



Malcolm Baldrige
National
Quality
Award

1995

Award Criteria

*"Through the Baldrige Award
and the principles of quality
management it embraces,
countless businesses have found
new and stronger life."*

William J. Clinton



"The criteria for the Baldrige Award are now widely accepted as the definition of what constitutes world-class quality."

Ronald H. Brown
Secretary of Commerce

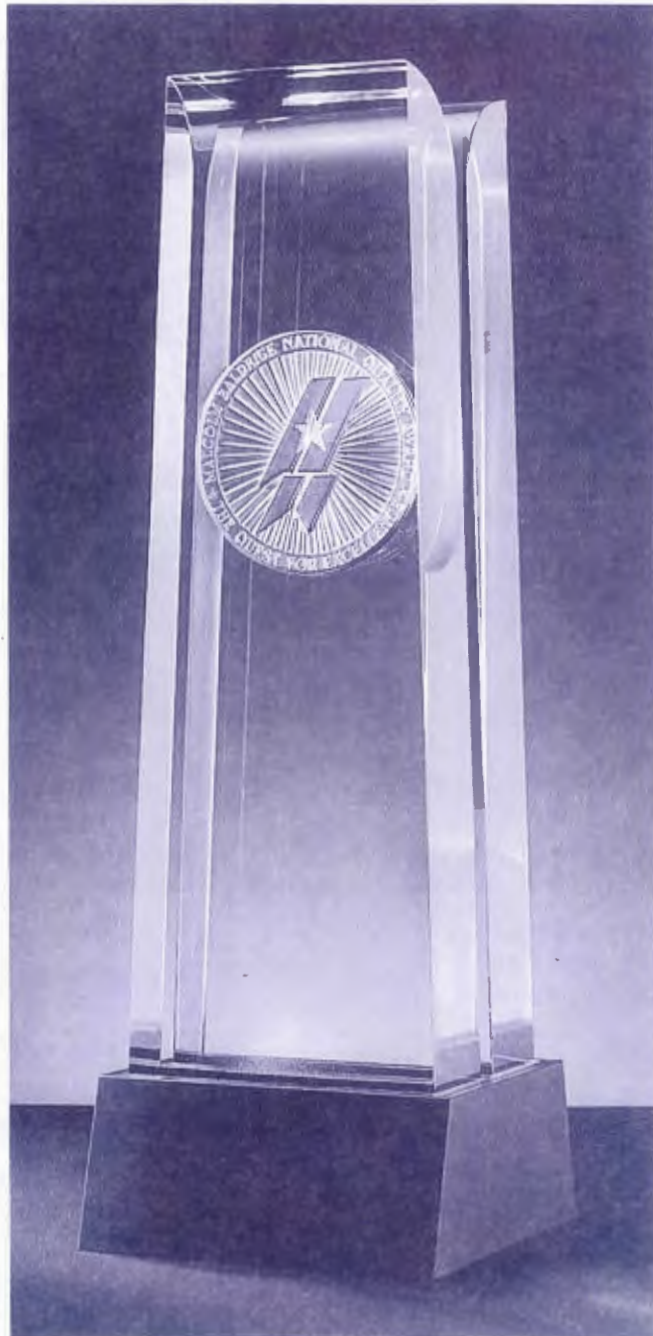
The Award, composed of two solid crystal prismatic forms, stands 14 inches tall. The crystal is held in a base of black, anodized aluminum with the Award winner's name engraved on the base. A solid bronze, 22-karat, gold-plated, die-struck medallion is captured in the front section of the crystal. The medal bears the inscriptions: "Malcolm Baldrige National Quality Award" and "The Quest for Excellence" on one side and the Presidential Seal on the other.

Awards traditionally are presented by the President of the United States at a special ceremony in Washington, D.C.

Awards are made annually to recognize U.S. companies for business excellence and quality achievement. Awards may be given in each of three eligibility categories:

- Manufacturing companies
- Service companies
- Small businesses

Award recipients may publicize and advertise receipt of the Award. The recipients are expected to share information about their successful performance strategies with other U.S. organizations.



Crystal by Steuben
Medal by The Protocol Group



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THE MALCOLM BALDRIGE NATIONAL QUALITY AWARD: A PUBLIC-PRIVATE PARTNERSHIP



Building active partnerships in the private sector, and between the private sector and government, is fundamental to the success of the Award in improving quality in the United States.

Support by the private sector for the Award Program in the form of funds, volunteer efforts, and participation in information transfer continues to grow.

To ensure the continued growth and success of these partnerships, each of the following organizations plays an important role:

The Foundation for the Malcolm Baldrige National Quality Award

The Foundation for the Malcolm Baldrige National Quality Award was created to foster the success of the Program. The Foundation's main objective is to raise funds to permanently endow the Award Program.

Prominent leaders from U.S. companies serve as Foundation Trustees to ensure that the Foundation's objectives are accomplished. Donor organizations vary in size and type, and are representative of many kinds of businesses and business groups.

National Institute of Standards and Technology (NIST)

Responsibility for the Award is assigned to the Department of Commerce. NIST, an agency of the Department's Technology Administration, manages the Award Program.

NIST's goals are to aid U.S. industry through research and services; to contribute to public health, safety, and the environment; and to support the U.S. scientific and engineering research communities. NIST conducts basic and applied research in the physical sciences and engineering and develops measurement techniques, test methods, and standards. Much of NIST's work relates directly to technology development and technology utilization.

American Society for Quality Control (ASQC)

ASQC assists in administering the Award Program under contract to NIST.

ASQC is dedicated to facilitating continuous improvement and increased customer satisfaction by identifying, communicating, and promoting the use of quality principles, concepts, and technologies. ASQC strives to be recognized throughout the world as the leading authority on, and champion for, quality. ASQC recognizes that continuous quality improvement will help the favorable repositioning of American goods and services in the international marketplace.

Board of Overseers

The Board of Overseers is the advisory organization on the Award to the Department of Commerce. The Board is appointed by the Secretary of Commerce and consists of distinguished leaders from all sectors of the U.S. economy.

The Board of Overseers evaluates all aspects of the Award Program, including the adequacy of the Criteria and processes for making Awards. An important part of the Board's responsibility is to assess how well the Award is serving the national interest. Accordingly, the Board makes recommendations to the Secretary of Commerce and to the Director of NIST regarding changes and improvements in the Award Program.

Board of Examiners

The Board of Examiners evaluates Award applications, prepares feedback reports, and makes Award recommendations to the Director of NIST. The Board consists of business and quality experts primarily from the private sector. Members are selected by NIST through a competitive application process. For 1995, the Board consists of about 270 members. Of these, 9 serve as Judges, and approximately 50 serve as Senior Examiners. The remainder serve as Examiners. All members of the Board take part in an Examiner preparation course.

In addition to their application review responsibilities, Board members contribute significantly to information transfer activities. Many of these activities involve the hundreds of professional, trade, community, and state organizations to which Board members belong.

Award Recipients' Responsibilities and Contributions

Award recipients are required to share information on their successful performance and quality strategies with other U.S. organizations. However, recipients are not required to share proprietary information, even if such information was part of their Award application. The principal mechanism for sharing information is the annual Quest for Excellence Conference, highlighted on page 50.

Award recipients in the first seven years of the Award have been very generous in their commitment to improving U.S. competitiveness, and manufacturing and service quality. They have shared information with hundreds of thousands of companies, educational institutions, government agencies, health care organizations, and others. This sharing far exceeds expectations and Program requirements. Award winners' efforts have encouraged many other organizations in all sectors of the U.S. economy to undertake their own performance improvement efforts.

INTRODUCTION



The Malcolm Baldrige National Quality Award is an annual Award to recognize U.S. companies for business excellence and quality achievement.

The Award promotes:

- awareness of quality as an increasingly important element in competitiveness,
- understanding of the requirements for performance excellence, and
- sharing of information on successful performance strategies and the benefits derived from implementation of these strategies.

Award Participation

The Award has three eligibility categories:

- Manufacturing companies
- Service companies
- Small businesses

Awards may be given in each category each year. Award recipients may publicize and advertise their Awards. In addition to publicizing the receipt of the Award, recipients are expected to share information about their successful performance strategies with other U.S. organizations.

Companies participating in the Award process are required to submit application packages that include completion of the Award Examination.

The Award Examination

The Award Examination is based upon performance excellence criteria created through a public-private partnership. In responding to these criteria, each applicant is expected to provide information and data on the company's improvement processes and results. Information and data submitted must be adequate to demonstrate that the applicant's approaches could be replicated or adapted by other companies.

The Award Examination is designed not only to serve as a reliable basis for making Awards but also to permit a diagnosis of each applicant's overall management system.

The Application Package

A complete Application Package consists of several components. Detailed information and the necessary forms are contained in the Application Forms and Instructions document. Ordering instructions for this document are given on page 49.

The objective of the Application Package is to provide sufficient information on management of products and services and results of improvement processes to permit a rigorous evaluation by the Board of Examiners. The Application Package consists of: an approved Eligibility Determination Form, with a listing of applicant company sites; a completed Application Form; a Business Overview, addressing the applicant's key business factors; the Application Report, responding to all Award Examination Criteria; and, Supplemental Sections, submitted by applicants whose applications include units that are in different businesses.

Application Review

Applications are reviewed and evaluated by members of the Board of Examiners in a four-stage process:

Stage 1 – independent review and evaluation by at least five members of the Board

Stage 2 – consensus review and evaluation for applications that score well in Stage 1

Stage 3 – site visits to applicants that score well in Stage 2

Stage 4 – Judges' review and recommendations

Board members are assigned to applications taking into account the nature of the applicants' businesses and the expertise of the Examiners. Assignments are made in accord with strict rules regarding conflict of interest.

Applications are reviewed without funding from the United States government. Review expenses are paid primarily through application fees; partial support for the reviews is provided by the Foundation for the Malcolm Baldrige National Quality Award.

Feedback to Applicants

Each applicant receives a feedback report at the conclusion of the review process. The feedback is based upon the applicant's responses to the Award Examination Criteria.

Purpose of This Booklet

This booklet contains the Award Examination Criteria, a description of the Criteria, scoring guidelines, and other information. In addition to serving as the basis for submitting an Award application, organizations of all kinds use the Criteria for self-assessment, planning, training, and other purposes.

If you plan to apply for the Award in 1995, you will also need the document entitled *1995 Application Forms and Instructions*. Ordering instructions are given on page 49.

Eligibility Determination Forms due — March 3, 1995

Award Applications due — April 3, 1995

DESCRIPTION OF THE 1995 AWARD CRITERIA

Award Criteria Purposes

The Malcolm Baldrige National Quality Award Criteria are the basis for making Awards and for giving feedback to applicants. In addition, the Criteria have three important roles in strengthening U.S. competitiveness:

- to help improve performance practices and capabilities;
- to facilitate communication and sharing of best practices information among and within organizations of all types based upon a common understanding of key performance requirements; and
- to serve as a working tool for managing performance, planning, training, and assessment.

Award Criteria Goals

The Criteria are designed to help companies enhance their competitiveness through focus on dual, results-oriented goals:

- delivery of ever-improving value to customers, resulting in marketplace success; and
- improvement of overall company performance and capabilities.

Core Values and Concepts

The Award Criteria are built upon a set of core values and concepts. These values and concepts are the foundation for integrating customer and company performance requirements.

These core values and concepts are:

Customer-Driven Quality

Quality is judged by customers. All product and service characteristics that contribute value to customers and lead to customer satisfaction and preference must be a key focus of a company's management system. Value, satisfaction, and preference may be influenced by many factors throughout the customer's overall purchase, ownership, and service experiences. These factors include the company's relationship with customers that helps build trust, confidence, and loyalty. This concept of quality includes not only the product and service characteristics that meet basic customer requirements, but it also includes those characteristics that enhance them and differentiate them from competing offerings. Such enhancement and differentiation may be based upon new offerings, combinations of product and service offerings, rapid response, or special relationships.

Customer-driven quality is thus a strategic concept. It is directed toward customer retention and market share gain. It demands constant sensitivity to emerging customer and market requirements, and measurement of the factors that drive customer satisfaction and retention. It also

demands awareness of developments in technology and of competitors' offerings, and rapid and flexible response to customer and market requirements.

Success requires more than defect and error reduction, merely meeting specifications, and reducing complaints. Nevertheless, defect and error reduction and elimination of causes of dissatisfaction contribute significantly to the customers' view of quality and are thus also important parts of customer-driven quality. In addition, the company's success in recovering from defects and errors ("making things right for the customer") is crucial to building customer relationships and to customer retention.

Leadership

A company's senior leaders need to set directions and create a customer orientation, clear and visible values, and high expectations. Reinforcement of the values and expectations requires personal commitment and involvement. The leaders' basic values and commitment need to include areas of public responsibility and corporate citizenship. The leaders need to take part in the creation of strategies, systems, and methods for achieving excellence and building capabilities. The systems and methods need to guide all activities and decisions of the company. The senior leaders need to commit to the development of the entire work force and should encourage participation and creativity by all employees. Through their personal involvement in activities, such as planning, communications, review of company performance, and recognition of employees' achievements, the senior leaders serve as role models, reinforcing the values and encouraging leadership and initiative throughout the company.

Continuous Improvement and Learning

Achieving the highest levels of performance requires a well-executed approach to continuous improvement. The term "continuous improvement" refers to both incremental and "breakthrough" improvement. The approach to improvement needs to be "embedded" in the way the company functions. Embedded means: (1) improvement is part of the daily work of all work units; (2) improvement processes seek to eliminate problems at their source; and (3) improvement is driven by opportunities to do better, as well as by problems that must be corrected. Opportunities for improvement include: employee ideas; R&D; customer input; and benchmarking or other comparative performance information.

Improvements may be of several types: (1) enhancing value to customers through new and improved products and services; (2) reducing errors, defects, and waste; (3) improving responsiveness and cycle time performance; (4) improving productivity and effectiveness in the use of all resources; and (5) improving the company's performance and leadership position in fulfilling its public responsibilities



and serving as a role model in corporate citizenship. Thus improvement is driven not only by the objective to provide better products and services, but also by the need to be responsive and efficient — both conferring additional marketplace advantages. To meet these objectives, continuous improvement must contain cycles of planning, execution, and evaluation. This requires a basis — preferably a quantitative basis — for assessing progress and for deriving information for future cycles of improvement. Such information should provide direct links between performance goals and internal operations.

Employee Participation and Development

A company's success in improving performance depends increasingly on the skills and motivation of its work force. Employee success depends increasingly on having meaningful opportunities to learn and to practice new skills. Companies need to invest in the development of the work force through ongoing education, training, and opportunities for continuing growth. Such opportunities might include classroom and on-the-job training, job rotation, and pay for demonstrated skills. Structured on-the-job training offers a cost effective way to train and to better link training to work processes. Work force education and training programs may need to utilize advanced technologies, such as electronic support systems and "information highways." Increasingly, training, development, and work organizations need to be tailored to a more diverse work force and to more flexible, high performance work practices.

Major challenges in the area of work force development include: (1) integration of human resource management — selection, performance, recognition, training, and career advancement; and (2) aligning human resource management with business plans and strategic change processes. Addressing these challenges requires acquisition and use of employee-related data on skills, satisfaction, motivation, safety, and well-being. Such data need to be tied to indicators of company or unit performance, such as customer satisfaction, customer retention, and productivity. Through this approach, human resource management may be better integrated and aligned with business directions, using continuous improvement processes to refine integration and alignment.

Fast Response

Success in competitive markets increasingly demands ever-shorter cycles for new or improved product and service introduction. Also, faster and more flexible response to customers is now a more critical requirement. Major improvement in response time often requires simplification of work organizations and work processes. To accomplish such improvement, the time performance of work processes should be among the key process measures. There are other important benefits derived from this focus: response time improvements often drive simultaneous improvements in organization, quality, and productivity. Hence it is beneficial to consider response time, quality, and productivity objectives together.

Design Quality and Prevention

Business management should place strong emphasis on design quality — problem and waste prevention achieved through building quality into products and services and into production and delivery processes. In general, costs of preventing problems at the design stage are much lower than costs of correcting problems which occur "downstream". Design quality includes the creation of fault-tolerant (robust) or failure-resistant processes and products.

A major issue in competition is the design-to-introduction ("product generation") cycle time. Meeting the demands of rapidly changing markets requires that companies carry out stage-to-stage coordination and integration ("concurrent engineering") of functions and activities from basic research to commercialization.

From the point of view of public responsibility, the design stage involves decisions regarding resource use and manufacturing processes. Such decisions affect process waste streams and the composition of municipal and industrial wastes. The growing demands for a cleaner environment mean that companies need to develop design strategies that include environmental factors.

Consistent with the theme of design quality and prevention, continuous improvement needs to emphasize interventions "upstream" — at early stages in processes. This approach yields the maximum overall benefits of improvements and corrections. Such upstream intervention also needs to take into account the company's suppliers.

Long-Range View of the Future

Pursuit of market leadership requires a strong future orientation and a willingness to make long-term commitments to all stakeholders — customers, employees, suppliers, stockholders, the public, and the community. Planning needs to anticipate many types of changes including those that may affect customers' expectations of products and services, technological developments, changing customer segments, evolving regulatory requirements, community/societal expectations, and thrusts by competitors. Plans, strategies, and resource allocations need to reflect these commitments and changes. A major part of the long-term commitment is developing employees and suppliers, fulfilling public responsibilities, and serving as a corporate citizenship role model.

Management by Fact

A modern business management system needs to be built upon a framework of measurement, information, data and analysis. Measurements must derive from the company's strategy and encompass all key processes and the outputs and results of those processes. Facts and data needed for performance improvement and assessment are of many types, including: customer, product and service performance, operations, market, competitive comparisons,

supplier, employee-related, and cost and financial. Analysis refers to extracting larger meaning from data to support evaluation and decision making at various levels within the company. Such analysis may entail using data to reveal information — such as trends, projections, and cause and effect — that might not be evident without analysis. Facts, data, and analysis support a variety of company purposes, such as planning, reviewing company performance, improving operations, and comparing company performance with competitors' or with "best practices" benchmarks.

A major consideration in the use of data and analysis to improve performance involves the creation and use of performance measures or indicators. Performance measures or indicators are measurable characteristics of products, services, processes, and operations the company uses to track and improve performance. *The measures or indicators should be selected to best represent the factors that lead to improved customer, operational, and financial performance. A system of measures or indicators tied to customer and/or company performance requirements represents a clear and objective basis for aligning all activities with the company's goals.* Through the analysis of data from the tracking processes, the measures or indicators themselves may be evaluated and changed. For example, measures selected to track product and service quality may be judged by how well improvement in these measures correlates with improvement in customer satisfaction and customer retention.

Partnership Development

Companies should seek to build internal and external partnerships to better accomplish their overall goals.

Internal partnerships might include those that promote labor-management cooperation, such as agreements with unions. Agreements might entail employee development, cross-training, or new work organizations, such as high performance work teams. Internal partnerships might also involve creating network relationships among company units to improve flexibility and responsiveness.

External partnerships may be with customers, suppliers, and education organizations for a variety of purposes, including education and training. An increasingly important kind of external partnership is the strategic partnership or alliance. Such partnerships might offer a company entry into new markets or a basis for new products or services. A partnership might also permit the blending of a company's core competencies or leadership capabilities with complementary strengths and capabilities of partners, thereby enhancing overall capability, including speed and flexibility.

