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Elevating organizational performance excellence.

Glossary of Key Terms

The terms below are those used throughout the Sterling Criteria for Performance Excellence and scoring guidelines. Each term in boldface is followed by a definition. Subsequent sentences in the first paragraph elaborate on this definition. The paragraphs that follow provide examples, descriptive information, or key linkages to other information about the Sterling framework.

ACTION PLANS. Specific actions that your organization takes to reach short- and longer-terms objectives. These plans specify the resources committed to and the time horizon for accomplishing the plans. Action plan development is the critical stage in planning when you make strategic objectives and goals specific so that you can effectively deploy them throughout the organization in an understandable way. In the Criteria, deploying action plans includes creating aligned measures for all affected departments and work units. Deployment might also require specialized training for some workforce members or recruitment of personnel.

For example, a strategic objective for a supplier in a highly competitive industry might be to develop and maintain price leadership. Action plans could entail designing efficient processes, creating an accounting system that tracks activity-level costs, and aligning processes and accounting systems across the organization. To deploy the action plans, the supplier might need to train work units and teams in setting priorities based on costs and benefits. Organizational-level analysis and review would likely emphasize productivity growth, cost control, and quality.

See also STRATEGIC OBJECTIVES.

ALIGNMENT. A state of consistency among plans, processes, information, resource decisions, workforce capability and capacity, actions, results, and analyses that support key organization-wide goals. Effective alignment requires a common understanding of purposes and goals. It also requires the use of complementary measures and information for planning, tracking, analysis, and improvement at three levels: the organizational level, the key process level, and the work unit level.

See also INTEGRATION.

ANALYSIS. The examination of facts and data to provide a basis for effective decisions. Analysis often involves determining cause-effect relationships. Overall organizational analysis guides you in managing work systems and work processes toward achieving key business results and attaining strategic objectives. Although individual facts and data are important, they do not usually provide an effective basis for acting or setting priorities. Effective actions depend on an understanding of relationships, which is derived from the analysis of facts and data.

ANECDOTAL. In a response to a Criteria item, information that lacks specific methods, measures, deployment mechanisms, and evaluation, improvement, and learning factors. Anecdotal information frequently consists of examples and describes individual activities rather than systematic processes. For example, in an anecdotal response to how senior leaders deploy performance expectations, you might describe a specific occasion when a senior leader visited all of your organization's facilities. On the other hand, in properly describing a systematic process, you might include the methods all senior leaders use to communicate performance expectations regularly to all locations and workforce members, the measures leaders use to assess the effectiveness of the methods, and the tools and techniques you use to evaluate and improve the methods.

See also SYSTEMATIC.

APPROACH. The methods your organization uses to carry out its processes. Besides the methods themselves, approach refers to the appropriateness of the methods to the item requirements and your organization's operating environment, as well as how effectively your organization uses those methods.

Approach is one of the factors considered in evaluating process items. For further description, see the Scoring System (page 44).

BASIC REQUIREMENTS. The most central concept of a Criteria item, as presented in the item title question. For an illustration, see Sterling Criteria for Performance Excellence Structure (page 12).

BENCHMARKS. The process and results that represent the best practices and best performance for similar activities, inside or outside your organization's industry. Organizations engage in benchmarking to understand the current dimensions of world-class performance and to achieve discontinuous (non-incremental) or breakthrough improvement.

Benchmarks are one form of comparative data. Other forms include industry data collected by a third party (frequently industry averages), data on competitors' performance, and comparisons with similar organizations that are in the same geographic area or that provide similar products and services in other geographic areas.

CAPABILITY, WORKFORCE. See WORKFORCE CAPABILITY

CAPACITY, WORKFORCE. See WORKFORCE CAPACITY

COLLABORATORS. Organizations or individuals who cooperate with your organization to support a particular activity or event or who cooperate intermittently when their short-term goals are aligned with or are the same as yours. Typically, collaborations do not involve formal agreements or arrangements.

