

BUSINESS PERFORMANCE EXCELLENCE

EDITED BY JEFFREY T. LUFTIG
AND STEVEN M. OUELLETTE

Drive profitability

Focus strategy

Realize potential



B L O O M S B U R Y

Business Performance Excellence

Edited by
Jeffrey T. Luftig and Steven M. Ouellette



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Introduction: The Origins and Structure of the Original Model for Business Performance Excellence (BPE)

Part 1: The Origin of the BPE Model

Jeffrey T. Luftig

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Shortly after the seminal *NBC White Paper* episode “If Japan can, why can’t we?” was televised in June 1980, Don Petersen, who later retired from the Ford Motor Company as its chairman and CEO, hired W. Edwards Deming to assist in the turnaround of the company. Starting with a series of management seminars, Dr Deming quickly evolved into a high-level consultant and guru who would be instrumental in establishing a comprehensive and firm commitment to the quality sciences at Ford.

Deming became a close adviser to Mr Petersen and his management team, and was instrumental in significantly increasing the profitability of the firm. To accomplish this task, Dr Deming strongly suggested (i.e. required, actually) a number of actions be taken in the early days of this effort. A statistical methods office in Dearborn, staffed at the time by Peter Jessup, Bill Scherkenbach, and Ed Baker, became instrumental in directing the quality initiative. Ancillary to this effort was the directive that each operating division of Ford had to engage their own statistical/quality consultant, who would report on a solid-line basis to the president of that division, and on a dotted-line basis to the statistical methods office and to Dr Deming himself.

At this time, I was a professor at Eastern Michigan University (EMU), teaching statistical methods courses for the Electrical-Electronics Division (EED) of Ford (EED was later spun off by Ford as Visteon). EED management funded an endowed chair for research and training in statistical methods in the College of Technology at EMU, and after interviews with the statistical methods office personnel and ultimately Dr Deming himself, I became the approved external consultant for the EED, reporting to Fred Herr, the division president, and Frank Macher, the division vice-president.

My primary role at this time was to facilitate the implementation of the Deming philosophy in the EED. The three primary sets of tools/guidelines brought to Ford by Dr Deming were:

1. the Fourteen Points;
2. the Seven Deadly Diseases;
3. the widespread use of statistical process control (SPC) and its associated tools to bring processes and products into stability so that serious improvements in quality could be achieved.

Many individuals today, unfamiliar with the efforts that were actually conducted inside of Ford at the time, largely view the Fourteen Points as philosophical exhortations that were static through time. The fact is they were neither static nor philosophical. The Fourteen Points when Dr Deming was working with Ford were in many cases stated very differently to how they were presented in later years at firms working with Dr Deming. The point that comes to mind as critical to what we were attempting to accomplish inside Ford was to “Reduce the supplier base” (which changed in later years to “Stewarding business based on price alone”). This was far from a philosophical treatise at the time. The implementation of this point as a management directive eventually led to the development of

Supplier Quality Assurance Group within the procurement department of the EED, and the creation of the Q1 program. The supplier base was reduced from more than 2,000 to less than 1,000 in a three-year period. Many of the suppliers who were de-sourced never shipped Ford-EED a defective part—they simply resisted the idea that they implement statistical process control methods so that EED would receive a stable and predictable supply of incoming material and supplies.

In support of this drive to reduce the supplier base was a directive from Dr Deming that it was management's responsibility to provide their Tier 1 suppliers with an opportunity to understand where Ford was headed in terms of quality, and to join them as partners, rather than adversaries. To implement this directive, two seats in every statistical methods class I taught at the EED during the period were made available to each of the Tier 1 suppliers, free of charge. Many of these suppliers adopted the quality model they learned at Ford (e.g. Molex and Alcoa), and in turn drove those same principles and requirements down through their own supplier base. In this way, it might be argued that it was the *NBC White Paper* episode that was the fuse that set off the most dramatic change in American quality systems ever seen; at least in my lifetime.

The gains executed and leveraged by Ford, their suppliers, and other OEMs in the automotive industry quickly spread to other sectors and industries, and quality improvements were soon realized across the country. What became immediately obvious after a decade or so, however, was that the initial focus on product quality, once effectively implemented, was starting to deliver diminishing returns. Some felt this was a function of having picked all of the "low hanging fruit"; but slowly, as SPC morphed into statistical quality assurance and incorporated a much more extensive set of tools, methods, and strategies, practitioners started to understand that focusing on products (or services) alone was not enough. To a certain extent, it took the understanding of one of Dr Deming's principles as to what the next step might be: "Every activity is a process, to be standardized, controlled, and improved on a never-ending basis." This realization, that the improvement effort had to be approached in totality, was the basis for the development of the total quality control (TQC)/total quality management (TQM) movement.