Partnerships should seek to develop longer-term objectives, thereby creating a basis for mutual investments. Partners should address the key requirements for success of the

partnership, means of regular communication, approaches to evaluating progress, and means for adapting to changing conditions. In some cases, joint education and training initiatives could offer a cost-effective means to help ensure the success of an alliance.

Corporate Responsibility and Citizenship

A company's management should stress corporate responsibility and citizenship. Corporate responsibility refers to basic expectations of the company — business ethics and protection of public health, safety, and the environment. Health, safety and environmental considerations need to take into account the company's operations as well as the life cycles of products and services. Companies need to address factors such as resource conservation and waste reduction at their source. Planning related to public health, safety, and the environment should anticipate adverse impacts that may arise in facilities management, production, distribution, transportation, use and disposal of products. Plans should seek to prevent problems, to provide a forthright company response if problems occur, and to make available information needed to maintain public awareness, safety, and confidence. Inclusion of public responsibility areas within a performance system means meeting all local, state, and federal laws and regulatory requirements. It also means treating these and related requirements as areas for continuous improvement "beyond mere compliance." This requires that appropriate measures of progress be created and used in managing performance.

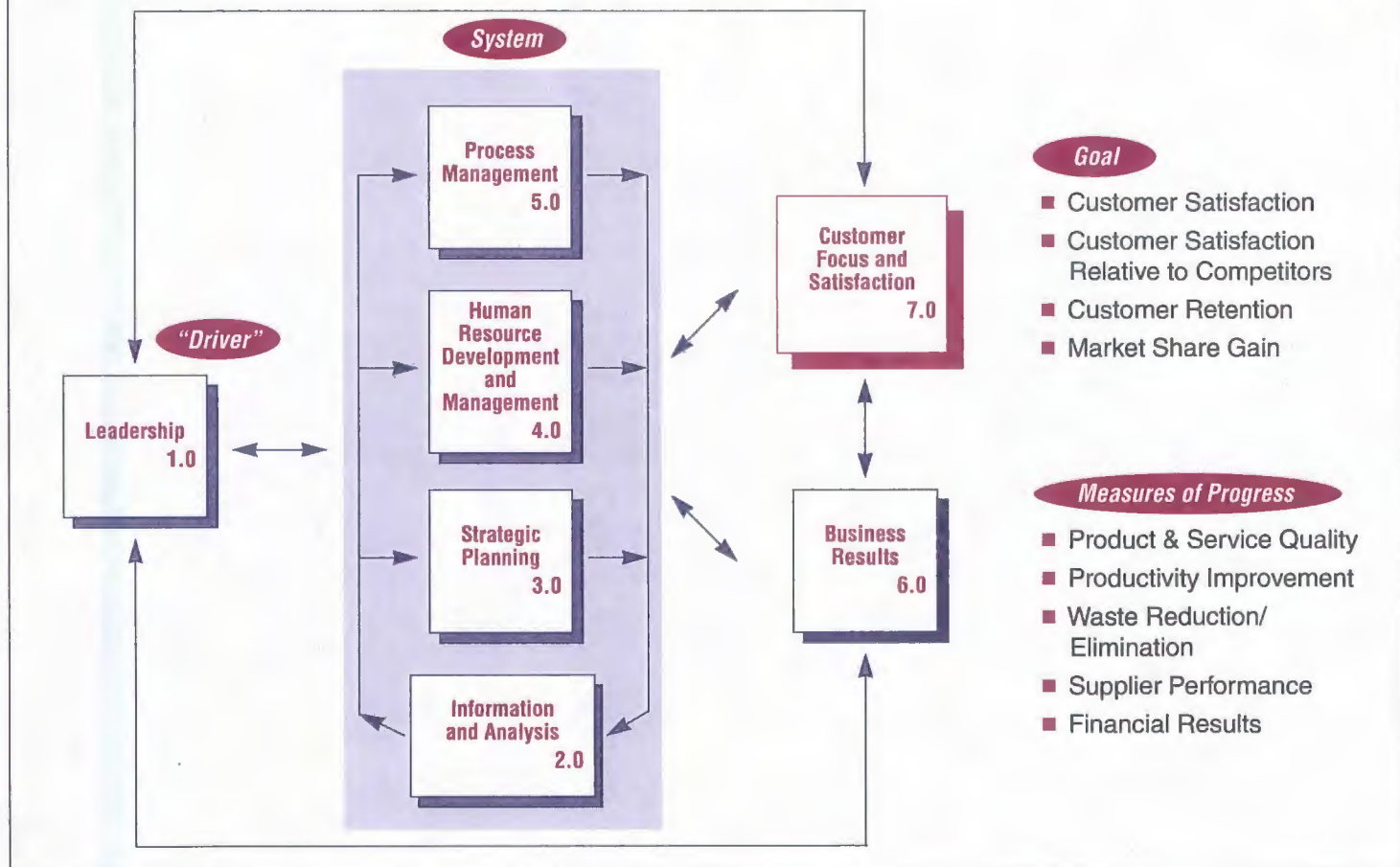
Corporate citizenship refers to leadership and support — within reasonable limits of a company's resources — of publicly important purposes, including the above-mentioned areas of corporate responsibility. Such purposes might include education improvement, improving health care value, environmental excellence, resource conservation, community services, improving industry and business practices, and sharing of nonproprietary quality-related information. Leadership as a corporate citizen entails influencing other organizations, private and public, to partner for these purposes. For example, individual companies could lead efforts to help define the obligations of their industry to its communities.

Results Orientation

A company's performance system needs to focus on results. Results ought to be guided by and balanced by the interests of all stakeholders — customers, employees, stockholders, suppliers and partners, the public, and the community. To meet the sometimes conflicting and changing aims that balance implies, company strategy needs to explicitly address all stakeholder requirements to ensure that actions and plans meet the differing needs and avoid adverse impact on the stakeholders. The use of a balanced composite of performance indicators offers an effective means to communicate requirements, to monitor actual performance, and to marshal support for improving results.



BALDRIGE AWARD CRITERIA FRAMEWORK Dynamic Relationships



Award Criteria Framework

The core values and concepts are embodied in seven Categories, as follows:

- 1.0 Leadership**
- 2.0 Information and Analysis**
- 3.0 Strategic Planning**
- 4.0 Human Resource Development and Management**
- 5.0 Process Management**
- 6.0 Business Results**
- 7.0 Customer Focus and Satisfaction**

The framework connecting and integrating the Categories is given in the figure above.

The framework has four basic elements:

Driver

Senior executive leadership sets directions, creates values, goals, and systems, and guides the pursuit of customer value and company performance improvement.

System

The system comprises the set of well-defined and well-designed processes for meeting the company's customer and performance requirements.

Measures of Progress

Measures of progress provide a results-oriented basis for channeling actions to delivering ever-improving customer value and company performance.

Goal

The basic aims of the system are the delivery of ever-improving value to customers and success in the marketplace.

The seven Criteria Categories shown in the figure are subdivided into Examination Items and Areas to Address:

Examination Items

There are 24 Examination Items, each focusing on a major requirement. Item titles and point values are given on page 20. The Item format is shown on page 43.

Areas to Address

Examination Items consist of sets of Areas to Address (Areas). Information is submitted by applicants in response to specific requirements of these Areas.

DESCRIPTION OF CATEGORIES, ITEMS, AND AREAS TO ADDRESS

Leadership

Leadership (Category 1.0) is the focal point within the Criteria for the company's leadership system, strategic directions, and expectations. The expectations include those relating to corporate responsibility and citizenship. The Category highlights the key roles of senior executives — those that cannot be delegated to others.

1.1 Senior Executive Leadership

This Item addresses how the company's senior executives set strategic directions and build and maintain a leadership system conducive to high performance, individual development, and organizational learning. Executive leadership needs to take into account all stakeholders — customers, employees, suppliers, partners, stockholders, the public, and the community.

Area 1.1a calls for information on the major aspects of leadership — creating values and expectations, setting directions, developing and maintaining an effective leadership system, and building company capabilities. Senior executives need to reflect these values, and the leadership system needs to include teamwork at the executive level.

Area 1.1b calls for information on how senior executives evaluate and improve the effectiveness of the company's organization and leadership system. This aspect of leadership is crucial, because of the fast pace of competition. A major target is to create organizations that are flexible and responsive — changing easily to adapt to new needs and opportunities. This Area recognizes that both factors — leadership and organization — are crucial to high performance. Through their roles in strategy development and review of company performance, the senior executives adapt leadership and organization to changing opportunities and requirements.

1.2 Leadership System and Organization

This Item addresses how the company's leadership system is translated into an effective overall organization and management system — focused on performance.

Area 1.2a calls for information on how the company's organization, management, and work processes support its customer and performance objectives. Functional and management barriers that could lead to losing sight of customers and cause decision paths to be ineffective and slow must be prevented. Performance measures provide an effective means to ensure alignment of company units.

Area 1.2b calls for information on how the company's values, expectations, and directions are “made real” throughout the company via effective communications.

Although senior executives' communications are necessary for effective overall communications, making values, expectations, and directions real demands constant reinforcement and “truth testing”, as employees observe whether or not stated values and expectations are actually the basis for company actions and key decisions.

Area 1.2c calls for information on how company and work unit performance are reviewed. Important work process assessments should be included in these reviews. This information should address important aspects of reviews — types, frequency, content, uses and who conducts them. Frequency, content, uses and who conducts reviews could vary greatly, depending upon many factors. Most commonly, a review system, blending ongoing (“real time”) and periodic reviews, is needed to meet differing requirements.

Reviews offer an effective means to communicate and reinforce what is really important, how performance is measured, and how well business objectives are being met. Important considerations in reviews are the content and organization of information to foster learning and to stimulate action. This means that reviews should include non-financial and financial information which together present a clear picture of status and trends relative to the company's key business drivers. Reviews also provide an effective means to assist units which may not be performing according to expectations.

1.3 Public Responsibility and Corporate Citizenship

This Item addresses how the company integrates its public responsibilities and corporate citizenship into its business planning and performance improvement practices.

Area 1.3a calls for information on three basic aspects of public responsibility: (1) making risk and legal requirements an integral part of performance improvement; (2) sensitivity in planning products, services, and operations to issues of societal concern whether or not these issues are currently embodied in law; and (3) making legal and ethical conduct visible in the company's values and performance improvement processes. Fulfilling public responsibilities means not only meeting all local, state, and federal laws and regulatory requirements, but also treating these and related requirements as areas for improvement “beyond mere compliance”. This means that the company should maintain constant awareness of potential public impacts related to its products, services, and operations.

Area 1.3b calls for information on how the company leads as a corporate citizen in its key communities. The issues in this Area relate to the company as a member of different types of communities and being a positive influence upon other organizations. Opportunities for leadership and



involvement include assistance by the company to strengthen community services, education, healthcare, the environment, and practices of trade and business associations. This includes community service by employees, encouraged, supported, and recognized by the company. For example, companies and their employees could help to influence the adoption of higher standards in education.

Information and Analysis

Information and Analysis (Category 2.0) is the focal point within the Criteria for all key information to drive the improvement of overall performance. In simplest terms, Category 2.0 is the “brain center” for the alignment of a company’s information system with its strategic directions. The Category addresses the information and analysis requirements for performance improvement based upon the improvement of key processes.

2.1 Management of Information and Data

This Item addresses the company’s selection and management of information and data to support overall business goals with primary emphasis on supporting process management and performance improvement.

Area 2.1a calls for information on how information and data needed to drive improvement of overall company performance are selected and managed. The Area has two parts. The first part addresses selection and emphasizes key business drivers — strategically important areas of performance. The second part addresses management of data and information, and emphasizes user needs — rapid access and update, and reliability.

Area 2.1b calls for information on how the company evaluates and improves its selection, analysis, and management of information and data. The Area emphasizes alignment with business priorities, support of process management, and feedback from information and data users. The evaluation might take into account factors such as paths of data use, extent and effectiveness of use, gaps, sharing, and organization of information and data.

Overall, Item 2.1 represents a key foundation for a performance-oriented company. This foundation should include non-financial and financial information and data.

Although the main focus of Item 2.1 is on information and data for the effective management of performance, information, data, and information technology often have strategic significance as well. For example, information technology could be used to build and disseminate unique knowledge about customers and markets and create the ability to operate more successfully in key markets. Also, information technology and the information and data made available through such technology could be of special advantage in business networks or alliances. Responses to Areas 2.1a

and 2.1b should take into account such strategic use of information and data. Accordingly, “users” should then be interpreted as business partners as well as company units.

2.2 Competitive Comparisons and Benchmarking

This Item addresses external drivers of improvement — data and information related to competitive position and to best practices. Such data may have both operational and strategic value.

Area 2.2a calls for information on how competitive comparisons and benchmarking information are selected and used to help drive improvement of overall company performance. The Area focuses on needs and priorities and criteria for selecting information and data. The Area also examines the use of data to develop an understanding of processes and process performance and to set stretch targets.

Area 2.2b calls for information on how the company evaluates and improves its processes for selecting and using competitive and benchmark information to drive performance improvement.

The major premises underlying this Item are: (1) companies need to “know where they stand” relative to competitors and to best practice performance for similar activities; (2) comparative and benchmarking information provides impetus for significant (“breakthrough”) improvement and alerts companies to competitive threats and new practices; and (3) companies need to understand their own processes and the processes of others, before they compare performance levels.

Benchmarking information may also support business analysis and decisions relating to core competencies, alliances, and outsourcing.

2.3 Analysis and Use of Company-Level Data

This Item addresses company-level analysis — the principal basis for guiding a company’s process management toward business results. Despite the importance of individual facts and data, they do not usually provide a sound basis for actions or priorities. Action depends upon understanding cause/effect connections among processes and between processes and business results. Process actions may have many resource implications; results may have many cost and revenue implications as well. Given that resources for improvement are limited, and cause/effect connections are often unclear, there is a critical need to provide a sound analytical basis for decisions. In the Criteria, this role is served by analyses of many types. Item 2.3 plays the key linkage role in an integrated data and analysis system that is built around financial and non-financial data.

Area 2.3a calls for information on how data and information from all parts of the company are aggregated and analyzed to support reviews, business decisions, and planning. The focus is on three key areas of performance: customers and markets; operational performance; and competitive performance. The analyses in this Area depend upon non-financial and financial data, connected to provide a basis for action.

Area 2.3b calls for analysis linking customer and market data, improvements in product and service quality, and improvements in operational performance to improvement in financial and/or market indicators. The purpose of this linkage is to guide the selection of improvement efforts, to achieve revenue growth, and to reduce operating costs.

Strategic Planning

Strategic Planning (Category 3.0) addresses strategic and business planning and deployment of plans, with a strong focus on customer and operational performance requirements. The Category stresses that customer-driven quality and operational performance excellence are key strategic business issues which need to be an integral part of company planning. Specifically:

- customer-driven quality is a strategic view of quality. The focus is on the drivers of customer satisfaction, customer retention, and market share — key factors in competitiveness and business success;
- operational performance improvement contributes to short-term and longer-term productivity growth and cost/price competitiveness. The focus on building operational capability — including speed, responsiveness, and flexibility — represents an investment in strengthening competitive fitness.

The Criteria also emphasize that continuous improvement must be an integral part of the daily activity of all work units. The special role of Category 3.0 is to provide an effective focus for daily work, aligning it with the company's strategic directions.

In particular, planning is needed to:

- understand the key customer and operational requirements as input to setting strategic directions. This will help ensure that ongoing process improvements will be aligned with the company's strategic directions.
- optimize the use of resources and ensure bridging between short-term and longer-term requirements which may entail capital expenditures, training, etc.
- ensure that deployment will be effective — that there are mechanisms to transmit requirements and achieve alignment on three basic levels: (1) company/executive level; (2) the key process level; and (3) the work-unit/individual-job level.

The Category requirements do not imply formalized plans, planning systems, departments, or specific planning cycles. Nor does the Category imply that all improvements could or should be planned in advance.

3.1 Strategy Development

This Item addresses how the company develops its view of the future, sets strategic directions, and translates these directions into actionable key business drivers, including customer satisfaction and market leadership requirements. The focus of the Item is on competitive leadership. Such leadership depends upon revenue growth as well as on operational effectiveness.

Area 3.1a calls for information on the key influences, challenges, and requirements that might affect the company's future opportunities and directions — taking as long a view as possible. The main purpose of the Area is to develop a thorough and realistic context for the development of customer- and market-focused strategy to guide ongoing decision making, resource allocation and companywide management.

Area 3.1b calls for information on how strategy and plans are translated into actionable key business drivers, which serve as the basis for operationalizing and deploying plan requirements, addressed in Item 3.2. This translation might include a determination of activities the company should perform itself and those for which it might utilize partners or seek partners.

Area 3.1c calls for information on how the company evaluates and improves its strategic planning and plan deployment processes. This might involve input from work units regarding key deployment factors — effective translation and communications of strategy and plans, adequacy of resources, and key new needs.

Item 3.1 plays a central directional role in the Criteria. It seeks to focus company leadership on developing a competitive strategy and on operationalizing this strategy. This requires the creation of a view of the future that takes into account not only the markets or segments to compete in but also how to compete. "How to compete" presents many options and requires good understanding of the company's and competitors' strengths and weaknesses. Operationalizing the strategy in the form of key business drivers is intended to highlight the importance of clear and measurable performance objectives. These objectives serve to guide the design and management of key processes. The objectives may also serve to align communications and compensation and recognition systems with performance objectives.



3.2 Strategy Deployment

This Item addresses how the company's key business drivers are deployed. Also addressed is a projection of key measures of the company's performance. The main intent of the Item is to focus on effective operationalizing of the key business drivers, including measures that permit the tracking of performance.

Area 3.2a calls for information on the company's key business drivers and how these drivers are translated into an action plan. This includes spelling out key performance requirements, alignment of work unit, supplier, and/or partner plans, how productivity, cycle time, and waste reduction are addressed, and the principal resources committed to the accomplishment of plans. Of central importance in this Area is how alignment and consistency are achieved — for example, via key processes and key measurements. The alignment and consistency are intended also to provide a basis for priorities for ongoing improvement activities — part of the daily work of all work units.

Area 3.2b calls for a projection of key measures and/or indicators of the company's quality and operational performance. It also calls for comparing projected performance versus competitors and key benchmarks. This projection/comparison is intended to encourage companies to improve their understanding of dynamic, competitive quality and operational performance factors, and to take into account their rates of improvement as a diagnostic management tool.

Human Resource Development and Management

Human Resource Development and Management (Category 4.0) is the focal point within the Criteria for all key human resource practices — those directed toward the creation of a high performance workplace. The Category addresses human resource development and management in an integrated way. This integration is concerned with how well the human resource practices tie into and are aligned with the company's strategic directions.

4.1 Human Resource Planning and Evaluation

This Item serves as the point of direct linkage between human resource planning and the company's strategic directions. The strategic directions should address the development of the entire work force and the needs of a high performance workplace. The Item addresses how the company aligns its human resource planning and practices with its business directions so that high performance workplace practices become part of a coordinated organizational strategy.

