

The Price of Non-Policy

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Abstract

In the strategic formulation process of an organization's Policy Deployment System what is the meaning of policy? As a minimum, policy may be described as an ideological system that aligns everyone to work toward the same organizational intent and ends. Thus, direction must make sense and employees must be motivated to participate in a strategic dialog so that the best long-term direction may be established. Policy formulation as a process is unclear in the Japanese hoshin kanri approach to policy management. It is also unclear as to the role of the Board of Directors as to their role and engagement process in the development of organization-wide policy. An integrated performance management system supports an organization-wide policy deployment mechanism and this requires alignment of measurement systems to deliver overall organizational performance metrics such as shareholder value and brand value. Thus the building blocks used for continual improvement of work process measures in the daily management system (e.g., quality, cost and time) must support the key strategic performance indicators (KSPI) that indicate long-term strength of the organization and track the development of the profitable results in the shorter-term. The purpose of Board-level policy is to drive the direction of strategic improvement. However, as all improvement ultimately is embedded in the daily management system; what is the role of the Board in this process and how can it provide direction without engaging in micro-management of the daily work? How should a Board's goal-setting process aligned with management's target-setting activities to assure enterprise-wide coherence of an energized business system? This presentation will address these questions as well as the price organizations pay for lack of involvement in this process of strategic policy formulation by the Board and will recommend development of a more strategic dialog as a means to rectify this difficulty.



International Academy for Quality

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In the strategic formulation process of an organization's Policy Deployment System what is the meaning of policy? As a minimum, policy may be described as an ideological system that aligns everyone to work toward the same organizational intent and ends. Thus, direction must make sense and employees must be motivated to participate in a strategic dialog so that the best long-term direction may be established. Policy formulation as a process is unclear in the Japanese *hoshin kanri* approach to policy management. It is also unclear as to the role of the Board of Directors as to their role and engagement process in the development of organization-wide policy. An integrated performance management system supports an organization-wide policy deployment mechanism and this requires alignment of measurement systems to deliver overall organizational performance metrics such as shareholder value and brand value. Thus the building blocks that are used for continual improvement of work process measures in the daily management system (e.g., quality, cost and time) must support key strategic performance indicators that indicate long-term strength of the organization and track development of the profitable results in the shorter-term. The purpose of Board-level policy is to drive the direction of strategic improvement. However, as all improvement ultimately is embedded in the daily management system; what is the role of the Board in this process and how can it provide direction without engaging in micro-management of the daily work? How should a Board's goal-setting process aligned with management's target-setting activities to assure enterprise-wide coherence of an energized business system? This presentation will address these questions as well as the price organizations pay for lack of involvement in this process of strategic policy formulation by the Board and will recommend development of a more strategic dialog as a means to rectify this difficulty.

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What is the financial penalty for poor policy?

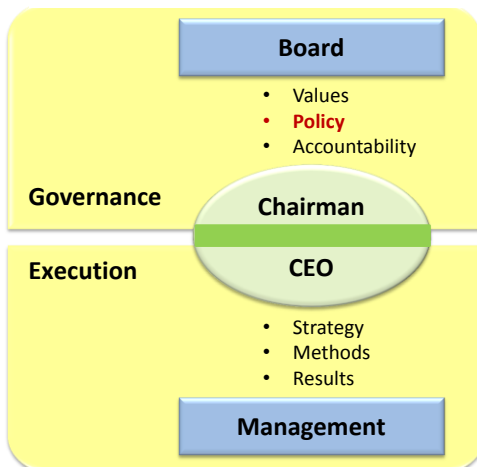
Society pays a “hidden” price for execution of poor business policy:

- Peter F. Drucker commented that accounting measures the cost of doing – not the cost of not doing. By this he meant that we count costs that can be counted – the things done, but we do not attempt to count costs of missed opportunities or failure to capitalize on an opportunity.
- The price paid as a penalty for poor policy is the opportunity lost as our working capital is invested in bad decisions and we depreciate the value of the firm by squandering its resources in non-productive assets.
- The price of non-policy – not choosing to do better things with the resources of a firm – represents an irretrievable loss of its financial leverage to create success in the future.
- Therefore, it is essential that managers avoid paying the price for a non-policy decision and learn how to formulate more productive policies and how to execute them more successfully.

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Whose job is it to establish organizational policy?

- The Board of Directors is responsible for setting the strategic intent or direction as well as the values and policy that direct its actions. In addition the Board holds the organization accountable for the pursuit of this strategy and execution of its policy.



Quality as a Social Contract:

The contract between a nation and its businesses is such that each business contributes to the well-being of society while society provides infrastructure suitable for the business. It is essential that each company not produce a loss to society based on its investment of funds, social relationships and human energy.