The TQM movement lasted, depending on the authority you cite, about a decade. The reasons for the interest in this model falling off is and has been debated ad infinitum (many would assert it was the failure of some "TQM consultants" to focus on business in favor of repackaged attempts to improve product quality under a different name); but what is less debatable is what replaced it—Six Sigma. Initiated by Motorola and Allied-Signal, with Mikel Harry arguably the best recognized designer of the system, Six Sigma took off as a program across the United States when Jack Welch, chairman of General Electric (GE), made a serious commitment to the program and widely advertised the beneficial results of the effort at GE.

Six Sigma programs enjoyed a great deal of popularity for another decade or so, but quality practitioners and business professionals started to note that the effectiveness of these Six Sigma efforts, which often focused on projects to reduce cost with an assumption that this would subsequently lead to improvements in profitability, were mixed in their results. This was even the case when the same firm or consultants provided the training in two different firms which subsequently experienced widely varying benefits.

By this point in time (the 1990s), I had left the Ford-EED chair and created a consulting firm which was serving many Fortune 100 firms among the approximately 65 clients we served from 1990

through 1998. This exposure to multiple management teams, across multiple business sectors, allowed for the illumination of many of the problems that firms had experienced, or were experiencing, implementing management initiatives such as TQM/TQC, Six Sigma, lean engineering, or virtual any other systemic effort requiring that they overcome the natural resistance to change exhibited by the business organism (as so well described by Professor Joseph Juran many years ago). A more than cursory review of our clients revealed that some were successfully progressing from “good to great” while others were languishing in “good to good”; while still others were progressing from “good to gone.” Over time, common symptoms of organizational deficiencies became evident. Less effective firms and management teams exhibited most of these symptoms:

- ▶▶ A vision and mission which serve mostly as the basis for supposedly inspirational posters, slogans, wallet cards, pocket protectors, and “thought of the day” quizzes; all of which constitute non-value-added expenditures and activities.
- ▶▶ Little or no integration between the organization’s vision and mission statements, its strategic and business plans, and the critical performance measures (CPMs) measured on a daily basis.
- ▶▶ The organization annually generates hundreds of “number one priorities” (goals/objectives) while everyone recognizes it doesn’t actually have the resources to achieve half that many.
- ▶▶ The organization’s strategic and business plans are last viewed each year by managers when they place the four-inch-wide three-ring binders containing those plans on their shelves.
- ▶▶ The divisions or departments within the organization can all successfully “hit their numbers,” while the organization as a whole fails to make an acceptable profit.
- ▶▶ Projects are selected for their interest level and/or cannot be killed off.
- ▶▶ Individuals’ responsibilities are often only related to the vision and mission statements and the strategic plan of the organization by happenstance.
- ▶▶ The organization operates with a “feed the beast” mentality, assuming that any business is superior to no business (i.e. revenue is king).
- ▶▶ The organization employs standard or average cost accounting procedures to ensure that no one understands what business is truly profitable.
- ▶▶ Incentive systems are employed that encourage the sale/production of “any” units, versus the optimization of the “richness of product mix” sold/produced.
- ▶▶ Using x% headcount reductions across the board (in the name of fairness) to reduce costs.
- ▶▶ Using headcount reductions and capital equipment investments as a first rather than last choice to improve profitability.
- ▶▶ Working on process improvement projects which ultimately reduce profit (asset) dollars generated.

What became clear over time was that what differentiated the companies in their ability to be successful was not the quality or enthusiasm of the management team and/or workforce, or the quality of their strategy, but the ability to deploy that strategy in a data-based, disciplined way, to every member of the organization, and remain focused on those (per Juran) “critical few” broad objectives. The missing link, if you will, was the gap between the strategy at the management team level, and what an individual 15 levels down in the business worked on and measured on a day-to-day basis.

At this same time (the 1990s), Dr Deming began discussing his “theory of profound knowledge” encompassing much more than his observation that a group of people in a pit cannot get out of that pit

by digging harder, or more efficiently (the pit only gets deeper), this theory revealed that in order to effect systemic change, one had to have a working understanding of:

- » cognitive psychology;
- » organizational behavior;
- » statistical and scientific theory;
- » systems theory.

And that was best delivered by individuals with “profound knowledge”—an outside view.

This theory of profound knowledge was utilized to develop a comprehensive system by which the primary gap previously noted could be closed—a policy deployment model (*hoshin* planning in Japan) that would bridge the gap between strategy and actual activity cascaded through the entire organization. This model became phase I of the BPE model. Phases II and III of the model were developed to deliver the “voice of the customer” with the implementation of a customer quality assurance (CQA) model, and a highly unique total asset utilization/customer product rationalization (TAU/CPR) model, which provided the “voice of the business.” Phase III of the model incorporated a daily management model, which integrated all of the “old” tools associated with supplier quality assurance systems, statistical quality assurance systems, and team management, as well as employee involvement initiatives. Management models such as allocated cost accounting and appropriate reengineering approaches were also included at appropriate places within the model.

