Welcome to

Strategic Planning – Hoshin Policy Deployment

Southern California Quality Conference

November 2, 2019

Frank G. Adler, Ph.D.
Principal & Managing Partner
Operational Excellence Consulting LLC
frankadler@oec-us.com
www.operational-excellence-consulting.com

1 November 2, 2019

Frank G. Adler

November 2, 2019

Operational Excellence Consulting (OEC) LLC → 2012 – …

- M.S. Mathematics & Physics, Freie University of Berlin – Germany
- Ph.D. Operations Research & Industrial Economics, Helsinki University of Technology – Finland

Nokia Mobile Phones → 1994 – 2005
- Specialist, Global Operations & Supply Chain Development – Finland
- Manager, Operations & Quality Development – Fort Worth, TX
- Director, Lean Six Sigma & Quality Americas – Irving, TX
- General Manager, Mexico Operations – Reynosa, Mexico
- General Manager, US Operations – Fort Worth, TX

- Vice President, WW Quality & Customer Support – San Dimas, CA

Angelica Corporation → 2010 – 2011
- Corporate Director, West Coast – Operations, Logistics & Services
ISO 9001:2015 has brought to the world of management systems a great synergy between strategic planning and quality management.

➢ Clause 4.1: The organization shall determine external and internal issues that are relevant to its purpose and its strategic direction and that affects its ability to achieve the intended results of its quality management system.

➢ Clause 5.2: Top management shall establish, implement and maintain a quality policy that is appropriate to the purpose and context of the organization and supports its strategic direction.

➢ Clause 9.3: Top management shall review the organization’s quality management system, at planned intervals, to ensure its continuing suitability, adequacy, effectiveness and alignment with the strategic direction of the organization.

Some organizations are using Business Excellence Models like the Malcolm Baldrige Criteria to assess themselves against a well established performance excellence framework and benchmark.
Strategic Planning & Deployment

**Strategy** is an expression of what an organization intents to do to get from a current state to a future state. Strategy is often expressed in terms of a vision & mission statement, goals & objectives, and initiatives & projects. It is usually developed at the top levels of the organization, but executed by lower levels within the organization.

- Only 5% of the workforce understands their company strategy.
- Only 25% of managers have incentives linked to strategy.
- 60% of organizations don’t link budgets to strategy.
- 86% of executive teams spend less than one hour per month discussing strategy.

Source: Balanced Scorecard Collaborative

---

Strategic Planning is a process whereby an organization makes choices about:

- Why do we exist?
- What are our major goals and objectives?
- In which markets will we compete?
- Who will be our Customers?
- How will we differentiate ourselves from our competition?
- What resources (people, processes, technology) do we need for a successful future?
- ...

---
Lack of a proper strategy is a serious problem that can result in ad hoc improvements that don't contribute to the organization’s overall needs.

➢ **Non-Strategy #1: ‘The Wall Placard Strategy’**

Some organizations will go to great lengths to create great Vision and Mission statements, but then their planning stops there.

➢ **Non-Strategy #2: ‘The Stratospheric Strategy’**

These strategies start in the clouds and they never come down, making them extremely difficult to make actionable. The result will usually be some nice slick-looking verbiage for the organization’s website and annual reports.

➢ ...
Hoshin-style strategic planning departs from other strategic planning methods in four important ways:

1. The Degree of Focus and Prioritization
2. The Use of specialized Planning and Process Improvement Tools
3. The Involvement of all Levels of the Organization in defining the Plan
4. The Rigor of the Reviews

Hoshin Policy Deployment – The Process

- Organizing the Process
- Current State & SWOT Analysis
- Vision Statement & Vision Elements
- Strategic Goals & Objectives
- Key Performance Indicators
- Strategic Initiatives & Tactics
- Strategic Projects & Activities
- Management Review Process
**Strategic Planning & Deployment – Terminology Part I**

**Mission:** A brief description of a company’s fundamental purpose. A mission statement answers the question, "Why do we exist?".

**Vision:** An overall statement of how the organization wants to be perceived by its stakeholders over the long-term (3 to 5 years).

**Strategic Goal:** A statement of an overall achievement that is considered critical to the future success of the organization. Strategic goals express where the organization wants to be.

**Strategic Objective:** What the organization must do to reach its strategic goals! What specifically must be done to execute the strategy; i.e. what is critical to the future success of our strategy? Another term for objectives within a strategic planning framework is to call these "enabling goals", since they will contribute to the achievement of the larger strategic goal they enable.

