HOW TO CREATE LEADERSHIP PULL FOR OPERATIONAL EXCELLENCE

Executive Briefing

i-nexus
Strategy Execution Software

How do we create leadership pull for Operational Excellence?

The Paradox of Leadership Commitment

Executive summary

Top Management support for Operational Excellence is patchy despite the clear evidence of substantial benefits in numerous organizations. This paper explores the reasons why using Vroom's model of motivation to act and proposes a range of solutions including how to align operational excellence projects directly to leaders' personal objectives.

Hoshin Planning is introduced as a practical means of reinforcing leadership pull and overall organizational buy in to both Operational Excellence as well as broader best practice in Strategy Execution. We also introduce some considerations when implementing Hoshin Planning as well as the need for an integrated software solution to provide effective central governance of execution.

Introduction

Several times a year, over the last decade, in multiple Operational Excellence (OpEx) focused conference workshops, we have asked the same question. What's the #1 obstacle to successful successfully deploying OpEx? The #1 answer has invariably remained "lack of top management commitment".

At a superficial level, at least, this answer doesn't seem to make sense. OpEx activity is in theory something that every business leader should actively want to support. OpEx promises to simultaneously improve quality and reduce costs - both of which are clear drivers for better business results. These are the same business results for which business leaders are directly rewarded and recognized. Additionally, there is significant, indisputable evidence that operational excellence programs have had a significant effect on the business results of not just tens, but hundreds of large private sector organizations [iSixSigma, 2011]. It seems obvious given this evidence and the direct link to what they get rewarded and recognized for that top management would naturally see OpEx as a priority.

The reality however is very different. Our research has shown that over 50% of operational excellence pilots fail [Docherty, A. 2006] and even highly successful programs suffer seismic shocks – we've seen top management in multiple companies inexplicably cancel OpEx programs generating hundreds of millions of dollars in savings – including, for example, BT's Wholesale Division Lean Six Sigma (LSS) program (stopped in 2005) and the decision by Network Rail (the UK Rail Operator) to disband their Operational Excellence program in 2007.

The Problem with the "push" model

Clearly we have to look deeper under the surface to understand what's going on. Our simplistic assumption - that leaders will be motivated to support operational excellence – is based on the view that they will be motivated by the obvious link of OpEx benefits to the things they care about. The reality however, is that the link (particularly when OpEx is seen as a program) is often not that obvious, and in reality, motivation is based on more than just the belief that a link exists. A powerful model that helps us understand what drives motivation of individuals is Vroom's Expectancy motivation model [Bandura, A. 1977]. This model suggests for us to be motivated to do something we must believe at least 3 things:

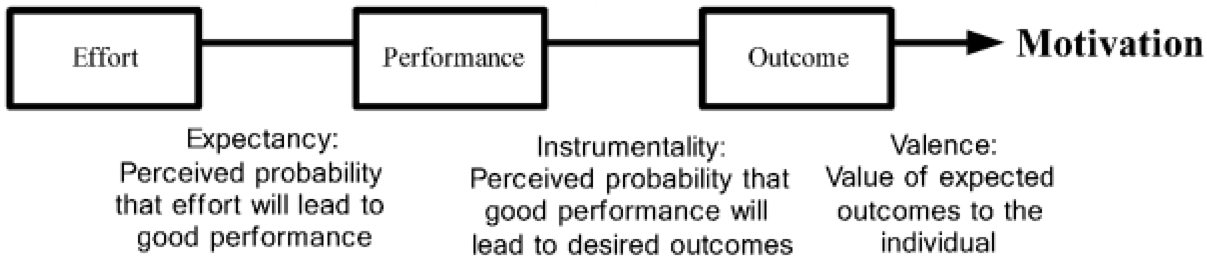


Figure 1: Vroom Expectancy Motivational Model

1. If we do something it will result in an outcome;
2. That the outcome that will result is personally valuable to the individual i.e. there is a clear WIIFM (what's in it for me) and;
3. That doing that thing (over all other things) will get to the desired outcome (that we will get rewarded for) faster/more effectively than all other potential things we could do to get to the outcome.

This model helps us understand both why leaders frequently don't throw their support and energy behind operational excellence and why this leads to the erosion of support for the concept and ultimately why OpEx programs fail.

Consider the following analysis which is based on the insights from Vroom's motivation model (Figure 2). It links the 'symptoms' of lack of management commitment to OpEx programs to the consequences of these symptoms – effectively death of the program by "1000 knives" and "chains back" to the potential causes of this lack of commitment.

