Realising the Vision: Translating Strategy into Action through Policy Management

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SYNOPSIS

The failure to link the achievement of top management goals with daily management at an operational level is a major cause of loss of momentum in change management. In addition to a process for preparing strategies, top managers need to implement a framework which mobilises company wide effort for realising them. Research undertaken by the authors suggest that Policy Management is an innovatory approach which helps organisations do just this.

INTRODUCTION

A common problem for many organisations is translating strategy into action at an operational level. Too often management of strategy is nothing more than an annual exercise, the result of which resides in the managers’ bottom drawer. Management resources are consumed by the need to react to day to day budget driven operational concerns, however, achievement of the organisations’ vision requires a proactive management of strategy.

Much can be learnt from the experience of organisations operating in the very cost driven and competitive automotive sector. Some of the most successful of these have developed a management framework based upon lean manufacturing principles, which facilitates the pro-active management of strategy in the face of a changing operating environment. This approach to the management of strategy has been developed by Western organisations outside of the automotive sector such as AT& T, Hewlett-Packard, Texas Instruments, Philips and Xerox. [1]

POLICY MANAGEMENT

Policy Management, enables operational transformation through a dual approach to the management of organisational improvement. First there is the improvement which results from the application of the principles of lean management at an operational level, bringing about an incremental change. [2] Secondly, there is the improvement which results from focusing organisational resources on initiatives which requires company wide effort; this is not about improving existing ways of doing things, but is about changing the way in which things are done. The latter improvement should result in step change for the organisation, but does not necessarily involve the sort of dysfunctional impact that previous change initiatives such as Business Process Re-engineering involved. Company wide focus upon one or two annual strategic priorities can, in total, amount to major improvements for an organisation. Policy management links organisational purpose, process and people in a way which enables virtually everybody to manage their contribution to strategic priorities as part of their daily work.
POLICY MANAGEMENT AND THE PDCA CYCLE

Policy Management is concerned with four primary tasks. First it focuses an organisation’s attention on corporate direction by establishing annually a vital few objectives; secondly, activities which translate from these are aligned with local objectives; thirdly, it integrates these activities with day to day operational activities; and finally it provides for a structured review of their progress.

This approach to the management of organisational strategy requires a process-based understanding of organising, where employees work together in different ways, and have the skills which are flexible enough to allow them to be mobile across an operation. The continuous improvement of processes underpinning this, requires skills in the tools and techniques which allow the self-management of processes and the application of problem-solving skills.

Central to this approach to continuous improvement is the concept of the PDCA(Plan/Do/Check/Act) cycle. The PDCA cycle is applied as a way of working at every level of an organisation to ensure continuous improvement as processes are continually evaluated and refined. This can be seen in figure 1.

**Figure 1 The PDCA Cycle**

**INSERT FIGURE 1 HERE**

Plans are made (P), implemented (D), results are checked (C), where necessary corrective action is taken to bring the plan back on line (A), and the cycle begins again. Within the PDCA cycle principles of lean engineering are at the heart of the problem solving process. Choosing a theme, understanding the current situation, setting a goal, causality analysis and planning improvement measures are stages of the process which fall within the Plan stage of the cycle. Tentative implementation of the improvement measures fall within the Do stage. Evaluating results is the Check stage, while formulating an improvement proposal is the Act stage of the cycle.

**POLICY MANAGEMENT AND FAIR**

Policy Management is a cyclical process which follows the order of the PDCA cycle as shown in figure 2. This approach provides the means and discipline for self management at any level of management, not just for the management of an operational process in daily work.

**Figure 2 The FAIR model of strategic management**

**INSERT FIGURE 2 HERE**

The ACT stage of the cycle is that which brings about organisational FOCUS. The PLAN stage of the cycle brings about organisational ALIGNMENT. The DO stage of the cycle brings about organisational INTEGRATION. The CHECK stage of the cycle brings about organisation wide REVIEW.
Each of these will be explored in more detail below.

**Focus**

The ability of top management to influence local decision making is questionable, and the need to manage strategy in a way which provides direction to guide local decision making and daily working is a common concern for most organisations. The idea is that as many people as possible, and preferably everybody, should be able to make some contribution to achieving the top level objectives. If everybody makes a small contribution in their work, then overall this will add up to a substantial breakthrough for the whole organisation.