**Strategic Planning & Deployment – Terminology Part II**

**Strategic Initiative:** Strategic initiatives are the means through which a vision and strategic goals & objectives are translated into practice. Strategic initiatives are collections of finite-duration discretionary projects and programs, outside of the organization's day-to-day operational activities, that are designed to help the organization achieve its targeted performance.

**Metrics or Key Performance Indicator:** A way of monitoring and tracking the progress of strategic goals & objectives. Metrics can be leading indicators of performance (leads to an end result) or lagging indicators (the end results).

**Target:** An expected level of performance or improvement required in the future.

**Programs, Projects & Activities:** Major programs or projects that must be undertaken as part of an strategic initiative in order to meet one or more strategic goals & objectives.
Strategic Planning Terminology – Examples

**Strategic Goal**
Become the Price Leader

**Strategic Objective**
Improve Operational Efficiency

**Metrics**
- **Total Costs per Unit**
  - Goal: < $15
- **Productivity**
  - Goal: > 15 Units per DL Manhour

**Strategic Initiatives**
- Implement Cost Reduction Programs
- Establish Lean Six Sigma Training Program
- Develop & Implement company-wide Database on Operational Performance
- Make – Buy Analysis for Forward Logistics, Reverse Logistics and Customer Service
- Reduce Bill of Material Costs
- Create Cost Management Competence Development Plan for all Management Teams

Often, there will be dependencies among the different strategic initiatives, means, some might need to be completed before others can be initiated. It is useful to lay out these dependencies on a timeline.

---

Strategic Planning & Deployment – Hoshin Kanri

**Hoshin Kanri**
方針管理

Direction – Compass – Policy  Management – Control

→ Hoshin Kanri  
→ Hoshin Planning

→ Policy Deployment
Policy Deployment & Hoshin – The “Road” Metaphor

Your Destination (Vision & Future State)

Your Starting Point (Current State)

The Road is usually strewn with obstacles (boulders), some large, some small.

Use Continuous Improvement to remove the smaller obstacles, on an ongoing basis.

Use Policy Deployment & Hoshin to remove the big boulders, one at a time.

The Strategic Plan is the “Road” to the Future State of the Organization.

Be sure to keep improvement efforts focused on the road. NOT OUT HERE!

Source: Cowley & Associates 1995

Policy Deployment – “Plan – Do – Check – Act”

Scan: Understand the Internal & External Environment


Deming PDCA Cycle

Act: Develop and implement Countermeasures when “misses” or “fall-offs” occur.

Check: Monthly Management Review Meetings to ensure Success.

Do: Implement the Plan

15 November 2, 2019

16 November 2, 2019
The Hoshin X-Matrix is a tool that visualizes an organization’s
➢ strategic objectives,
➢ strategic initiatives,
➢ key performance indicators,
➢ key projects & action items, and
➢ human resources requirements
in one simple matrix.

The Hoshin X-Matrix enables an organization to easily review the alignment of its strategic objectives, strategic initiatives, key performance indicators, key action items and human resources.

The Hoshin X-Matrix, if used properly, improves the likelihood of a successful execution of the strategic plan.
Policy Deployment: The Hoshin X – Matrix Level 1

Are all Breakthrough Goals & Objectives measured by Key Performance Indicators?

Are all Key Performance Indicators driven by Strategic Initiatives?

Are the Annual Strategic Goals & Objectives aligned with the 3-5 Years Breakthrough Goals & Objectives?

Are the Strategic Initiatives aligned with the Annual Strategic Goals & Objectives?

Do all Strategic Initiatives have an Owner and/or Champion?

Are all Breakthrough Goals & Objectives measured by Key Performance Indicators?

Policy Deployment – The Catchball Process

➢ In many organizations the executive or management team would “hand-off” the first-level strategic plan at this point of time and expect the organization(s) to somehow execute the strategic initiatives identified by the planning team.

➢ It is a known empiric fact that strategic plans without tactical detail don’t usually get implemented very well, sometimes not at all.

➢ To deploy the first-level strategic initiatives successfully, supporting initiatives and finally actionable tactics need to be identified and defined.

➢ To ensure proper alignment of an organization’s strategic goals & objectives, strategic initiatives, and key performance indicators, the first-level Hoshin X-Matrix will be cascaded down to the next level of the organization and more detailed second-level (third-level, …) Hoshin X-Matrices will be developed.
Policy Deployment: The Hoshin X – Matrix Level 2+

Cascading the Hoshin X – Matrix: 1st Level to 2nd Level
Policy Deployment – Key Performance Indicators

**Metrics or Key Performance Indicator:** A way of monitoring and tracking the progress of strategic goals & objectives. Metrics can be leading indicators of performance (leads to an end result) or lagging indicators (the end results).