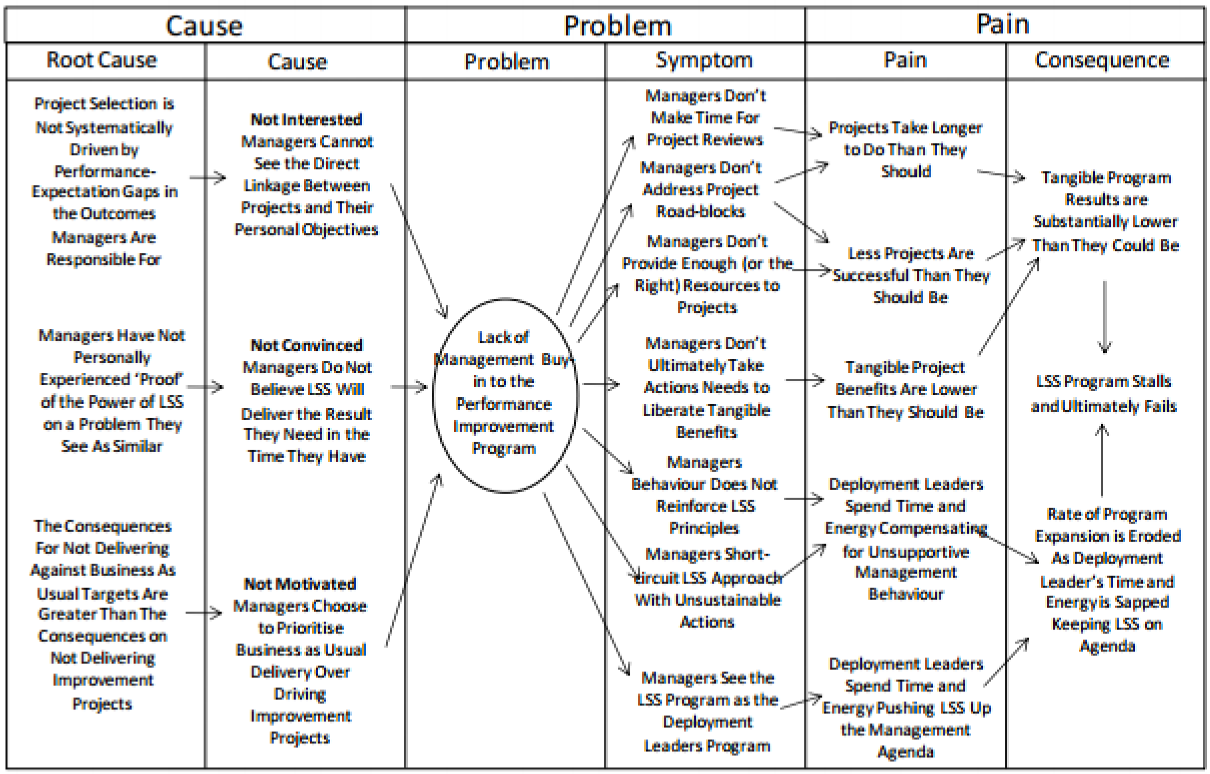


Figure 2: Causal Analysis of Drivers for Lack of Management buy-in for OpEx programs

Fundamentally this model suggests that there are three pre-requisites that need to be in place for leaders to be motivated to support operational excellence activity:

1. Leaders have got to believe that the operational excellence projects are directly aligned with their personal objectives i.e. that the project outcomes will directly contribute to achievements of the outcomes they get rewarded for;
2. Leaders have got to believe that applying operational excellence tools and approaches will fundamentally deliver results more quickly/effectively than alternative approaches;
3. Leaders have got to believe that the consequences of not delivering improvement activity are greater than the consequences of not delivering the business as usual activity.

With this insight it is clear why traditional "program driven" approaches to operational excellence often fail. Whilst, popular, the "deploy OpEx as a program" approach (as promoted by the initial adopters such as GE, Motorola and Honeywell and subsequently adopted by hundreds, if not thousands, of other companies) is based on some flawed assumptions. This approach, in which a corporate staff function – variously called Lean Six Sigma, Process Excellence, Business Excellence, or similar, is set-up to 'push' a training program in which high potential employees are taken out of the line roles and trained in waves to run improvement projects – can easily create a situation where leaders feel little or no ownership for the improvement projects. There are two principle reasons for this:

1. The first is the consequence of the widely adopted 'no project, no training' rule. This rule which is based on the apparently sound premise that training people without a way of directly applying that training is pointless, has led in the vast majority of organizations to many dubious projects being selected due to the combination of pressure to pick something to work on, and the lack of an easy way for operational managers, who tend to focus naturally on the day to day, to understand which would be the very best problem for their nominee to solve in the context of the organization's strategic goals. The consequence of this rule is in practice that there is typically a relatively poor alignment between the projects being initiated and the agenda of the top management – with the consequence that whilst the managers often recognize the project as something worth doing it doesn't make their top 3-4 priorities – which ultimately govern what they spend their time and energy on;
2. The second is the consequence of the perception that naturally results from the act of creating a central Program Office to drive the OpEx program i.e. a) That they (the operational line managers) don't own the OpEx program (it's "owned" by the head of the staff function that's leading the program) and b) It is ultimately not their job to deliver the OpEx program benefits. This perception is reinforced by the fact that in most organizations operational managers are incentivized to deliver 'run the business' operational outcomes i.e. more outputs for less cost. These managers will understandably then prioritize those actions that they believe will lead to these operational outcomes at the cost of projects – particularly if they can't see a direct link to the outcomes they are rewarded for and/or if they believe there is a way to pull an alternative lever that will get results more quickly even if it's not sustainable;

This helps explain, for example, why apparently sane managers would often rather shoot the alligators than drain the swamp e.g. throw people at chasing debt (quicker result, potentially more successful in the short-term) rather than understand and fix the root causes of delay in customer payments (takes longer, uncertain on breadth of impact even if more sustainable).