As a result, the BPE model became a repository for strategies, methods, and tools utilized to achieve both strategic breakthroughs and tactical improvements in key financial and nonfinancial performance indicators (KPIs and NFIs). Because the model was developed based upon viewing an organization as a process, to be controlled and standardized, it has been successfully deployed in for- and not-for-profit companies, across virtually every business sector imaginable.

Part 2: The Structure of the BPE Model

Steven M. Ouellette

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I first encountered Dr Luftig’s approach to business performance improvement while working for Alcoa in 1992 as a metallurgical engineer. I must confess that I went into that training session fairly hostile to the idea that I, an engineer, would need to know anything about “that business stuff.” Give me a product and a process, and I would make them better—leave me out of all that folderol.

By the end of the training, I had come to the painful realization that every process and production decision I made as an engineer was, at its core, a business decision. From that point on, I learned as much as I could from Dr Luftig’s consultants about how to employ not only product and process quality improvement technology, but also the tools and strategies to optimize the business as a system. It was one of those pivotal points in an individual’s life that changes one’s path from one interest to another.

A few years later, my wife happened to notice an ad for a consulting firm that was looking to hire someone who could implement these technologies in a major metals manufacturer, and the unusu-

name of “Luftig” caught her eye. I applied for the job and shortly thereafter had the experience of a lifetime working with Jeff and the other consultants in a variety of industries.

During this time, the model that would eventually become the BPE model was being created and modified in the crucible of the real business environment. And while it was an exciting time to be on the ground floor of this development, it is no less exciting now to be able to introduce the model to a wider audience.

First off, if we are going to show you a roadmap to a place, you probably want to know about the destination. As Dr Luftig will tell you, business performance excellence is achieved when an organization is generating the maximum level of profitability possible given the human, financial, capital, and other resources it possesses. The real question, of course, is how to achieve that, and the chapters in this book will focus on the tools to do so.

That said, there is an overarching structure that we have found to be effective in structuring the efforts of businesses to achieve excellence. It is not enough to just list a number of useful tools and techniques. Many management fads have come and gone not because the tools themselves were bad but because they got lost in the crowd in the absence of the knowledge of when to use them and how they fit together with other management technologies. This causes confusion and the perception in the workforce that management changes the direction of the company apparently in response to some “book of the month club” to which they belong.

Instead, these tools and strategies need to be organized into a rational and interconnected series of activities to frame the approach and show how the different areas interact and support one another.

This is the real strength of the BPE model I have the privilege of describing. You will note that there are bits and pieces from a number of different management technologies that all work fine for the specific task, but these have not previously been linked to show how they all work together. You will also see some new approaches and insights, and these too have been linked in their appropriate places.

One unique aspect of this model is that the strategic plan is not the starting point, but rather the logical output of the previous activities to understand the purpose and performance of the business.

The more common alternative to this model is to start with an assessment of what the executive management thinks needs to be done, perhaps generated from a SWOT (strengths, weaknesses, opportunities, and threats) analysis, or perhaps from their collective experience. Some companies start here and wonder why their plans are never achieved. Others may generate metrics associated with accomplishing these identified improvements, only to find at the end of the year that these metrics indicate small or negative results. A few companies may identify specific projects to accomplish the strategic plan thus generated, but getting everyone aligned to work on a plan that has not been designed to close strategic performance gaps means that, by definition, the company is underperforming.

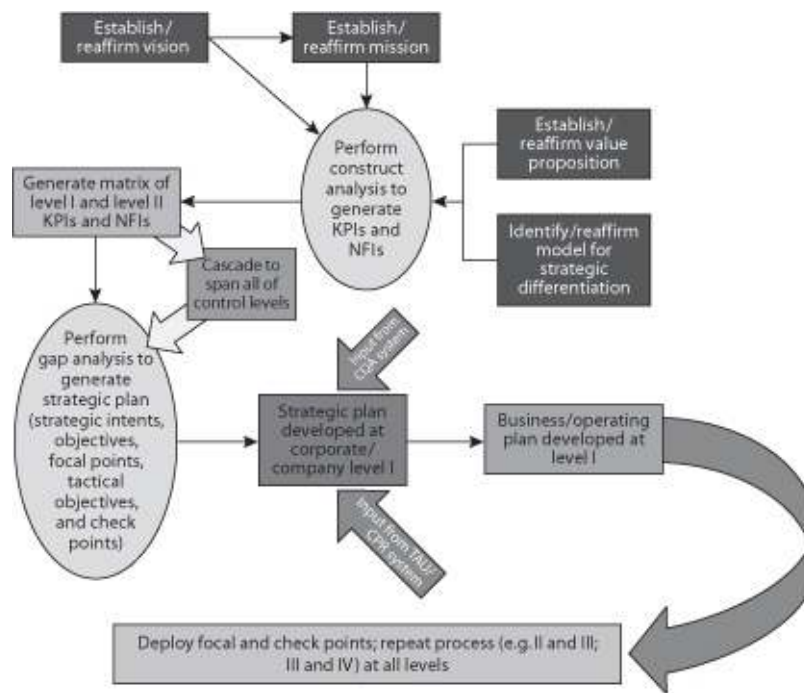
There are three phases to achieve business performance excellence. The key here is that *any* company can maximize their profitability given their constraints if they correctly follow this path. However, it is obviously not the case that maximum profitability is above zero if, for example, they have the wrong product or choose the wrong market. The good news is that it will become clear very quickly in this process that there is something wrong, and the company can either make the necessary changes

find a way to gracefully retire from the field.