Area 4.1a calls for information on key human resource plans derived from company strategic and business planning. The Area calls for the primary thrusts, broadly defined, of the company's human resource plans — the ones needed to support its overall strategic directions. This is intended to provide a multiyear context and guide for human resource planning, management, and evaluation.

Area 4.1b calls for information on how the company evaluates and improves its overall human resource planning and management. This Area is the "brain center" for human resource processes and results, as it relies upon employee-related and company performance data and information, and ties the overall evaluation to company strategy and business results. However, the evaluation also must go beyond broad strategy to the essential details of human resource effectiveness. The evaluation needs to provide the company's senior executives with information on strengths and weaknesses in human resource practices and development that might bear upon the company's abilities to achieve its short-term and longer-term business objectives. For example, the evaluation should take into account the development and progression of all categories and types of employees, including new employees. The evaluation should also monitor the extent of deployment of education and training throughout the company, and how well education and training support company performance improvement. The overall evaluation needs to rely heavily upon the well-being and satisfaction factors addressed in Item 4.4.

4.2 High Performance Work Systems

This Item addresses how the company's job design, compensation, and recognition approaches enable and encourage all employees to contribute effectively, operating within high performance work units. The Item emphasizes that high performance requires effective work design and reinforcement.

Area 4.2a calls for information on job design and work organizations. The basic aims of such design and organizations should be to enable employees to exercise more discretion and decision making, leading to greater flexibility and more rapid response to the changing requirements of the marketplace. Effective job design and flexible work organizations are necessary but may not be sufficient to ensure high performance. Job and organization design needs to be backed by information systems, education, and appropriate training to ensure that information flow supports the job and work designs. Also important is effective communication across functions and work units to ensure focus on customer requirements.

Area 4.2b addresses the important alignment of incentives with work systems. The Area calls for information on employee compensation and recognition — how these reinforce high performance job design, work organizations, and teamwork. These are important considerations because there should be a consistency between the company's compensation and recognition system and its work structures and processes. Also, compensation and recognition may need to be based upon demonstrated skills and evaluation by peers in teams and networks.

4.3 Employee Education, Training, and Development

This Item addresses how the company develops the work force via education, training, and on-the-job reinforcement of knowledge and skills. Development is intended to meet the needs of a high performance workplace on an ongoing basis. This means that education and training need to be ongoing as well.

Area 4.3a calls for information on how the company's education and training serve as a key vehicle in building company capabilities and employee capabilities. The Area focuses on these two capabilities, treating them as investments the company makes in its long-term future and the long-term future of employees.

Area 4.3b calls for information on how education and training are designed, delivered, reinforced, and evaluated, with special emphasis upon on-the-job application of knowledge and skills. The Area emphasizes the importance of the involvement of employees and line managers in design of training, including clear identification of specific needs. This involves job analysis — understanding the types and levels of the skills required and the timeliness of training. The Area also emphasizes evaluation of education and training. Such evaluation could take into account line managers' evaluation, employee self-evaluation, and peer evaluation of value received through education and training relative to needs identified in design. Evaluation could also address the effectiveness of education and training delivery, impact on work unit performance, and costs of delivery alternatives.

4.4 Employee Well-Being and Satisfaction

This Item addresses the work environment, the work climate and how they are tailored to foster the well-being, satisfaction, and development of all employees.

Area 4.4a calls for information regarding a safe and healthful work environment to determine how the company includes such factors in its planning and improvement activities.

Area 4.4b calls for information on the company's approach to enhance employee well-being, satisfaction, and growth potential based upon a more holistic view of employees as key stakeholders. The Area emphasizes that the company needs to consider a variety of mechanisms to build well-being and satisfaction. Increasingly, these mechanisms relate to development, progression, employability, and external activities. This might include family or community service activities.

Area 4.4c calls for information on how the company determines employee satisfaction, well-being, and motivation. The Area recognizes that many factors might affect employee motivation. Although satisfaction with pay and promotion potential is important, these factors may not be adequate to assess the overall climate for motivation and high performance. For this reason, the company may need to consider a variety of factors in the work environment to determine the key factors in motivation. Factors inhibiting motivation need to be prioritized and addressed. Further understanding of these factors could be developed through exit interviews with departing employees.

Process Management

Process Management (Category 5.0) is the focal point within the Criteria for all key work processes. Built into the Category are the central requirements for efficient and effective process management — effective design, a prevention orientation, evaluation and continuous improvement, linkage to suppliers, and overall high performance.

5.1 Design and Introduction of Products and Services

This Item examines how the company designs and introduces products and services. A major focus of the Item is the rapid and effective integration of production and delivery early in the design phase. This integration is intended to minimize downstream problems for customers and/or eliminate the need for design changes that might be costly to the company.

Area 5.1a calls for information on the design of products, services, and their production/delivery processes. Three aspects of this design are examined: (1) the translation of customer requirements into the design requirements for products and services; (2) how the product and service design requirements are translated into efficient and effective production/delivery processes; and (3) how all requirements associated with products, services, and production/delivery processes are addressed early in the design process by all appropriate company units to ensure integration and coordination. Many businesses also need to consider requirements for suppliers and/or business partners at the design stage. Overall, effective design must take into account all stakeholders in the value chain.



It should be noted that although the main focus of Area 5.1a is on the design of products, services, and processes to meet customer requirements, effective design must also consider cycle time and productivity of production and delivery processes. This might entail detailed mapping of manufacturing or service processes to achieve efficiency as well as to meet customer requirements.

Area 5.1b calls for information on how product, service, and production/delivery process designs are reviewed and/or tested in detail prior to full-scale launch. Such review and/or testing is intended to ensure that all parts of the production/delivery system are capable of performing according to design. This stage could be a crucial one — with a positive or negative customer reaction and potentially high cost to the company if pre-launch changes are significant.

Area 5.1c calls for information on how designs and design processes are evaluated and improved to progressively improve quality and cycle time. This Area is intended to determine how companies extract lessons learned to build capabilities for future designs. Such evaluation might take into account delays and problems experienced during design, feedback from those involved, and post-launch problems that might have been averted through better design. The evaluation and improvement should strive for a continuous flow of work in the key design and delivery processes.

5.2 Process Management: Product and Service Production and Delivery

This Item addresses two different but related concerns — how the company maintains and how it improves key production and delivery processes.

Area 5.2a calls for information on the maintenance of process performance to ensure that processes perform according to their design. The information required includes a description of the key processes and their specific requirements, and how performance relative to these requirements is known and maintained. Specific reference is made to a measurement plan. Such a plan requires the identification of critical points in processes for measurement or observation. Implied in this plan is that measurements or observations be made at the earliest points in processes to minimize problems that may result from variations from expected (design) performance. When measurements or observations reveal such variations, a remedy — usually called corrective action — is required to restore the performance of the process to its design performance. Depending on the nature of the process, the

correction could involve technical, human, or both factors. Proper correction involves correcting at the source (root cause) of the variation. In some cases, customers may directly witness or take part in the process, and contribute to or be a determinant of process performance. In such cases, variations among customers must be taken into account in evaluating how well the process is performing. This might entail specific or general contingencies depending on customer response. This is especially true of professional and personal services.

Area 5.2b calls for information on how processes are improved to achieve better performance. Better performance means not only better quality from the customers' perspective but also better operational performance — such as productivity — from the company's perspective. Area 5.2b anticipates that companies use a variety of process improvement approaches. Area 5.2b calls for information on how the company uses or considers four key approaches.

5.3 Process Management: Support Services

This Item addresses how the company designs, maintains, and improves its support service processes.

Area 5.3a calls for information on the design of key support service processes. Such design needs to be based upon the requirements of the company's customers and of other units ("internal customers") within the company — those within the company who use the output of the process. The requirements of effective design are as outlined in Item 5.1 — coordinated and integrated to ensure efficient and effective performance.

Area 5.3b calls for information on how the company maintains the performance of the key support service processes. This information includes a description of the key processes and their principal requirements and a description of the measurement plan and how it is used. The requirements of Area 5.3b are similar to those described above in Area 5.2a.

Area 5.3c calls for information on how the company evaluates and improves the performance of the key support service processes. The Area calls for information on how the company uses or considers four key approaches.

5.4 Management of Supplier Performance

This Item addresses how the company manages performance of external providers of goods and services. Such management might be built around longer-term partnering relationships, particularly with key suppliers.

Area 5.4a calls for basic information on the company's principal requirements for its key suppliers, expected performance and measures used to assess performance, how the company determines whether or not its requirements are being met, and how performance information is fed back to suppliers.

Area 5.4b calls for information on how the company evaluates and improves its supplier management. This includes three main elements: improving supplier abilities to meet requirements; improving its own supplier management processes; and reducing costs associated with the verification of supplier performance.

For many companies, suppliers are an increasingly important part of achieving not only high performance and lower-cost objectives, but also strategic objectives. For example, key suppliers might provide unique design, integration, and marketing capabilities. Exploiting these advantages requires joint planning and partner relationships. Such planning and relationship building might entail the use of longer-term planning horizons and customer-supplier teams.

Business Results

Business Results (Category 6.0) provides a results focus for all processes and process improvement activities. Through this focus, the Criteria's dual purpose — superior value of offerings as viewed by customers and the marketplace, and superior company performance reflected in productivity and effectiveness indicators — is maintained. Category 6.0 thus provides “real-time” information (measures of progress) for evaluation and improvement of processes, aligned with overall business strategy. Use of business results data and information is called for in Item 2.3.

6.1 Product and Service Quality Results

This Item addresses current levels and trends in product and service quality using key measures and/or indicators of such quality. The measures and/or indicators selected should relate to requirements that matter to the customer and to the marketplace. These features are derived from customer-related Items (“listening posts”) which make up Category 7.0. If the features have been properly selected, improvements in them should show a strong positive correlation with customer and marketplace improvement indicators — captured in Items 7.4 and 7.5. The correlation between quality and customer indicators is a critical management tool — a device for focusing on key quality requirements. In addition, the correlation may reveal emerging or changing market segments, changing importance of requirements, or even potential obsolescence of products and/or services.

Area 6.1a calls for data on current levels and trends in product and service quality. The Area also calls for comparative information so that the results reported can be evaluated against competitors or other relevant markers of performance.

6.2 Company Operational and Financial Results

This Item addresses the operational and financial performance of the company. Paralleling Item 6.1, which focuses on requirements that matter to the customer, Item 6.2 focuses on factors that best reflect overall company operational performance. Such factors are of two types: (1) generic — common to all companies; and (2) business-specific. Generic factors include financial indicators, cycle time, and productivity, as reflected in use of labor, materials, energy, capital, and assets. Generic factors also include human resource indicators such as safety, absenteeism, and turnover. Productivity, cycle time, or other operational indicators should reflect **aggregate company performance**. Business- or company-specific effectiveness indicators vary greatly. Examples include rates of invention, environmental quality, export levels, new markets, percent of sales from recently introduced products or services, and shifts toward new segments.

Area 6.2a calls for data on current levels and trends in company operational and financial performance. The Area also calls for comparative information so that results reported can be evaluated against competitors or other relevant markers of performance.

6.3 Supplier Performance Results

This Item addresses current levels and trends in key measures and/or indicators of supplier performance. Suppliers are external providers of materials and services, “upstream” and/or “downstream” from the company. The focus should be on the most critical requirements from the point of view of the company — the buyer of the products and services. Data reported should reflect results by whatever means they occur — via improvements by suppliers within the supply base, through selection of better performing suppliers, or both.

Area 6.3a calls for data and current levels and trends in supplier performance. Measures and indicators of performance should relate to all key requirements — quality, delivery, and price. The Area also calls for comparative information so that results reported can be evaluated against competitors or other relevant markers of performance.



Customer Focus and Satisfaction

Customer Focus and Satisfaction (Category 7.0) is the focal point within the Criteria for understanding in detail the voices of customers and the marketplace. Much of the information needed for this understanding comes from measuring results and trends. Such results and trends provide hard information on customers' views and their marketplace behaviors. This provides a useful foundation for setting priorities and focusing improvement activities. The results and trends offer a means to determine whether or not priorities and improvement activities are appropriately directed.

7.1 Customer and Market Knowledge

This Item addresses how the company determines current and emerging customer requirements and expectations. The thrust of the Item is that many factors may affect customer preference and customer loyalty, making it necessary to listen and learn on a continuous basis.

Area 7.1a calls for information on the company's process for determining current and near-term requirements and expectations of customers. The information sought includes the completeness of the customer pool, including recognition of segments and customers of competitors. Other information sought relates to sensitivity to specific product and service requirements and their relative importance to customer groups. The Area is concerned with overall validity of determination methods. The validity should be backed by use of other data and information such as complaints and gains and losses of customers.

Area 7.1b calls for information on how the company addresses future requirements and expectations of customers — its key listening and learning strategies. Such strategies depend a great deal upon the nature of the company's products and services, the competitive environment, and relationships with customers. The listening and learning strategy selected should provide timely and useful information for decision making. The strategy should take into account the company's competitive strategy. For example, if the company customizes its products and services, the listening and learning strategy needs to be backed by a capable information system — one that rapidly accumulates information about customers, and makes this information available where needed throughout the company.

Area 7.1c calls for information on how the company evaluates and improves its processes for determining customer requirements and expectations. Such evaluation/improvement could entail a variety of approaches — formal and informal — that seek to stay in close touch with customers and with issues that bear upon customer loyalty and customer preference. The purpose of the evaluation called for in Area 7.1c is to find reliable and cost-effective means to understand customer requirements and expectations on a continuous basis.

7.2 Customer Relationship Management

Item 7.2 addresses how the company provides effective management of its responses and follow-ups with customers. Relationship management provides a potentially important means for companies to gain understanding about, and to manage, customer expectations. Also, frontline employees may provide vital information relating to building partnerships and other longer-term relationships with customers.

Area 7.2a calls for information on how the company provides easy access for customers specifically for purposes of seeking information or assistance and/or to comment and complain. This Area also calls for information on service standards and their use.

Area 7.2b focuses on the complaint management process. The principal issue addressed is prompt and effective resolution of complaints including recovery of customer confidence. However, the Area also addresses how the company learns from complaints and ensures that production/delivery process employees receive information needed to eliminate the causes of complaints.

Area 7.2c calls for information on how the company follows up with customers regarding products, services, and recent transactions to determine satisfaction, to resolve problems, and to gather information for improvement or for new services.

Area 7.2d calls for information on how the company evaluates and improves its customer response management. Such improvements may be of several types. Examples include improving service standards, such as complaint resolution time and resolution effectiveness, and improving the use of customer feedback to improve production/delivery processes, training, and hiring.

7.3 Customer Satisfaction Determination

This Item addresses how the company determines customer satisfaction and satisfaction relative to competitors.

Area 7.3a calls for information on how the company gathers information on customer satisfaction, including any important differences in approaches for different customer groups or segments. The Area highlights the importance of the measurement scale to focus on the factors that reflect customers' market behaviors — repurchase, new business, and positive referral.

Area 7.3b calls for information on how satisfaction relative to competitors is determined. Such information might be derived from company-based comparative studies or studies made by independent organizations. The purpose of this comparison is to develop information that can be used for improving performance relative to competitors and to better understand the factors that drive markets.

Area 7.3c calls for information on how the company evaluates and improves its processes and measurement scales for determining customer satisfaction and satisfaction relative to competitors. This evaluation/improvement process is expected to draw upon other indicators such as gains and losses of customers and customer dissatisfaction indicators such as complaints. The evaluation should also consider how well customer satisfaction information and data are used throughout the company. Such use is likely to be enhanced if data are presented in an actionable form meeting two key conditions: (1) survey responses tying directly to key business processes; and (2) survey responses translated into cost/revenue implications.

7.4 Customer Satisfaction Results

This Item addresses two related but nevertheless different types of business results — customer satisfaction and customer dissatisfaction.

Area 7.4a calls for information on trends and current levels in key measures and/or indicators of customer satisfaction. The presentation of results could include information on customer retention and other appropriate evidence of current and recent past satisfaction with the company's products and/or services, such as customer awards.

Area 7.4b calls for trends in key measures and/or indicators of customer dissatisfaction. Such measures and/or indicators depend upon the nature of the products and/or services. Item 7.3, Note (3), lists a number of possible indicators of dissatisfaction. In addition, a company's survey methods might include a scale that uses ratings such as "very dissatisfied" or "somewhat dissatisfied."

The reason for including measures of both satisfaction and dissatisfaction is that they usually provide different information. That is, the factors in high levels of satisfaction may not be the same factors as those that relate to high levels of dissatisfaction. In addition, the effect of individual instances of dissatisfaction on overall satisfaction could vary widely depending upon the effectiveness of the company's resolution ("recovery") of a problem.

Although Item 7.4 is a results Item, it is anticipated that the results themselves are **input** drivers of improvement priorities — actions that affect customer retention and positive referral. That is, the main management approach involves viewing increasing satisfaction and decreasing dissatisfaction as a means, not an end. The end is retention and positive referral. Use of customer satisfaction data and information is called for in Item 2.3.

7.5 Customer Satisfaction Comparison

This Item addresses three related but nevertheless different customer-related results, important to managing in a competitive environment. These are: customer satisfaction relative to competitors; gains and losses of customers and customer accounts relative to competitors; and gains and losses in market share.

Area 7.5a calls for information on trends and current levels in key measures and/or indicators of customer satisfaction relative to competitors. The presentation of results could include information on gains and losses of customers and customer accounts relative to competitors.

Area 7.5b calls for trends in gaining or losing market share to competitors.

The reason for including the three measures is that they provide different information. Relative satisfaction and gains and losses of customers and customer accounts provide information on specific factors and the importance of these factors in customer decision making. Market share information provides a more aggregate view of markets that includes but goes beyond customer turnover.

Although Item 7.5 is a results Item, it is anticipated that the results themselves are drivers of improvement priorities and market understanding, reinforcing but going beyond the information presented in Item 7.5. Use of customer satisfaction comparison data and information is called for in Item 2.3.

KEY CHARACTERISTICS OF THE AWARD CRITERIA



1. The Criteria are directed toward business results.

The Criteria focus principally on seven key areas of business performance, given below.

Business results are a composite of:

- (1) customer satisfaction/retention
- (2) market share, new market development
- (3) product and service quality
- (4) financial indicators, productivity, operational effectiveness, and responsiveness
- (5) human resource performance/development
- (6) supplier performance/development
- (7) public responsibility/corporate citizenship

Improvements in these seven results areas contribute to overall company performance, including financial performance. The results areas also recognize the importance of suppliers and community and national well-being.

The use of a composite of indicators helps to ensure that strategies are balanced — that they do not trade off among important stakeholders or objectives. The composite of indicators also helps to ensure that company strategies bridge short-term and long-term goals.

2. The Criteria are nonprescriptive.

The Criteria are a set of 24 basic, interrelated, results-oriented requirements. However, the Criteria imply wide latitude in how requirements are met. Accordingly, the Criteria do not prescribe:

- specific tools, techniques, technologies, systems, or starting points;
- that there should or should not be within a company a quality or a planning department; or
- how the company itself should be organized.

The Criteria do emphasize that these and other factors be regularly evaluated as part of the company's improvement processes. The factors listed are important and are very likely to change as needs and strategies evolve.