See also PARTNERS

CORE COMPETENCIES. Your organization's areas of greatest expertise; those strategically important capabilities that are central to fulfilling your mission or that provide an advantage in your marketplace or service environment. Core competencies are frequently challenging for competitors or suppliers and partners to imitate, and they may provide an ongoing competitive advantage. The absence of a needed core competency may result in a significant strategic challenge or disadvantage for your organization in the marketplace. Core competencies may involve technological expertise, uniue service offerings, a marketplace niche, or business acumen in a particular area (e.g., business acquisitions).

CUSTOMER. An actual or potential user of your organization's products and services, programs, or services (all referred to as products and services in the Criteria). Customers include the end users of your products and services, as well as others who are immediate purchasers or users, such as distributors, agents, or organizations that process your product as a component of theirs. The Sterling framework addresses customers broadly, referencing your current and future customers, as well as your competitors' customers. Customer-focused excellence is a Sterling core value embedded in the beliefs and behaviors of high-performing organizations. Customer focus impacts and should be a factor in integrating your organization's strategic directions, work systems and work processes, and business results.

See also STAKEHOLDERS for the relationship between customers and others who might be affected by your products and services.

CUSTOMER ENGAGEMENT. Your customers' investment in their commitment to your brand and product and services offerings. It is based on your ongoing ability to serve their needs and build relationships so that they will continue using your products and services. Characteristics of engaged customers include retention and loyalty, willingness to make an effort to do business with your organization, and willingness to actively advocate for and recommend your brand and product and services offerings.

CYCLE TIME. The time required to fulfill commitments or complete tasks. Time performance and speed are important to improving competitiveness and overall performance. Cycle time refers to all aspects of time performance, such as time to market, order fulfillment time, delivery time, changeover time, customer response time, and other key measures of time. Improvement in cycle time may involve any or all of these.

DEPLOYMENT. The extent to which your organization applies an approach in addressing the requirements of a Criteria Item. Evaluation of deployment considers how broadly and deeply the approach is applied in relevant work units throughout your organization. Deployment is one of the factors considered in evaluating process items. For further description, see the Scoring System (page 44).

DIVERSITY. Personal differences among workforce members that enrich the work environment and are representative of your hiring and customer communities. These differences address many variables, such as race, religion, gender, national origin, disability, sexual orientation, age and generation, education, geographic origin, and skill characteristics, as well as ideas, thinking, academic disciplines, and perspectives.

The Criteria refer to valuing and benefiting from the diversity of your workforce hiring and customer communities. Capitalizing on both in building your workforce increases your opportunities for high performance; customer, workforce, and community satisfaction; and customer and workforce engagement.

EFFECTIVE. How well a process or a measure addresses its intended purpose. Determining effectiveness requires: evaluating how well the process is aligned with the organization's needs and how well it is deployed; or evaluating the outcome of the measure as an indicator of process or product performance.

EMPOWERMENT. Giving people the authority and responsibility to make decisions and take actions. When people are empowered, decisions are made closest to the front line, where work-related knowledge and understanding reside. The purpose of empowering people is to enable them to satisfy customers on first contact, improve processes and increase productivity, and improve your organization's performance results. An empowered workforce requires information to make appropriate decisions; thus your organization must provide that information in a timely and useful way.

ENGAGEMENT. See CUSTOMER ENGAGEMENT

ENGAGEMENT. See WORKFORCE ENGAGEMENT

ETHICAL BEHAVIOR. The actions your organization takes to ensure that all its decisions, actions, and stakeholder interactions conform to its moral and professional principles of conduct. These principles should support all applicable laws and regulations and are the foundation for your organization's culture and values. They distinguish right from wrong.

Senior leaders should be role models for these principles of behavior. The principles apply to all people involved in your organization, from temporary workforce members to members of the board of directors. These principles benefit from regular communication and reinforcement. Although the Sterling framework does not prescribe a particular model for ensuring ethical behavior, senior leaders have the responsibility for the alignment of your organization's mission and vision with its ethical principles. Ethical behavior encompasses interactions with all stakeholders, including your workforce, shareholders, customers, partners, suppliers, and local community. Well-designed and clearly articulated ethical principles empower people to make effective decisions with great confidence. In some organizations, ethical principles also serve as boundary conditions restricting behavior that otherwise could have adverse impacts on your organization and/or society.