Examples of lagging indicators include most financial type measurements (return on equity, sales growth, etc.) and many non-financial type measurements (production breakeven, customer retention, employee productivity index, etc.).

Examples of leading indicators include customer contracts executed, service response time, and time spent with customers.

**Target:** An expected level of performance or improvement required in the future.

---

Policy Deployment – Balanced Scorecards

“Balanced Scorecards tell you the knowledge, skills and systems that your employees will need (learning and growth) to innovate and build the right strategic capabilities and efficiencies (internal processes) that deliver specific value to the market (customer) which will eventually lead to higher shareholder value (financial).”

“Having Trouble with Your Strategy? Then Map It.”

by Robert S. Kaplan and David P. Norton - Harvard Business Review
Balanced Scorecard – Four Perspectives or Dimensions

FINANCIALS
How do you want to look to your shareholders? - Indicators focus on whether your strategic and operational plan contributes to your top-line, bottom-line and/or market share.

CUSTOMERS
How do you want to look to your Customers? - Indicators focus on the specific measures that matter the most to your Customers.

INTERNAL BUSINESS PROCESSES
At which internal processes and capabilities do you want to excel? - Indicators focus on internal operations that enable Customer satisfaction, growth and profitability.

LEARNING AND GROWTH
What skills and competencies do you need to implement your strategic and operational plan? - Indicators focus on your organization’s ability to innovate, improve and execute.

Balanced Scorecard – Horizontal & Vertical Linkage

Performance Indicators vary according to the Organizational Level.

M1 – Organizational Level – Executive Scorecard Indicator
M2 – Process or Functional Level – VP/Director Scorecard Indicator
M3 – Sub-Process or Departmental Level – Manager Scorecard Indicator
M4 – Task or Activity Level – Work Group Scorecard Indicator

Operational Excellence Consulting
Vertical & Horizontal Linkage of Performance Indicators

**Organization’s**
Customer Satisfaction measured through the Net Promoter Score

**Order Management**
Customer Satisfaction measured through Order Confirmation Lead Time

**Production**
Customer Satisfaction measured through Order Fulfillment Lead Time

**Customer Service**
Customer Satisfaction measured through First Call Resolution

**Sales & Marketing**
Performance measured through 90-Days Forecast Accuracy

**Purchasing**
Performance measured through Material Replenishment Lead Time

---

**Balanced Scorecard – An Example**

**Balanced Scorecard**

**ORGANIZATION: XYZ**

**From:** January 2019  
**Until:** December 2019  
**Current Month:** January 2019

**LEARNING & GROWTH**

<table>
<thead>
<tr>
<th>KPI</th>
<th>Tim Smith</th>
<th>Jen Meyer</th>
<th>Klaus Adler</th>
<th>Edgar Winter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margin</td>
<td>60.0%</td>
<td>60.0%</td>
<td>60.0%</td>
<td>60.0%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>20.0%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Net Promoter Score</td>
<td>38.0%</td>
<td>38.0%</td>
<td>38.0%</td>
<td>38.0%</td>
</tr>
</tbody>
</table>

**CUSTOMERS**

<table>
<thead>
<tr>
<th>KPI</th>
<th>Tim Smith</th>
<th>Jen Meyer</th>
<th>Klaus Adler</th>
<th>Edgar Winter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Share</td>
<td>18.0%</td>
<td>18.0%</td>
<td>18.0%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Revenue</td>
<td>56.6%</td>
<td>56.6%</td>
<td>56.6%</td>
<td>56.6%</td>
</tr>
<tr>
<td>Lead Time</td>
<td>18.0%</td>
<td>18.0%</td>
<td>18.0%</td>
<td>18.0%</td>
</tr>
</tbody>
</table>

**FINANCIALS**

<table>
<thead>
<tr>
<th>KPI</th>
<th>Tim Smith</th>
<th>Jen Meyer</th>
<th>Klaus Adler</th>
<th>Edgar Winter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lean Six Sigma Belts (% YTD)</td>
<td>13.0%</td>
<td>13.0%</td>
<td>13.0%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Field Failure Rate</td>
<td>7.5%</td>
<td>7.5%</td>
<td>7.5%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