Phase I: Hoshin Kanri or Policy Deployment

The first phase of achieving BPE is to decide on a strategy and to deploy that strategy or policy throughout the company so that every individual knows that what they do that supports that strategy. In order to rationally decide on strategy, though, the correct process and results measures need to be available to the policy makers, and in order to have the correct measures of success throughout the organization, that organization needs to know what they are trying to accomplish as a business. We will explore this process generally in Section 1, and specifically the first chapter, “[Hoshin Kanri: Deploying your strategic intents to achieve business excellence](#)”.

Figure 1. Phase I of BPE: policy deployment



This gives managers and workers at every level the correct metrics to measure the health of the process for which they are responsible, assesses gaps between where they are now and where they need to be in order to accomplish their vision, and the strategic and tactical activities that need to be accomplished in order to close those gaps.

Quarterly reviews track the progress of the strategic projects in order to insure that they do not encounter roadblocks to their successful completion—by definition, these are the most important projects that the company needs to work on in order to achieve their vision, and so nothing can be allowed to prevent these teams from being successful. If they are allowed to be blocked, the company must admit that the vision will not be achieved, the vision rephrased, and the metrics measuring the performance of the company re-targeted to reflect the new mission. However, in our experience with this integrated approach, companies achieve their strategic plans, often for the first time ever, and the perception that strategic plans are a sort of aspiration (“Wouldn’t it be nice if...”) changes to a rational list of actions that can be accomplished.

Section One, Strategic Planning and Policy Deployment: our contributors will explore topics relevant to Phase I of the BPE Model. In this section, you will read how risk management, business structure, innovation, the global economy, benchmarking, critical performance measures, and the balanced scorecard all have a part to play to allow you to more effectively and efficiently create and

subsequently achieve your business objectives.

Upon completion of the first business plan, progress is reviewed, performance measures examined in the light of new market requirements, and the strategic plan is updated for the next iteration.

Phase IIA: TAU/CPR

In [Figure 1](#) there are two inputs into developing the strategic plan that will be unfamiliar to many readers. These two elements can be developed in parallel with each other. The first of these is to create a model for total asset utilization (TAU) which, when combined with allocated costs, is used to generate a customer product/process rationalization (CPR) model.

TAU examines how effectively assets are being used to generate salable product or provide services. This allows a company to understand the trade-offs between products, services, customers, and alternate production processes. It does not by itself, however, include anything about profitability.

Unfortunately, many companies still use average cost accounting, hiding differential costs for different products, customers, and flowpaths, and these purported profitability numbers can be highly misleading. Only when costs are properly allocated can we understand true profitability. Thankfully, it is not necessary to implement a complete activity-based cost (ABC) accounting, since in our experience this level of detail is costly to achieve and is not really needed in order to capture most of the benefit. A cost allocation system that takes into account average differences between products, customers, and alternate flowpaths is sufficient.

Once the allocated costs are combined with the TAU model, a company can, for the first time, assess its profitability rate that accounts for all the trade-offs in the manufacture or provision of what the company sells and to whom they sell it. This gives the marketing function the data they need to rationally craft a future portfolio of products, services, and customers that maximizes profitability while also identifying high-profit impact projects for strategic attack.

In Section Two, Finance and Cost Reduction, the authors will review a number of topics related to understanding and achieving true profitability, including a complete TAU/CPR analysis (interpreting the Voice of the Business).