Of course, there are tactics that organizations can adopt with the 'push' OpEx as a program model to help lessen the likelihood of picking projects that managers won't care about. These tactics include creating a project hopper process and ensuring projects are systematically evaluated against meaningful evaluation criteria and increasing the consequences of not working on/supporting improvement projects by raising the visibility of the money 'left on the table' to top management as projects are delayed. My own experience, however, as an OpEx program deployment lead for a major telecommunications supplier, is that these tactics ultimately have limited success as they are trying to move OpEx up a manager's agenda when all the other pressures they face are naturally forcing it down the same agenda.

Hoshin Planning as a Strategy to create pull

The good news is that there is a proven approach that you can use to turn this situation on its head – one which naturally leads to the situation where senior executives are the principal drivers of OpEx activity and where improvement efforts are more focused on the real objectives of the organization.

This proven approach is known as Hoshin Planning (sometimes referred to as Hoshin Kanri or Policy Deployment). Hoshin Planning basically provides a systematic way to align the objectives and actions of the organization at all levels with the key breakthroughs the organization is trying to make. The words "Hoshin Kanri" were first used in 1965 by the Bridgestone Tire Company in Japan to describe their long-term planning system, which they based on best practices observed in Japanese Deming prize winners. The words "Hoshin" "Kanri" literally mean "shining metal" "management" – essentially describing the concept of a "vision compass" i.e. a mechanism to keep us all focused on our "true north".

Figure 3: Hoshin Planning translation

In simple terms, Hoshin can be considered the marriage of "Management by Objectives" with the Deming "PDCA" (Plan, Do, Check Act) cycle. The core idea behind Hoshin is that goal deployment is a two-way process, where goals and targets, and the implications of achieving those goals and targets, are discussed at every level in the cascade through a process called "catch-ball". It is this "catch-ball" dialogue that ensures that the action plans resulting from the cascade of goals are tangible, realistic and as a whole the execution plan remains feasible.

Whilst the adoption of Hoshin planning was limited to a few well known exemplars (Toyota, HP, Bank of America, Danaher) in the 90's, the last decade has seen a significant acceleration in the number of companies adopting the approach – particularly in corporate America. In fact the last 3 years have seen over 300 new organizations adopting the approach including early steps from a number of major Pharma companies including Pfizer, Novartis and Bayer. One hypothesis for this recent increase in adoption is the combination of:

- The assessment that many Fortune 500 companies have reached a point in their Lean maturity that they are ready to embrace the next steps of Enterprise Lean of which Hoshin Planning is considered as key part;
- The need for large companies to deploy their capital following the financial crisis and the subsequent 'slash and burn' actions that they took to conserve capital. Many companies are still looking for ways to intelligently deploy the Billions that they have subsequently hoarded on their balance sheets to drive growth and efficiency;
- The increasing recognition and awareness of the effect that Hoshin has had on company profitability. Danaher Corporation, for example, one of the most profitable companies in the world, is a well-known user of Hoshin Planning and awareness is growing through the wider dissemination of Lean thinking.

How Hoshin create pull

In terms of creating leadership pull, the attraction of the Hoshin Planning approach is that it has the potential, if done well, to create ownership for improvement at every level of the cascade.

To understand how Hoshin Planning achieves this outcome we need to understand how the process that underpins Hoshin impacts, and even influences, leadership behavior. Whilst there are a number of variations of the concept, the basic process of Hoshin Planning is shown in the diagram below. Beyond the first stage which focuses on strategy development (a task that most leaders and organizations are reasonably proficient at), the key focus of the Hoshin process is on strategy deployment and execution (a task that there is clear evidence the majority of organizations struggle with).