EXCELLENCE. See PERFORMANCE EXCELLENCE.

GOALS. Future conditions or performance levels that your organization intends or desires to attain. Goals can be both short- and longer-term. They are ends that guide actions.

Quantitative goals, frequently referred to as targets, include a numerical point or range. Targets might be desired performance based on comparative or competitive data. Stretch goals are goals for desired major, discontinuous (non-incremental) or "breakthrough" improvements, usually in areas most critical to your organization's future success.

Goals can serve many purposes, including:

- clarifying strategic objectives and action plans to indicate how you will measure success;
- fostering teamwork by focusing on a common end;
- encouraging out-of-the-box thinking (innovation) to achieve a stretch goal; and
- providing a basis for measuring and accelerating progress.

See also PERFORMANCE PROJECTIONS.

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

GOVERNANCE SYSTEM. The framework of procedures and practices by which a board of directors ensures accountability, fairness, and transparency in an organization's relationship with its stakeholders (funders, customers, management, employees, government, suppliers and the community). An organization's values provide the general guidance to shape governance and behavior. The Governance System provides the reinforcement and boundaries that translate guidance into action, and ensure that behavior is ethical, legal, and appropriate.

A governance framework consists of three major elements:

1. Explicit and implicit agreements and contracts between the organization and the stakeholders for the distribution of responsibilities, rights, and rewards.
2. Procedures for reconciling potentially conflicting interests of stakeholders in accordance with their duties, privileges, and roles.
3. Procedures for proper oversight, control, and administration of information flows to serve as a system of checks-and-balances.

Although the Governance System is specifically addressed in Category/Item/Area 1.2a(1), its influence impacts all categories and Core Values.

HIGH PERFORMANCE. Ever-higher levels of overall organizational and individual performance, including quality, productivity, innovation rate, and cycle time. High performance results in improved service and value for customers and other stakeholders. Approaches to high performance vary in their form, their function, and the incentive systems used. High performance stems from and enhances workforce engagement. It involves cooperation between the management and the workforce, which may involve workforce bargaining units; cooperation among work units, often involving teams; empowerment of your people, including personal accountability; and workforce input into planning. It may involve learning and building individual and organizational skills; learning from other organizations; creating flexible job design and work assignments; maintaining a flattened organizational structure, where decision-making is decentralized and decisions are made closer to the front line; and effectively using the performance, team and individual contributions and skill building. Also, approaches to high performance usually seek to align your organization's structure, core competencies, work, jobs, workforce development, and incentives.

HOW. The systems are processes that your organization uses to achieve its mission requirements. In responding to "how" questions in Criteria categories 1-6, you should include information on approach (methods and measures), deployment, learning, and integration.

INDICATORS. See MEASURES AND INDICATORS.

INNOVATION. Making meaningful change to improve products and services, processes, or organizational effectiveness and create new value for stakeholders. Innovation involves adopting an idea, process, technology, product, or business model that is either new or new to its proposed application. The outcome of innovation is a discontinuous or "breakthrough" change in results, products and services, or processes. Innovation benefits from a supportive environment, a process for identifying strategic opportunities, and a willingness to pursue intelligent risks.

Successful organizational innovation is a multi-step process of development and knowledge sharing, a decision to implement, implementation, evaluation, and learning. Although innovation is often associated with technological innovation, it is applicable to all key organizational processes that can benefit from change through innovation, whether breakthrough improvement or a change in approach or outputs. Innovation could be fundamental changes in an organization's structure or business model to accomplish work more effectively.

See also INTELLIGENT RISKS and STRATEGIC OPPORTUNITIES.

INTEGRATION. The harmonization of plans, processes, information, resource decisions, workforce capability and capacity, actions, results and analysis to support key organization-wide goals. Effective integration goes beyond alignment and is achieved when the individual components of an organizational performance management system operate as a fully interconnected unit. Integration is one of the factors considered in evaluating both process and results items. For further description, see the Scoring System (page 44).