The Criteria are nonprescriptive because:

- (1) The focus is on results, not on procedures, tools, or organizations. Companies are encouraged to develop and *demonstrate* creative, adaptive, and flexible approaches to meeting basic requirements. Nonprescriptive requirements are intended to foster incremental and major ("breakthrough") improvement.
- (2) Selection of tools, techniques, systems, and organizations usually depends upon many factors such as business size, business type, the company's stage of development, and employee capabilities.
- (3) Focus on common requirements within a company, rather than on specific procedures, fosters better understanding, communication, and sharing, while supporting creativity in approaches.

3. The Criteria are comprehensive.

The Criteria address all internal and external requirements of the company, including those related to fulfilling its public responsibilities. Accordingly, all processes of all company work units are tied to these requirements. New or changing strategies may be readily adapted within the same set of Criteria requirements.

4. The Criteria include interrelated (process→results) learning cycles.

There is dynamic linkage among the Criteria requirements. Learning (and action based upon that learning) takes place via feedback among the process and results elements.

The learning cycles have four, clearly defined stages:

- (1) planning, including design of processes, selection of indicators, and deployment of requirements;
- (2) execution of plans;
- (3) assessment of progress, taking into account internal and external (results) indicators; and
- (4) revision of plans based upon assessment findings.

5. The Criteria emphasize alignment.

The Criteria call for improvement (learning) cycles in all parts of the company. To ensure that these cycles carried out in different parts of the company support one another, overall aims need to be consistent or *aligned*. Alignment in the Criteria is achieved via connecting and reinforcing measures, derived from overall company requirements. These measures tie directly to customer value and to operational performance. The use of measures thus channels different activities in agreed-upon directions. Use of measures often avoids the need for detailed procedures or centralization of decision making or process management. Measures thus provide a communications tool and a basis for deploying consistent customer and operational performance requirements. Such alignment ensures consistency of purpose while at the same time supporting speed, innovation, and decentralized decision making.

6. The Criteria are part of a diagnostic system.

The Criteria and the Scoring Guidelines make up a two-part diagnostic (assessment) system. The Criteria are a set of 24 basic, results-oriented requirements. The scoring guidelines spell out the assessment dimensions — Approach, Deployment, and Results — and the key factors used in assessment relative to each dimension. An assessment thus provides a profile of strengths and areas for improvement relative to the 24 requirements. In this way, the assessment directs attention to actions that contribute to the results composite described above.

LINKAGE OF THE CRITERIA TO KEY BUSINESS ISSUES

Incremental and Breakthrough Improvement

Nonprescriptive, results-oriented Criteria and key measures and indicators focus on *what* needs to be improved. This approach helps to ensure that improvements throughout the organization contribute to the organization's overall objectives. In addition to fostering creativity in approach and organization, results-oriented Criteria and key measures and indicators encourage "breakthrough thinking" — openness to the possibility for major improvements as well as to incremental ones. However, if key measures and indicators are tied too directly to existing work organizations and processes, breakthrough changes may be discouraged. For this reason, analysis of processes and progress should focus on the selection of and the value of the measures and indicators themselves. This will help to ensure that measure and indicator selection does not stifle creativity that may lead to entirely new approaches.

Benchmarking may also serve a useful purpose in stimulating breakthrough thinking. Benchmarking may lead to significant improvements based on adoption or adaptation of current best practice. In addition, benchmarks help encourage creativity through exposure to alternative approaches and represent a clear challenge to "beat the best," thus stimulating the search for major improvements rather than only incremental refinements of existing approaches. As with key measures and indicators, benchmark selection is critical, and benchmarks should be reviewed periodically for appropriateness.

Business Strategy and Decisions

The focus on superior offerings and lower costs of operation means that the Criteria's principal route to improved financial performance is through requirements that seek to channel company activities toward producing superior overall value. Delivering superior value — an important part of business strategy — also supports other business strategies such as pricing. For example, superior value offers the possibility of price premiums or competing via lower prices. Pricing decisions may enhance market share and asset utilization, and thus may also contribute to improved financial performance.

Business strategy usually addresses factors in addition to quality and value. For example, strategy may address market niche, alliances, facilities location, diversification, acquisition, export development, research, technology leadership, and rapid product turnover. The Criteria support the development, deployment, and evaluation of business decisions and strategies, even though these involve many factors other than product and service quality. Examples of applications of the Criteria to business decisions and strategies include:

- management of the information used in business decisions and strategy — scope, validity, and analysis;
- requirements of niches, new businesses, and export target markets;
- use of benchmarking information in decisions relating to outsourcing, alliances, and acquisitions;
- analysis of factors — societal, regulatory, economic, competitive, and risk — that may bear upon the success or failure of strategy;
- development of scenarios built around possible outcomes of strategy or decisions, including risks and consequences of failures; and
- lessons learned from previous strategy developments — within the company or available through research.

Financial Performance

The Criteria address financial performance via three major avenues: (1) emphasis on requirements that lead to superior offerings and thus to better market performance, market share gain, and customer retention; (2) emphasis on improved productivity, asset utilization, and lower overall operating costs; and (3) support for business strategy development, business decisions, and innovation.

The Criteria and evaluation system take into account market share, customer retention, customer satisfaction, productivity, asset utilization, and numerous other factors that contribute to financial performance. The Criteria *do encourage* the use of financial information, including profit trends, in analyses and reporting of results derived from performance improvement. However, companies are encouraged to demonstrate the connection between operational performance improvement and financial performance.



Innovation and Creativity

Innovation and creativity are important aspects of delivering ever-improving value to customers and of maximizing productivity.

Examples of mechanisms used in the Criteria to encourage innovation and creativity include:

- Nonprescriptive criteria, supported by benchmarks and indicators, encourage creativity and breakthrough thinking as they channel activities toward purpose, not toward following procedures.
- Customer-driven quality places major emphasis on the “positive side of quality,” which stresses enhancement, new services, and customer relationship management. Success with the positive side of quality depends heavily on creativity — usually more so than steps to reduce errors and defects which tend to rely more on well-defined techniques.
- Continuous improvement and cycles of learning are stressed as integral parts of the activities of all work units. This encourages analysis and problem solving everywhere within the company.
- Strong emphasis on cycle time reduction in all company operations encourages companies to analyze work paths, work organizations, and the value-added contributions of all process steps. This fosters change, innovation, and creative thinking in how work is organized and conducted.
- Focus on future requirements of customers, customer segments, and customers of competitors encourages companies to seek innovative and creative ways to serve needs.

Examples of specific process management mechanisms to improve new product and process innovation include:

- strong emphasis on cycle time in the design phase to encourage rapid introduction of new products and services derived from company research. Success requires stage-to-stage coordination of functions and activities ranging from basic research to commercialization.
- requirements for research and development units that address: climate for innovation, including research opportunities and career advancement; unit awareness of fundamental knowledge that bears upon success; unit awareness of national and world leadership centers in universities, government laboratories, and other companies; shortening the patenting cycle; effectiveness of services to research and development by other units including procurement, facilities management, and technical support; key determinants in project success and project cancellation; company communication links, including internal technology transfer; key technical and reporting requirements and communications; and key measures of success — such as problem-solving effectiveness, responsiveness, and value creation — for research and development units.

CHANGES FROM THE 1994 AWARD CRITERIA



The Criteria continue to evolve in four major ways: (1) toward comprehensive coverage of overall performance, including customer-driven quality performance; (2) toward better integration of overall performance, including employee performance, with business strategy; (3) toward further strengthening of the financial and business rationale for improvement priorities; and (4) toward increasing emphasis on results. The Criteria for 1995 are more future oriented, and more directed toward business strategy and competitiveness requirements. At the same time, the Criteria requirements are more focused and aligned, permitting a 40% reduction in the number of Areas to Address.

Key Themes Strengthened in the 1995 Criteria

- emphasis on key business drivers, derived from strategic and business planning, integrated into the Criteria framework. The key business drivers address business development and revenue growth, as well as cost reductions stemming from improved operational performance.
- emphasis on financial data in setting priorities for performance improvement
- emphasis on high performance and more flexible and responsive organizations and work systems as well as on the critical requirements, such as effective senior executive leadership, to build and sustain them
- emphasis on investment in developing work force capabilities as a key part of strengthening company competitive fitness
- emphasis on continuous learning as well as continuous improvement. The learning theme is particularly strong in four areas: strategy development; customer and market knowledge; employee development; and information and analysis systems.
- emphasis on business results, including financial results

Many changes have been made in the Criteria and in the Criteria booklet to strengthen key themes and to clarify, focus, and link requirements. Major changes are:

- The number of Examination Items has been reduced from 28 to 24.
- The number of Areas to Address has been reduced from 91 to 54. As a result of this reduction, the application page limit has been reduced from 85 to 70.
- The Description of the Award Criteria has been expanded to cover all Categories, Items, and Areas to Address.

Major changes, by Category, are:

Leadership

- Senior Executive Leadership (Item 1.1) is better focused on the efforts by senior executives in building the leadership system, setting strategic directions, and creating performance excellence goals.

- The title of Item 1.2 has been changed to Leadership System and Organization. The major thrust of this Item is toward flexible and responsive organizations and leadership systems — major themes of the 1995 Criteria.

Information and Analysis

- The title of Item 2.1 has been changed to Management of Information and Data. The scope of the Item is broader than Item 2.1 in the 1994 Criteria. The Item stresses alignment of information and data with user needs and with the key business drivers. A major thrust of the Item is that data and information need to support the more flexible and demanding needs and decision making of high performance work units.
- Item 2.2, Competitive Comparisons and Benchmarking, now focuses more on targeting benchmarking on company priorities and effective benchmarking practices rather than on scope.
- Item 2.3 emphasizes further the critical importance of company-level analysis in support of decision making and priorities. More examples of the use of cost and financial data are given. The Item is intended to serve as the key link between operational and customer-related performance and overall financial performance.

Strategic Planning

- The title of this Category has been broadened (from Strategic Quality Planning) to put major emphasis on business strategy as the most appropriate view-of-the-future context for managing performance. This change is intended to place more attention on the operational performance requirements derived from strategic initiatives. The Category stresses that customer-driven and operational performance excellence are key strategic business issues.
- The titles of the two Items in this Category have also been changed. They are now: Item 3.1, Strategy Development; and Item 3.2, Strategy Deployment.
- Strategy Development (3.1) plays a central directional role in the Criteria. The Item addresses how the company develops its view of the future taking into account the key factors in the environment — competitive, societal, and technological. The Item also addresses how strategy is developed and translated into actionable key business drivers which serve as the basis for **operationalizing** and deploying requirements.
- Strategy Deployment (3.2) addresses how the company's key business drivers are deployed. An important consideration in the Item is the establishment of measures that permit alignment of requirements throughout the company. The Item emphasizes that productivity and cycle time improvement should be included among the key requirements.

Human Resource Development and Management

- The title of Item 4.1 has been changed to Human Resource Planning and Evaluation to emphasize that this Item is the key link between company planning and overall human resource practices. **Evaluation** is crucial to maintaining the alignment between human resource management and company directions. This concern makes Item 4.1 the focal point for evaluating overall human resource systems in relation to business objectives, so that these systems become part of a coordinated strategy.
- A new Item, High Performance Work Systems, has been created to examine work and job design, and how promotion, compensation and recognition support such design. The Item stresses that full participation, high performance, and flexibility depend upon effective work and job designs. That is, participation and active contributions are design issues as well as motivational ones. The Item is thus concerned with the important alignment between incentives and work design. The new Item (4.2) replaces Items 4.2 and 4.4 from the 1994 Criteria.
- The title of Item 4.3 has been changed to Employee Education, Training, and Development to emphasize the larger, more continuing issue of **development**. Development is needed to support the more demanding high performance work and job systems. The Item is concerned with how education and training are designed, delivered, reinforced, and evaluated, with special emphasis upon on-the-job application of knowledge and skills. The focus is on both company performance and employee development. The scope of this Item is broader than the 1994 version, covering overall education, training, and development.

Process Management

- The title of this Category has been changed (from Management of Process Quality) to minimize confusion that sometimes results from multiple meanings of "quality". The Category addresses all key aspects of effective process management.
- The title of Item 5.3 has been changed to Process Management: Support Services. This change emphasizes that the processes to be described are those which support the key production and delivery processes, but which are not usually designed with them. For this reason, the Item addresses how the support processes are designed, as well as how they are maintained and improved.
- Item 5.5 (Quality Assessment) from the 1994 Criteria has been dropped. Item 1.2 deals with reviews of company performance. Process assessments and related review activities should now be described in Area 1.2c.

Business Results

- The title of the Category has been changed (from Quality and Operational Results) to reflect greater emphasis on business-oriented results to encourage companies to report data that demonstrate impact on customers, markets, and business and financial performance.
- The number of Items in this Category has been reduced from 4 to 3. This change is made by combining Items 6.2 and 6.3 from the 1994 Criteria.
- The new Item, Company Operational and Financial Results (6.2), examines overall company operational and financial improvements from all processes. Results indicators include generic and business-specific ones. The intent of the change is to focus better on company-level improvements and to eliminate reporting of results that might not actually reflect better overall company performance. This change is thus consistent with the more holistic approach to performance emphasized in the Criteria. Human resource results, such as safety, absenteeism, and satisfaction, are now reported in this Item because of their key contribution to operational performance. The point value of Item 6.2 has been increased greatly to emphasize the importance of operational and financial performance results and the use of these results in guiding performance improvement.

Customer Focus and Satisfaction

- The title of Item 7.1 has been changed to Customer and Market Knowledge. This Item now has a broader scope, a more analytical approach, and an ongoing learning requirement compared with the 1994 version. Particularly important in this Item are the company's key listening and learning strategies — those that provide key information about customers and markets on an ongoing basis.
- Item 7.2, Customer Relationship Management, has been narrowed in scope to better distinguish it from Items 5.2 and 5.3. It is now more nearly customer response management, including responses to complaints. Its title reflects the fact that the Areas addressed stress relationship building.
- Item 7.3 from the 1994 Criteria (Commitment to Customers) has been dropped. The Item dealt primarily with guarantees and warranties. Guarantees and warranties are product and service features and/or elements of company strategy. As such, they are addressed or implied in other Items. Their inclusion in the 1994 Criteria perhaps implied that guarantees and warranties are basic performance requirements. In many instances, guarantees and warranties may be useful marketing or management tools, but they are not necessarily basic requirements.

1995 AWARD EXAMINATION CRITERIA — ITEM LISTING



1995 Examination Categories/Items	Point Values
1.0 Leadership	90
1.1 Senior Executive Leadership.....	45
1.2 Leadership System and Organization.....	25
1.3 Public Responsibility and Corporate Citizenship.....	20
2.0 Information and Analysis	75
2.1 Management of Information and Data.....	20
2.2 Competitive Comparisons and Benchmarking	15
2.3 Analysis and Use of Company-Level Data.....	40
3.0 Strategic Planning	55
3.1 Strategy Development.....	35
3.2 Strategy Deployment.....	20
4.0 Human Resource Development and Management	140
4.1 Human Resource Planning and Evaluation	20
4.2 High Performance Work Systems	45
4.3 Employee Education, Training, and Development.....	50
4.4 Employee Well-Being and Satisfaction	25
5.0 Process Management	140
5.1 Design and Introduction of Products and Services	40
5.2 Process Management: Product and Service Production and Delivery	40
5.3 Process Management: Support Services	30
5.4 Management of Supplier Performance	30
6.0 Business Results	250
6.1 Product and Service Quality Results	75
6.2 Company Operational and Financial Results.....	130
6.3 Supplier Performance Results	45
7.0 Customer Focus and Satisfaction	250
7.1 Customer and Market Knowledge	30
7.2 Customer Relationship Management.....	30
7.3 Customer Satisfaction Determination.....	30
7.4 Customer Satisfaction Results	100
7.5 Customer Satisfaction Comparison	60
TOTAL POINTS	1000

1995 AWARD EXAMINATION CRITERIA

1.0 Leadership (90 pts.)

The **Leadership** Category examines senior executives' personal leadership and involvement in creating and sustaining a customer focus, clear values and expectations, and a leadership system that promotes performance excellence. Also examined is how the values and expectations are integrated into the company's management system, including how the company addresses its public responsibilities and corporate citizenship.

1.1 Senior Executive Leadership (45 pts.)

Describe senior executives' leadership and personal involvement in setting directions and in developing and maintaining a leadership system for performance excellence.

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(See page 40 for a description of these symbols.)

Notes:

(1) "Senior executives" means the applicant's highest-ranking official and those reporting directly to that official.

(2) Values and expectations [1.1a(1)] should take into account all stakeholders — customers, employees, stockholders, suppliers and partners, the community, and the public.

(3) Activities of senior executives appropriate for inclusion in 1.1a might also include customer, employee, and supplier interactions, mentoring other executives, benchmarking, and employee recognition.

AREAS TO ADDRESS

- a. how senior executives provide effective leadership and direction in building and improving company competitiveness, performance, and capabilities. Describe executives' roles in: (1) creating and reinforcing values and expectations throughout the company's leadership system; (2) setting directions and performance excellence goals through strategic and business planning; and (3) reviewing overall company performance, including customer-related and operational performance.
- b. how senior executives evaluate and improve the effectiveness of the company's leadership system and organization to pursue performance excellence goals.

(4) Review of company performance is addressed in 1.2c. Responses to 1.1a(3) should reflect senior executives' personal leadership of and involvement in such reviews, and their use of the reviews to focus on key business objectives.

(5) Evaluation of the company's leadership system might include assessment of executives by peers, direct reports, or a board of directors. It might also include results of surveys of company employees.

1.2 Leadership System and Organization (25 pts.)

Describe how the company's customer focus and performance expectations are integrated into the company's leadership system and organization.

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Note:

(1) Reviews described in 1.2c should utilize information from business and customer-related results Items — 6.1, 6.2, 6.3, 7.4, and 7.5 — and also may draw upon evaluations described in other Items and upon analysis (Item 2.3). The descriptions should address key measures and/or indicators

AREAS TO ADDRESS

- a. how the company's leadership system, management, and organization focus on customers and high performance objectives.
- b. how the company effectively communicates and reinforces its values, expectations, and directions throughout the entire work force.
- c. how overall company and work unit performance are reviewed and how the reviews are used to improve performance. Describe the types, frequency, and content of reviews and who conducts them.

used to track performance, including performance related to the company's public responsibilities. Reviews could also incorporate results of process assessments and address regulatory, contractual, or other requirements, including review of required documentation.

1.3 Public Responsibility and Corporate Citizenship (20 pts.)

Describe how the company includes its responsibilities to the public in its performance improvement practices. Describe also how the company leads and contributes as a corporate citizen in its key communities.

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AREAS TO ADDRESS

- a. how the company integrates its public responsibilities into its performance improvement efforts. Describe: (1) the risks and regulatory and other legal requirements addressed in planning and in setting operational requirements and targets; (2) how the company looks ahead to anticipate public concerns and to assess possible impacts on society of its products, services, and operations; and (3) how the company promotes legal and ethical conduct in all that it does.
- b. how the company leads as a corporate citizen in its key communities. Include a brief summary of the types of leadership and involvement the company emphasizes.

Notes:

(1) The public responsibility issues addressed in 1.3a relate to the company's impacts and possible impacts on society associated with its products, services, and company operations. They include environment, health, safety, and emergency preparedness as they relate to any aspect of risk or adverse effect, whether or not these are covered under law or regulation. Health and safety of employees are not included in Item 1.3. Employee health and safety are covered in Item 4.4.