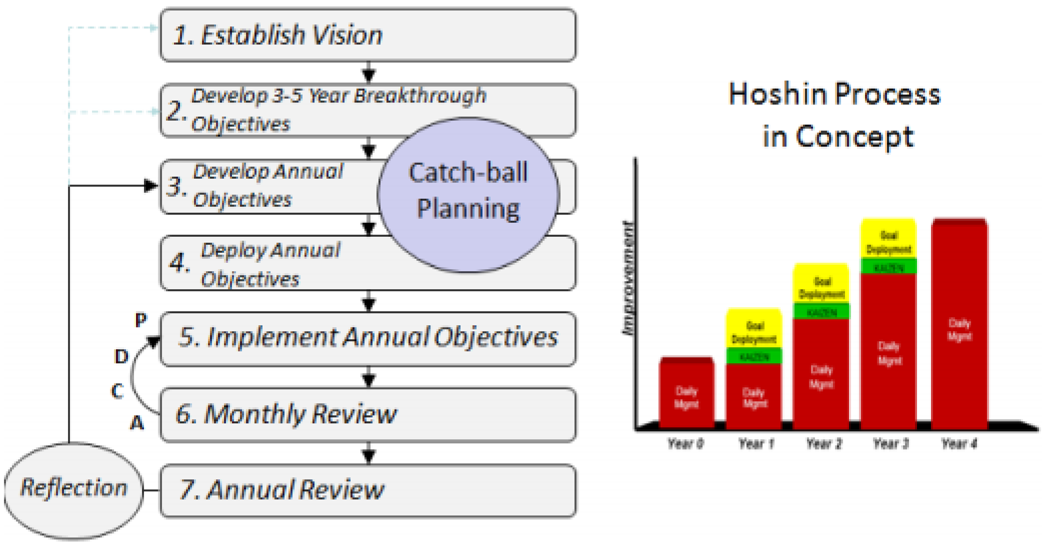


Figure 4: The Hoshin Process

Four key words can be used to sum up the Hoshin process – focus, clarity, alignment and follow-up. Regardless of how the strategy was developed (the Hoshin process offers little prescription in terms of how this should be done), the second step in the Hoshin process – the definition of breakthrough objectives is all about choosing a few things to do well and making sure for each of those things, that the 'job to be done' is unambiguously defined such that it can be universally understood. By forcing the leaders to define a few key breakthrough objectives (not more than 3 is the usual prescription), Hoshin effectively ensures top management's priorities are clarified and creates focus by ensuring that leaders focus on the "vital few" rather than the "trivial many". Without this basic step, effectively setting a "true north" for the leadership team to connect their efforts to - it's not surprising that operational managers struggle to link improvement actions to their personal priorities and why their priorities change with changes in day to day external pressures.

The next stages of the Hoshin process, in which annual objectives are developed and deployed, is where the process makes the connection between leadership priorities and improvement actions. These next two stages are essentially about creating alignment – i.e. ensuring the efforts of teams at all levels are directed towards the achievement of the breakthrough objectives. The principal tool that is used to "document" the deployment of goals in the Hoshin Planning process is known as the Hoshin X-matrix – one of a number of forms (sometimes referred to as A3's based on the size of the paper that would typically be used to create them) that collectively support the Hoshin process. The Hoshin X-matrix, shown conceptually in Figure 5 below, essentially captures the causal linkage between the parent goals at one level and the child sub-goals at the level below (which if executed successfully should lead to the achievement of the parent goals).

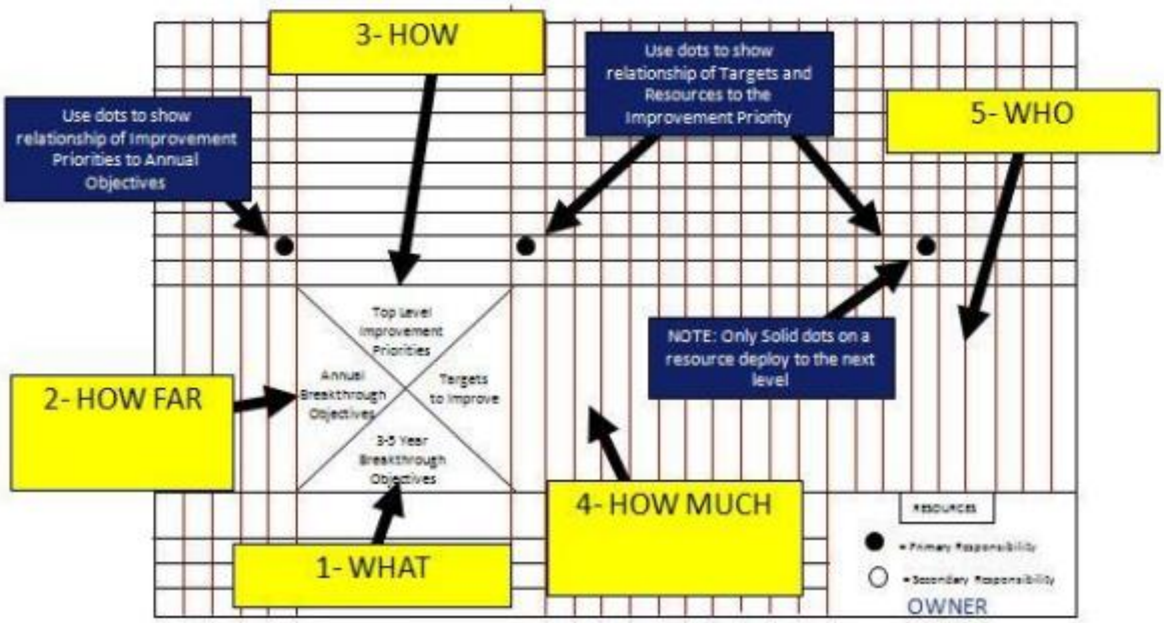


Figure 5: The Hoshin X-matrix

The power of the "X-matrix" format lies in two key concepts. The first is "visual simplicity" i.e. its ability to present a significant amount of information concisely and in a way which is easy (once you know how to read them) to absorb. The X-matrix format essentially enables a team to capture unambiguously on a single sheet of physical (or virtual) paper their collective plan to achieve the annual/breakthrough goals. Each completed X-matrix captures:

- The specific improvement priorities that they believe they need to focus on to deliver the annual and ultimately breakthrough outcomes;
- The logic of how these improvement priorities drive those outcomes;
- How the achievement of these improvement priorities will be tracked; and
- Who specifically will be responsible for executing each improvement priority.