See also ALIGNMENT.

INTELLIGENT RISKS. Opportunities for which the potential gain

outweighs the potential harm or loss to your organization's future success if you do not explore them. Taking intelligent risks requires a tolerance for failure and an expectation that innovation is not achieved by initiating only successful endeavors. At the outset, organizations must invest in potential successes while realizing that some will lead to failure. The degree of risk that is intelligent to take will vary by the pace and level of threat and opportunity in the industry. In a rapidly changing industry with constant introductions of new products and services, processes, or business models, there is an obvious need to invest more resources in intelligent risks than in stable industry. In the latter, organizations must monitor and explore growth potential and change but, most likely, with a significant commitment of resources.
See also STRATEGIC OPPORTUNITIES.

KEY. Major or most important; critical to achieving your intended outcome. The Criteria, for example, refer to key challenges, plans, work processes, and measures-those that are most important to your organization's success. They are the essential elements for pursing or monitoring a desired outcome. Key is generally defined as approximately the most significant five (e.g., around five key challenges).

KNOWLEDGE ASSETS. Your organization's accumulated intellectual resources; the knowledge possessed by your organization and its workforce in the form of information, ideas, learning, understanding, memory, insights, cognitive and technical skills, and capabilities. These knowledge assets reside in your workforce, software, patents, databases, documents, guides, policies, procedures, and technical drawings. Knowledge assets also reside within customers, suppliers and partners. Knowledge assets are the know-how that your organization has available to use, invest, and grow. Building and managing knowledge assets are key components of creating value for your stakeholders and sustaining a competitive advantage.

LEADERSHIP SYSTEM. The way leadership is exercised, formally and informally, throughout your organization; the basis for key decisions and the way they are made, communicated, and carried out. A leadership system includes structures and mechanisms for making decisions; ensuring two-way communication; selecting and developing leaders and managers; and reinforcing values, ethical behavior directions, and performance expectations. An effective leadership system respects workforce members' and other stakeholders' capabilities and requirements, and it sets high expectations for performance and performance improvement. It builds loyalties and teamwork based on your organization's vision and values and the pursuit of shared goals. It encourages and supports initiative, innovation, and appropriate risk taking; subordinates organizational structure to purpose and function; and avoids chains of command that require long decision paths. An effective leadership system includes mechanisms for leaders to conduct self-examination, receive feedback, and improve.

LEARNING. New knowledge or skills acquired through evaluation, study, experience, and innovation. The Sterling framework refers to two distinct kinds of learning: organizational learning and learning by people in your workforce. Organizational learning is achieved through research and development, evaluation and improvement cycles, ideas and input from the workforce and stakeholders, the sharing of best practices, and benchmarking. Workforce learning is achieved through education, training, and developmental opportunities that further the individual growth of the people in your workforce. To be effective, learning should be embedded in the way your organization operates. Learning contributes to a competitive advantage and ongoing success for your organization and workforce.

For further description of organizational and personal learning, see the related core values and concepts: Valuing People, and Organizational Learning and Agility (pages 48).

Learning is one of the factors considered in evaluating process items. For further description, see the Scoring System (page 44).

LEVELS. Numerical information that places or positions your organization's results and performance on a meaningful measurement scale. Performance levels permit evaluation relative to past performance, projections, goals and appropriate comparisons.

MEASURES AND INDICATORS. Numerical information that quantifies the input, output, and performance dimensions of processes, products and services, and overall organization performance. Measures and indicators might be simple (derived from one measurement) or composite. The Criteria do not distinguish between measures and indicators. However, some users of these terms prefer "indicator" (1) when the measurement relates to performance but does not measure it directly (e.g., the number of complaints is an indicator but not a direct measure of dissatisfaction) and (2) when the measurement is a predictor ("leading indicator") of some more significant performance (e.g., increased customer satisfaction might be a leading indicator of market share gain).

MISSION. Your organization's overall function. The mission answers the question, "what is your organization attempting to accomplish?" The mission might define customers or markets served, distinctive or core competencies, or technologies used.