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What is meant by “policy” in business management?

Western idea of policy – mostly “round” words with no meaning:

- Joseph M. Juran introduced the term “policy” in his 1954 lecture to Japanese management and in a 1964 book *Managerial Breakthrough*. He defined policy: **“a statement of principle to be used as a broad guide or limitation to managerial action.”** Policy sets principles, established for the common good, to shape the direction of action and achieve long-term goals of an organization.
- Such guidelines, formulated and enforced by the governing body, specify intent of the organization to act with respect to known and knowable environmental situation and circumstances. These guidelines limit, constrain or restrict actions in pursuit of its long-term goals (*telos*) and guide implementing purposeful actions, strategies, and instructions which an enterprise pursues.
- Juran stated management is responsibility to set the “high policy or doctrine on quality” and he further stated: **“quality is an ethical imperative for the senior executive.”** He said executive responsibility is: “not only to decide these things and to make their decisions known throughout the enterprise; it is equally their responsibility to show by repeated acts that they themselves truly follow the principles they have enunciated.”

1. Peter J. Kolesar (2008), “Juran’s Lectures to Japanese Executives in 1954: A Perspective and Some Contemporary Lessons,” *Quality Management Journal*, 15:3, 7-16.
2. Joseph M. Juran (1964, 1995), *Managerial Breakthrough* (New York: McGraw-Hill), p. 13. Juran delivered several lectures in Japan as documented in a eulogy delivered by Noriaki Kano in April 2008. In 1966 he delivered a seminar on “Managerial Breakthrough” which coincided with the concurrent growing interest in hoshin kanri at Komatsu, Toyota, and Bridgestone.

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What is meant by “policy” in policy deployment?

In contrast a concrete meaning of policy in Japanese management:

In a Japanese organization policy is deployed from the strategic level to the operational level as a means to direct the way a daily management system operates. This mechanism is established using *nemawashi* as a means to guide the formulation of the policy which is then deployed in a cross-functional manner to the functional organization and the work process components. This system of “policy deployment” is called by its Japanese name *hoshin tenkai* and describes the agreed-upon policy in concrete terms:

- **Slogan** – the “round words” that motivate employee action.
- **Issue** – the operational definition of the business issue to pursued.
- **End** – the final state to be achieved by this pursuit.
- **Means** – the approach agreed to be applied during this pursuit.
- **Target** – measureable milestones showing progress toward the end.
- **Schedule** – timeline to be used along the improvement journey.
- **Responsible** – assignment of responsibility for leading the action.

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The art of “nemawashi” – or patient preparation ...



In traditional Japanese gardening, the technique to transplant a *bonsai* tree is to slowly and carefully bind its roots over a period of time to prevent shock from change. This disciplined process is called *nemawashi*, and, although it takes both time and patience; the rewarded is a healthy tree provided that the process has been followed properly.

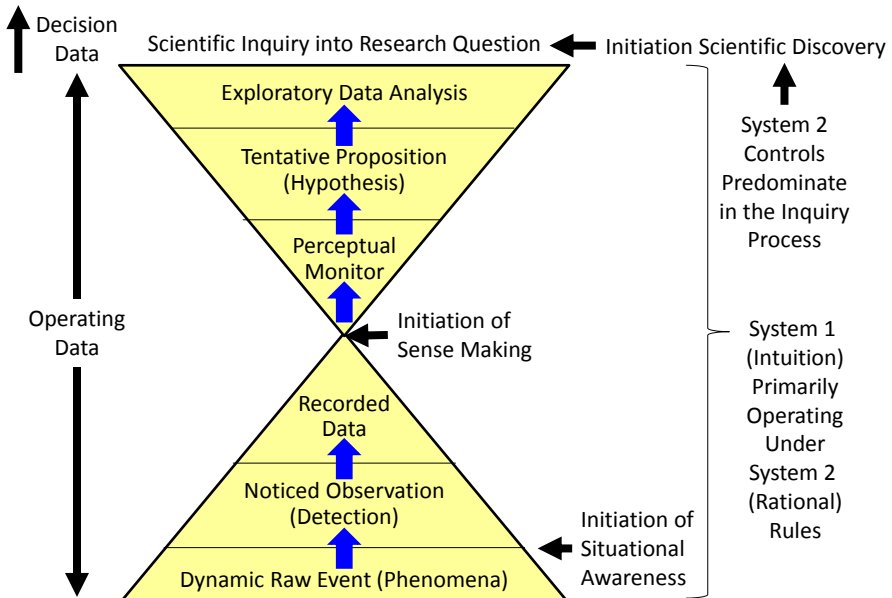


Education and communication are both required before a student will become self-sufficient to act properly and independently. This is an art requiring diligent instruction for preparing the groundwork or foundation upon which independent action can be effectively managed. *Nemawashi* also describes the communication process of “give and take” where a constructive dialog operates like a game of catch (e.g., “catchball”) as everyone is encouraged to participate in a shared goal of achieving group harmony and a common direction.