The Focus stage of strategic management corresponds to the Act stage of the PDCA cycle, which is informed by the previous years experience, and is about the formulation and setting of the key priorities for the whole organisation. Long and medium term policies are formulated within the context of a company vision, and are supported by the collection of relevant data. Short-term policies are derived from, and managed within, the context of longer term policies.

Within Policy Management the purpose of corporate planning is to provide a broad context for action rather than the more common Western understanding of corporate planning as a formal programming mechanism. The General Manager of a Japanese owned subsidiary in the UK views it this way:

> ‘The presentation to the management group is the way I see it. I delegate at manager level certain aspects, and it is broken down into more detail and data is collected. This is just a seed for germinating new ideas really.’

Top level policies specify strategic priorities, they do not provide specific courses of action – they are meant to give a direction to organisational action rather than predetermine how the policies should be achieved. Within the context of Policy Management the definition of ‘policy’ goes beyond the Western (often prescriptive), statement which defines a static concept, to a definition which links a statement of a desired outcome with the means through which this is to be achieved, and a way of measuring both the efficiency and effectiveness of the action in achieving this.

What distinguishes this from other approaches to strategic management is the emphasis upon the process of prioritisation. The collection and analysis of relevant data allows the application of the Pareto principle, which optimises the use of organisational resources as prioritisation provides a focus for activity.

Some organisations talk about the leveraging of resources (focusing through prioritisation), to reach seemingly unattainable goals (strategic intent or breakthrough). It is the task of top management to shape the institutional purpose from which strategy flows. In Policy Management this is reflected in the practice of articulation and communication of vision/mission supported by organisational values from which long and medium term strategies flow. In practice it is important to provide a context within which people can make sense of the work that they do in strategic terms.
Strategic priorities for the organisation are determined within the context of the organisation’s vision, mission and values. Many organisations that use Policy Management articulate mid term policies within three year programmes which become very high profile and part of the vocabulary of the organisation. The medium term policies contained within these programmes are then translated into a vital few annual objectives, a process which takes into consideration the current condition of the organisation as feedback from last year’s plan informs the annual process. The number of top level annual objectives varies across organisations, but research has shown that more than four tends to result in a loss of focus further down the organisation; some organisations established only one top level annual objective.

Within a manufacturing environment research has found that it is common to find these vital few objectives expressed in terms of Quality, Cost, Delivery and Employee concerns. [3] In service oriented organisations broader categories may be used. For example Xerox establish annual vital few objectives within the broad categories encompassed by its corporate wide goals which are: Customer Satisfaction; Employee Motivation and Satisfaction; Market Share; and Return on Assets. [4] These are objectives which are not delineated functionally, but which have meaning for, and can be translated into actions, for individuals throughout the organisation.

**INSERT FIGURE 3 HERE**

**Figure 3. The translation of annual objectives**

Senior managers reconcile the past, the present and the future to produce a few broad top level policy objectives to focus organisational action.

**Alignment**

The Alignment stage of strategic management corresponds to the Do stage of the PDCA cycle. At the heart of this phase of the cycle is the alignment of activities which translate from the annual policy with local policy and priorities. This stage of the process could be confused with the conventional planning stage of strategic management operative in many organisations, however the difference rests in the process whereby policy is translated through the organisation resulting in the development of prioritised objectives at each organisational level. As a result of this process, policy is translated into objectives with associated target and means, and these are inter-linked and reconciled across the organisation. This ensures that organisational effort is focused towards the same desired outcome.

The development of a participative form of management is critical. In practice this is more than a one way process of top down communication. Most important is the need to move away from a functional approach to management, where people make decisions for their part of the business without any reference to what is going on in other parts of the organisation. Alignment requires structures for cross functional management and co-ordination.

Co-ordination in practice includes a process of iterative consultation called catchball when managers and their teams pass around suggestions and possibilities regarding the ways in which they can contribute to the achievement of higher level objectives,
taking into account those things they expect to do anyway (and often within existing budget allocations).

