What are the components of strategic plan development and deployment? How does the strategic plan fit with the day-to-day work of the organization? This primer covers the basics of planning, creating alignment, and monitoring performance.

Design and Execution of a Collaborative Business Strategy

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Introduction

Organizations that achieve their goals in the long term "plan their work and work their plan." Realization of strategy—the long-term vision of an organization is achieved by a disciplined approach to setting direction and then executing that direction through the effective use of an organization's resources—its processes, capital, and people.

In Japan this method is called policy deployment. Policy deployment is a strategic, direction-setting methodology used to identify business goals as well as formulate and execute major change management projects throughout an organization. It describes how strategy cascades from vision to execution in the workplace through a collaborative engagement process that results in implementation of the plan through linkages to daily management methods such as performance self-assessment and management review.

This article describes how policy deployment relates to strategy development and the daily imperative to measure and manage operations—the linkage of the strategy, operations, and people processes of an organization. Policy deployment employs a system that aligns the actions of its people to produce collaborative action among the various business functions and processes to enhance the value an organization delivers to its customers.

Historical Development of Policy Deployment

What were the circumstances under which policy deployment originated? Interest in strategy, market focus, and long-term planning were generated by visits of Dr. Peter F. Drucker to Japan in the early 1950s.[1] As a result of his teaching, "policy and planning" was added to the Deming Prize checklist in 1958. Bridgestone Tire Corporation developed the first iteration of a policy deployment system in 1965. In 1976, Dr. Yoji Akao and Dr. Shigeru Mizuno coached Yokagawa Hewlett-Packard (YHP) in implementing a more fully developed system as part of the company's pursuit of the Deming Prize. By 1982 YHP had used this approach to manage a strategic change that, in just five years, had moved it from the least profitable HP division to the most profitable. In 1985 this methodology was introduced to the rest of the company as a lesson learned from the YHP Deming Prize journey.

From HP it was transferred to other leading companies including: Proctor & Gamble, Ford, Xerox and Florida Power & Light, involving several advisors and councilors of the Union of Japanese Scientists and Engineers (JUSE). The work of the GOAL/QPC research committee, directed by Bob King, also extended the exposure of policy deployment to some 40 member companies and was a key ingredient in introducing policy deployment across North America and, through multinational companies, into the world.[2] From Xerox Corporation the concepts of policy deployment were transferred to the United States government in a planning system developed under the Clinton administration. Called the Government Performance Results Act (GPRA) of 1993, the act currently governs planning at the executive level of cabinet-level departments in the United States federal government and cascades actions down to their distributed operating units.

Key Concepts Within Policy Deployment

The fundamental premise of the policy deployment is that the best way to obtain the desired result for an organization is for all employees to understand the long-range direction and participate in designing the practical steps to achieve these results. This form of participative management evolved and was influenced by the Japanese refinement of Drucker's management by objectives (MBO) concept through the emergence and maturing of the quality circle movement. In order for workers to manage their workplace effectively, they must have measures of their processes and monitor these measures to assure that they are contributing to continuous improvement as well as closing the gap toward the strategic targets. Policy deployment became the tool that Japanese business leaders used to align the work of their front-line organizations to the strategic direction of their firms. When HP first implemented hoshin planning, many of its business leaders explained how it worked by calling it "turbo-MBO."

Mizuno defined policy deployment as the process for "deploying and sharing the direction, goals, and approaches of corporate management from top management to employees, and for each unit of the organization to conduct work according to the plan." This approach (or kanri, the Japanese word for a control system used to manage processes) integrates operational excellence in the daily management system with architectural design of its long-term future and contains two sub-systems of objectives that function at the strategic and operational levels of the organization:

- *Hoshin kanri*—the long-range planning objectives for strategic change that allow an organization to achieve its vision. This is a comprehensive, closed-loop management planning, objectives deployment, and operational review process that coordinates activities to achieve desired strategic objectives. The word "hoshin" refers to the long-range strategic direction-management process that anticipates and achieves business competitiveness.[3] Hoshin seeks breakthrough improvement in business processes by allocating strategic business resources (both financial and human resources) to projects that focus on sustaining successful performance into the long term.