Phase IIB: Customer Quality Assurance

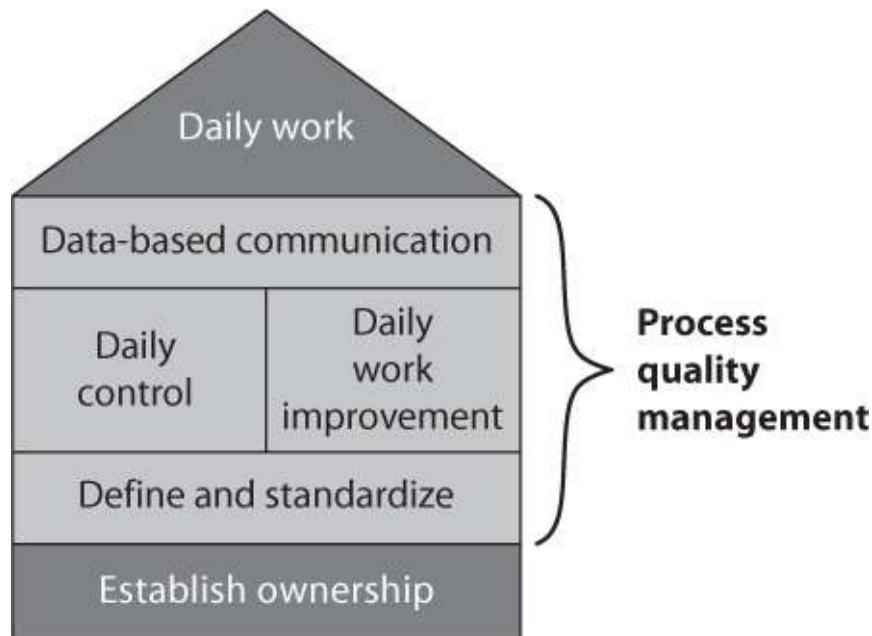
The other input into the strategic planning process is a customer quality assurance (CQA) system. It doesn't matter if a company knows where its profit is generated if they can't make a product with sufficient quality for the market. CQA consists of a proactive cycle, whereby the company researches emerging trends in their market and designs products that fulfill, or even create, those trends. Additionally, CQA has a reactive component, where the company asks their customers about their impression of product quality. This serves as an "early warning system" for emerging product or service quality problems.

The outputs from both the proactive and reactive parts of the CQA process constitute vital sources of strategic projects. In Section Three, Systems and Tools in Business Performance Improvement, we will examine a number of ways to monitor and improve customer satisfaction, which in turn is intended to lead to improved profit.

Phase III: Daily Management

The final phase of achieving BPE is managing the day-to-day activities of the organization. We call this “daily management” and it is the process that provides the ability to manage department functions, and processes, wherein processes are defined, standardized, controlled, and improved by the process owners. If advanced problem-solving (a.k.a. Six Sigma) uses a small cadre of highly trained individuals to attack strategic projects that will have a large impact on the business, daily management is what the other 95% of the company is doing. Our model for daily management is shown in [Figure 2](#).

Figure 2. The house of daily management



The “roof” of the house consists of those daily activities that this process exists in order to perform. However, if we only ever do those activities, we never have the time set aside to improve the process. People want to make their process better on an ongoing basis, but they must be provided with the time away from the process, the resources, and the structure to do so, and that is what the rest of the “house” represents.

The “foundation” of the house is establishing ownership of the process into the people responsible for running it. This is accomplished in many ways, but mainly by insuring that the process owners are empowered. “Empowerment” is a term that is often bandied about without real understanding of how to achieve it. In our terminology, empowerment is only achieved when the process owners have the tools and knowledge to do the job, are responsible and accountable for their results, and have authority within their span of control to change things if the results are not what is needed. In the absence of any of these elements, people will not and cannot take ownership of a process.

The first “room” in the house encompasses those activities that define and standardize the process. The absence of process definition and standardization results in excessive process variability, and thus in poor quality.

“Daily control” is monitoring the process over time to assure that its outputs and critical variables remain stable and predictable. The best one can do with a process while it is running it to make sure that it is performing within the expected variation as established by historical data. Control charts (examined in [“Statistical quality control for process improvement”](#)); are one of many powerful tools to do this.

Maintaining stability or control is not, however, necessarily getting the output needed from a process. In cases where a process is unstable or where it is stable but not capable of achieving the requirements, time must be set aside to examine the process and identify, prioritize, and deploy local improvement opportunities. The daily work improvement room represents these activities, which are typically performed at meetings away from the process with the process owners. Sometimes these teams are called process management teams (PMTs), whose job it is to manage the quality of the process in order to achieve quality in the process output. Sub-teams typically are assigned local improvement missions, and report back to the PMT. This is how continuous improvement is performed using only local resources and how everyone can participate in improving their own process gradually over time.

Should a process improvement activity require resources beyond that of the local process, the PMT can pass this along to upper-level management, and this becomes a project which is fed into the *hoshin* planning process of Phase I. In this way, daily management becomes a pull system requesting the help of resources external to the process, unlike the more typical imposition of these resources to solve problems, making true the often disingenuous phrase, “We are from corporate and we are here to help.”

Book Structure

Underpinning all of BPE is the ethical treatment of all of an organization’s stakeholders including its suppliers, employees, customers, and the surrounding community. In Section Four, Ethics and Creating Value through Employee Management, our authors explore how to provide an ethical work environment within which BPE will flourish.