The second is the idea that subsequent levels of cascade can be achieved through simply "rotating" of the X-matrix (through 90 degrees). "Rotating" the X-matrix (as shown in Figure 6 below) essentially 'reveals' a new "blank" level on each rotation, enabling the person to whom one or more objectives have been deployed to then cascade those objectives to either sub-objectives (that need further cascade) or to actionable priorities i.e. the objective can be directly translated into one or more improvement projects.

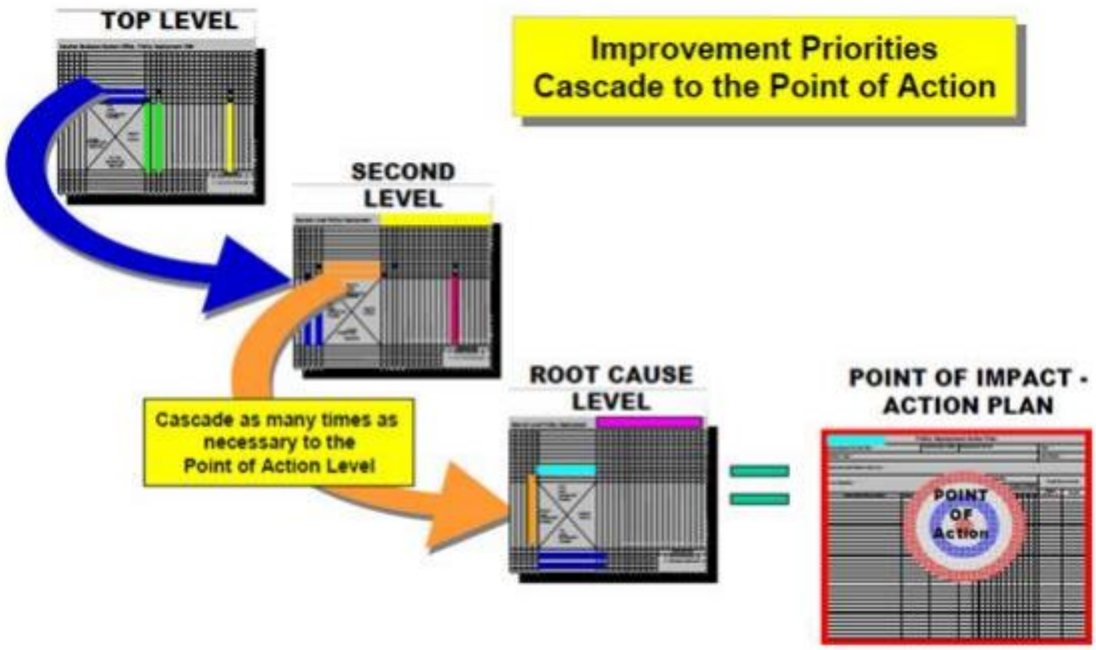


Figure 6: Deploying Objectives through rotation with the X-matrix

The 'rotate to cascade' model drives ownership in two ways:

1. Firstly, individual leaders, at every level, can clearly see (by following the link through each matrix back up the goal tree) a 'red thread' that connects their personal goals to the annual and breakthrough objectives (which if the organization has followed the Hoshin process well will represent the basis on which senior management are rewarded and recognized);
2. It explicitly requires leaders to whom objectives have been cascaded to develop (again with their respective teams) a sub-matrix which further deploys the objectives that have been deployed to them. The "catch-ball" dialogue (which extends to include the team members assigned in addition to the objective owner to develop the action plans to meet each objective) forces a conversation which ensures that the actions which are identified to achieve the goal are well thought through and the targets that are set are meaningful.

Another concept that is frequently deployed by organizations implementing Hoshin is to have the team that is developing the action plan for each objective develop a detailed plan for that objective as part of the "catch-ball" cascade process. Known as a Strategy A3, this planning format both forces a level of disciplined thought about what the gap is that needs to be closed and what are the best strategies of closing it and provides a simple concise communication to the wider organization that explains exactly what has been assumed in the development of the plan (and related targets). An example of the Hoshin Strategy A3 format is shown below in Figure.