(2) Major public responsibility or impact areas should be addressed in planning (Item 3.1) and in the appropriate process management Items of Category 5.0. Key results, such as environmental improvements, should be reported in Item 6.2.

(3) If the company has received sanctions under law, regulation, or contract during the past three years, briefly describe the incident(s) and its current status. If settlements have been negotiated in lieu of potential sanctions, give explanation. If no sanctions have been received, so indicate.

(4) The corporate citizenship issues appropriate for inclusion in 1.3b relate to efforts by the company to strengthen community services, education, health care, environment, and practices of trade or business associations. Such leadership and involvement depend upon the company's size and resources. However, smaller companies might take part in cooperative activities with other organizations.

2.0 Information and Analysis (75 pts.)

The **Information and Analysis** Category examines the management and effectiveness of the use of data and information to support customer-driven performance excellence and marketplace success.

2.1 Management of Information and Data (20 pts.)

Describe the company's selection and management of information and data used for planning, management, and evaluation of overall performance.

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AREAS TO ADDRESS

- a. how information and data needed to drive improvement of overall company performance are selected and managed. Describe: (1) the main types of data and information and how each type is related to the key business drivers; and (2) how key requirements such as reliability, rapid access, and rapid update are derived from user needs.
- b. how the company evaluates and improves the selection, analysis, and integration of information and data, aligning them with the company's business priorities. Describe how the evaluation considers: (1) scope of information and data; (2) use and analysis of information and data to support process management and performance improvement; and (3) feedback from users of information and data.

Notes:

(1) Reliability [2.1a(2)] includes software used in the information systems.

(2) User needs [2.1a(2)] should consider knowledge accumulation such as knowledge about specific customers or customer segments. User needs should also take into account changing patterns of communications associated with changes in process management and/or in job design.

(3) Scope of information and data [2.1b(1)] should focus primarily on key business drivers.

(4) Feedback from users [2.1b(3)] might entail formal or informal surveys, focus groups, teams, etc. However, evaluations should take into account patterns of communications and information use, as users themselves might not be utilizing well the information and data available. Even though the information and data system should be user friendly, the system should drive better practice. This might require training of users.

2.2 Competitive Comparisons and Benchmarking (15 pts.)

Describe the company's processes and uses of comparative information and data to support improvement of overall performance.

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AREAS TO ADDRESS

- a. how competitive comparisons and benchmarking information and data are selected and used to help drive improvement of overall company performance. Describe: (1) how needs and priorities are determined; (2) criteria for seeking appropriate information and data — from within and outside the company's industry; (3) how the information and data are used within the company to improve understanding of processes and process performance; and (4) how the information and data are used to set stretch targets and/or encourage breakthrough approaches.
- b. how the company evaluates and improves its overall process for selecting and using competitive comparisons and benchmarking information and data to improve planning and overall company performance.

Notes:

(1) Benchmarking information and data refer to processes and results that represent best practices and performance.

(2) Needs and priorities [2.2a(1)] should show clear linkage to the company's key business drivers.

(3) Use of benchmarking information and data within the company [2.2a(3)] might include the expectation that company units maintain awareness of related best-in-class performance to help drive improvement. This could entail education and training efforts to build capabilities.

(4) Sources of competitive comparisons and benchmarking information might include: (a) information obtained from other organizations such as customers or suppliers through sharing; (b) information obtained from the open literature; (c) testing and evaluation by the company itself; and (d) testing and evaluation by independent organizations.

(5) The evaluation (2.2b) may address a variety of factors such as the effectiveness of use of the information, adequacy of information, training in acquisition and use of information, improvement potential in company operations, and estimated rates of improvement by other organizations.

2.3 Analysis and Use of Company-Level Data

(40 pts.)

Describe how data related to quality, customers and operational performance, together with relevant financial data, are analyzed to support company-level review, action, and planning.

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AREAS TO ADDRESS

- a. how information and data from all parts of the company are integrated and analyzed to support reviews, business decisions, and planning. Describe how analysis is used to gain understanding of: (1) customers and markets; (2) operational performance and company capabilities; and (3) competitive performance.
- b. how the company relates customer and market data, improvements in product/service quality, and improvements in operational performance to changes in financial and/or market indicators of performance. Describe how this information is used to set priorities for improvement actions.

Notes:

(1) Item 2.3 focuses primarily on analysis for company-level purposes, such as reviews (1.2c) and strategic planning (Item 3.1). Data for such analysis come from all parts of the company and include results reported in Items 6.1, 6.2, 6.3, 7.4, and 7.5. Other Items call for analyses of specific sets of data for special purposes. For example, the Items of Category 4.0 require analysis to determine effectiveness of training and other human resource practices. Such special-purpose analyses should be part of the overall information base available for use in Item 2.3.

(2) Analysis includes trends, projections, cause-effect correlations, and the search for deeper understanding needed to set priorities to use resources more effectively to serve overall business objectives.

(3) Examples of analysis appropriate for inclusion in 2.3a(1) are:

- how the company's product and service quality improvement correlates with key customer indicators such as customer satisfaction, customer retention, and market share; and
- cost/revenue implications of customer-related problems and problem resolution effectiveness.

(4) Examples of analysis appropriate for inclusion in 2.3a(2) are:

- trends in improvement in key operational indicators such as productivity, cycle time, waste reduction, new product introduction, and defect levels;
- financial benefits from improved employee safety, absenteeism, and turnover;
- benefits and costs associated with education and training;
- how the company's ability to identify and meet employee requirements correlates with employee retention, motivation, and productivity; and
- cost/revenue implications of employee-related problems and problem resolution effectiveness.

(5) Examples of analysis appropriate for inclusion in 2.3a(3) are:

- performance trends relative to competitors on key quality attributes; and
- productivity and cost trends relative to competitors.

(6) Examples of analysis appropriate for inclusion in 2.3b are:

- relationships between product/service quality and operational performance indicators and overall company financial performance trends as reflected in indicators such as operating costs, revenues, asset utilization, and value added per employee;
- allocation of resources among alternative improvement projects based on cost/revenue implications and improvement potential;
- net earnings derived from quality/operational/human resource performance improvements;
- comparisons among business units showing how quality and operational performance improvement affect financial performance;
- contributions of improvement activities to cash flow and/or shareholder value;
- trends in quality versus market indicators;
- profit impacts of customer retention; and
- market share versus profits.

3.0 Strategic Planning (55 pts.)

The **Strategic Planning** Category examines how the company sets strategic directions, and how it determines key plan requirements. Also examined is how the plan requirements are translated into an effective performance management system.

3.1 Strategy Development (35 pts.)

Describe the company's strategic planning process for overall performance and competitive leadership for the short term and the longer term. Describe also how this process leads to the development of key business drivers to serve as the basis for deploying plan requirements throughout the company.

AREAS TO ADDRESS

- a. how the company develops strategies and business plans to strengthen its customer-related, operational, and financial performance and its competitive position. Describe how strategy development considers: (1) customer requirements and expectations and their expected changes; (2) the competitive environment; (3) risks: financial, market, technological, and societal; (4) company capabilities—human resource, technology, research and development and business processes—to seek new market leadership opportunities and/or to prepare for key new requirements; and (5) supplier and/or partner capabilities.
- b. how strategies and plans are translated into actionable key business drivers which serve as the basis for deploying plan requirements, addressed in Item 3.2.
- c. how the company evaluates and improves its strategic planning and plan deployment processes.

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Notes:

(1) Item 3.1 addresses overall company strategy and business plans, not specific product and service designs.

(2) The sub-parts of 3.1a are intended to serve as an outline of key factors involved in developing a view of the future as a context for strategic planning. Strategy and planning refer to a future-oriented basis for major business decisions, resource allocations, and companywide management. "Strategy and planning," then, addresses both revenue growth thrusts as well as thrusts related to improving operational performance.

(3) Customer requirements and their expected changes [3.1a(1)] might include pricing factors. That is, market success may depend upon achieving cost levels dictated by anticipated price levels rather than setting prices to cover costs.

(4) The purposes of projecting the competitive environment [3.1a(2)] are to detect and reduce competitive threats, to improve reaction time, and to identify opportunities. If the company uses modeling, scenario, or other techniques to project the competitive environment, such techniques should be briefly outlined in 3.1a(2).

(5) Key business drivers are the areas of performance most critical to the company's success. They include customer-driven quality requirements and operational

requirements such as productivity, cycle time, deployment of new technology, strategic alliances, supplier development, employee productivity and development, and research and development. Deployment of plans should include how progress will be tracked such as through the use of key measures.

(6) Examples of strategy and business plans that might be the starting points for the development of key business drivers are:

- new product/service lines;
- entry into new markets or segments;
- new manufacturing and/or service delivery approaches such as customization;
- new or modified competitive thrusts;
- launch of joint ventures and/or partnerships;
- new R&D thrusts; and
- new product and/or process technologies.

(7) How the company evaluates and improves its strategic planning and plan deployment process might take into account the results of reviews (1.2c), input from work units, and projection information (3.2b). The evaluation might also take into account how well strategies and requirements are communicated and understood, and how well key measures are aligned.

3.2 Strategy Deployment

(20 pts.)

Summarize the company's key business drivers and how they are deployed. Show how the company's performance projects into the future relative to competitors and key benchmarks.

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AREAS TO ADDRESS

- a. summary of the specific key business drivers derived from the company's strategic directions and how these drivers are translated into an action plan. Describe: (1) key performance requirements and associated operational performance measures and/or indicators and how they are deployed; (2) how the company aligns work unit and supplier and/or partner plans and targets; (3) how productivity and cycle time improvement and reduction in waste are included in plans and targets; and (4) the principal resources committed to the accomplishment of plans. Note any important distinctions between short-term plans and longer-term plans.
- b. two-to-five year projection of key measures and/or indicators of the company's customer-related and operational performance. Describe how product and/or service quality and operational performance might be expected to compare with key competitors and key benchmarks over this time period. Briefly explain the comparisons, including any estimates or assumptions made regarding the projected product and/or service quality and operational performance of competitors or changes in key benchmarks.

Notes:

(1) The focus in Item 3.2 is on the translation of the company's strategic plans, resulting from the process described in Item 3.1, to requirements for work units, suppliers, and partners. The main intent of Item 3.2 is alignment of short- and long-term operations with strategic directions. Although the deployment of these plans will affect products and services, design of products and services is not the focus of Item 3.2. Such design is addressed in Item 5.1.

(2) Productivity and cycle time improvement and waste reduction [3.2a(3)] might address factors such as inventories, work-in-process, inspection, downtime, changeover time, set-up time, and other examples of utilization of resources — materials, equipment, energy, capital, and labor.

(3) Area 3.2b addresses projected progress in improving performance and in gaining advantage relative to competitors. This projection may draw upon analysis (Item 2.3) and data reported in results Items (Category 6.0 and Items 7.4 and 7.5). Such projections are intended to support reviews (1.2c), evaluation of planning (3.1c), and other Items. Another purpose is to take account of the fact that competitors and benchmarks may also be improving over the time period of the projection.

4.0 Human Resource Development and Management (140 pts.)

The **Human Resource Development and Management** Category examines how the work force is enabled to develop and utilize its full potential, aligned with the company's performance objectives. Also examined are the company's efforts to build and maintain an environment conducive to performance excellence, full participation, and personal and organizational growth.

4.1 Human Resource Planning and Evaluation (20 pts.)

Describe how the company's human resource planning and evaluation are aligned with its strategic and business plans and address the development and well-being of the entire work force.

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AREAS TO ADDRESS

- a. how the company translates overall requirements from strategic and business planning (Category 3.0) to specific human resource plans. Summarize key human resource plans in the following areas: (1) changes in work design to improve flexibility, innovation, and rapid response; (2) employee development, education, and training; (3) changes in compensation, recognition, and benefits; and (4) recruitment, including expected or planned changes in demographics of the work force. Distinguish between the short term and the longer term, as appropriate.
- b. how the company evaluates and improves its human resource planning and practices and the alignment of the plans and practices with the company's strategic and business directions. Include how employee-related data and company performance data are analyzed and used: (1) to assess the development and well-being of all categories and types of employees; (2) to assess the linkage of the human resource practices to key business results; and (3) to ensure that reliable and complete human resource information is available for company strategic and business planning.

Notes:

(1) Human resource planning addresses all aspects of designing and managing human systems to meet the needs of both the company and the employees. This Item calls for information on human resource plans. This does not imply that such planning is separate from overall business planning. Examples of human resource plan elements or plan thrusts (4.1a) that might be part(s) of a comprehensive plan are:

- redesign of work organizations and/or jobs to increase employee responsibility and decision making;
- initiatives to promote labor-management cooperation, such as partnerships with unions;
- creation or modification of compensation and recognition systems based on building shareholder value and/or customer satisfaction;
- creation or redesign of employee surveys to better assess the factors in the work climate that contribute to or inhibit high performance;
- prioritization of employee problems based upon potential impact on productivity;
- development of hiring criteria;
- creation of opportunities for employees to learn and use skills that go beyond current job assignments through redesign of processes or organizations;
- education and training initiatives, including those that involve developmental assignments;
- formation of partnerships with educational institutions to develop employees or to help ensure the future supply of well-prepared employees;
- establishment of partnerships with other companies and/or networks to share training and/or spread job opportunities;
- introduction of distance learning or other technology-based learning approaches; and
- integration of customer and employee surveys.

(2) "Employee-related data" (4.1b) refers to data contained in personnel records as well as data described in Items 4.2, 4.3, and 4.4. This might include employee satisfaction data and data on turnover, absenteeism, safety, grievances, involvement, recognition, training, and information from exit interviews.

(3) "Categories of employees" [4.1b(1)] refers to the company's classification system used in its human resource practices and/or work assignments. It also includes factors such as union or bargaining unit membership. "Types of employees" takes into account other factors, such as work force diversity or demographic makeup. This includes gender, age, minorities, and the disabled.

(4) The evaluation in 4.1b might be supported by employee-related data such as satisfaction factors (Item 4.4), absenteeism, turnover, and accidents. It might also be supported by employee feedback and information from exit interviews. Evaluations might also be supported by comparative or benchmarking information.

Evaluation should take into account factors such as employee problem resolution effectiveness, and the extent of deployment of education and training throughout the company.

(5) Human resource information for company strategic and business planning might include an overall profile of strengths and weaknesses that could affect the company's abilities to fulfill plan requirements. This could result in the identification of specific needs requiring resources or new approaches.

4.2 High Performance Work Systems (45 pts.)

Describe how the company's work and job design and compensation and recognition approaches enable and encourage all employees to contribute effectively to achieving high performance objectives.

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Notes:

(1) Work and job design refers to how employees are organized and/or organize themselves in formal and informal, temporary or longer-term units. This may include work teams, problem-solving teams, functional units, departments, self-managed or managed by supervisors. In some cases, teams might involve individuals in different locations linked via computers or conferencing technology.

(2) Examples of approaches to create flexibility in work design to enhance performance might include simplification of job classifications, cross training, job rotation, work layout, and work locations. It might also entail use of technology and changed flow of information to support local decision making.

AREAS TO ADDRESS

- a. how the company's work and job design promote high performance. Describe how work and job design: (1) create opportunities for initiative and self-directed responsibility; (2) foster flexibility and rapid response to changing requirements; and (3) ensure effective communications across functions or units that need to work together to meet customer and/or operational requirements.
- b. how the company's compensation and recognition approaches for individuals and groups, including managers, reinforce the effectiveness of the work and job design.

(3) Compensation and recognition refer to all aspects of pay and reward, including promotion and bonuses. The company might use a variety of reward and recognition approaches — monetary and non-monetary, formal and informal, and individual and group.

Compensation and recognition approaches could include profit sharing and compensation based on skill building, use of new skills, and demonstrations of self learning. The approaches could take into account the linkage to customer retention or other performance objectives.

Employee evaluations and reward and recognition approaches might include peer evaluations, including peers in teams and networks.

4.3 Employee Education, Training, and Development (50 pts.)

Describe how the company's education and training address company plans, including building company capabilities and contributing to employee motivation, progression, and development.

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Notes:

(1) Education and training address the knowledge and skills employees need to meet their overall work objectives. Education and training might include leadership skills, communications, teamwork, problem solving, interpreting and using data, meeting customer requirements, process analysis, process simplification, waste reduction, cycle time reduction, error-proofing, priority setting based upon cost and benefit data, and other training that affects employee effectiveness, efficiency, and safety. This might include job enrichment and job rotation to enhance employees' career opportunities and employability. It might also include basic skills such as reading, writing, language, and arithmetic.

(2) Training for customer-contact (frontline) employees should address: (a) key knowledge and skills, including knowledge of products and services; (b) listening to customers; (c) soliciting comments from customers; (d) how to anticipate and handle problems or failures

AREAS TO ADDRESS

- a. how the company's education and training serve as a key vehicle in building company and employee capabilities. Describe how education and training address: (1) key performance objectives, including those related to enhancing high performance work units; and (2) progression and development of all employees.
- b. how education and training are designed, delivered, reinforced, and evaluated. Include: (1) how employees and line managers contribute to or are involved in determining specific education and training needs and designing education and training; (2) how education and training are delivered, (3) how knowledge and skills are reinforced through on-the-job application; and (4) how education and training are evaluated and improved.

("recovery"); (e) skills in customer retention; and (f) how to manage expectations.

(3) Determining specific education and training needs [4.3b(1)] might include use of company assessment or employee self-assessment to determine and/or compare skill levels for progression within the company or elsewhere. Needs determination should take into account job analysis — the types and levels of skills required — and the timeliness of training.

(4) Education and training delivery might occur inside or outside the company and involve on-the-job, classroom, or other types of delivery. This includes the use of developmental assignments within or outside the company.

(5) How education and training are evaluated [4.3b(4)] could address: effectiveness of delivery of education and training; impact on work unit performance; and cost effectiveness of education and training alternatives.

4.4 Employee Well-Being and Satisfaction (25 pts.)

Describe how the company maintains a work environment and a work climate conducive to the well-being and development of all employees.

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- a. how the company maintains a safe and healthful work environment. Include: (1) how employee well-being factors such as health, safety, and ergonomics are included in improvement activities; and (2) principal improvement requirements, measures and/or indicators, and targets for each factor relevant and important to the work environment of the company's employees. Note any significant differences based upon differences in work environments among employees or employee groups.
- b. what services, facilities, activities, and opportunities the company makes available to employees to support their overall well-being and satisfaction and/or to enhance their work experience and development potential.
- c. how the company determines employee satisfaction, well-being, and motivation. Include a brief description of methods, frequency, the specific factors used in this determination, and how the information is used to improve satisfaction, well-being, and motivation. Note any important differences in methods or factors used for different categories or types of employees, as appropriate.

Notes:

(1) Examples of services, facilities, activities, and opportunities (4.4b) are: personal and career counseling; career development and employability services; recreational or cultural activities; non-work-related education; day care; special leave for family responsibilities and/or for community service; safety off the job; flexible work hours; and outplacement. These services also might include career enhancement activities such as skill assessment, helping employees develop learning objectives and plans, and employability assessment.