‘The Managing Director had a vision which the General Manager translated into a policy which he discussed at management level. The way I got my objectives was to look through this (the policy objectives), and see what jumped out as something I could contribute towards.’ (Manager, Automotive Component Manufacturer)

This process has two elements as managers informally network to assess the feasibility and support for a potential course of action, and at a more formal level present intended courses of action at a range of meetings to ensure that the impact of objectives is understood and aligned across the business and resources are available to support them. In the words of one manager, the purpose of such communications is to ‘provide a reality check’ on possible duplication of activity, and the mutual support required if the objectives were to be achieved.

If the structures for cross functional management are developed, one part of the business should not be able to act in a way which contradicts activities in another part of the business. This stage of the process will be undermined if the management teams at each level of the organisation do not work in a concerted way to ensure coherence of objectives within the context of the purpose of the organisation. For example reward and recognition schemes and sales and marketing objectives need to support the needs of the whole business, and not promote behaviour which acts contrary to the activities of another part of the business.

The process of alignment begins when the vital few annual objectives are communicated to local management and other employees. Given that these objectives are expressed in broad terms, it is then the responsibility of managers and their teams to assess how they can contribute to their successful achievement. The cross functional nature of these top level objectives requires that the catchball process is carried out across the organisation. Managers explore the feasibility of a contribution from their area of the business with their own people, and draw up tentative plans involving sounding out ideas with subordinates, operational teams and individuals; the people who are likely to know about any potential issues. This activity flows backwards and forwards with local knowledge informing the nature of the managers’ objectives and the means for implementing them.

Research suggests that this part of the process takes about one month, and typically towards the end of this time units, teams and sometimes individuals draw up activity plans for the year ahead. Plans are presented at management meeting across the organisation, and these are then summarised and documented by objective owners, and are used later to inform the periodic review process.

Resource implications of specific courses of action are considered for the organisation as a whole as the inter-linking of objectives at each organisational level requires specific resource requirements to be identified, and measurement systems established which will monitor progress not only of results but effectiveness of the process. Each vital few objective has an individual owner who is responsible for its progress and review.
There is a need to be realistic about what can or cannot be achieved – the translation of too many secondary objectives throughout the alignment process as the cascade process unfolds will result in a loss of focus. If objective owners at each level are working to lean principles, which include a need for prioritisation of resources and focus upon those course of action which will bring about greatest results, then this will not occur.

Throughout the alignment stage of the process the catchball process occurs as in figure 4. Below. Policy in its broadest sense is made up of objectives, strategies to achieve the objectives and measures which are used to determine the process and result of implementing the strategies. As catchball occurs, the objectives are translated in such a way that the strategies at one level become the objectives at another level until implementation plans are reached. For example an overall policy to reduce costs by 10% for an operations manager could translate into an objective to reduce downtime by 20%. This in turn could translate into an objective for a team leader to implement total productive maintenance within six months.

**INSERT FIGURE 4**

**Figure 4.**

**Integration**

Emphasis in most organisations has rested upon the application of tools and techniques which assist the strategic decision-making process, yet the difficulty organisations have implementing strategic decisions at an operational level is well recognised.

Policy Management in its entirety should assist organisations in closing what some describe as the formulation/implementation gap. It is the integration phase of Policy Management which in practice facilitates this connection of strategic with operational concerns. The success of this stage of the process is dependent upon the preceding (Do) and following (Check) stages.

The essence of Policy Management is that people should work on those activities in their daily work which are vital to strategic success. This is not simply about how the vital few objectives are deployed, but it is also about how they are managed day to day. It means that daily processes must be managed in such a way as to ensure that they are under control. Thus TQM and lean principles of working are fundamental to this management approach. In many of those organisations which are developing policy management, TQM is no longer recognised as a distinct programme of activities, it has become the ‘way things are done around here’. The discipline applied through the use of PDCA as a way of working, and the application of lean principles to processes, results in a sense of priority and an understanding of how organisational issues link together in daily management.

The daily processes of work are managed within a framework of review so that the progress of the vital few objectives is neither delayed, nor allowed to fall by the wayside by default. There is an important difference here between this and other review processes, as what is being checked is not only the result of the activity (the
what), but the activity itself (the how), to ensure that it is effective in moving the organisation towards its objective.