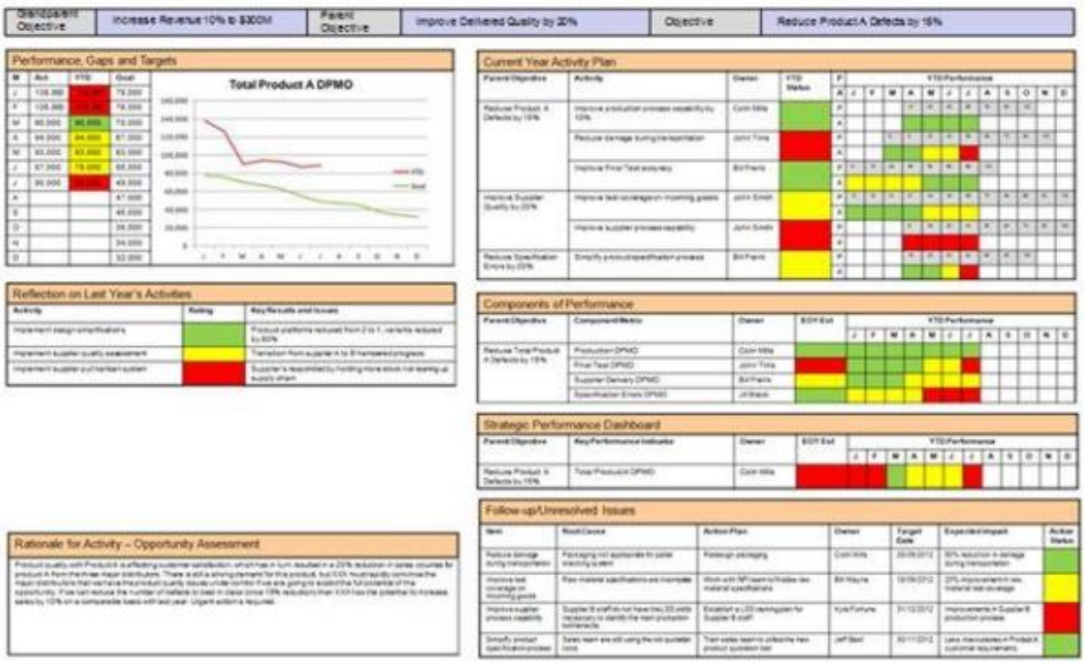


Figure 7: Example Hoshin Strategy A3

Collectively these first 4 stages of the Hoshin process address the key things that we identified earlier as being critical to ensure ownership for improvement. Firstly, they ensure senior leaders can clearly understand the logic that connects improvement actions to the outcomes they want. Secondly, by creating a consensus at the organizational level on exactly what the organization is trying to achieve – they make it easier for leaders (whose reward and recognition is inevitably linked to the achievement of the breakthrough objectives) to make the link that says if I do these actions then not only will the outcome be achieved but it will be personally valuable to me. Finally, through the catch-ball dialogue – and the incentive that provides to ensure that the actions identified are pragmatic and effective, leaders can have a higher degree of confidence that the things that are included in the plan are the things that will get them to their desired outcome faster/more effectively than the other options that might be available.

The result is a dramatic increase in the motivation of leaders to drive execution of the tasks (specifically the improvement actions) that underpin the Hoshin plan. Whilst the first four stages of the Hoshin process create leadership motivation it's the later stages that sustain it. The reality, as we all know, is that no matter how well defined or robust a plan is it will never survive the implementation intact. Changes in the external environment combined with incorrect assumptions and/or under/over performance will mean that the plan needs continual refinement if it is to stay credible and if leaders are to stay invested in it.

How Hoshin sustains pull

The fourth word that describes the Hoshin process is “follow-through”. Step 6 of the Hoshin process is the implementation of a periodic review process, following the Deming PDCA (Plan, Do Check, Act) cycle typically monthly and frequently referred to as a Monthly Operating Review (MOR). This review utilizes two other Hoshin A3 forms – the first which provides a simple visual management tracking of achievement of the metric targets over time is known as a Bowling Chart. The second A3 form is known as a Hoshin Counter Measure. The Counter Measure effectively encourages a “5 Whys” style analysis of why a particular objective is off plan (i.e. the associated metrics are not tracking to the expected targets that represent the achievement of the outcome).

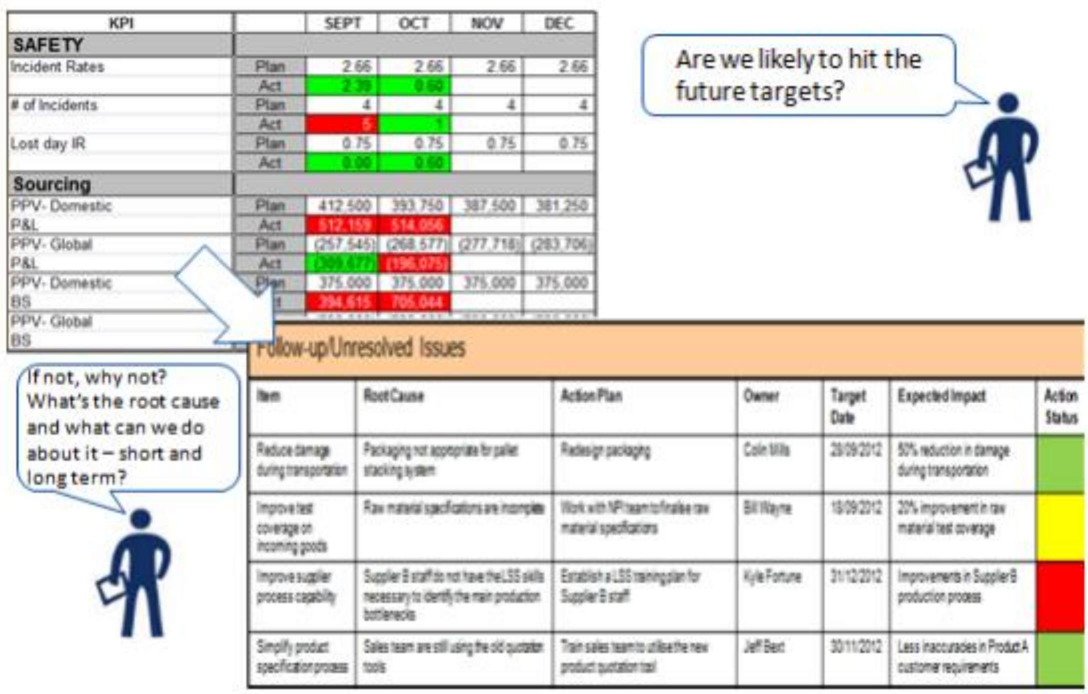


Figure 8: Focusing on countermeasures in the Monthly Operating Review (MOR)

