtained from processes, products, and customers that permit evaluation and comparison relative to goals, standards, past results, and other organizations. Performance can be expressed in nonfinancial and financial terms. The Baldrige Criteria address four types of performance: (1) product, (2) customer-focused, (3) financial and marketplace, and (4) operational.

"Product performance" refers to performance relative to measures and indicators of product and service characteristics important to customers. Examples include product reliability, on-time delivery, customer-experienced defect levels, and service response time. For nonprofit organizations, "product performance" examples might include program and project performance in the areas of rapid response to emergencies, at-home services, or multilingual services.

"Customer-focused performance" refers to performance relative to measures and indicators of customers' perceptions, reactions, and behaviors. Examples include customer retention, complaints, and customer survey results.

"Financial and marketplace performance" refers to performance relative to measures of cost, revenue, and market position, including asset utilization, asset growth, and market share. Examples include returns on investments, value added per employee, debt-to-equity ratio, returns on assets, operating margins, performance to budget, the amount in reserve funds, cash-to-cash cycle time, other profitability and liquidity measures, and market gains.

"Operational performance" refers to workforce, leadership, organizational, and ethical performance relative to effectiveness, efficiency, and accountability measures and indicators. Examples include cycle time, productivity, waste reduction, workforce turnover, workforce cross-training rates, regulatory compliance, fiscal accountability, and community involvement. Operational performance might be measured at the work unit level, key work process level, and organizational level.

PURPOSE - The fundamental reason that an organization exists. The primary role of purpose is to inspire an organization and guide its setting of values. Purpose is

generally broad and enduring. Two organizations in different businesses could have similar purposes, and two organizations in the same business could have different purposes.

SEGMENTS - A part of an organization's overall customer, market, product offering, or workforce base. Segments typically have common characteristics that can be grouped logically. In Results Items, the term refers to disaggregating results data in a way that allows for meaningful analysis of an organization's performance. It is up to each organization to determine the specific factors that it uses to segment its customers, markets, products, and workforce.

Understanding segments is critical to identifying the distinct needs and expectations of different customer, market, and workforce groups and to tailoring product offerings to meet their needs and expectations. As an example, market segmentation might be based on distribution channels, business volume, geography, or technologies employed. Workforce segmentation might be based on geography, skills, needs, work assignments, or job classifications.

SENIOR LEADERS – An organization's senior management group or team. In many organizations, this consists of the head of the organization and his or her direct reports.

STAKEHOLDERS - All groups that are or might be affected by an organization's actions and success. Examples of key stakeholders might include customers, the workforce, partners, collaborators, governing boards, stockholders, donors, suppliers, taxpayers, regulatory bodies, policy makers, funders, and local and professional communities.

STRATEGIC ADVANTAGES - Those marketplace benefits that exert a decisive influence on an organization's likelihood of future success. These advantages frequently are sources of an organization's current and future competitive success relative to other providers of similar products. Strategic advantages generally arise from either or both of two sources: (1) core competencies, which focus on building and expanding on an organization's internal capabilities, and (2) strategically important external resources, which are shaped and leveraged through key external relationships and partnerships.

When an organization realizes both sources of strategic advantage, it can amplify its unique internal capabilities by capitalizing on complementary capabilities in other organizations.

STRATEGIC CHALLENGES – An organization's articulated aims or responses to address major change or improvement, competitiveness or social issues, and business advantages. Strategic objectives generally are focused both externally and internally and relate to significant customer, market, product, or technological opportunities and challenges (strategic challenges). Broadly stated, they are what an organization must achieve to remain or become competitive and ensure long-term sustainability. Strategic objectives set an organization's longer-term directions and guide resource allocations and redistributions.

VALUES - The guiding principles and behaviors that embody how your organization and its people are expected to operate. Values reflect and reinforce the desired culture of an organization. Values support and guide the decision making of every workforce member, helping the organization accomplish its mission and attain its vision in an appropriate manner. Examples of values might include demonstrating integrity and fairness in all interactions, exceeding customer expectations, valuing individuals and diversity, protecting the environment, and striving for performance excellence every day.

VISION - The desired future state of your organization. The vision describes where the organization is headed, what it intends to be, or how it wishes to be perceived in the future.

WORKFORCE - All people actively involved in accomplishing the work of your organization, including paid employees (e.g., permanent, part-time, temporary, and telecommuting employees, as well as contract employees supervised by the organization) and volunteers, as appropriate. The workforce includes team leaders, supervisors, and managers at all levels.

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