CHAPTER 10

# THE STRATEGIC MANAGEMENT SYSTEM

## Introduction

The strategic management system is a set of processes that macro-manages, engages and empowers the whole organisation. It:

- Monitors externally for developments in markets, technology, legislation etc.
- Analyses the internal and external perspectives and develops an appropriate strategy for taking the business forward which addresses both:
    - The maintenance and ongoing improvement of the business fundamentals
    - Breakthrough activities aimed at achieving significant improvements in business-critical areas
- Oversees, monitors, manages and improves the operational management system – which in turn manages the core processes

Figure 10.1 illustrates where the strategic management system fits into the wider picture.


*Figure 10.1: The strategic management system in context*

# Hoshin Kanri: overview

The best model on which to base the design of the strategic management system is Hoshin Kanri. It is based on the principles of Business Excellence (including colleague involvement and continuous improvement at all levels) and promotes, supports and embeds those principles throughout the business.

The premise of Hoshin Kanri is that optimising organisational performance is best achieved by ensuring that everybody in the organisation is working toward the same end, fully understanding the long-range direction and goals of the organisation, working to a coherent, measurable plan and actively involved in defining, implementing and reviewing that plan.

Hoshin Kanri is a cyclical process which begins by assessing external factors, internal capabilities and current performance, deriving from the analysis of these a vision and a strategy setting out high-level objectives for breakthroughs and business fundamentals for the next three to five years. These objectives are then cascaded down through the organisation and translated into achievable actions.

The cascade process involves discussion between different levels and functions in the organisation to ensure that the plans are feasible and widely understood, and to secure ownership of them and genuine commitment to them. The plans at each level are measurable, allowing for ongoing monitoring, learning and adjustment, and for the development of ever-deeper understanding.

Structured problem-solving methods are used at all levels to involve and engage people and help them to implement the breakthrough plans and consistently manage and improve daily operations.

Finally, there is an ongoing review process which, like the cascade process, actively and constructively engages colleagues at all levels in identifying, understanding and resolving issues. The performance of the strategic management system is itself subject to review as part of this process, to assure that it too is continuously improved.

The purpose is not only to set and implement strategic goals, but also to empower people to take responsibility for measuring, analysing and understanding situations and creating, implementing and managing plans for improvement, and to develop a level of comfort, familiarity and a natural sense of professional discipline with measurement, feedback, accountability, responsibility and continuous improvement.

## Why it matters

The primary advantage of an effective strategic management system is the alignment of goals, both within each level of the business and between the levels, as illustrated in Figure 10.2.

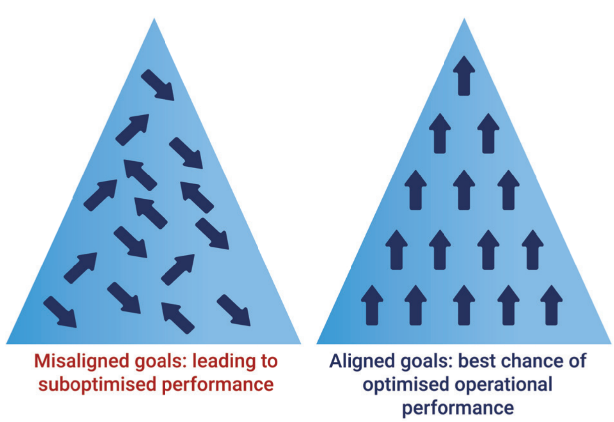


*Figure 10.2: Alignment of goals*

A properly designed and run strategic management system ensures that an organisation remains focused, aligned, and able to consistently and reliably deliver excellent operational performance and achieve its long-term strategic goals. It sharpens and maintains focus on critical issues and gets everyone on the same page, clear about the 'big picture' and their part in achieving it. Ensuring that operational and strategic management are both effective and integrated with each other helps to maintain consistent performance and continuous improvement, and prevents the avoidable crises that stem from complacency or drifting out of touch with changing market conditions.