The power of the MOR is that it creates a Monthly “heartbeat” for the Hoshin process that ensures that leadership focus is directed towards the single question – “what do I need to do to enable us to hit the plan?” This laser focus on execution ensures effort is invested exploring options to get back on track before it becomes too late to act. Done well, the MOR will also become the discussion in which (having prepared for the review) the management team recognize that one or more underlying assumptions on which the plan is based haven't played out in reality and that a change to the targets is necessary to keep the plan achievable. Obviously, this needs to be a disciplined process (the goal must be to exhaust all options before changing the targets) but the result, when the process is done well, is that leaders remain motivated to implement the plan as they can see that it is not only making progress towards the goals they will be rewarded for (providing reinforcement) but it still represents the best bet they have of achieving those goals and getting the resulting reward and recognition.

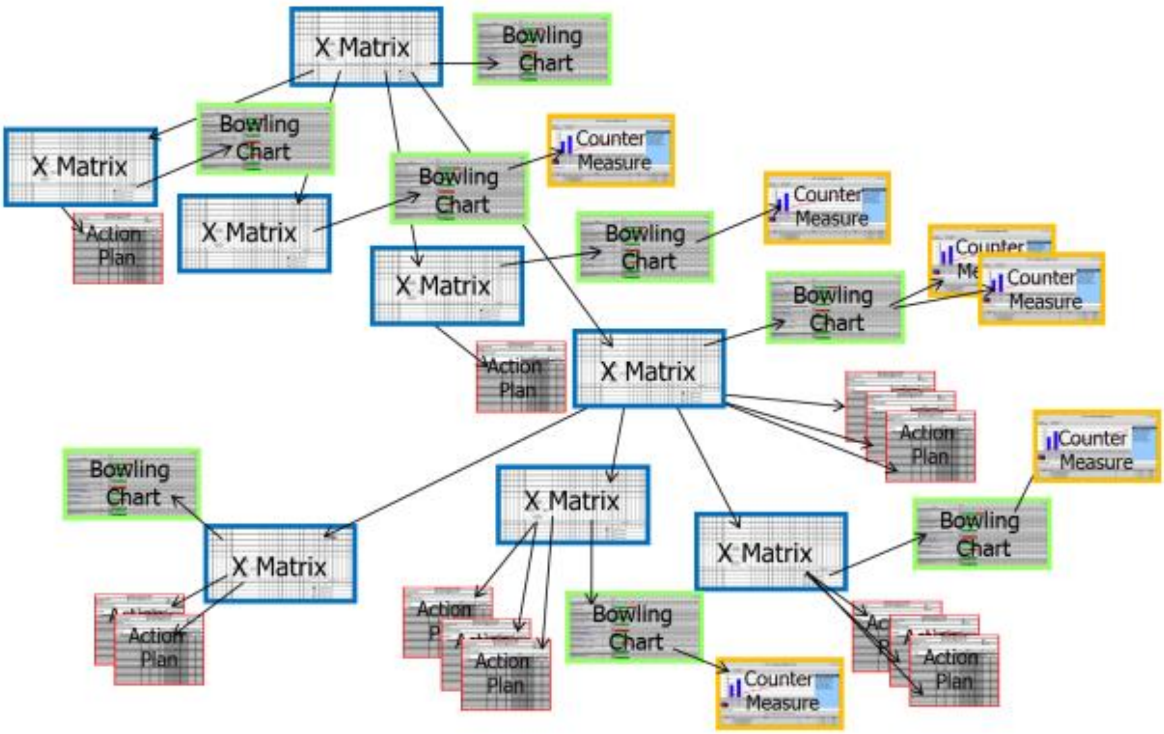
How do you actually put this idea into practice?

Whilst the argument to leverage Hoshin Planning to create a clear link between executive goals and operational excellence priorities is compelling, it is easier to describe than it is to do. Our experience working with Global 5000 organizations is that there are typically 3 barriers that can be anticipated and planned for:

1. Leadership will and skill required to adopt, internalise and sustain the approach. We're finding many CEO's are now deeply interested in building strong execution capability. In the Harvard Business Review (March 2015), effective execution is identified as the number 1 issue facing global CEO's. So the receptivity is there. Hoshin though, does come with its own language, concepts and documents and these will be unfamiliar. The process also demands much higher levels of transparency and acknowledges that top management don't really control what gets done in a large business. Given this, there's an element of letting go required, particularly in more mature Hoshin implementations in which the catchall process is implemented fully. Hoshin is also likely to require alignment not only within core functions but also across functions – something that is often lacking;
2. The implementation of Hoshin does need to acknowledge the organization's existing level of execution maturity. This is one reason why an existing Operational Excellence or similar culture in which employees are empowered and encouraged to identify problems, find their root causes and solve these with colleagues is so important. This is a fundamental building block for success with Hoshin. What Hoshin essentially provides is the link between this improvement activity and the corporate strategy. Organizations that don't yet have this competence will struggle to implement Hoshin other than achieving clarity on goals and their alignment. The levels of centralization/decentralization within a

culture are also important to acknowledge. The appropriate approach in a decentralized culture may well be to “allow” each operating unit to implement its own Hoshin Plan with an agreed light touch link to the corporate plan. In short, some environments support a top down Hoshin approach whereas others support a bottom up approach. In the latter, our view is that it is still important to have the requisite level of central governance of execution to avoid any nasty surprises. Some ambitious Business Unit Heads will want to run fast with Hoshin whereas others will wait to see how it goes before committing;