With this brief overview of how BPE is achieved, one can see how a large number of apparently disconnected tools, techniques, and systems, and process wisdom all falls under one or another well-defined area of the BPE process, and this is how we have ordered the chapters in the rest of this text. While not a complete list of everything a business needs to know in order to achieve BPE (that book would be much longer), we hope that the following explorations of these different aspects of BPE will give you a greater understanding of various elements of the process, while the structure I have described here provides the framework for understanding how and when such understanding is applied in business.

We wish you the very best on your journey towards Business Performance Excellence!

Contributors

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Terry Carroll headed up corporate finance and advisory services for Broadhead Peel Rhode following a highly successful career as finance director and CEO of a range of businesses. He was also for some years a business and financial consultant, working especially with SMEs and growing businesses. A qualified banker, corporate treasurer, and chartered accountant who trained with KPMG, Carroll has experience of many different corporate finance projects, including banking, financing, business restructuring, mergers and acquisitions, MBO/MBI, and venture and private capital. With five books and scores of published articles, he is also an established business author.

Peter Casson is a senior lecturer in accounting at the School of Management of the University of Southampton. He graduated with BTech and PhD degrees in psychology from Brunel University and an MSc in occupational psychology from Birkbeck College, University of London. He is a fellow of the Institute of Chartered Accountants in England and Wales. After holding a number of research posts in psychology, he trained as a chartered accountant before starting an academic career in accounting. His research interests are mainly in accounting for financial instruments, stock option compensation, corporate governance, and company taxation.

Subir Chowdhury is chairman and CEO of ASI Consulting Group, LLC. A respected quality strategist, Chowdhury’s clients include global Fortune 100 companies as well as small organizations in both the public and private sectors. He is the author of 12 books and has received numerous international awards for leadership in quality management and major contributions to various industries worldwide. He has a graduate degree in aerospace engineering from the Indian Institute of Technology, Kharagpur, a postgraduate degree in industrial management from Central Michigan University, and an honorary doctorate in engineering from Michigan Technological University. Chowdhury is frequently cited in national and international media.

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Environmental Data Services (ENDS) in 1978 and SustainAbility in 1987 (www.sustainability.com). He is the author of 17 books, including *The Power of Unreasonable People: How Social Entrepreneurs Create Markets That Change the World* (Harvard Business School Press, 2008). His personal website is at www.johnelkington.com.

Beverly Goldberg is senior fellow and editor-at-large at the Century Foundation. She is the author of *Age Works: What Corporate America Must Do to Survive the Graying of the Workforce* (Free Press, 2000) and *Overcoming High-tech Anxiety: Thriving in a Wired World* (Jossey-Bass, 1999) and coauthor of *Corporation on a Tightrope: Balancing Leadership, Governance, and Technology in an Age of Complexity* (Oxford, 1996) and *Dynamic Planning: The Art of Managing Beyond Tomorrow* (Oxford, 1994). Goldberg was the former vice president and director of publications at the Century Foundation.

Edward E. Gordon is a consultant, writer, speaker, academician, and president of Imperial Consulting, a firm specializing in human capital development (www.imperialcorp.com). He has taught at three Chicago-based universities, appeared on television and radio, and is the author or coauthor of ten books, including bestsellers such as *Skill Wars: Winning the Battle for Productivity and Profits* (Butterworth/Heinemann, 2000) and *Future Work: The Revolution Reshaping American Business* (Praeger, 1994).

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Zahirul Hoque is associate dean (research) and professor of accounting in the Faculty of Law and Management of La Trobe University in Australia, where he is also deputy director of the Public Sector Governance and Accountability Research Centre. Prior to that he held a number of faculty posts at universities in Australia, New Zealand, Bangladesh, and Saudi Arabia. His research interests include accounting and organizational change, management accounting, performance management, public sector accounting, and organizational design. Professor Hoque has published widely, including two books, *Handbook of Cost and Management Accounting* and *Strategic Management Accounting*. He is the founding editor of the *Journal of Accounting and Organizational Change*.

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Hoshin Kanri: Deploying Your Strategic Intents to Achieve Business Excellence

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This Chapter Covers

- ▶▶ Introduction to *hoshin kanri*, a technique to align a company to achieve its strategic goals.
- ▶▶ Strategic planning in the absence of *hoshin*.
- ▶▶ The strategic planning process.
- ▶▶ A real-world case study of *hoshin* planning in a turnaround crisis.

Introduction

Many companies strive to be the best in their market. Most never succeed. Many of those that do, do so only temporarily, and subsequently lose their position through misunderstanding how they got there and what is needed to stay there. Very few, as Jim Collins (2001) has stated, are capable of going from “good to great.”

Companies that achieve, and subsequently maintain, business excellence have a number of traits in common. One of the most fundamental, though, is that the company has a vision of where it is going and everyone there knows what they need to do in order to support the company’s objectives.

This does not happen by accident. The first phase in attaining business performance excellence is the process of strategic planning and policy deployment. In this chapter we will demonstrate a proven method called *hoshin* planning (also referred to as “policy deployment”), a process that is designed for identifying and deploying activities in order to make progress toward business performance excellence.