(2) Examples of specific factors which might affect satisfaction, well-being, and motivation are: effective employee problem or grievance resolution; safety; employee views of leadership and management; employee development and career opportunities; employee preparation for changes in technology or work organization; work environment; workload; cooperation and teamwork; recognition; benefits; communications; job security; compensation; equality of opportunity; and capability to provide required services to customers. An effective determination is one that provides the company with actionable information for use in improvement activities.

(3) Measures and/or indicators of satisfaction, well-being, and motivation (4.4c) might include safety, absenteeism, turnover, turnover rate for customer-contact employees, grievances, strikes, worker compensation, as well as results of surveys.

(4) How satisfaction, well-being, and motivation information is used might involve developing priorities for addressing employee problems based on impact on productivity.

(5) Trends in key measures and/or indicators of well-being and satisfaction should be reported in Item 6.2.

5.0 Process Management (140 pts.)

The **Process Management** Category examines the key aspects of process management, including customer-focused design, product and service delivery processes, support services and supply management involving all work units, including research and development. The Category examines how key processes are designed, effectively managed, and improved to achieve higher performance.

5.1 Design and Introduction of Products and Services (40 pts.)

Describe how new and/or modified products and services are designed and introduced and how key production/delivery processes are designed to meet both key product and service quality requirements and company operational performance requirements.

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- a. how products, services, and production/delivery processes are designed. Describe: (1) how customer requirements are translated into product and service design requirements; (2) how product and service design requirements are translated into efficient and effective production/delivery processes, including an appropriate measurement plan; and (3) how all requirements associated with products, services, and production/delivery processes are addressed early in design by all appropriate company units, suppliers, and partners to ensure integration, coordination, and capability.
- b. how product, service, and production/delivery process designs are reviewed and/or tested in detail to ensure trouble-free launch.
- c. how designs and design processes are evaluated and improved so that introductions of new or modified products and services progressively improve in quality and cycle time.

Notes:

(1) Design and introduction might address:

- modifications and variants of existing products and services;
- new products and services emerging from research and development or other product/service concept development;
- new/modified facilities to meet operational performance and/or product and service requirements; and
- significant redesigns of processes to improve customer focus, productivity, or both.

Design approaches could differ appreciably depending upon the nature of the products/services — entirely new, variants, major or minor process changes, etc. If many design projects are carried out in parallel, responses to Item 5.1 should reflect how coordination of resources among projects is carried out.

(2) Applicants' responses should reflect the key requirements for their products and services. Factors that might need to be considered in design include: health; safety; long-term performance; environment; measurement capability; process capability; manufacturability; maintainability; supplier capability; and documentation.

(3) Service and manufacturing businesses should interpret product and service design requirements to include all product- and service-related requirements at all stages of production, delivery, and use.

(4) A measurement plan [5.1a(2)] should spell out what is to be measured, how and when measurements are to be made, and performance levels or standards to ensure that the results of measurements provide information to guide, monitor, control, or improve the process. This may include service standards used in customer-contact processes. The term, "measurement plan," may also include decisions about key information to collect from customers and/or employees from service encounters, transactions, etc. The actual measurement plan should not be described in Item 5.1. Such information is requested in Item 5.2.

(5) "All appropriate company units" means those units and/or individuals who will take part in production/delivery and whose performance materially affects overall process outcome.

5.2 Process Management: Product and Service Production and Delivery (40 pts.)

Describe how the company's key product and service production/delivery processes are managed to ensure that design requirements are met and that both quality and operational performance are continuously improved.

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Notes:

(1) Key production/delivery processes are those most directly involved in fulfilling the principal requirements of customers — those that define the products and services.

(2) Measurement plan [5.2a(2)] is defined in Item 5.1, Note (4). Companies with specialized measurement requirements should describe how they ensure measurement effectiveness. For physical, chemical, and engineering measurements, describe briefly how measurements are made traceable to national standards.

(3) The focus of 5.2a is on maintenance of process performance using measurements and/or observations to decide whether or not corrective action is needed. The nature of the corrective action depends on the process characteristics and the type of variation observed. Responses should reflect the type of process and the type of variation observed. A description should be given of how basic (root) causes of variation are determined and how corrections are made at the earliest point(s) in processes. Such correction should then minimize the likelihood of recurrence of this type of variation anywhere in the company.

AREAS TO ADDRESS

- a. how the company maintains the performance of key production/delivery processes to ensure that such processes meet design requirements addressed in Item 5.1. Describe: (1) the key processes and their principal requirements; and (2) the measurement plan and how measurements and/or observations are used to maintain process performance.
- b. how processes are evaluated and improved to achieve better operational performance, including cycle time. Describe how each of the following is used or considered: (1) process analysis and research; (2) benchmarking; (3) use of alternative technology; and (4) information from customers of the processes — within and outside the company.

(4) Process improvement methods (5.2b) might utilize financial data to evaluate alternatives and to set priorities.

(5) Process analysis and research [5.2b(1)] refers to a wide range of possible approaches to improving processes. Examples include process mapping, optimization experiments, basic and applied research, error proofing, and reviewing critical encounters between employees and customers from the point of view of customers and employees.

(6) Information from customers [5.2b(4)] might include information developed as described in Items 7.2, 7.3, and 2.3.

(7) Results of improvements in product and service delivery processes should be reported in Items 6.1 and 6.2, as appropriate.

5.3 Process Management: Support Services

(30 pts.)

Describe how the company's key support service processes are designed and managed so that current requirements are met and that operational performance is continuously improved.

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AREAS TO ADDRESS

- a. how key support service processes are designed. Include: (1) how key requirements are determined or set; (2) how these requirements are translated into efficient and effective processes, including operational requirements and an appropriate measurement plan; and (3) how all requirements are addressed early in design by all appropriate company units to ensure integration, coordination, and capability.
- b. how the company maintains the performance of key support service processes to ensure that such processes meet design requirements. Describe: (1) the key processes and their principal requirements; and (2) the measurement plan and how measurements are used to maintain process performance.
- c. how processes are evaluated and improved to achieve better operational performance, including cycle time. Describe how each of the following is used or considered: (1) process analysis and research; (2) benchmarking; (3) use of alternative technology; and (4) information from customers of the processes — within and outside the company.

Notes:

(1) *Support services are those which support the company's product and/or service delivery but which are not usually designed in detail with the products and services themselves because their requirements do not usually depend a great deal upon product and service characteristics. Support service design requirements usually depend significantly upon internal requirements. Support services might address finance and accounting, software services, sales, marketing, public relations, information services, supplies, personnel, legal services, plant and facilities management, research and development, and secretarial and other administrative services.*

(2) *The purpose of Item 5.3 is to permit applicants to highlight separately the improvement activities for processes that support the product and service design, production, and delivery processes addressed in Item 5.1 and 5.2. The support service processes included in Item 5.3 depend on the applicant's type of business and other factors. Thus, this selection should be made by the applicant. Together, Items 5.1, 5.2, 5.3, and 5.4 should cover all operations, processes, and activities of all work units.*

(3) *Process improvement methods (5.3c) might utilize financial data to evaluate alternatives and to set priorities.*

(4) *Process analysis and research [5.3c(1)] refers to a wide range of possible approaches to improving processes. See Item 5.2, Note (5).*

(5) *Information from customers [5.3c(4)] might include information developed as described in Items 7.2, 7.3, and 2.3. However, most of the information for improvement [5.3c(4)] is likely to come from "internal customers" — those within the company who use the support services.*

(6) *Results of improvements in support services should be reported in 6.2.*

5.4 Management of Supplier Performance (30 pts.)

Describe how the company assures that materials, components, and services furnished by other businesses meet the company's performance requirements. Describe also the company's actions and plans to improve supplier relationships and performance.

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AREAS TO ADDRESS

- a. summary of the company's requirements and how they are communicated to suppliers. Include: (1) a brief summary of the principal requirements for key suppliers, the measures and/or indicators associated with these requirements, and the expected performance levels; (2) how the company determines whether or not its requirements are met by suppliers; and (3) how performance information is fed back to suppliers.
- b. how the company evaluates and improves its management of supplier relationships and performance. Describe current actions and plans: (1) to improve suppliers' abilities to meet requirements; (2) to improve the company's own procurement processes, including feedback sought from suppliers and from other units within the company ("internal customers") and how such feedback is used; and (3) to minimize costs associated with inspection, test, audit, or other approaches used to verify supplier performance.

Notes:

(1) The term "supplier" refers to other-company providers of goods and services. The use of these goods and services may occur at any stage in the production, design, delivery, and use of the company's products and services. Thus, suppliers include businesses such as distributors, dealers, warranty repair services, transportation, contractors, and franchises as well as those that provide materials and components. If the applicant is a unit of a larger company, and other units of that company supply goods/services, this should be included as part of Item 5.4.

(2) Key suppliers [5.4a(1)] are those which provide the most important products and/or services, taking into account the criticality and volume of products and/or services involved.

(3) "Requirements" refers to the principal factors involved in the purchases: quality, delivery, and price.

(4) How requirements are communicated and how performance information is fed back might entail ongoing working relationships or partnerships with key suppliers. Such relationships and/or partnerships should be briefly described in responses.

(5) Determining how requirements are met [5.4a(2)] might include audits, process reviews, receiving inspection, certification, testing, and rating systems.

(6) Actions and plans (5.4b) might include one or more of the following: joint planning, rapid information and data exchanges, use of benchmarking and comparative information, customer-supplier teams, partnerships, training, long-term agreements, incentives, and recognition. They might also include changes in supplier selection, leading to a reduction in the number of suppliers.

(7) Efforts to minimize costs might be backed by analyses comparing suppliers based on overall cost, taking into account quality and delivery. Analyses might also address transaction costs associated with alternative approaches to supply management.

6.0 Business Results (250 pts.)

The **Business Results** Category examines the company's performance and improvement in key business areas — product and service quality, productivity and operational effectiveness, supply quality, and financial performance indicators linked to these areas. Also examined are performance levels relative to competitors.

6.1 Product and Service Quality Results (75 pts.)

Summarize results of improvement efforts using key measures and/or indicators of product and service quality.

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AREAS TO ADDRESS

- a. current levels and trends in key measures and/or indicators of product and service quality. Graphs and tables should include appropriate comparative data.

Notes:

(1) Results reported in 6.1 should reflect performance relative to specific non-price product and service key quality requirements. Such key quality requirements should relate closely to customer satisfaction and customer retention. These requirements are those described in the Business Overview and addressed in Items 7.1 and 5.1.

(2) Data appropriate for inclusion are based upon:

- internal (company) measurements;
- field performance;
- data collected by the company through follow ups (7.2c) or surveys of customers;
- data collected or generated by other organizations; and
- data collected by other organizations on behalf of the company.

(3) Product and service quality measures and/or indicators may address requirements such as accuracy, timeliness, reliability, and behavior. Examples include defect levels, repeat services, meeting product or service delivery or response times, availability levels, and complaint levels.

(4) Comparative data might include industry best, best competitor, industry average, and appropriate benchmarks. Such data might be derived from independent surveys, studies, laboratory testing, or other sources.

6.2 Company Operational and Financial Results

(130 pts.)

Summarize results of improvement efforts using key measures and/or indicators of company operational and financial performance.

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Notes:

(1) Key measures and/or indicators of company operational and financial performance should address the following areas:

- productivity and other indicators of effective use of manpower, materials, energy, capital, and assets;
- cycle time and responsiveness;
- financial indicators such as cost reductions, asset utilization, and benefit/cost results from improvement efforts;
- human resource indicators such as safety, absenteeism, turnover, and satisfaction;
- public responsibilities such as environmental improvements; and
- company-specific indicators such as innovation rates and progress in shifting markets or segments.

AREAS TO ADDRESS

- a. current levels and trends in key measures and/or indicators of company operational and financial performance. Graphs and tables should include appropriate comparative data.

(2) The results reported in Item 6.2 derive primarily from activities described in Items 5.1, 5.2, and 5.3.

(3) Comparative data might include industry best, best competitor, industry average, and appropriate benchmarks. For human resource areas such as turnover or absenteeism, local or regional comparative information might also be appropriate.

6.3 Supplier Performance Results

(45 pts.)

Summarize results of supplier performance improvement efforts using key measures and/or indicators of such performance.

A	D	R
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Notes:

(1) The results reported in Item 6.3 derive from activities described in Item 5.4. Results should be broken out by key supplies and/or key suppliers, as appropriate. Data should be presented using the measures and/or indicators described in 5.4a(1).

(2) If the company's supplier management efforts include factors such as building supplier partnerships or reducing the number of suppliers, data related to these efforts should be included in responses.

AREAS TO ADDRESS

- a. current levels and trends in key measures and/or indicators of supplier performance. Graphs and tables should include appropriate comparative data.

(3) Comparative data might be of several types: industry best, best competitor(s), industry average, and appropriate benchmarks.

7.0 Customer Focus and Satisfaction (250 pts.)

The **Customer Focus and Satisfaction** Category examines the company's systems for customer learning and for building and maintaining customer relationships. Also examined are levels and trends in key measures of business success — customer satisfaction and retention, market share, and satisfaction relative to competitors.

7.1 Customer and Market Knowledge (30 pts.)

Describe how the company determines near-term and longer-term requirements and expectations of customers and markets, and develops listening and learning strategies to understand and anticipate needs.

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AREAS TO ADDRESS

- a. how the company determines current and near-term requirements and expectations of customers. Include: (1) how customer groups and/or market segments are determined and/or selected, including how customers of competitors and other potential customers are considered; (2) how information is collected, including what information is sought, frequency and methods of collection, and how objectivity and validity are ensured; (3) how specific product and service features and the relative importance of these features to customer groups or segments are determined; and (4) how other key information and data such as complaints, gains and losses of customers, and product/service performance are used to support the determination.
- b. how the company addresses future requirements and expectations of customers. Include an outline of key listening and learning strategies used.
- c. how the company evaluates and improves its processes for determining customer requirements and expectations.

Notes:

(1) The distinction between near-term and future depends upon many marketplace factors. The applicant's response should reflect these factors for its market(s).

(2) The company's products and services might be sold to end users via other businesses such as retail stores or dealers. Thus, "customer groups" should take into account the requirements and expectations of both the end users and these other businesses.

(3) Product and service features refer to all important characteristics and to the performance of products and services that customers experience or perceive throughout their overall purchase and ownership. The focus should be primarily on factors that bear upon customer preference and repurchase loyalty — for example, those features that enhance or differentiate products and services from competing offerings.

(4) Some companies might use similar methods to determine customer requirements/expectations and customer satisfaction (Item 7.3). In such cases, cross-references should be included.

(5) Customer groups and market segments (7.1a) might take into account opportunities to select or create groups and segments based upon customer- and market-related information.

(6) Examples of listening and learning strategy elements (7.1b) are:

- relationship strategies, including close integration with customers;
- rapid innovation and field trials to better link R&D to the market;
- close monitoring of technological, competitive, societal, environmental, economic, and demographic factors that may bear upon customer requirements, expectations, preferences, or alternatives;
- focus groups with demanding or leading-edge customers;
- training of frontline employees in customer listening;
- use of critical incidents to understand key service attributes from the point of view of customers and frontline employees;
- interviewing lost customers;
- won/lost analysis relative to competitors;
- post-transaction follow-up (see 7.2c); and
- analysis of major factors affecting key customers.

(7) Examples of evaluation and factors appropriate for 7.1c are:

- the adequacy and timeliness of the customer-related information;
- improvement of survey design;
- the best approaches for getting reliable and timely information — surveys, focus groups, customer-contact personnel, etc.;
- increasing and decreasing importance of product/service features among customer groups or segments; and
- the most effective listening/learning strategies.

The evaluation might also be supported by company-level analysis addressed in Item 2.3.

7.2 Customer Relationship Management (30 pts.)

Describe how the company provides effective management of its responses and follow ups with customers to preserve and build relationships and to increase knowledge about specific customers and about general customer expectations.

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AREAS TO ADDRESS

- a. how the company provides information and easy access to enable customers to seek information and assistance, to comment, and to complain. Describe contact management performance measures and service standards and how these requirements are set, deployed, and tracked.
- b. how the company ensures that formal and informal complaints and feedback received by all company units are resolved effectively and promptly. Briefly describe the complaint management process and how it ensures effective recovery of customer confidence, meeting customer requirements for resolution effectiveness, and elimination of the causes of complaints.
- c. how the company follows up with customers on products, services, and recent transactions to determine satisfaction, to resolve problems, to seek feedback for improvement, and to build relationships.
- d. how the company evaluates and improves its customer relationship management. Include: (1) how service standards, including those related to access and complaint management, are improved based upon customer information; (2) aggregation and use of customer comments and complaints throughout the company; and (3) how knowledge about customers is accumulated.

Notes:

(1) Customer relationship management refers to a process, not to a company unit. However, some companies may have units which address all or most of the requirements included in this Item. Also, some of these requirements may be included among the responsibilities of frontline employees in processes described in Items 5.2 and 5.3.

(2) Performance measures and service standards (7.2a) apply not only to employees providing the responses to customers but also to other units within the company which make effective responses possible. Deployment needs to take into account all key points in a response chain. Examples of measures and standards are: telephonic, percentage of resolutions achieved by frontline employees, number of transfers, and resolution response time.

(3) Responses to 7.2b and 7.2c might include company processes for addressing customer complaints or comments based upon expressed or implied guarantees and warranties.

(4) Elimination of the causes of complaints (7.2b) involves aggregation of complaint information from all sources for evaluation and use throughout the company. The complaint management process might include analysis and priority setting for improvement projects based upon potential cost impact of complaints, taking into account customer retention related to resolution effectiveness. Some of the analysis requirements of Item 7.2 relate to Item 2.3.

(5) Improvement of customer relationship management (7.2d) might require training. Training for customer-contact (frontline) employees should address: (a) key knowledge and skills, including knowledge of products and services; (b) listening to customers; (c) soliciting comments from customers; (d) how to anticipate and handle problems or failures ("recovery"); (e) skills in customer retention; and (f) how to manage expectations. Such training should be described in Item 4.3.

(6) Information on trends and levels in measures and/or indicators of complaint response time, effective resolution, and percent of complaints resolved on first contact should be reported in Item 6.1.

7.3 Customer Satisfaction Determination (30 pts.)

Describe how the company determines customer satisfaction, customer repurchase intentions, and customer satisfaction relative to competitors; describe how these determination processes are evaluated and improved.

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AREAS TO ADDRESS

- a. how the company determines customer satisfaction. Include: (1) a brief description of processes and measurement scales used; frequency of determination; and how objectivity and validity are ensured. Indicate significant differences, if any, in processes and measurement scales for different customer groups or segments; and (2) how customer satisfaction measurements capture key information that reflects customers' likely future market behavior, such as repurchase intentions and/or positive referrals.
- b. how customer satisfaction relative to that for competitors is determined. Describe: (1) company-based comparative studies; and (2) comparative studies or evaluations made by independent organizations and/or customers. For (1) and (2), describe how objectivity and validity of studies or evaluations are ensured.
- c. how the company evaluates and improves its overall processes and measurement scales for determining customer satisfaction and customer satisfaction relative to that for competitors. Include how other indicators (such as gains and losses of customers) and customer dissatisfaction indicators (such as complaints) are used in this improvement process. Describe also how the evaluation takes into account the effectiveness of the use of customer satisfaction information and data throughout the company.