**RESULTS**

<table>
<thead>
<tr>
<th>KPI</th>
<th>Tim Smith</th>
<th>Jen Meyer</th>
<th>Klaus Adler</th>
<th>Edgar Winter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualized # of Certified Lean Six Sigma Belts</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td># of Certified Lean Six Sigma Belts</td>
<td>110</td>
<td>110</td>
<td>110</td>
<td>110</td>
</tr>
</tbody>
</table>

**LEADERSHIP & STRATEGY**

<table>
<thead>
<tr>
<th>KPI</th>
<th>Tim Smith</th>
<th>Jen Meyer</th>
<th>Klaus Adler</th>
<th>Edgar Winter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stretch 2019</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Goal 2019</td>
<td>$700</td>
<td>$700</td>
<td>$700</td>
<td>$700</td>
</tr>
<tr>
<td>Base 2019</td>
<td>$300</td>
<td>$300</td>
<td>$300</td>
<td>$300</td>
</tr>
</tbody>
</table>

**TOTAL SCORE**

<table>
<thead>
<tr>
<th>KPI</th>
<th>Tim Smith</th>
<th>Jen Meyer</th>
<th>Klaus Adler</th>
<th>Edgar Winter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Score</td>
<td>230</td>
<td>230</td>
<td>230</td>
<td>230</td>
</tr>
</tbody>
</table>

---

27 November 2019

---

28 November 2019
Policy Deployment – Strategy Maps

The Strategic Goal & Objective

“Financials” Perspective
“If we succeed, how will we look to our shareholders?”

“Customers” Perspective
“To achieve our goal & objective, how must we look to our customers?”

“Internal Processes” Perspective
“To satisfy our customer needs, which processes must we excel at?”

“Learning & Growth” Perspective
“To achieve our goal & objective, how must our organization learn and improve?”

Strategic Goals & Objectives Mapping

Basic Flow of a Strategic Goal & Objective across the Balanced Scorecard Dimensions

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Strategic Goal &amp; Objective: Increase Shareholder Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>Revenue Growth of 20% in 2020</td>
</tr>
<tr>
<td>Customers</td>
<td>Acquire More Customers</td>
</tr>
<tr>
<td>“Internal” Processes</td>
<td>Customer Marketing &amp; Service Program</td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>Develop Support Systems &amp; Personnel</td>
</tr>
</tbody>
</table>

Notice how each lower perspective layer supports and enables the upper perspective layer; such as “Acquire More Customers” will enable “Revenue Growth”.

Keep in mind that we are trying to link everything together. This is critical to building an effective Policy Deployment Plan; i.e. capturing the cause & effect relationships.
### Strategic Goals & Objectives Mapping

**Basic Flow of a Strategic Focus Area within the “Financials” Dimension**

<table>
<thead>
<tr>
<th>Strategic Goal &amp; Objective: Increase Shareholder Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financials</strong></td>
</tr>
<tr>
<td>Revenue Growth of 20% in 2020</td>
</tr>
<tr>
<td>Operating Cost Improvements of 15% in 2020</td>
</tr>
<tr>
<td>New Sources of Revenue</td>
</tr>
<tr>
<td>Increase Customer Profitability</td>
</tr>
<tr>
<td>Lower Operating Costs</td>
</tr>
<tr>
<td>High Utilization of Assets</td>
</tr>
</tbody>
</table>

We will **flow our strategic objectives down each balanced scorecard perspective** within a grid of boxes (potential strategic initiatives & tactics), making sure everything is linked. This grid or map will later also serve as the foundation to refine our Balanced Scorecard.

---

### Strategic Goals & Objectives Mapping

**Strategic Objectives defined for all Four Balanced Scorecard Dimensions**

#### Strategic Goal & Objective: Increase Shareholder Value

<table>
<thead>
<tr>
<th>Dimensions or Perspectives</th>
<th>Financials</th>
<th>Customers</th>
<th>“Internal” Processes</th>
<th>Learning &amp; Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue Growth of 20% by 2019</td>
<td>Acquire More Customers</td>
<td>Improve Operational Efficiency</td>
<td>Training – Lean Six Sigma Program</td>
</tr>
<tr>
<td></td>
<td>Operating Cost Improvements of 15% in 2020</td>
<td>Become the Price Leader</td>
<td></td>
<td>Database Network on Operational Performance</td>
</tr>
<tr>
<td></td>
<td>New Sources of Revenue</td>
<td></td>
<td></td>
<td>Re-Align Organization with Core Competencies</td>
</tr>
<tr>
<td></td>
<td>Increase Customer Profitability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lower Operating Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>High Utilization of Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Once you have completed the strategic map, go back and make sure everything fits with your overall strategy. A set of strategy maps should provide the strategic model for running the business, outlining the specifics of the strategy. All stakeholders should be able to look at the map and follow the flow of the organization’s strategy.
Strategy Maps & Balanced Scorecards