The outcome of an effective *hoshin* planning process is *hoshin kanri*, a Japanese phrase that means “controlling the compass” and which is interpreted to refer to the actions needed to align everyone in an organization to achieve the company’s goals (Akao, 1991). In the absence of companywide direction, cascaded through the organization, each person in the company has no alternative but to guess at what they should work on to add value. Using *hoshin* planning, employees know exactly what to do and how that supports the company’s objectives.

Strategic Planning in the Absence of *Hoshin*

In our experience, most companies perform strategic planning in exactly the reverse order that they should. The second author has experience of an organization that had just been through a large-scale and expensive strategic planning session. The results certainly looked impressive—a 20-page brochure with beautiful four-color photographs and a professionally designed layout on glossy paper. On closer examination, however, although each page corresponded to what each area or discipline was going to work on that year, there was no unifying theme and no direction for the organization as a whole.

Contrary to conventional wisdom, the *last* step in the strategic planning process is the strategic

plan. The strategic plan is an *output* of all the preceding work, not a starting-point to figure out what to measure.

In this case, the strategic planning had been done by first asking each discipline to identify its SWOT—strengths, weaknesses, opportunities, and threats. Each disparate division had done so, and from there found a number of strengths to leverage, weaknesses to improve, opportunities to exploit, and threats to avoid—and metrics to measure all of that. There was, however, no integration showing how these divisions were going to work toward a common goal, or how they would support one another on their path to excellence. Instead, each area focused on its own expertise, working on what it thought should rather than on what the organization as a whole needed. With disparate goals such as these, divisions compete for resources and upper-level attention and the organization as a whole makes little or no progress toward an objective. In fact, in such a situation there is no objective for them to make progress toward.

We will define the proper strategic planning process in general terms first, and then follow up with a real-world case study of a business in need of a major turnaround in order to survive.

The Strategic Planning Process

Step 1: Who Are We?

In order to arrive at a destination, it is a good idea to know where you are going first. Yet many businesses have, at most, a plan for the future that consists of trite phrases that no one really believes influences policy. At worst, these statements are a cruel joke: for example, “People are our most important resource” in the face of downsizing. Is it any wonder that companies fail to arrive at success if they have never defined what success looks like?

The first step of strategic planning is to answer the questions: “Who are we, where are we going, what will we look like when we arrive, and how are we going to get there together?” These four questions are answered by four main statements: the vision, the mission, the value proposition, and the method of strategic differentiation.

The Vision

In our terminology the vision is not an empty statement of ideals, but a statement of how we define our success. The vision is a word-picture of where the organization will be in 10 or 15 years—description of the destination that will result in the measures that will let us know if we are there.

The Mission

The mission is a statement about what milestone(s) we will accomplish and measure over the next three to five years in order to make progress toward the vision. If the vision is the destination, the mission identifies signposts along the way that will tell us we are on track.

The Value Proposition

The value proposition is why our customers give us money. This requires a clear-eyed understanding of what exactly our customers expect and how we get it to them. A value proposition should be focused on and be appealing to your customers. A value proposition that resonates with management more than with customers is a recipe for disaster.

The Method of Strategic Differentiation

The authors favor Treacy and Wiersema's (1993) model of how companies differentiate themselves from their competition. This provides a clear objective for the company: excel in one area while maintaining parity in the others.

Step 2: What Do We Measure?

Now that we know where we are going, we can examine the words that we used to identify what to measure so we can know the current performance of the company in those areas that are necessary to achieve the vision.

Construct Analysis

Construct analysis is the means we use to identify themes in the words chosen to describe our destination and turn them into measurements. Constructs describe—even to an external observer—how the company will appear if successful. Words or terms such as “recognized (as),” “dominate,” “safe(ty),” “reliable,” and “quality” describe common constructs in vision, mission, and value proposition statements. This step prevents empty slogans, since measurements drive behavior and the flow of resources. This encourages the organization to use the vision, mission, and value proposition statements to make management and resource decisions.

Metrics Cascade

Once the construct analysis has defined the measures of success for the organization (level I metrics), these measures must be translated to every level of the organization. A CEO is not likely to achieve his or her metrics if no one else in the company knows how what they do relates to those metrics. A useful tool for this translation is a control matrix that shows the relationship of each management level to the next level down, similar to a quality function deployment (QFD) matrix.

During the creation of the metrics, the owner of the companywide level I metrics challenges his or her direct staff (level II) to come up with measures for their areas of responsibility and within their span of control that relate to the level I metrics. This negotiation takes place at each level of the company until every individual has an opportunity to propose output metrics for their area of responsibility. This step ensures that everyone knows what to measure and how it relates back up the chain to the company's measures of success. As a side benefit, most individuals see the number of metrics they are responsible for go down; the ones that remain are important, and they have had an opportunity to take ownership in their own process by proposing their own measures of success rather than having them imposed from above. Of course, later analysis will confirm or disprove the strength of the linkage to the next level up, so some iteration is expected in the early stages of metric development.