Notes:

(1) Customer satisfaction measurement might include both a numerical rating scale and descriptors assigned to each unit in the scale. An effective (actionable) customer satisfaction measurement system is one that provides the company with reliable information about customer ratings of specific product and service features and the relationship between these ratings and the customer's likely future market behavior.

(2) The company's products and services might be sold to end users via other businesses such as retail stores or dealers. Thus, "customer groups" or segments should take into account these other businesses as well as the end users.

(3) Customer dissatisfaction indicators include complaints, claims, refunds, recalls, returns, repeat services, litigation, replacements, downgrades, repairs, warranty work, warranty costs, misshipments, and incomplete orders.

(4) Company-based or independent organization comparative studies (7.3b) might take into account one or more indicators of customer dissatisfaction as well as satisfaction. The extent and types of such studies may depend upon factors such as industry and company size.

(5) Evaluation (7.3c) might take into account how well the measurement scale relates to actual repurchase and/or customer retention. The evaluation might also address the effectiveness of pre-survey research used in design, and how actionable survey results are — how well survey responses link to key business processes and cost/revenue implications and thus provide a useful basis for improvement.

(6) Use of data from satisfaction measurement is called for in 5.2b(4) and 5.3c(4). Such data also provide key input to analysis (Item 2.3).

7.4 Customer Satisfaction Results (100 pts.)

Summarize the company's customer satisfaction and customer dissatisfaction results using key measures and/or indicators of these results.

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Notes:

(1) Results reported in this Item derive from methods described in Items 7.3 and 7.2.

(2) Results data (7.4a) might be supported by customer feedback, customers' overall assessments of products/services, and customer awards.

AREAS TO ADDRESS

- a. current levels and trends in key measures and/or indicators of customer satisfaction and customer retention. Results should be segmented by customer group, as appropriate.
- b. current levels and trends in key measures and/or indicators of customer dissatisfaction. Address the most relevant and important indicators for the company's products/services.

7.5 Customer Satisfaction Comparison (60 pts.)

Compare the company's customer satisfaction results with those of competitors.

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Notes:

(1) Results reported in Item 7.5 derive from methods described in Item 7.3.

(2) Competitors include domestic and international ones in the company's markets, both domestic and international.

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- a. current levels and trends in key measures and/or indicators of customer satisfaction relative to competitors. Such indicators may include gains and losses of customers or customer accounts to competitors. Results may include objective information and/or data from independent organizations, including customers. Results should be segmented by customer group, as appropriate.
- b. trends in gaining or losing market share to competitors.

(3) Objective information and/or data from independent organizations, including customers (7.5a), might include survey results, competitive awards, recognition, and ratings. Such surveys, competitive awards, recognition, and ratings by independent organizations and customers should reflect comparative satisfaction (and dissatisfaction), not comparative performance of products and services. Information on comparative performance of products and services should be included in 6.1.

SCORING SYSTEM: APPROACH, DEPLOYMENT, RESULTS



The system for scoring applicant responses to Examination Items (Items) and for developing feedback is based upon three evaluation dimensions: (1) Approach; (2) Deployment; and (3) Results. All Items require applicants to furnish information relating to these dimensions. Specific factors associated with the evaluation dimensions are described below. Scoring Guidelines are given on page 41.

Approach

“Approach” refers to how the applicant addresses the Item requirements — the method(s) used. The factors used to evaluate approaches include the following:

- appropriateness of the methods to the requirements
- effectiveness of use of methods. Degree to which the approach:
 - is systematic, integrated, and consistently applied
 - embodies evaluation/improvement cycles
 - is based upon data and information that are objective and reliable
- evidence of innovation. This includes significant and effective adaptations of approaches used in other applications or types of businesses.

Deployment

“Deployment” refers to the extent to which the applicant’s approach is applied to all requirements of the Item. The factors used to evaluate deployment include the following:

- use of the approach in addressing business and Item requirements
- use of the approach by all appropriate work units

Results

“Results” refers to outcomes in achieving the purposes given in the Item. The factors used to evaluate results include the following:

- current performance levels
- performance levels relative to appropriate comparisons and/or benchmarks
- rate, breadth and importance of performance improvements
- demonstration of sustained improvement and/or sustained high-level performance

Item Classification and Scoring Dimensions

Award Examination Items are classified according to the kinds of information and/or data applicants are expected to furnish.

The two types of Items and their designations are:

	A	D	R
1. Approach/Deployment	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	A	D	R
2. Results	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Approach and Deployment are linked to emphasize that Items requesting information on Approach always require information to convey Deployment — consistent with the specific requirements of the Item. Although Approach and Deployment dimensions are linked, feedback to the applicant would reflect strengths and/or areas for improvement in either or both dimensions.

Results Items depend primarily on data demonstrating performance levels and trends. However, the evaluation factor, “breadth and importance of performance improvements”, is concerned with how widespread and how significant an applicant’s improvement results are. This is directly related to the Deployment dimension. That is, if improvement processes are widely deployed, there should be corresponding results. A score for a Results Item is thus a composite based upon overall performance, taking into account the breadth and importance of the performance improvements.

“Relevance and Importance” as a Scoring Factor

The three evaluation dimensions described above are all critical to the assessment and feedback processes. However, evaluations and feedback must also consider the relevance and importance to the applicant’s business of improvements in Approach, Deployment, and Results. The areas of greatest relevance and importance are addressed in the Business Overview, and are a primary focus of Items such as 3.1, 5.1, 5.2, 6.1, and 7.1. Of particular importance are the key customer requirements and key business drivers.

Assignment of Scores to Examination Items

Baldrige Award Examiners observe the following guidelines in assignment of Item scores:

- All relevant Areas to Address should be included in the Item response.
- The Item responses and Examiner score should be consistent with the applicant’s key business factors and key business drivers. Such factors are important in determining principal activities and results.
- In assigning a score to an Item, an Examiner first decides which scoring range best fits the overall Item response (e.g., 40% to 60%). Overall “best fit” does not require total agreement with each of the statements in that scoring range. Actual score within the range depends upon an Examiner’s judgement of the Item response in relation to fit with the statements in the current range, and closeness to those in the next higher or next lower ranges.
- An Approach/Deployment Item score of 50% represents an approach that meets the basic objectives of the Item and that is deployed to the principal activities covered in the Item.
- A Results Item score of 50% represents clear indication of improvement trends and/or good levels of performance in the principal results areas covered in the Item.

SCORING GUIDELINES

SCORE	APPROACH/DEPLOYMENT
0%	<ul style="list-style-type: none"> ■ no systematic approach evident; anecdotal information
10% to 30%	<ul style="list-style-type: none"> ■ beginning of a systematic approach to the primary purposes of the Item ■ early stages of a transition from reacting to problems to a general improvement orientation ■ major gaps exist in deployment that would inhibit progress in achieving the primary purposes of the Item
40% to 60%	<ul style="list-style-type: none"> ■ a sound, systematic approach, responsive to the primary purposes of the Item ■ a fact-based improvement process in place in key areas; more emphasis is placed on improvement than on reaction to problems ■ no major gaps in deployment, though some areas or work units may be in very early stages of deployment
70% to 90%	<ul style="list-style-type: none"> ■ a sound, systematic approach, responsive to the overall purposes of the Item ■ a fact-based improvement process is a key management tool; clear evidence of refinement and improved integration as a result of improvement cycles and analysis ■ approach is well-deployed, with no major gaps; deployment may vary in some areas or work units
100%	<ul style="list-style-type: none"> ■ a sound, systematic approach, fully responsive to all the requirements of the Item ■ a very strong, fact-based improvement process is a key management tool; strong refinement and integration — backed by excellent analysis ■ approach is fully deployed without any significant weaknesses or gaps in any areas or work units

SCORE	RESULTS
0%	<ul style="list-style-type: none"> ■ no results or poor results in areas reported
10% to 30%	<ul style="list-style-type: none"> ■ early stages of developing trends; some improvements <i>and/or</i> early good performance levels in a few areas ■ results not reported for many to most areas of importance to the applicant's key business requirements
40% to 60%	<ul style="list-style-type: none"> ■ improvement trends <i>and/or</i> good performance levels reported for many to most areas of importance to the applicant's key business requirements ■ no pattern of adverse trends <i>and/or</i> poor performance levels in areas of importance to the applicant's key business requirements ■ some trends <i>and/or</i> current performance levels — evaluated against relevant comparisons <i>and/or</i> benchmarks — show areas of strength <i>and/or</i> good to very good relative performance levels
70% to 90%	<ul style="list-style-type: none"> ■ current performance is good to excellent in most areas of importance to the applicant's key business requirements ■ most improvement trends <i>and/or</i> performance levels are sustained ■ many to most trends <i>and/or</i> current performance levels — evaluated against relevant comparisons <i>and/or</i> benchmarks — show areas of leadership and very good relative performance levels
100%	<ul style="list-style-type: none"> ■ current performance is excellent in most areas of importance to the applicant's key business requirements ■ excellent improvement trends <i>and/or</i> sustained excellent performance levels in most areas ■ strong evidence of industry and benchmark leadership demonstrated in many areas



Introduction

This section provides guidelines and recommendations for writing the Business Overview and for responding to the requirements of the 24 Items of the Award Criteria. The section consists of six parts: (1) Description of the Business Overview; (2) Guidelines for Preparing the Business Overview; (3) Description of an Examination Item; (4) Guidelines for Responding to Examination Items; (5) Reporting Results and Trend Data; and (6) Reviewing the Overall Set of Item Responses.

(1) Description of the Business Overview

The Business Overview is an outline of the applicant's business, addressing what is most important to the business and the key factors that influence how the business operates.

The Award Examination is designed to permit evaluation of any kind of business. However, individual Items and Areas to Address may not be equally applicable or equally important to all businesses, even to businesses of comparable size in the same industry. The Business Overview is intended to "set the stage" for the Examiners' evaluation. It should help Examiners to understand what is relevant and important to the applicant's business.

The Business Overview is used by the Examiners in all stages of the application review. For this reason, this Overview is a vital part of the overall application.

(2) Guidelines for Preparing the Business Overview

A Business Overview fully responsive to the Examiners' requirements should describe:

- the nature of the applicant's business: products and services
- principal customers (consumers, other businesses, government, etc.) and their special requirements. Special relationships with customers or key customer groups should be noted.
- a description of the applicant's major markets (local, regional, national, or international)
- key customer requirements (for example, on-time delivery or low defect levels) for products and services. Include all important requirements. Briefly note significant differences, if any, in requirements among customer groups or markets.
- the applicant's position (relative size, growth) in the industry and key factors in the competitive environment
- the applicant's employee base, including: number, type, educational level, bargaining units, etc.
- major equipment, facilities, and technologies used
- types and numbers of suppliers of goods and services. Indicate the importance to the applicant of suppliers, dealers, and other businesses, and any limitations or special relationships that may exist in dealing with such businesses.
- the regulatory environment within which the applicant operates relating to occupational health and safety, environmental, financial, products, etc.
- other factors important to the applicant. This might include: major new thrusts for the company such as entry into new markets or segments; new business alliances with suppliers, customers, or other partners; introduction of new technologies; major changes taking place in the industry; and changes in strategy.

Note: Applicants are not required to reveal trade- or business-sensitive information such as trade secrets.

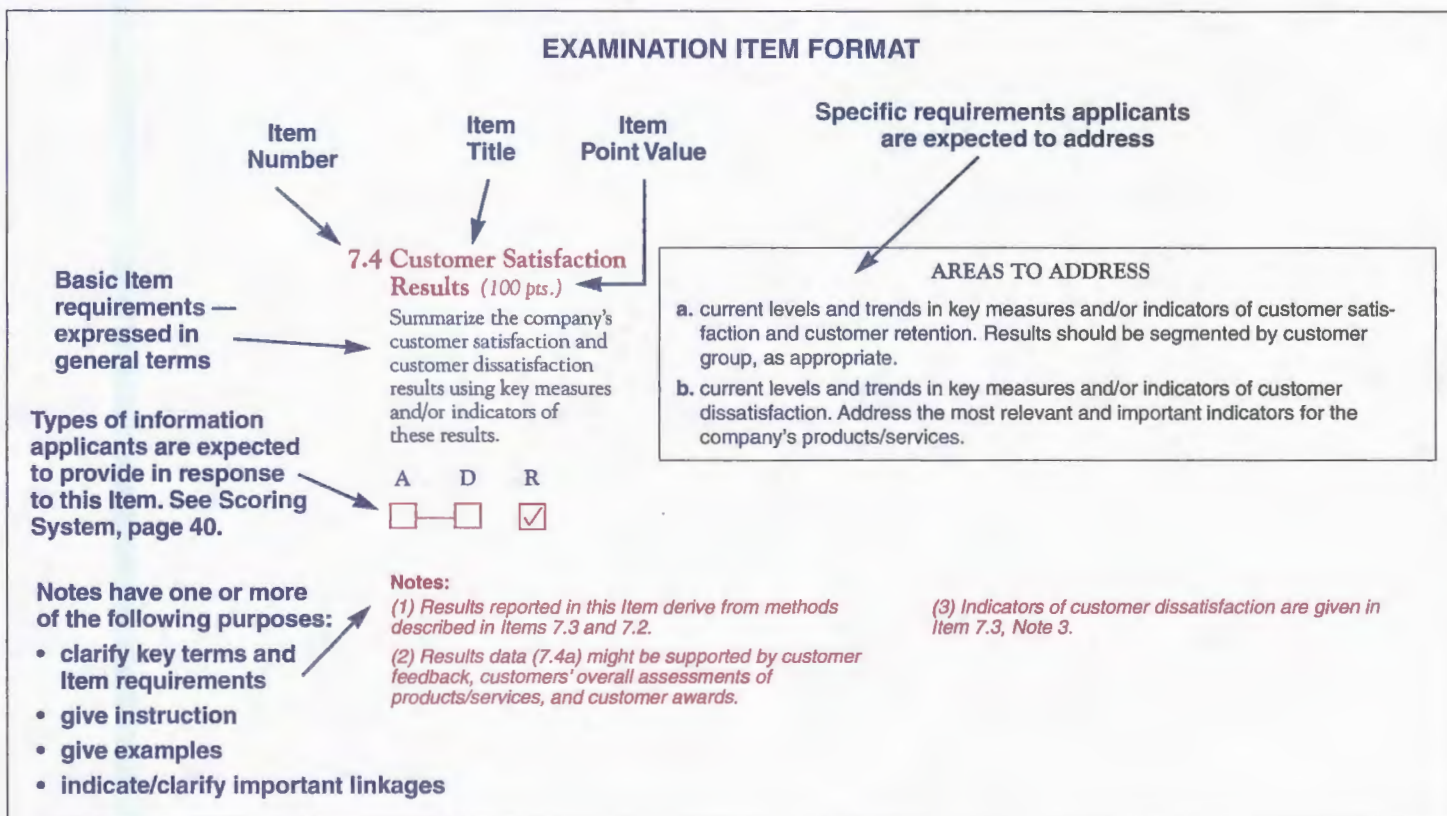
If the applicant is a subsidiary or division of a company, a description of the organizational structure and key management links to the parent company should be presented. Also include percent of employees and relationships of products and services.

The Business Overview must be limited to four pages. These four pages are not counted in the overall page limit.



(3) Description of an Examination Item

Writing an application for the Award requires responses to the requirements given in the 24 Items. Each Item and its key components are presented in the same format as illustrated in the figure below.



(4) Guidelines for Responding to Examination Items

1. Read the entire Award Criteria booklet.

The main sections of the booklet provide an overall orientation to the Criteria and how applicants' responses are evaluated.

2. Understand the meaning of "how".

Items that request information on Approach include Areas to Address that begin with the word "how". Responses to such Areas should provide as complete a picture as possible to enable meaningful evaluation and feedback. Responses should outline key process details such as methods, measures, deployment, and evaluation factors. Information lacking sufficient detail to permit an evaluation and feedback, or merely providing an example, is referred to in the Criteria booklet as anecdotal information.

3. Understand the meaning of measures and/or indicators.

Items calling for results require data using "key measures and/or indicators". Measures and indicators both involve measurement related to performance. When the performance can be measured directly, such as cycle time and on-time delivery, the term "measure" is used. When the overall performance may not be evaluated in terms of one type of measurement, and two or more measurements are used to provide ("indicate") a more complete picture, the term "indicator" is used. For example, innovation success is not easily described in terms of a single measurement. Patents and patent citations provide two measurements which are indicators of innovation success, but completing the picture requires other indicators, such as cycle time for bringing new products to market and market share gain from introduction of innovative products or services.

4. Understand the meaning of performance.

The word “performance” is used extensively throughout the Criteria booklet. Three types of performance are particularly important. These are: (1) operational performance; (2) customer-related performance; and (3) financial performance.

Operational performance refers to performance relative to measures and/or indicators used in company work processes. Operational performance assessments might be carried out for individual work units, groups of units, or the company as a whole. At higher levels of review, composite measures and/or indicators of operational performance might be desirable or necessary.

Customer-related performance refers to performance relative to measures and/or indicators that reflect customers’ behaviors, reactions and perceptions. Examples include customer retention, complaints, and customer survey results.

Financial performance refers to performance using measures of costs and/or revenues, including asset utilization. Financial measures are generally tracked throughout the company and are also aggregated to give composite measures of performance.

Phrases such as overall performance, company performance, or high performance are more general and refer broadly to all three aspects of performance described above.

5. Understand the meaning of quality

The concept of quality used in the Criteria is customer-driven quality. It refers to all product and service characteristics that contribute value to customers and that influence satisfaction and preference. The Criteria place heavy emphasis upon developing a complete and reliable set of customer requirements. These customer requirements are then deployed throughout the company where they are translated into operational requirements for work units. This approach assumes that the operational requirements have associated key measures and/or indicators that create an internal basis for assessing performance relative to key external (customer) requirements and key external benchmarks.

6. Note the distinction between data and results.

There is a critical distinction between data and results — a distinction that is often misunderstood. Data are numerical information; results are the outcomes of activities. Data could be used as inputs to activities, as well as outcomes of activities. Results Items require data to demonstrate progress and achievement. Approach/Deployment Items, focused on processes, may benefit from data to provide a clearer and more complete picture of key aspects of Approach and/or Deployment. For example, a company may use self-directed work teams in its approach. It may report that 5 such teams involving 75 percent of the people on the shop floor undertook 11 projects during the past year to reduce scrap and rework. These data are input data giving deployment information related to the approach. These teams reducing scrap and rework by 17 percent would be a result.

7. Understand specific Item requirements.

Review each Item classification and the specific requirements given under Areas to Address and in Item Notes. Also, note that all Items and Areas to Address are described in this booklet (pages 6-14).

8. Gather and organize relevant information for a response.

Most of the Items require summaries of information gathered from different parts of the company.

9. Select relevant/important information.

In preparing Item responses, focus on information that is *both* directly responsive to the Item requirements and to key business requirements spelled out in the Business Overview. Information and data included should be relevant and important to both the Item and to the applicant’s business.

10. Anticipate assessment and feedback.

A well-written response is one that lends itself to Examiner or other feedback. A response that facilitates assessment gives clear information on how (approach) and on the relevant use (deployment) of the approach. Anecdotal information or information lacking overall context should not be given as it is usually not possible to prepare meaningful feedback. Examples are, of course, helpful but examples often do not convey a picture of overall approach and deployment. If examples are used, make certain that they illustrate a more complete response already presented.