3. Adjusting the way in which the leadership group “behaves” around strategy. A Hoshin plan requires continuous review. These reviews need to be scheduled and managed in a way in which progress or lack thereof is clearly visible together with associated analysis. Without any clarity of thinking, a management team can easily stumble into the situation in which they are relying on a mish mash of spreadsheets and charts to tell them how the organization is doing vis-a-vis execution progress. In these situations it doesn’t take long for executives to identify that the accuracy and currency of information they’re working with is poor or not fully available and this undermines commitment. The following diagram provides a sense of the information mess that executives face without a Strategy Execution Solution.



What you need to success

There are solutions to these Challenges/Barriers:

1. Start simple. Many CEOs have an aversion to the Hoshin X-matrix when they first see it – largely as they fell it looks complicated. While it may seem complicated, it isn't, however one can adopt the core principles of Hoshin without necessarily using the X-matrix immediately. Having said this, there is a real danger that implementing Hoshin only 2 or 3 levels down in a large organization may mean that the impact is not fully realized and that the value of the process is questioned. If the decision is to "pilot", then preferably pilot fully in a specific business unit;
2. Acknowledge your starting point from a cultural and execution readiness perspective. Hoshin is rarely beautifully implemented in its first iteration. The objective though is to ensure that each iteration is better. While effective Strategy Execution requires a level of central governance, the rigor and nature of this governance will need to acknowledge the centralized vs decentralized debate;
3. Coaching/Training support. Operational excellence practitioners – due to their familiarity with root cause thinking make excellent candidates for these coaches. Unless you are very lucky and have or can hire expertise from one of the mature practitioners you will probably need external support from a consultancy specialising in Hoshin planning;
4. Invest in a business system (strategy execution) support tool. The past few years have seen the emergence of a number of software solutions specifically designed to solve a number of the challenges identified. i-nexus has been at the forefront of this development. Here are some key considerations:

It is important to find a solution that doesn't require you to change your execution process to fit the solution. i-nexus is designed to support almost any execution approach, whether it be Hoshin, Balanced Scorecard or simple planning tables.

Find a solution that supports as many of the key processes underpinning execution as possible i.e. an integrated solution. The last thing you want to do is to try to integrate 4 or 5 different solutions for each process area. Other than change management (and software is not a solution for this challenge), i-nexus will help you to manage your goal breakdown, cascade and alignment, your portfolio prioritisation, initiative management, performance management and benefit tracking all in one integrated solution.

You'll also need to consider a solution that has the balance of simplicity and capability to grow as your execution maturity increases. Changing your execution solution after 2 years if it lacks the robustness to cope with the performance and other requirements of a complex organization is not really an option.

Take the next steps

We can help you connect with the right advisor and we provide the business system support tool that you need to succeed with Hoshin and tracking of your OpEx portfolio.

Visit our Hoshin Planning software page for more information about how you can achieve success on strategy execution. To request a demonstration click the link below or call us on +44 (0)845 607 0061 (EU) or +1 855 615 1589 (US). You can also reach us on info@i-nexus.com
https://www.i-nexus.com/contact-us/

About the author

Paul Docherty started his career in Marconi, where he held a wide range of senior management roles covering manufacturing, IT, sales, product development, project management, Operational Excellence and 25 corporate strategies as well as having P&L responsibility for the growth of a regional telecoms equipment business.

Passionate about helping organizations to execute more effectively, Paul's deep understanding of the challenges of establishing robust strategy execution disciplines comes from his experience coaching senior management teams in over 100 global organizations. He is a regular speaker at conferences and has delivered keynote presentations. Regularly averaging over 500 registrants for each of his quarterly webinars on Strategy Execution Best Practices, Paul is the architect of the Strategy Execution Maturity Model which has been used by hundreds of global organizations to benchmark their strategy execution capabilities.

In addition to his role as a thought leader in the Strategy Execution space, Paul is also the founder and lead facilitator of the Strategy Execution Consortium – a group of 40+ Global 2000 companies that meet quarterly on both sides of the Atlantic to share and benchmark Strategy Execution Best Practices.

In 2001, Paul founded i-nexus with the goal of building cloud-based software that could help organizations successfully manage the complexity involved in translating their vision into reality. This software is now the "de facto" standard for large enterprises when it comes to driving execution of their strategy. Paul holds a MEng. in Computer Systems and Software Engineering from the University of York and an MBA from the University of Warwick.

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Corporate HQ: i-nexus Suite, George House, Herald Avenue,
Coventry Business Park, Coventry, CV5 6UB
UK: +44(0)845 607 0061; US:+1 855 615 1589
info@i-nexus.com