- *Nichijo kanri*—the daily, routine management control objectives (of a daily management system) translate the strategic objectives into the tasks that people accomplish to fulfill the organization's mission. This system provides an operational system for defining team and individual objectives. It does not encourage random business improvement projects, but focuses the organization on projects that move it toward its agreed strategic direction. This system reinforces hoshin by focusing daily management on kaizen—continuous improvement in pursuit of the long-term direction.

The blending of these two elements into a consensus management process to achieve a shared purpose is the key to success in the policy deployment process. In policy deployment, strategy is defined as persistence of a vision—policy is deployed across cycles of learning using coordinated improvement projects to move performance of the organization's daily management system toward the direction of its desired progress.

Policy deployment links together breakthrough projects that deliver long-term strategic direction to achieve sustainable business strength while, at the same time, delivering an operating plan to achieve short-term performance. It helps to create the type of organization that William McKnight, former CEO of 3M, expressed as his desire: "an organization that would continually self-mutate from within, impelled forward by employees exercising their individual initiative."[4] In short, an organization where creativity is managed through a combination of synergistic improvement projects with engaged teams that combine individual capabilities to achieve strategic improvements that make a difference on the larger organizational scale. How does this change-management process work at the front line where these strategic hoshin projects engage the routine work processes of the organization?

Policy Deployment Aligns Operations With Strategy

Drucker commented, "Full effectiveness of all work needs to be integrated into a unified program for performance."[5] The program for performance is designed by the top management team to provide a specific, effective course of action to achieve its desired results. To achieve these results, all dimensions of the business must be consistent with each other. This is the job of a policy deployment system.

A critical challenge for an organization is to align its strategic direction with daily work systems so that they work in concert to achieve the desired state. Alignment must include linking cultural practices, strategies, tactics, organization systems, structure, pay and incentive systems, building layout, accounting systems, job design, and measurement systems—everything. In short, alignment means that all elements work together much like an orchestra integrates the various instruments to conduct a coordinated symphony.

Organizations that are most mature in policy deployment do not put in place any random mechanisms or

Figure 1
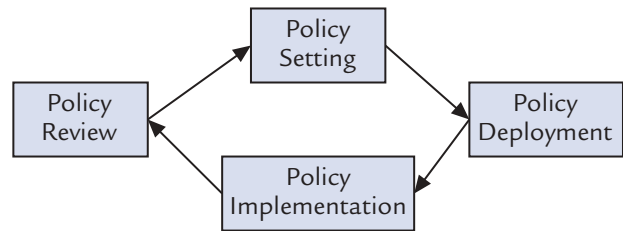
processes, but they make careful, reasoned strategic choices that reinforce each other and achieve synergy. These organizations "obliterate misalignments." If you evaluate your company's systems, you can probably identify some specific items that are misaligned with its vision and that impede progress. These "inappropriate" practices were maintained over time and were not abandoned when they no longer aligned with the organizational purpose. "Does your incentive system reward behaviors inconsistent with your core values? Does the organization's structure get in the way of progress? Do goals and strategies drive the company away from its basic purpose? Do corporate policies inhibit change and improvement? Does the office and building layout stifle progress? Attaining alignment is not just a process of adding new things; it is also a never-ending process of identifying and doggedly correcting misalignments that push a company away from its core ideology or impede progress."[6]

This unified program for performance consists of kanri or control mechanisms that deploy business policy to execute management's program for the business direction as developed during the strategic dialog. There are four steps, as shown in Figure 1, that energize an organization to achieve its strategic direction: policy setting (or establishment of hoshin projects), deployment (propagation of these projects throughout the organization), implementation (integration of the results of change into the daily management system), and review (assessment of the results achieved by the process).

Policy Setting

Policy setting is the "catch ball" where top management conducts a strategic dialog with employees to collect ideas and opinions about chronic major problems and their aspirations regarding the business future. Then this information is processed in

conjunction with environmental data analysis and scenario analysis to formulate the annual business change objectives (hoshin or major change projects): strategic change projects (identified by both targets to achieve and means for achievement). Here organizations identify the most critical projects to accomplish in order to eliminate vulnerabilities or capture the benefits from potential change initiatives or newly emerging improvement opportunities.