11. Make responses concise.

The application page limit (70 pages for all applicants) does not permit lengthy narrative or inclusion of information not directly responsive to Item requirements. For this reason, applicants are urged to make all responses concise and factual. Statements should be supported with data whenever appropriate.

12. Cross-reference when appropriate.

Although applicants should seek to make individual responses self-contained, there may be instances when responses to different Items are mutually reinforcing. In such cases it is appropriate to reference responses to other Items, rather than to repeat information presented elsewhere. In doing so, applicants should make the reference specific by using Item and Area designators (for example, "see 2.3a").

13. Review each response.

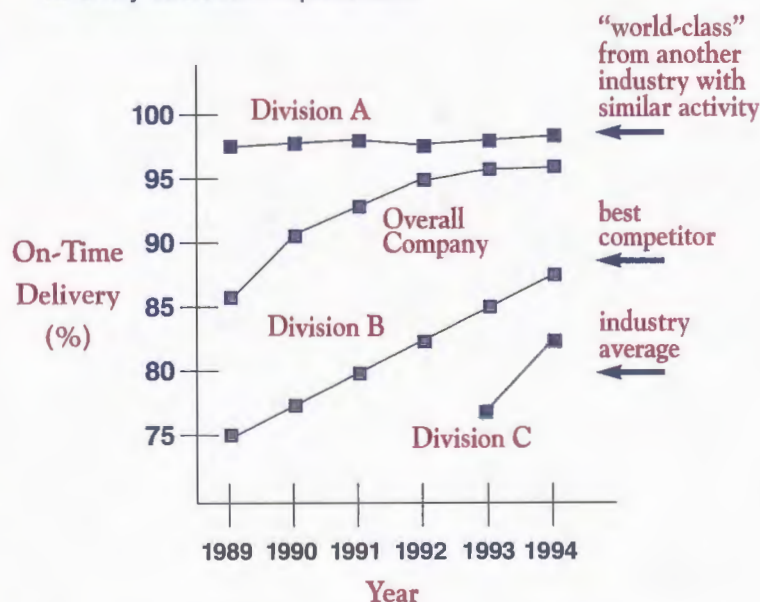
Each response should be reviewed to make certain that it addresses the Item requirements and is consistent with the applicant's key business requirements spelled out in the Business Overview. It is also important to ensure that a response is consistent with information reported in Items that are closely linked.

(5) Reporting Results and Trend Data

1. Results Items require data to demonstrate progress (trend data), achievement (performance levels), and breadth of deployment. Evaluation of achievement is usually based upon two factors: (1) that the performance level has been sustained or is the current result of a favorable trend; and (2) that the performance level can be compared with that of other appropriate organizations.
2. Applicants are required to report trend data to show progress and to show that improvements or outstanding performance levels are sustained. No minimum period of time is specified for trend data. Time periods may span five years or more for some results. Trends may be much shorter in areas where improvement efforts are new. In cases where the trend line is short, the Examiners' evaluation will place more emphasis on demonstrated levels of performance.
3. The spacing between data points on a trend line (annual, monthly, etc.) should reflect a natural measurement/use scheme for such results. That is, how the data are used in process management should determine the spacing between data points. For example, measurement frequency should support timely improvement and correction.

4. In reporting trend data, applicants should be aware that breadth of results is a major factor in the Examiners' evaluation. For this reason, it is important to report data reflecting wide deployment of improvement activities. Use of graphs and tables offers a good means to present many results compactly.
5. Graphs and tables should be integrated into the body of the text, wherever possible.

The following graph illustrates data an applicant might present as part of a response to Item 6.1, Product and Service Quality Results. The applicant has indicated, in the Business Overview and in Item 7.1, on-time delivery as a key customer requirement.



Using the graph, the following characteristics of clear and effective data presentation are illustrated:

- the trend lines report data for a key business requirement
- both axes and units of measure are clearly labeled
- results are presented for several years
- meaningful comparisons are clearly shown
- the company shows, using a single graph, that its three divisions separately track on-time delivery

To help interpret the Scoring Guidelines (page 41), the following comments on the graphed results would be appropriate:

- the current overall company performance level is excellent. This conclusion is supported by the comparison with competitors and with a “world class” level.
- the company exhibits an overall excellent improvement record
- Division A is the current performance leader — showing sustained high performance and a slightly positive trend. Division B shows rapid improvement. Its current performance is near that of the best industry competitor but trails the “world class” level.
- Division C — a new division — shows rapid progress. Its current performance is not yet at the level of the best industry competitor.

(6) Reviewing the Overall Set of Item Responses

It is helpful to review, as a whole, the complete set of 24 Item responses. There are four main considerations in this review:

1. emphasis on the applicant’s most important business requirements. This emphasis should be clear throughout the set of responses and consistent with the Business Overview. For example, the key customer requirements described in the Business Overview should be clearly evident in all relevant Items, such as 3.1, 5.1, 5.2, 6.1, and 7.1. It is particularly important to report results related directly to key customer requirements and to key company performance requirements.
2. balance in the use of page limits. Ample page space should be given to results Items which are weighed heavily in the Examiners’ evaluation. Items and Areas that address factors particularly important to the applicant’s business should receive relatively more emphasis.
3. overall consistency. Responses should be checked to ensure that responses to related Items are consistent, and that there is appropriate cross-referencing to minimize duplication of information.
4. final check on deployment information. The overall application should convey widespread and consistent implementation, not merely an outline of approaches. The final review allows an assessment of how well the application as a whole covers all key company requirements, responsibilities, and processes.

ELIGIBILITY CATEGORIES AND RESTRICTIONS



Basic Eligibility

Public Law 100-107 establishes the three eligibility categories of the Award: Manufacturing, Service, and Small Business. Any for-profit business located in the United States or its territories may apply for the Award. Eligibility for the Award is intended to be as open as possible to all U.S. companies. Minor eligibility restrictions and conditions ensure fairness and consistency in definition. For example, publicly or privately owned, domestic or foreign-owned, joint ventures, incorporated firms, sole proprietorships, partnerships, and holding companies may apply. Not eligible are: local, state, and national government agencies; not-for-profit organizations; trade associations; and professional societies.

Award Eligibility Categories

1. Manufacturing

Companies or subsidiaries (defined below) that produce and sell manufactured products or manufacturing processes, and those companies that produce agricultural, mining, or construction products.

2. Service

Companies or subsidiaries that sell services.

- Proper classification of companies that perform both manufacturing and service is determined by the larger percentage of sales.

3. Small Business

Complete businesses with not more than 500 full-time employees. Business activities may include manufacturing and/or service. A small business must be able to document that it functions independently of any other businesses which are equity owners. For example, a small business owned by a holding company would be eligible if it can document its independent operation and that other units of the holding company are in different businesses.

If there are equity owners with some management control, at least 50% of the small business' customer base (dollar volume for products and services) must be from other than the equity owners, or other businesses owned by the equity owners.

Subsidiaries

For purposes of the Malcolm Baldrige National Quality Award application, a subsidiary will be taken to mean an actual subsidiary, business unit, division, or like organization. In the Manufacturing and Service categories, subsidiary units of a company may be eligible for the Award. Small businesses must apply as a whole; subsidiary units of small businesses are not eligible.

The following application conditions apply for subsidiary units:

- The unit must have existed one year or more prior to the Award application date (April 3, 1995).
- The unit must have clear definition of organization as reflected in corporate literature, e.g., organization charts, administrative manuals, and annual reports. That is, the unit must function as a business entity, not as a collection of activities aggregated for purposes of writing an Award application.
- The unit must have more than 500 full-time employees, OR The unit must have 25% of all employees in the worldwide operations of the parent company. ("Parent company" refers to the company that owns or controls subsidiary units through the ownership of voting stock.)
- The entire unit must be included in the application; no parts of the unit may be excluded.

Restrictions on Eligibility

The intent of Public Law 100-107 is to create an Award process incorporating rigorous and objective evaluation of the applicant's management of its products, services, and operations. *Award recipients are to serve as appropriate models for other U.S. companies.* Customer satisfaction is to play a major role in the Examination. Site visits are required to verify descriptions given in written applications.

The nature of some companies' activities is such that the central purposes and requirements of Public Law 100-107 cannot be fulfilled through their participation in the Award Program; companies or subsidiaries whose businesses cannot fulfill these purposes are not eligible. Specifically, four restrictions apply:

1. A company or its subsidiary is eligible only if the practices associated with all major business functions of the applicant are inspectable in the United States or its territories. One or both of the following conditions must apply:
 - more than 50% of the applicant unit's employees must be located in the U.S. or its territories, OR
 - more than 50% of the applicant unit's physical assets must be located in the U.S. or its territories

Note: *The functions/activities of foreign sites must be included in the Application Report in the appropriate Examination Items.*

2. At least 50% of a subsidiary unit's customer base (dollar volume for products and services) must be free of direct financial and line organization control by the parent company. For example, a subsidiary unit is not eligible if its parent company or other subsidiary of the parent company is the customer for more than one-half of its total products and services.

3. Individual units or partial aggregations of units of "chain" organizations (such as hotels, retail stores, banks, or restaurants) are not eligible.

For purposes of this application, a chain organization is defined as an organization where each unit (e.g., subsidiary or franchise) performs a similar function or manufactures a similar product. Accordingly, a potential applicant is not eligible if the parent company or another unit of the parent company provides similar products or services for substantially the same customer base. Similarly, an individual unit is not eligible if customers would be unable to distinguish easily which unit of the company provides the products or services to them.

4. Company units performing any of the business support functions of the company are not eligible. Examples of business support functions include: Sales/Marketing/Distribution, Customer Service, Finance and Accounting, Human Resources, Environmental-Health-Safety of Employees, Purchasing, Legal Services, and Research and Development.

Multiple-Application Restrictions

1. A subsidiary and its parent company may not both apply for Awards in the same year.
2. Only one subsidiary unit of a company may apply for an Award in the same year in the same Award category.

Future Eligibility Restrictions

1. If a company receives an Award, the company and all its subsidiary units are ineligible to apply for an Award for a period of five years.

2. If a subsidiary unit receives an Award, it is ineligible to apply for an Award for a period of five years.

3. If a subsidiary unit consisting of more than one-half of the total sales of a company receives an Award, neither that company nor any of its other subsidiary units is eligible to apply for another Award for a period of five years.

Eligibility Determination

In order to ensure that Award recipients meet all reasonable requirements and expectations in representing the Award throughout the U.S., potential applicants must have their eligibility approved prior to applying for the Award.

Determination takes into account the following factors:

- small business status
- subsidiary unit status and subsidiary functions performed
- customer base
- sales to a parent company or another unit or units of the parent company
- status as a company operating in the U.S. and/or its territories
- relationship of products and services to those of the parent company or other units of the parent company
- number and type of support services provided by the parent company or other units of the parent company

Potential applicants for the 1995 Award are encouraged to submit their Eligibility Determination Forms as early as possible and no later than March 3, 1995. This form is contained in the 1995 Application Forms and Instructions booklet. For information on how to obtain a copy of this booklet, see page 49.

HOW TO ORDER COPIES OF 1995 AWARD MATERIALS



Note: The **1995 Award Criteria** and the **1995 Application Forms and Instructions** are two separate documents.

Individual Orders

Individual copies of either document can be obtained free of charge from:

Malcolm Baldrige National Quality Award
National Institute of Standards and Technology
Route 270 and Quince Orchard Road
Administration Building, Room A537
Gaithersburg, MD 20899-0001
Telephone: 301-975-2036
Telefax: 301-948-3716

Bulk Orders

Multiple copies of the **1995 Award Criteria** may be ordered in packets of 10:

American Society for Quality Control
Customer Service Department
P.O. Box 3066
Milwaukee, WI 53201-3066
Toll free: 800-248-1946
Telefax: 414-272-1734
Order Item Number T999

Cost: \$29.95 per packet of 10 plus postage and handling

Postage and handling charges are:

Order Amount	U.S.	Canada
0 – \$34.99	\$ 4.00	\$ 9.00
\$35.00 – 99.99	6.25	11.25
Over \$100.00	12.50*	17.50

For orders shipped outside of the continental United States, there is a fee of 25 percent of order value to cover postage and handling. This fee does not apply to Canada.

Payment

Payment options include check, money order, purchase order, VISA, MasterCard, or American Express.

Payment must accompany all mail orders.

Payment must be made in U.S. currency. Checks and money orders must be drawn on U.S. institutions.

Make checks payable to ASQC.

Shipment

Orders delivered within the continental United States and Canada will be shipped UPS or first class mail.

**If actual shipping charges exceed \$12.50, ASQC will invoice the customer for additional expense.*

FEES FOR THE 1995 AWARD CYCLE

Eligibility Determination Fees

The eligibility determination fee is \$50 for all potential applicants. This fee is nonrefundable.

Application Fees

- Manufacturing Company Category—\$4000
- Service Company Category—\$4000
- Small Business Category—\$1200
- Supplemental Sections—\$1500

These fees cover all expenses associated with distribution of applications, review of applications, and development of feedback reports. A brief description of companies required to submit Supplemental Sections is given on page 1. Detailed information is given in the **1995 Application Forms and Instructions** document.

Site Visit Review Fees

Site visit review fees will be set when the visits are scheduled. Fees depend upon the number of sites to be visited, the number of Examiners assigned, and the duration of the visit. Site visit review fees for applicants in the Small Business category will be charged at one-half of the rate for companies in the Manufacturing and Service categories.

These fees cover all expenses and travel costs associated with site visit participation and development of site visit reports. Site visit review fees are paid only by those applicants reaching the site visit stage.

Eligibility Determination Forms due — March 3, 1995
Award Applications due — April 3, 1995

HOW TO ORDER AWARD EDUCATIONAL MATERIALS



Each year, the Award Program develops materials for use in training members of the Board of Examiners, and for sharing information on the successful quality strategies of the Award winners. The listed materials and information may be obtained from the American Society for Quality Control (toll free: 800-248-1946). Prices and/or availability dates for all materials are given below.

Case Studies

The case studies are used to prepare Examiners for the interpretation of the Award Criteria and the Scoring System. The case studies, when used with the Award Criteria, illustrate the Award application and review process. The case studies are sample applications written for fictitious companies applying for the Baldrige Award. The case studies can provide valuable insights into the Award Criteria and Scoring System for companies interested in making application, as well as for self-assessment, planning, training, and other uses.

Great Northern Case Study Packet

Based on the 1994 Examiner Preparation Course

Item Number T551: \$ 49.95

The Great Northern Case Study Packet is also available on diskette.

Item Number T516: \$500.00

Varifilm Case Study Packet

Based on the 1993 Examiner Preparation Course

Item Number T515: \$ 49.95

Award Winners Videos

The Award winners videos are a valuable resource for gaining a better understanding of excellence in quality management and quality achievement. The videos provide background information on the Award Program, highlights from the annual Award ceremony, and interviews with representatives from the winning companies.

1994 – Available February 1995.

1993 – Item Number TA515: \$20.00

1992 – Item Number TA512: 20.00

1991 – Item Number TA996: 15.00

1990 – Item Number T992: 15.00

1989 – Item Number T502: 10.00

1988 – Item Number T993: 10.00

1992 Expanded Video

An expanded, 55-minute video, entitled "Quality Leadership: A Culture For Continuous Improvement", is available. The video highlights each 1992 Award Winner — AT&T Network Systems Group, Transmission Systems Business Unit; Texas Instruments, Defense Systems and Electronics Group; AT&T Universal Card Services; The Ritz-Carlton Hotel Company; and the Granite Rock Company.

Item Number TA914: \$249.95

1991 Expanded Video

An expanded, 46-minute video, featuring the three 1991 Award winners — Solecron Corporation, Zytac Corporation, and Marlow Industries, shows the viewer the ingredients for successful implementation of a quality system within their organization.

Item Number TA910: \$195.00

QUEST FOR EXCELLENCE VII CONFERENCE

The Annual Quest for Excellence Conference provides a unique opportunity to hear firsthand the Award-winning strategies of the past year's winners. Presentations are made by the CEOs and other key individuals who are transforming their organizations. The annual Quest for Excellence Conference is the principal forum for Award winners to present their overall strategies in detail.

The two and one-half day Quest for Excellence VII Conference will provide ample opportunities to explore the Award Criteria in depth, network with executive-level individuals from around the country, and view displays of each of the Award-winning organizations.

The Conference dates are February 5-8, 1995. The Conference will be held at the Washington Hilton and Towers, in Washington, D.C. For further information, contact the Association for Quality and Participation (AQP). (Toll-free: 800-733-3310 or FAX: 513-381-0070)

THE MALCOLM BALDRIGE NATIONAL QUALITY IMPROVEMENT ACT OF 1987 – PUBLIC LAW 100-107



The Malcolm Baldrige National Quality Award was created by Public Law 100-107, signed into law on August 20, 1987. The Award Program, responsive to the purposes of Public Law 100-107, led to the creation of a new public-private partnership. Principal support for the program comes from the Foundation for the Malcolm Baldrige National Quality Award, established in 1988.

The Award is named for Malcolm Baldrige, who served as Secretary of Commerce from 1981 until his tragic death in a rodeo accident in 1987. His managerial excellence contributed to long-term improvement in efficiency and effectiveness of government.

The Findings and Purposes Section of Public Law 100-107 states that:

- “ 1. the leadership of the United States in product and process quality has been challenged strongly (and sometimes successfully) by foreign competition, and our Nation's productivity growth has improved less than our competitors' over the last two decades.
2. American business and industry are beginning to understand that poor quality costs companies as much as 20 percent of sales revenues nationally and that improved quality of goods and services goes hand in hand with improved productivity, lower costs, and increased profitability.
3. strategic planning for quality and quality improvement programs, through a commitment to excellence in manufacturing and services, are becoming more and more essential to the well-being of our Nation's economy and our ability to compete effectively in the global marketplace.
4. improved management understanding of the factory floor, worker involvement in quality, and greater emphasis on statistical process control can lead to dramatic improvements in the cost and quality of manufactured products.
5. the concept of quality improvement is directly applicable to small companies as well as large, to service industries as well as manufacturing, and to the public sector as well as private enterprise.
6. in order to be successful, quality improvement programs must be management-led and customer-oriented, and this may require fundamental changes in the way companies and agencies do business.
7. several major industrial nations have successfully coupled rigorous private-sector quality audits with national awards giving special recognition to those enterprises the audits identify as the very best; and
8. a national quality award program of this kind in the United States would help improve quality and productivity by:
- A. helping to stimulate American companies to improve quality and productivity for the pride of recognition while obtaining a competitive edge through increased profits;
 - B. recognizing the achievements of those companies that improve the quality of their goods and services and providing an example to others;
 - C. establishing guidelines and criteria that can be used by business, industrial, governmental, and other organizations in evaluating their own quality improvement efforts; and
 - D. providing specific guidance for other American organizations that wish to learn how to manage for high quality by making available detailed information on how winning organizations were able to change their cultures and achieve eminence. ”



The Malcolm Baldrige National Quality Award

Managed by:

United States Department of Commerce
Technology Administration
National Institute of Standards and Technology
Route 270 and Quince Orchard Road
Administration Building, Room A537
Gaithersburg, MD 20899-0001

Administered by:

American Society for Quality Control
P.O. Box 3005
Milwaukee, WI 53201-3005