It also helps to avoid problems frequently encountered with strategy processes, including:

- Poor structure, leadership and implementation
- Unclear vision
- Measures that are narrowly focused on financial outcomes and inadequately focused on performance drivers
- The involvement only of senior managers with little, or no, meaningful wider engagement
- The selection of strategic goals based more on emotion and opinion (feelings, hunches, gut instinct) than on facts and data
- Arbitrary and unrealistic targets
- Strategic planning not being integrated with operational planning (so adequate time and resource to deliver strategic goals is not planned)
- Action-planning lacking focus, visibility, measurability, coherence and alignment
- No systematic review of action plans to drive and manage implementation

## The strategic ratchet

A well-designed and well-run strategic management system allows the business to systematically and consistently ratchet up sustainable improvements in capability and performance. As shown in Figure 10.3, each year the previous baseline is consolidated through effective operational management and then built on by:

- Operationally-led continuous improvement activities
- Breakthrough activities (which require a tight and focused process for choosing strategically important priorities and implementing them effectively)

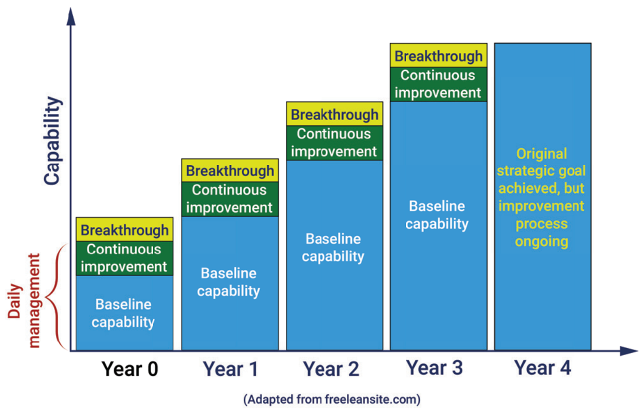


*Figure 10.3: The strategic ratchet*

## Getting the right responsibilities, actions and behaviours at the right levels

As Figure 10.4 illustrates, an effective strategic management system helps to achieve the right balance in how time is spent in the business between:

- **Operational management:** Setting up and resourcing processes properly, and monitoring process performance to pick up and address problems early so as to stay on track to achieve target
- **Continuous process improvements** from opportunities identified through ongoing process performance reviews and colleagues' ideas
- **Significant strategic breakthrough improvements** in capability aligned to the emerging threats and opportunities

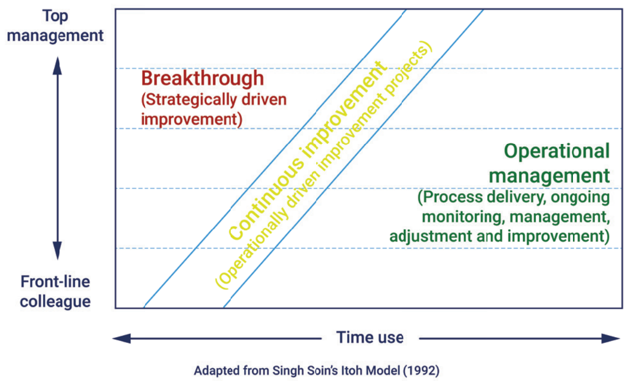


*Figure 10.4: Structuring time at different levels*

It also highlights, structures (and makes measurable) responsibilities at different levels:

- **Colleague-standard work:** Delivering operational performance and contributing to the monitoring, management and improvement of the process
- **Manager-standard work:** Leading daily management and kaizen in their area (monitoring and improving local processes), and also contributing to breakthrough projects
- **Leadership-standard work:** Overview of the operational management system: planning, implementation, review and support of breakthrough projects; and the integration of both across the organisation

As operational management is improved to control and improve the efficiency of operational processes, the time saved can be invested in improvement activities, which will make a significant impact on success in the long run. Thus, a well-designed and -run strategic management system helps the business to progressively increase its capability for change and improvement.

A strategic management system built on Hoshin Kanri principles is simply indispensable for any business committed to Business Excellence. It is what integrates and coheres all the other management and operational processes into an optimised system. As David Hutchins points out, without it we may get no further than 'a rudderless set of tools and techniques that will only produce results on a hit-and-miss basis, with many of the improvements of dubious value'.

# Strategic management system: structure, content and process

We'll explore the model in two steps: first, its underpinning structure, and then the process that brings it to life and sustains it.