MULTIPLE REQUIREMENTS. The details of a Criteria item, as expressed in the individual questions under each lettered area to address. The first question in a set of multiple requirements expresses the most important question in that group. The questions that follow expand on or supplement that question. For an illustration, see Sterling Criteria for Performance Excellence Structure (page 12). Even high-performing, high-scoring users of the Sterling framework are not likely to be able to address all the multiple requirements with equal capability success.

OVERALL REQUIREMENTS. The most important features of a Criteria item, as elaborated in the first question (the leading question in boldface) in each paragraph under each lettered area to address. For an illustration, see Sterling Criteria for Performance Excellence Structure (page 12).

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

See also COLLABORATORS.

PERFORMANCE. Outputs and their outcomes obtained from processes, products and services, and customers that permit you to evaluate and compare your organization's results to performance projections, standards, past results, goals, and other organizations' results. Performance can be expressed in non-financial and financial terms. The Criteria address four types of performance: (1) product and service, (2) customer-focused, (3) operational, and (4) financial and marketplace. Product and service performance is performance relative to measures and indicators of product and service characteristics that are important to customers. Examples include product and service reliability, on-time delivery, customer-experienced defect levels, and service response time. For some service organizations, including non-profit organizations, examples might include program and project performance in the areas of rapid response to emergencies, at-home services, or multilingual services.

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

Operational performance is workforce, leadership, and organizational performance (including ethical and legal compliance) relative to measures and indicators of effectiveness, efficiency, and accountability. Examples include cycle time, productivity, waste reduction, workforce turnover, workforce cross-training rates, regulatory compliance, fiscal accountability, strategy accomplishment, and community involvement. Operational performance might be measured at the work-unit, key work process, and organizational levels.

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

PERFORMANCE EXCELLENCE. An integrated approach to organizational performance management that results in: delivery of ever-improving value to customers and stakeholders, contributing to ongoing organizational success; improvement of your organization's overall effectiveness and capabilities, and; learning for the organization and for people in the workforce. The Sterling Organizational Profile, Criteria, core values and concepts, and scoring guidelines provide a framework and assessment tool for understanding your organization's strengths and opportunities for improvement and, thus, for guiding your planning toward achieving higher performance and striving for excellence.

PERFORMANCE IMPROVEMENT SYSTEM. An organizational approach for improving performance at all levels. A Performance Improvement System includes the elements of direction setting by leadership, strategic planning, work system and process management, improvement methodologies (Lean, Six Sigma, P-D-C-A, and others), organizational learning, systematic reviews of performance relative to goals, and governance. Examples of Performance Improvement Systems include the Deming Prize, Enterprise Lean Six Sigma, International Standards Organization (ISO) systems, the Shingo Prize for Operational Excellence, and Total Quality Management. These approaches promote both the guidelines and methodologies to include leadership, governance, work systems, and performance improvement systems. Organizations that adopt these types of systems demonstrate a commitment to performance excellence in all aspects of their operations by ensuring the use of sound and systematic policies and procedures, and the ongoing improvement of them, thereby consistently meeting the needs of current and future customers. Other frameworks may not include all four of these elements, may only emphasize compliance to existing procedures and not improvement, or provide only a general framework. While Lean or Six Sigma can be implemented in specific areas of an organization, this does not imply an organization-wide commitment to improvement and performance excellence.

PERFORMANCE PROJECTIONS. Estimates of your organization's future performance. Projections should be based on an understanding of past performance, rates of improvement, and assumptions about future internal changes and innovations, as well as assumptions about changes in the external environment that result in internal changes. Thus, performance projections can serve as a key tool in managing your operations and in developing and implementing your strategy.

Performance projections state your expected future performance. Goals state your desired future performance. Performance projections for your competitors or similar organizations may indicate challenges facing your organization and areas where breakthrough performance or innovation is needed. In areas where your organization intends to achieve breakthrough performance or innovation, your performance projections and your goals may overlap.

See also GOALS.