A policy is a rule or operating principle that describes a management-approved approach to pursue objectives and manage risk. Policies consist of targets and means. Targets are the measurable results to achieve within a specific timeframe for performance. Targets have checkpoints. Means are the sequence of actions that are taken to implement a policy that is an outcome of the strategic direction. Means have control points.

How is this strategic policy formulated? Strategic direction is established using cross-functional dialog to build a common direction based on the consensus of organizational strengths and how to overcome organizational weaknesses in the face of critical business threats. Most organizations have just two kinds of strategic decisions: those that may be executed within the areas of their direct oversight of top management (e.g., personnel decisions, budgeting, merger, capital budgeting, etc.) and those that require cross-organizational collaboration for implementation. These cross-functional projects require special attention and project management in order to realize the objectives of the change initiative. Such change strategies that require mutual consent and collaboration are ideal for addressing with a policy deployment system. In addition to planned continuous improvement that is a result of problem solving, continuous improvement may also result from ad hoc process improvements as a process is enhanced over time.

This process is often called a catch ball because of its form as a dialog that tosses around ideas like a ball is tossed in a game. Two-way communication is both top-down in general direction and bottom-up in adaptation to the workplace using the existing hierarchical management structure and matrix process structure to engage all parts of the organization in the dialog. This dialog follows a negotiation process called nemawashi—prior consultation to achieve consensus. The goal of this process is to achieve "wa" or harmony, consensus, and absence of conflict. Data is used in this process to assure that it is a fact-based process, not just a subjective negotiation process. Mutual consultation between levels tests the feasibility of plans using a progressive refinement process for conflict resolution with measurement as the basis for establishing agreement and aligning the way that people work as well as the foundation for conducting assessments of progress.

Policy Deployment

In order to achieve "saturation" of policy and assure collaboration of all the affected work groups, the objectives cascade of an action plan for a particular improvement project must involve not only functional deployment of policy but also engage its cross-functional aspects. It is across the functional seams of an organization where most significant difficulties are encountered. These boundaries represent focus areas for management to assure continuous collaboration in the execution of change projects and consensus among the various functional organizations that engage all the decision-making managers in the areas where the change will have a direct effect.

To understand the difficulty that the boundary condition dynamics have, consider what happens as change is managed when organizations shift work activities from internal to external units (e.g., from internal manufacturing to an external contract manufacture). At such boundary conditions, conflicting objectives and political issues of the organizations often can interfere with performance improvement work and it is the job of the management team to eliminate any such barriers to the success of their project team. Policy deployment is a structured, systematic, and standardized process. This step has an ability to empower organizations for achieving strategic change. However, it also has the potential to drown managers in the mire of detail that results in overcontrol of the workers' tasks.

Drucker quotes the Roman law to focus management on the things that are most important: "'De minimis non curat praetor' [The magistrate does not consider trifles]."[7] This warning to management against what has been called micromanagement is a reason for senior executives to focus on the vital few issues that are critical in the business that they manage. If they don't take the time to manage these important things, then no one else will... If they choose to spend their

time focused at the detail level of project execution, then they will squander a more effective use of their time on those vital activities that engage the higher thinking levels of the organization that cannot be reasonably delegated to others for effective action.

Management must work the long term of the planning horizon in order to deliver sustained organizational strength. It must also review current actions to assure that short-term profitability is achieved. But, whenever management spends more time on the short term than it does on the long term, then it sacrifices the future strength in favor of current results—and displays to the entire organization its lack of trust in the ability of the organization to perform its daily work. This behavior signals to the entire organization that a crisis exists and reinforces stagnation as the workers wait for top management to intervene and make the decisions that they should more properly make. A very important benefit of an effective policy deployment system is delegation of appropriate decision rights to the proper place in the organization where the best information exists and where action will be taken to implement that decision.

Policy Implementation

Policy implementation consists of the execution of the project plan—both the actions taken by the team involved in the change and the in-process management reviews. All change is implemented on a project-by-project basis according to the priorities established by management and the logical sequence for attacking each project. The project plan assigns clear responsibility for each improvement item in the implementation plan and records its progress in accomplishing the project tasks.