## Structure and content

The structure comprises (as illustrated in Figure 10.5) three main blocks with various elements:

1. **The overall mission, purpose, values, success drivers and success measures:** This captures the essence of why the business exists, what success looks like and how that success will be achieved
2. **Long-term/strategic plan** (typically looking three to five years ahead). This comprises:
   - **Business-as-usual objectives:** These relate to the performance and improvement of any core processes that have not been singled out for significant 'breakthrough' improvement. These processes are to be managed and subject to ongoing, local, continuous improvement to maintain the required standards of performance
   - **Waterline objectives:** Goals that relate to upgrading any capability that is currently below the 'waterline' of minimally acceptable capability, or those that are likely to fall below that line in the time period
   - **•Breakthrough objectives:** Improvement goals in a small number of areas that will build new levels of useful capability critical to achieving the vision, but that are not yet at that standard. These will become the focus of breakthrough projects
3. **Annual operational (deployment) plans: T**hese plans specify how the waterline, breakthrough and the business-as-usual objectives will be delivered operationally. They are typically annual plans, capturing what needs to be achieved in the next year to stay on track to achieve the three- to five-year strategy and, ultimately the long-term vision. There may be several layers to this cascade, depending on the size and structure of the business. The plans become more concrete and specific as they cascade down through each department and any layers until the specific actions that will be taken at the front line on any given week/day are identified. These plans will include

measures so that progress and performance can be meaningfully monitored and managed.

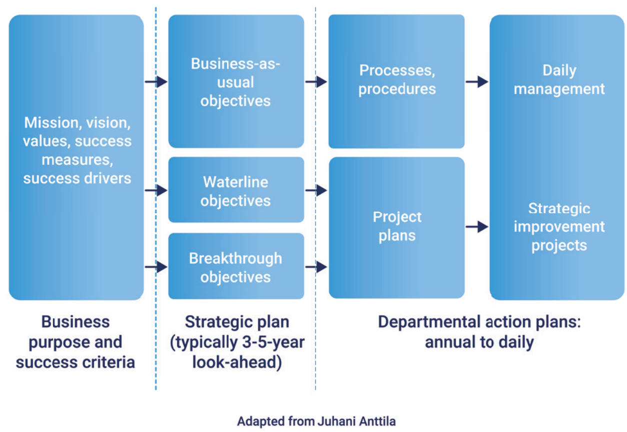


*Figure 10.5: Strategic goals flowdown*

## Strategic management process

Now let's look at the process for developing the content, integrating the different elements, engaging people and locking the whole thing into a loop for continuous organisation-wide learning and improvement. The process is illustrated in Figure 10.6.

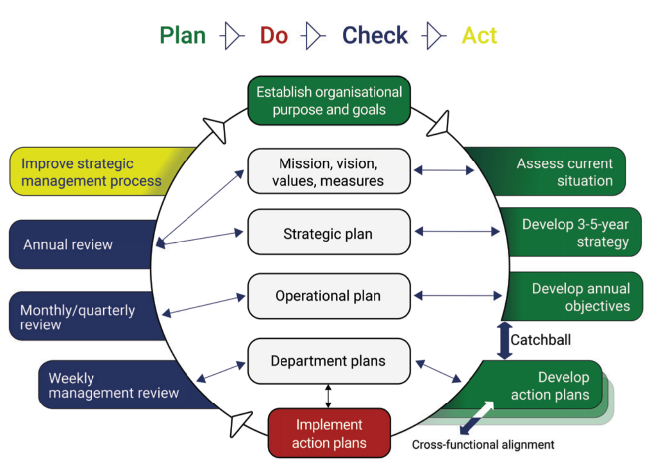


*Figure 10.6: Strategic management process overview*

### Establish organisational purpose and goals

First, the overall mission, purpose, values, success measures and success drivers are established. These provide context for assessing the current situation and setting the strategic plan.

### Assess current situation

The next step is to assess the current situation, both internal (existing performance levels and business capabilities) and external (market dynamics, competitor awareness, and social, technical, economic and political factors).

### Develop the three- to five-year strategic plan

In this phase, the gap between the vision and the present position is established. If necessary, work is done to establish the root causes of any gaps. The waterline areas for improving capability over the next three to five years are then established and breakthrough objectives are developed. Objectives are also set for the performance and ongoing management improvement of the core processes that need to run consistently well and be subject to locally-driven continuous improvement.

### Develop annual objectives

Next, the objectives are developed to deliver the progress that needs to be made in the next 12 months to achieve the three- to five-year breakthrough objectives. Goals also need to be set for the processes that will run as business as usual (though typically, these will be 'on rails' and will need little or no adjustment from the previous year).

This begins the 'deployment' part of the process. Implementation plans are developed which are focused, clear and measurable.

### Develop annual departmental action plans

In this phase, goals for each area are identified and agreed. These are developed using 'catchball', a collaborative, iterative process where the objectives, timescales and resource requirements are discussed and agreed between the people involved at different levels (and also cross-functionally) to ensure the feasibility of the approach, understanding of it, and commitment to it.

The process repeats until all the objectives are translated into defined tasks and assigned to individuals.