PROCESS. Linked activities with the purpose of producing a product or service for a customer (user) within or outside your organization. Generally, processes involve combinations of people, machines, tools, techniques, materials, and improvements in a defined series of steps or actions. Processes rarely operate in isolation and must be considered in relation to other processes that impact them. In some situations, processes might require adherence to a specific sequence of steps, with documentation (sometimes formal) of procedures and requirements, including well-defined measurement and control steps.

In the delivery of services, particularly those that directly involve customers, process is used more generally to spell out what delivering that service entails, possibly including a preferred or expected sequence. If a sequence is critical, the process needs to include information that helps customers understand and follow the sequence. Such service processes also require guidance for service providers on handling contingencies related to customers' possible actions or behaviors.

In knowledge work, such as strategic planning, research, development, and analysis, process does not necessarily imply formal sequence of steps. Rather, it implies general understandings of competent performance in such areas as timing, options to include, evaluation, and reporting. Sequences might arise as part of these understandings.

Process is one of the two dimensions (plus results) evaluated in a Sterling-based assessment. This process evaluation is based on four factors: approach, deployment, learning, and integration. For further description, see the Scoring System (page 44).

PRODUCTIVITY. Measure of the efficiency of resource use. Although the term is often applied to single factors, such as the workforce (labor productivity), machines, materials, energy, and capital, the concept also applies to the total resources used in producing outputs. Using an aggregate measure of overall productivity allows you to determine whether the net effect of overall changes in a process, possibly involving resource trade-offs, is beneficial.

PROJECTIONS. See PERFORMANCE PROJECTIONS.

RESULTS. Outputs and outcomes achieved by your organization. Results are evaluated based on current performance; performance relative to appropriate comparison; the rate, breadth, and importance of performance improvements; and the relationship of results measures to key organizational performance requirements. Results is one of the two dimensions evaluated in a Sterling-based assessment. This evaluation is based on four factors: levels, trends, comparisons, and integration. For further description, see the Scoring System (page 44).

SEGMENT. One part of your organization's customer, market, product offering, or workforce base. Segments typically have common characteristics that allow logical groupings. It is up to each organization to determine the factors that it uses to segment its customers, markets, products, and services, and workforce. Understanding segments is critical to identifying the distinct needs and expectations of different customer, market, and workforce groups, and to tailoring product and service offerings to meet their needs and expectations. For example, you might segment your market based on distribution channels, business volume, geography, or technologies employed. You might segment your workforce based on geography, skills, needs, work assignments, or job classifications. In Criteria results items, segmentation refers to disaggregating results data in a way that allows for meaningful analysis of your organization's performance.

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

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

See also CUSTOMER.

STRATEGIC ADVANTAGES. Those marketplace benefits that exert a decisive influence on your organization's likelihood of future success. These advantages are frequently sources of current and future competitive success relative to other providers of similar products and services. Strategic advantages generally arise from either or both of two sources; core competencies, which focus on building and expanding your organization's internal capabilities, and; strategically important external resources, which your organization shapes and leverages through key external relationships and partnerships. When an organization realizes both sources of strategic advantages, it can amplify its unique internal capabilities by capitalizing on the complementary capabilities in other organizations.

See STRATEGIC CHALLENGES and STRATEGIC OBJECTIVES for the relationship among strategic advantages, strategic challenges, and the strategic objectives your organization articulates to address its challenges and advantages.

STRATEGIC CHALLENGES. Those pressures that exert a decisive influence on your organization's likelihood of future success. These challenges are frequently driven by your organization's anticipated competitive position in the future relative to other providers of similar products and services. While not exclusively so, strategic challenges are generally externally driven. However, in responding to externally driven strategic challenges, your organization may face internal strategic challenges. External strategic challenges may relate to customer or market needs or expectations; product or technological changes; or financial, societal and other risks or needs. Internal strategic challenges may relate to capabilities or human and other resources.

See STRATEGIC ADVANTAGES and STRATEGIC OBJECTIVES for the relationship among strategic challenges, strategic advantages, and the strategic objectives your organization articulates to address its challenges and advantages.