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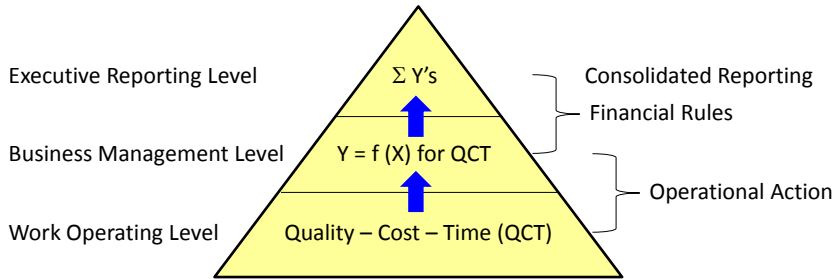
Transformation of an event into data and information:

The process for generating a scientifically-based inquiry:



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How key indicators work across organizational levels:



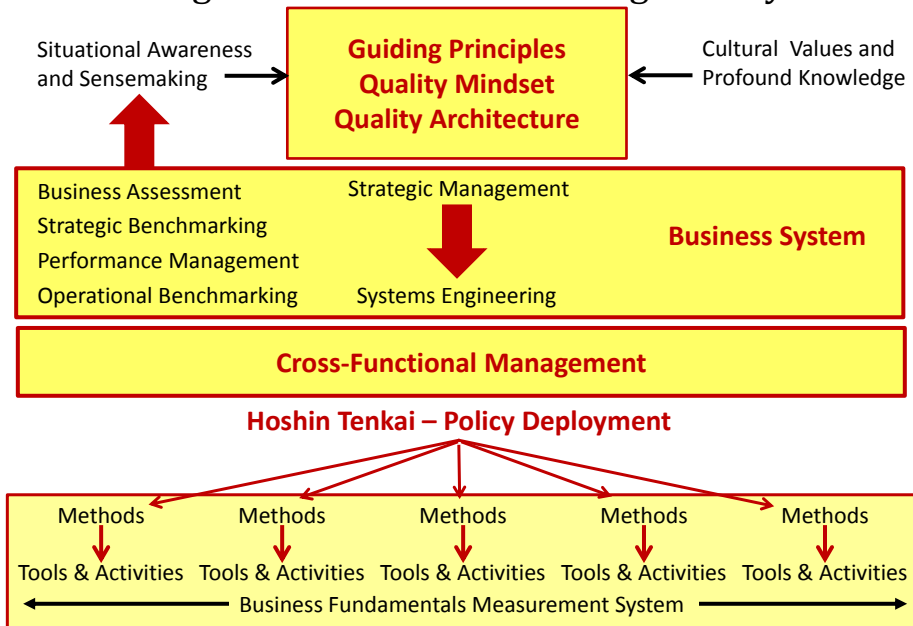
In building an organizational measurement system do not start with the key indicators of financial success indicators (e.g., EBIT or EPS) that are used to communicate externally. It is more valuable to start with concrete measures of daily performance and build them into an interrelated performance system with time as the key proxy measure of quality and cost based on potential actions that permit process control and then consolidate the resultant performance into accounting standards for external reporting of profit and loss.

Key Learnings:

- Build measurement systems from the process up to integrate QCT indicators.
- Test measurement systems from the top down to learn how strategy influences work.

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We must engineer business as an integrated system:

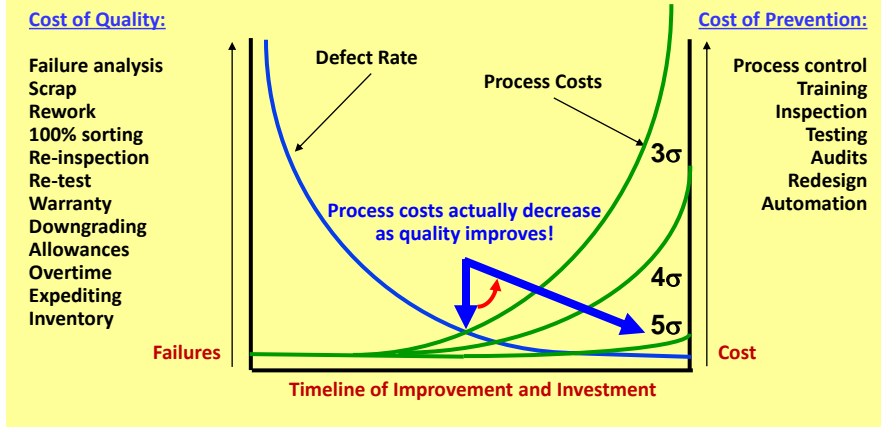


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What is needed? An integrated management system!