Step 3: What Do We Need To Work On?

When appropriate measures are in place (in some cases for the first time), the company finally has the correct tools to assess its progress toward the vision. Comparing actual performance to what is needed to achieve the vision is a gap analysis, which allows the company to identify those few, most important things to work on during the next planning phase. In addition, the customer quality assurance, supplier quality assurance, total asset utilization, and customer product rationalization systems' feed information into this decision.

Step 4: The Strategic Plan

The large gaps that the company has decided to target as objectives or *policies* (hence the term “policy deployment”) are defined within our model as “strategic intents.” Juran (2010) refers to these intents

as the “vital few.” Strategic intents are broad goals or objectives that it is necessary to achieve in order to make progress toward the vision. Upper management must then decide which of the potential strategic intents can be accomplished over the next planning cycle given the time and resource constraints of the company. Regardless of size, most companies will find that they can only address two or three strategic intents while maintaining performance in other areas. However, unlike most strategic plans, since these intents will be appropriately supported (so that they are accomplished) once those gaps are closed the intents should not require large amounts of resources to be maintained. This means that during the next planning cycle resources can be reallocated to the next set of strategic intents, continuously closing gaps and making progress toward the vision.

Step 5: Hoshin Planning

Up to this point, upper management has selected the few large gaps to be closed, but individual workers cannot be left to try to figure out on their own what they need to do to support these noble goals. This is the start of traditional *hoshin* planning—a step-by-step deployment of activities throughout the organization that will result in achieving the strategic intents.

In order to achieve a given strategic intent, there will be multiple objectives, both strategic and tactical, that need to be accomplished. Some of these objectives require focused effort and dedicated resources to achieve a strategic breakthrough, while others require monitoring to make sure that there is no backsliding which would result in them becoming next year’s problems. Strategic objectives are breakthrough improvement activities with numerical goals and required completion dates. Tactical objectives likewise have numerical goals, but just require monitoring and continuous improvement.

Each strategic objective will have one or more specific projects that need to be accomplished. The projects, or focal points, show how the strategic objectives are to be accomplished. Each tactical objective will have one or more metrics, referred to as “check points,” that roll up to produce the metric that needs to be maintained and slightly improved. This process prevents the situation where everyone meets their goals, but the strategic plan is not accomplished.

At times, an organization will find that it is missing some system that is needed in order to even work on making the progress that it needs to achieve its vision, or to intelligently set targets for the defined objectives. These systems, called “enablers,” which have to be built prior to working on or setting targets for some objectives, can appear wherever they are needed in the strategic plan.

Harnessing Employee Creativity

Notice that, while the required improvements are defined by the organization’s management, how these improvements are achieved rests with each organizational level. This allows each manager the creative freedom to propose breakthroughs in the areas in which he/she is expert, and results in better solutions and significant emotional attachment to success. Contrast this with the results of traditional top-down dictates where the CEO tells his/her staff what to do, who in turn tell their staff, all the way down. That approach robs employees of significant input into the strategic plan and leads to suboptimal solutions. Ultimately, these top-down plans will fail to achieve their stated goals.

The hierarchy of the strategic plan will resemble the following, with enablers occurring wherever necessary.

Strategic intent 1.

Strategic objective 1.1.

Focal point 1.1.1.

Focal point 1.1.2.

Subpoint 1.1.2.1.

Strategic objective 1.2.

Focal point 1.2.1.

Focal point 1.2.2.

Strategic objective 1.3.

Focal point 1.3.1.

Enabler 1.3.1.a.

Tactical objective 1.1.

Check point 1.1.1.

Check point 1.1.2.

Tactical objective 1.2.

Check point 1.2.1.

Check point 1.2.2.

Strategic intent 2.

Strategic objective 2.1.

Focal point 2.1.1.

Focal point 2.1.2.

Strategic objective 2.2.

Focal point 2.2.1.

Focal point 2.2.2.

Tactical objective 2.1.

Check point 2.1.1.

Check point 2.1.2.

Subpoint 2.1.2.2.

Case Study

A Bakery Corporation

A large bakery was created as a result of a spinoff from its parent firm. The business consisted of 53 manufacturing plants across the United States, each with approximately 600 workers. The firm's headquarters was in Dallas, Texas, where upper-level management, sales, and marketing personnel were positioned. The company produced a large variety of baked and refrigerated dough products, both under its own name and for the private-label market. A significant business unit within the company was the Refrigerated Dough Products (RDP) division. At the first strategic planning session following the spinoff, the new RDP management team was presented with the financial "state of the firm" shown in [Figure 1](#).

Figure 1. Starting state for the RDP division: net sales and earnings before interest and tax (EBIT) on rolling 13-period basis

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