STRATEGIC OBJECTIVES. The aims or responses that your organization articulates to address major change or improvement, competitiveness or social issues, and business advantages. Strategic objectives are generally focused both externally and internally and relate to significant customer, market, product, or technological opportunities and challenges (strategic challenges). Broadly stated, they are what your organization must achieve to remain or become competitive and ensure its long-term success. Strategic objectives set your organization's longer-term directions and guide resource allocation and redistribution.

See ACTION PLANS for the relationship between strategic objectives and action plans and for an example of each.

STRATEGIC OPPORTUNITIES. Prospects that arise from outside-the-box thinking, brainstorming, capitalizing on serendipity, research and innovation processes, non-linear extrapolation of current conditions, and other approaches to imagining a different future. The generation of ideas that lead to strategic opportunities benefits from an environment that encourages non-directed, free thought. Choosing which strategic opportunities to pursue involves consideration of relative risk, financial and otherwise, and then making intelligent choices (intelligent risks).

See also INTELLIGENT RISKS.

SUPPLIER. An entity that supplies goods and services to another organization, and is usually a manufacturer or a distributor. A supplier may also be part of an organization's supply network

SUPPLY NETWORK. A supply network consists of the entities involved in producing products and services and delivering them to an organization's customers. For some organizations, these entities form a chain, in which one directly supplies another. Increasingly, however, these entities are interlinked and exist in interdependent rather than linear relationships. The term supply network, rather than supply chain, emphasizes the interdependencies among organizations and their suppliers.

SYSTEM. A combination of processes or work units which are organized so as to follow a fixed plan, or set of procedures, to accomplish a common purpose. The Sterling Criteria refer to four specific systems:

1. Governance System
2. Leadership System
3. Performance Improvement System
4. Work System

A system has an organizational structure with identified responsibilities, procedures, processes and resources required to achieve stated management goals and objectives.

Processes can be organized into systems, and systems can be further organized to form agencies, companies and other types of organizations. An organization can be described as a "system of systems".

SYSTEMATIC. Well-ordered, repeatable, and exhibiting the use of data and information so that learning is possible. Approaches are systematic if they build in the opportunity for evaluation, improvement, and sharing, thereby permitting a gain in maturity. To see the term in use, refer to the Process Scoring Guidelines (pages 46-47).

SYSTEMS THINKING. A discipline for identifying the "structures" that underlie complex organizations or issues, realizing the impacts feedback loops have on the system's performance, and distinguishing high from low leverage points.

Three important concepts form the basis for systems thinking:

1. All systems are composed of interconnected parts. The connections cause the behavior of one part to affect another. Because all parts are connected, a change to any part or connection affects the entire system.
2. The specific combination of parts and connections dictates how the parts work together and define the system. The same parts with different connections will define a different system with different performance. To change the system's performance, one must understand the parts, the connections, and how they work together.
3. Feedback loops inform each part and the system, overall. Feedback loops influence behavior at all levels to produce outcomes.

In management systems, systems thinking should be evident in all phases of management, such as needs assessment, product and service design, planning, execution, monitoring, and performance evaluation.

TRENDS. Numerical information that shows the direction and rate of change of your organization's results or the consistency of its performance over time. Trends show your organization's performance in a time sequence. Ascertaining a trend generally requires a minimum of three historical (not projected) data points; defining a statistically valid trend requires more data points. The cycle time of the process being measured determines the time between the data points for establishing a trend. Shorter cycle times demand more frequent measurement, while longer cycle times might require longer periods for a meaningful trend. Examples of trends called for by the Criteria and scoring guidelines include data on product and service performance, results for customer and workforce satisfaction and dissatisfaction, financial performance, marketplace performance, and operational performance, such as cycle time and productivity.

VALUE. The perceived worth of a product, process, asset, or function relative to its cost and possible alternatives. Organizations frequently use value considerations to determine the benefits of various options relative to their costs, such as the value of various product and service combinations to customers. Your organization needs to understand what different stakeholder groups value and then deliver value to each group. This frequently requires balancing value among customers and other stakeholders, such as your workforce and the community.