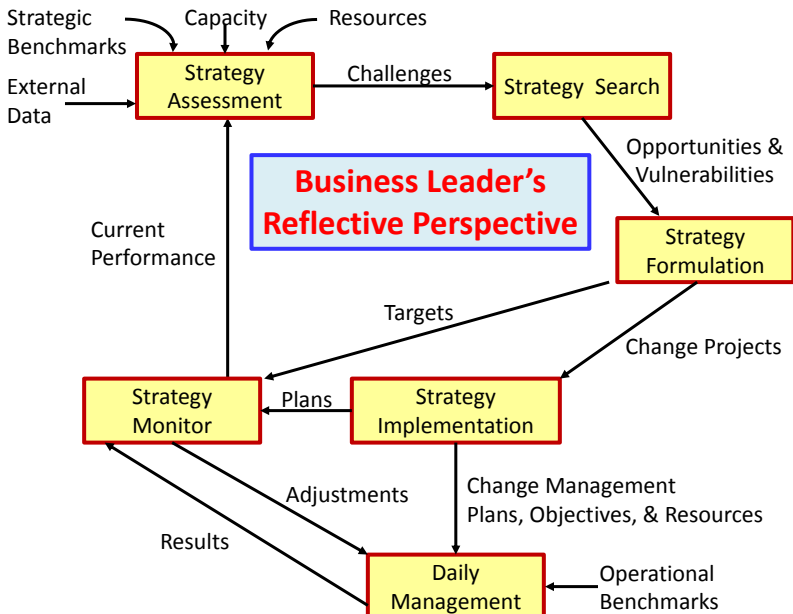
Integrated management systems reduce muri and mura waste as well as muda!

Quality improvement is achieved not by adding inspectors, whose work is not very efficient, but by improving the process to eliminate the root cause(s) of poor quality, so problems are permanently resolved and work is standardized on best practice so that mistakes are not replicated in the next generation of new products.



Apply the principles of activity-based costing to understand transaction

Designing business efficiency through better planning:

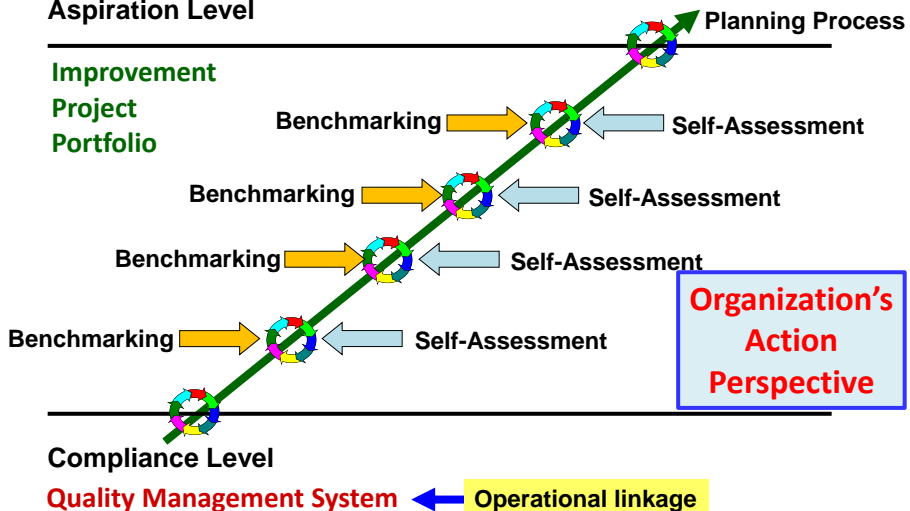


Quality systems must link and align strategic choices:

Strategic linkage → **Business Excellence**

Aspiration Level

**Improvement
Project
Portfolio**



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The necessity of an inclusive strategic dialog on policy:

- The losses accumulated from executive waste due to poorly framed and executed decisions are most probably as great as the losses that are incurred from waste in the workplace.
- The cost of “not-doing,” failure to define and execute critical policy in an organization, may be greater than the cost of “doing,” waste that accumulated from poorly executed daily management tasks.
- Waste elimination and efficiency improvement must be the job of all levels and functions in an organization – there can be no exemptions from the process of waste elimination.
- Strategic dialog requires the active involvement and participation of workers across the entire organization to pool their wisdom and find out the best way to achieve the strategic change that is required for the organization to achieve its goals. Organizational strength comes from the engagement of shared knowledge of the entire organization which is focused on success. Otherwise organizations will pay the price of non-policy.

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