During policy implementation, management must publish information about the projects so that the entire organization is informed of the actions underway to improve performance. This communication can help the organization to align other activities with progress made on these strategically-focused change projects. As a guideline for communication, management should inform all involved parties of any changes to the change project team's mission, vision of the outcome, guiding principles, or objectives. If the management team communicates effectively and often, then it will translate the planning rhetoric into action realities. Drucker observed: "The most time consuming step in the process is not making the decision, but putting it into

effect. Unless a decision has degenerated into work it is not a decision; it is at best a good intention."[8] Former AlliedSignal CEO Larry Bossidy echoes this statement in defining execution as "the gap between what a company's leaders want to achieve and the ability of their organization to achieve it."[9]

Policy Review

Policy review is done in two ways: through management self-assessment (by senior managers as well as by local managers evaluating their activities to determine where they have opportunities for improvement either performance enhancements or problem resolution) and through operating reviews of the results produced by the local organization where senior managers identify areas where results are not aligned with expectations for performance. Policy review applies two sub-processes to perform these duties: performance review and key indicator measurements.

The review process in policy deployment seeks to identify conformance to plans (e.g., Is there any shortfall or overachievement in targets?). Diagnosis of the performance of the policy planning process is conducted to drive improvements in planning systems. "Feedback has to be built into the decision to provide a continuous testing, against actual events, of the expectations that underlie a decision."[10] Once nonconformity is identified, then the root cause of the deviation is discerned to determine an appropriate response to the out-of-control type of condition. Both corrective actions and countermeasures are identified to realign the process and assure that process integrity and stability are achieved in the business control system.

Policy review facilitates organizational learning by examining problem areas and critical success factors to discover what directional shifts are needed to achieve the desired end state or vision of the business. Project reviews are conducted to assess achievement relative to the following planning elements:

- Change project objectives.
- Business planning objectives and corporate commitments.
- Business improvement plans.
- Economic plans and projections.
- Customer requirements and expectations.
- Competitive performance analysis.
- Business excellence self-assessment.

Organizations must ask if they really have engaged their front-line employees in actively formulating strategy. Nokia Mobile Phones developed a process called current state analysis for self-assessment of front-line operations and then rolls this data into its strategy-setting process. The company also created a strategic dialog that builds participation of mid-level managers in conversations about strategy based on structured dialogs that are lead by managers in intranet chat rooms. Other organizations open communication lines through e-mail forums and internal surveys.

Business Control and Management Responsibility

The ultimate objective of policy deployment is to establish a reliable organization—one that creates predictable, consistently excellent results through the effective coordination of value-adding work that customers perceive as meeting their needs. In this environment, all employees are aware of their personal contribution to the objectives of the entire organization and are able to make local choices that are aligned with the strategic direction because they understand how the strategy affects their work and vice versa. To assure that these local decisions are aligned with strategic direction, it is the responsibility of the management team to develop a measurement system that provides employees with the visible line-of-sight from their work activities to its contribution to strategic direction.

Critical success factors for implementing a successful policy deployment program include ten imperatives to engage employees effectively in a strategic dialog that creates a collaborative environment in which to transition the strategy into reality. Organizations must change their style so they are:

• Assessing objectively.
• Questioning compulsively.
• Analyzing completely.
• Listening effectively.
• Visioning creatively.
• Adapting realistically.
• Acting persistently.
• Communicating obsessively.
• Reviewing regularly.
• Learning consistently.

Concluding Comments

Policy deployment, when it is coupled with a statistically-based business measurement system, is proven to create a robust management process that engages an entire organization in the strategic planning process. It assures line-of-sight from the strategic goals of the organization to the operational tasks that workers perform at the front line as they do the work that produces the organization's goods or services. The nature of this process is described using the term "robustness"—a statistical state in which a process is able to accept variation in its inputs, without influencing the variation of its outputs. Such a process is capable of performing consistently—delivering consistent results according to its design intent. Since policy deployment engages the work force in achieving the common goal of sustained success, it is a strategic tool for assuring sustained competitive advantage over both current and potential business rivals.

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