The integration of activities which contributes to the achievement of the vital few objectives for the organisation is dependent upon how well they have been planned into daily work, how individual ownership of the objective has been assigned, and how systematically progress towards objective achievement is reviewed. The aim is to have standardised processes that are fully under control, where work is continuously checked to ensure it is conforming to expectation and where, if necessary, action can be taken to bring it back to plan. Process management drives continuous improvement, Policy Management provides the bridge which links incremental reactive change with proactive strategic change.

Research suggests that the vital few objectives are typically developed as objectives which translate into both incremental and major change initiatives. In practice the distinction between tasks based on existing processes, and those based on development work blurred considerably at this stage of the process. The nature of most daily work is rushed and informal, where short term expediency requires prompt action in any number of way. It is thus necessary to build the activities relating the vital few objectives into daily work.

In the alignment stage of the process this is done as objectives are translated through the organisation and ownership agreed. Corporate plans give way to unit plans, give way to team plans, give way to individual implementation plans where individual objectives may be linked to personal appraisals. Where objectives do not translate easily into daily work research has found it is common to approach this in a project based way. Critical to the success of this way of working is the membership of teams assigned to such objectives. The assumption is made that those who work on the process know most about it, and even project based team work enrolls the expertise of those closest to the process regardless of their position in the organisation; such teams are cross functional and multi-level.

**INSERT FIGURE 5 HERE**

**Figure 5. The cycles of review**

Figure 5 shows the way in which the systematic review process is continuously applied to monitor objective achievement. Research has found that where the vital few objectives are directly translated into process targets then the systematic application of the PDCA cycle to daily work ensures that progress towards objective achievement is monitored. Any issues and difficulties can be dealt with at a local level as they occur, where this is insufficient to bring plans back on line, then difficulties are brought to the attention of the management team. Additionally, there is a periodic review carried out by the senior management team which is more concerned with cross functional issues relating to progress towards the achievement of the vital few objectives. Periodic review is typically a formal process where units or teams present quarterly progress and plans for any remedial activity to bring plans back on line. Any emergent issues that are likely to crowd out activity towards progress of achievement of the vital few objectives are reconciled and addressed; a clear understanding as to their impact for annual strategy must be worked out if
strategy is to be proactively managed. The collaborative nature of Policy Management requires the involvement of a cross functional management team if alignment and organisational learning are to be optimised.

Review

Organisations generally fail to recognise the importance of review in the management of strategy, and hence annual planning is no more than an empty and time consuming exercise. The review phase of Policy Management is a learning based response to experience, as the application of the Policy Management process itself is reviewed on an annual basis. This is the means through which the effectiveness of the strategic process itself is measured. This part of the process is used by top management to signal to the rest of the organisation the importance of the strategic management process, and their contribution to it; this involves high level direct participation.

Throughout this process, information regarding performance and organisational processes is rolled up through the organisation, ultimately acting as part of the data that is required to enable strategic priorities to be established in the next period. Western practice has developed around the application of self-assessment models such as the European Foundation for Quality Management Award (EFQM), or in the case of large organisations the application of their own bespoke self assessment models (for example Philips).

Review informs top management’s reformulation of the following year’s vital few, and is an organisation-wide review both of the Policy Management process and its overall performance. Top management reflects not just on how well critical issues in general were achieved, but also on how they were actually done, so that they might be compared to best practice. The information is used not only to inform strategy formulation but also to transfer knowledge about best practice to local levels.

Typically the annual review process involves rolling up information from periodic review meetings. This information is brought together with further data about current and expected trading which sets the base for management decisions about the next year’s focus in terms of priority for the vital few objectives, within the context of longer term strategic plans.

Research suggests that while this is sufficient for single unit plants of around 500 employees or less, and where there is lean working and a well developed TQM in place, for other organisations a self assessment audit could provide a usefully participative platform for learning.

CONCLUSION

Policy Management is difficult for observers to understand because it is basic to running the whole organisation, and in practice it is hard to distinguish the wood from the trees. Some commentators see it as part of the ‘Japanese way of working’, failing to recognise the organising framework that underpins distinct ways of working, such as lean production. Others confuse it with Management by Objectives which has developed in Western organisations as more to do with ‘management by control’, where objectives are used to control the individual performance of subordinates.
through the establishment of numerical goals. In practice Policy Management is about giving managers the flexibility to work towards the achievement of agreed objectives in ways they determine most effective for their part of the business.