Strategic Goal & Objective: Increase Shareholder Value

<table>
<thead>
<tr>
<th>Dimensions or Perspectives</th>
<th>Strategic Goal or Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>Revenue Growth of 20% by 2019</td>
</tr>
<tr>
<td>Customers</td>
<td>Acquire More Customers</td>
</tr>
<tr>
<td></td>
<td>Become the Price Leader</td>
</tr>
<tr>
<td>“Internal” Processes</td>
<td>Improve Operational Efficiency</td>
</tr>
<tr>
<td></td>
<td>Cost Reduction Program</td>
</tr>
<tr>
<td></td>
<td>Knowledge Based System</td>
</tr>
<tr>
<td></td>
<td>Reduce Non-Core Activities</td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>Training – Lean Six Sigma Program</td>
</tr>
<tr>
<td></td>
<td>Database Network on Operational Performance</td>
</tr>
<tr>
<td></td>
<td>Re-Align Organization with Core Competencies</td>
</tr>
</tbody>
</table>

For each objective or initiative on your strategic map, you need at least one performance indicator. Can you have an objective or initiative without a performance indicator? Yes, it is possible, but not having a measurement makes it difficult to manage the objective or initiative. It’s best to revisit this objective or initiative and ask the question: Why is this an objective? or Why do we need this initiative?

Policy Deployment – Strategic Projects & Activities

**Strategic Programs, Projects & Activities:** Major programs or projects that must be undertaken as part of an strategic initiative in order to meet one or more strategic goals & objectives.
Process Excellence Methods & Tools

- Process & Value Stream Mapping
- Lean Management
- 8D or A3 Problem Solving

Project Prioritization & Selection Matrix

<table>
<thead>
<tr>
<th>Project Definition</th>
<th>Correlation Matrix</th>
<th>Impact</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project #1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project #2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project #3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project #4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project #5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Weights: 20 10 15 10 5 10 10 100

Ranking:
- 10 = none
- 5 = low
- 3 = medium
- 2 = high
- 1 = very high

Project Status:
- Not Started
- On Track
- At Risk
- Behind Schedule
The Management Review Process

Review Process Overview

➢ Reviews need to be frequent to keep the implementation process “on track”
➢ Reviews are the “Check” of the Plan-Do-Act-Check (PDCA) cycle
➢ They evaluate the effectiveness of the Strategic Projects & Activities
  ➢ What did you intent to accomplish? (PLAN)
  ➢ What did you actually accomplish? (DO)
  ➢ How did the actual accomplishment compare with what you intended? (CHECK)
➢ The Review Process is a self-evaluation process, where the strategy owners come to the meeting to present the results of their self-evaluation of results for each Strategic Initiative, Project & Tactic
Management Review - Visual Management

Some Tactics for Successful Review Meetings

• Standardize documentation practices.
• Ensure presentation from every Strategic Initiative, at every review meeting.
• Maintain a minimum frequency: monthly at first, then maybe quarterly.
• Pay attention to team health and function.
• Agree on countermeasures, if needed.
• Pay attention to how time is allocated on the agenda.
• Build in structured decision-making practices and tools.
• Assign facilitation responsibility for every meeting.
Hoshin Policy Deployment – Review Question #1

Hoshin Policy Deployment is a process whereby management makes choices about overall direction. One such choice within strategic planning is establishing the:

a. Goals of the organization
b. Financing of capital assets
c. Distribution of stock dividends
d. Election of Officers

Hoshin Policy Deployment – Review Question #2

The Hoshin Policy Deployment Process can result in change and people often resist change. People’s resistance to change can be reduced by:

a. Making the planning process extremely formal.
b. Categorizing the process as re-engineering.
c. Making the process very experimental.
d. Getting people involved within the process.
In what phase of the Hoshin Policy Deployment Process does identification of strengths and weaknesses take place?

a. Organizing
b. Approval of the Plan
c. Current State Analysis
d. Implementation

Strategic Planning & Hoshin Policy Deployment – Resources
Strategic Planning & Hoshin Policy Deployment – Resources

Visit our website www.oec-us.com, go to “OPEX Academy → Training Material” and get a copy of our “Strategic Planning – Hoshin Policy Deployment” training module. Use the coupon code “SCQC2019” and get a 50% discount.