VALUES. The guiding principles and behaviors that embody how your organization and its people are expected to operate. Values influence and reinforce your organization's desired culture. They support and guide the decisions made by every workforce member, helping your organization accomplish its mission and attain its vision appropriately. Examples of values include demonstrating integrity and fairness in all interactions, exceeding customer expectations, valuing individuals and diversity, protecting the environment, and striving for performance excellence every day.

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

VOICE-OF-THE-CUSTOMER. Your process for capturing customer-related information. Voice-of-the-Customer processes are intended to be proactive and continuously innovative to capture stated, unstated, and anticipated customer requirements, expectations, and desires. The goal is to achieve customer engagement. Listening to the Voice-of-the-Customer might include gathering and integrating various types of customer data, such as survey data, focus group findings, web-based commentary, warranty data, and complaint data, that affect customers' purchasing and engagement decisions.

WORK PROCESSES. Your organization's most important internal value-creating processes. They might include: product and service design, production, and delivery; customer support; supply chain management; business; and support processes. They are the processes that involve the majority of your organization's workforce. Your key work processes frequently relate to your core competencies, the factors that determine your success relative to competitors, and the factors your senior leaders consider important for business growth. Your key work processes are always accomplished by your workforce.

WORK SYSTEMS. How your organization's work is accomplished, consisting of the internal work processes and external resources you need to develop and produce products and services, deliver them to your customers, and success in your marketplace. Work systems involve your workforce, your key suppliers and partners, your contractors, your collaborators, and other components of the supply chain needed to produce and deliver your products and services and carry out your business and support processes. Decisions about work systems are strategic. These decisions involve protecting and capitalizing on core competencies and deciding what should be procured from or produced outside your organization in order to be efficient and sustainable in your marketplace.

Examples of Work Systems include:

1. Growth Management Work System, which might include the processes of Market Research, Marketing, Business Development and Sales.
2. Fulfillment Work System, which might include the processes of Product Research, Engineering, Production, Inventory Management, and Delivery.
3. Asset Management Work System, which might include the processes of Facilities Planning, Facilities Construction, Facilities Operations, and Facilities Maintenance.
4. Supplier Network Management Work System, which might include the processes of Capacity Planning, Supplier Selection, Contract Management, and Supplier Monitoring and Evaluation.
5. Workforce Management Work System, which might include the processes of Workforce Planning, Hiring, Retention Policies, Compensation, Rewards, Recognitions, Benefits, Volunteer Management, and Professional Development and Training.

The Criteria refers to decisions regarding Work Systems as being strategic. This is because decisions involving them can have significant impact on an organization's customers, workforce, growth and financial position. For example, a government agency's decision to outsource its case management work system to a network of community-based not-for-profit organizations could have significant impact on its clients, taxpayers, workforce, communities and its core competencies. Other examples include a company's relocating its customer-contact work system call centers offshore, or a hospice organization transitioning its patient care work system from its own facilities to in-home patient services only.

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

WORKFORCE CAPABILITY. Your organization's ability to accomplish its work processes through its people's knowledge, skills, abilities, and competencies. Capability may include the ability to build and sustain relationships with customers; to innovate and transition to new technologies; to develop new products and services and work processes; and to meet changing business, market, and regulatory demands.

WORKFORCE CAPACITY. Your organization's ability to ensure sufficient staffing levels to accomplish its work processes and deliver your products and services to customers, including the ability to meet seasonal or varying demand levels.

WORKFORCE ENGAGEMENT. The extent of workforce members' emotional and intellectual commitment to accomplishing your organization's work, mission, and vision. Organizations with high levels of workforce engagement are often characterized by high-performance work environments in which people are motivated to do their utmost for their customers' benefit and the organization's success. In general, workforce members feel engaged when they find personal meaning and motivation in their work, and receive interpersonal and workplace support. An engaged workforce benefits from trusting relationships, a safe and cooperative environment, good communication, and information flow, empowerment, and accountability for performance. Key factors contributing to engagement include training and career development, effective recognition and reward systems, equal opportunity and fair treatment, and family-friendliness.