## Implementation

The plans are put into action.

## Daily/weekly review

This local, ongoing monitoring and review is predominantly of the core processes and allows tactical adjustments to be made to deliver operational performance. Progress on breakthrough and waterline objectives will be included. Here, continuous improvement tools such as value-stream mapping and structured problem-solving are used to understand problems, and to identify and remove root causes.

## Monthly review

The next tier of the review process involves structured monthly (or more frequent, if appropriate) reviews of action, progress, learnings and next steps. This maintains focus, discipline and appropriate urgency and allows any major problems to be highlighted, understood and addressed. These reviews happen at each level for which objectives have been set. The reviews are concise and focused, using the previously agreed action plans and measures to monitor progress. The focus is usually on exception reporting (where things are off target). At this level, as at every level, structured problem-solving tools are used to understand problems and to identify and remove root causes.

These reviews are likely to be part of the regular monthly operational review, but can be carried out as a separate strategic review if required/desired.

These reviews are 'rolled up' through the organisation (to mirror the earlier downward cascade processes) to maintain coherence and alignment.

## Annual strategy implementation review

The annual review looks at action, progress, results, current position and learning points on both the:

- Strategic plan, and
- The strategy planning, deployment and implementation process

Lessons from both can be taken forward into the following year's process.

As with the monthly reviews, annual reviews are focused and concise, using the previously agreed action plans and measures, incorporating all the review information rolled up from reviews earlier in the cycle.

### Improvement of the strategic management system

Any lessons, either on strategic content or the strategy process, are learned and adjustments made prior to the start of the next cycle to ensure that this process, like every other process in the business, continually improves and evolves.

Then the whole process repeats...

Two final, crucial points to underline about this process:

1. The importance of the catchball process in shaping, communicating and gaining commitment to the goals, and in involving everyone at appropriate points in the review process. This is where the engagement and empowerment of people happens. It is this that enables people to contribute fully to the delivery of operational goals and the improvement (both strategic and ongoing) of processes. This type of adult and focused dialoguing is what develops the culture that supports Business Excellence
2. It standardises the strategic management process, and is a crucial aspect of leader-standard work. This gives senior managers a defined process to work with, which can help to improve the consistency and quality of their contribution

## Getting started

> *'If you want dramatically better results, you have to do something dramatically different.' (Michael Cowley and Ellen Domb)*

Building a strategic management system on the principles of Hoshin Kanri is a necessary journey for leaders and organisations that are committed to optimising their business and achieving Excellence.

This is a long-term exercise. It involves an iterative process of continuous, patient development over many years. It takes a lot of work and commitment. It is a genuine test of leadership vision and skills.

So it's not for everyone. But if you've read this far, it may well be for you.

So, where to start? This will be different for every organisation. Much will depend on the organisation's state of maturity and readiness, including:

- Existing leadership style
- Understanding of Business Excellence principles, tools and techniques (at all levels)
- Existing culture and levels of colleague engagement, and trust between different functions and different levels
- Sophistication of existing operational management processes, process mapping and structured problem-solving

The journey typically begins with a period of assessing readiness and laying foundations (what Cowley and Domb called the 'zero'th year'). This would typically include:

- Engaging the senior team and establishing/building understanding and commitment
- Conducting an initial strategic assessment of internal capability and external factors
- Strengthening the daily management processes to ensure sufficient operational stability, and to create time for breakthrough activities
- Picking one important breakthrough issue to use as a pilot
- Involving people in rolling out the pilot
- Reviewing and establishing the plan for the following year

The first year is likely to be chaotic, disjointed and frustrating. The second year may see the first full-scale pilot, but again, may be run as much for learning as for immediate and direct progress (though there will be both).

There is no shortcut past this 'storming' phase as new ways of thinking and interacting, and new tools and approaches, are trialled, improved and bedded in. However, getting past this in itself builds a key organisational competence; the ability to progressively build a coherent system, and above all, to display the steady professional discipline to both maintain, and continually build and improve. This sheer stick-to-itness differentiates the business and its leadership from the many who 'tried everything and nothing seemed to work'.

For anyone not in the position to drive this organisation-wide, it's possible to start on a limited scale in your area, prove the concept and see what you can influence from there.

Finally, bear in mind that embarking on this journey is, for most businesses, a 'good-to-great' endeavour. There is no immediate crisis. The time is there to build and improve steadily. As Hutchins points outs, 'The business has survived okay – what we are trying to do is increase the rate of performance improvement and ... on a steeper curve than the competitors.'