Research has identified a number of issues for Policy Management. A weak link between resource planning and Policy Management can result in difficulties in establishing objectives as annual planning is constrained by local budgets. The impact of this can be to move the organisation away from a task centred to a functional approach, creating inertia and limiting radical change in the development of objectives.

Too many top level objectives can result in a lack of focus, resulting in an exponential growth in the number of objectives developed through the cascade process, placing pressure on time and resources at lower organisational levels. The assignment of ownership for objectives has proved to be important for successful achievement, and the choice of owner and their strategies is dependent upon what has to be done to achieve the objective.

Once objectives have been established and plans have been implemented the issue is to systematically review progress to ensure that things are kept on track. However, the unforeseen can occur at any time during the annual cycle, when resources and management time have to be diverted to deal with a special situation. The framework provided through Policy Management should ensure that information can be rolled up quickly through the organisation, enabling managers to assess the current situation and proactively manage the consequences of the unforeseen event for the whole organisation.

Policy Management provides a framework for learning how to make decisions, it helps build team working and structures problem solving. Xerox identify the key attributes of Policy Management as:

- It is holistic in approach (covering all aspects of the business and key stakeholders)
- It manages the closed loop delivery of predictable and sustained improvement
- It is facts based, using measurements and analysis as the drivers for target setting and improvement action setting.
- Plans are finalised only when what is to be achieved is supported by how improvements will be achieved
- It involves all employees in an interactive process to agree their contribution to the business direction
- It is integrated with the total company management process, including the reward and recognition system [4]

Policy Management provides a common language and approach to work that give organisational transparency. It can be used to provide the necessary external focus for breakthrough change, and it makes internal processes across the organisation respond quickly and in a concerted way. It cannot overcome poorly made strategic decisions, but it should enable an organisation to respond more quickly in the face of a need to change direction. Policy Management is not a ‘quick fix’, it takes time and effort to
make it work, developing organisations have found that it takes three years to implement successfully.

REFERENCES

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GLOSSARY

**Breakthrough:** denotes large change which moves an organisation towards achievement of policy.  
**Catchball:** the reiterative up, down, and horizontal communication necessary for effective determination of target and means  
**Co-ordination:** discussion, playing catchball and listening  
**Control items:** measures of performance through which progress towards policy achievement is gauged. Two forms of control items exist, those that measure against results and those that measure the process that produces the results  
**Cost:** all costs associated with running the organisation  
**Cross Functional Management:** evolved to clarify the roles and responsibilities of departments relative to issues which affect all parts of an organisation. In the case of Hoshin Kanri this refers primarily to the functions of Quality, Cost, Delivery and Education, although there are others. Management of targets which relate to these functions requires an approach which crosses organisational boundaries.  
**Daily Management:** refers to the application of the principles of total quality management to all of the activities an organisation must perform on a daily basis  
**Delivery:** refers to new product design, introduction, R&D, manufacturing product commitments and delivery of products to the customer  
**Education:** human resource issues, training and education and issues which relate to morale  
**Lean Production:** a form of production characterised by optimising resource use. Often associated with TQM it involves the elimination of waste in every aspect of an
organisation’s operation. Waste is anything that adds cost but not value to a product and includes both material (scrap etc.) and human (down time) elements.

Means: guidelines for achieving a target for example ‘through process analysis’

Mission: encompasses a statement of purpose, a statement about how/where a firm will compete and a set of corporate values.

Morale: a measure of employee satisfaction based upon indicators such as absenteeism, levels of sickness, staff turnover, involvement in voluntary improvement schemes

Objective: a broadly stated target which is translated from policy

Pareto analysis: central to the data based prioritisation of TQM Pareto analysis illustrates that 80% of errors are caused by 20% of the sources of variation. Pareto analysis relies on a Pareto chart which is a vertical bar graph to identify areas for action.

PDCA cycle: the application of the PDCA cycle is central to TQM. A plan is based on policy(Plan); actions are taken according to the plan(Do); the results achieved are checked (Check); any variation from expected results is analysed and further action is taken by going back to the plan (Act).

Policy: in Hoshin Kanri this means a statement of target and the means through which this will be achieved

Quality: issues which relate to customer satisfaction and product/process quality

Stretch: a measure of change - indicates major change

Structure: refers to an organisation’s internal pattern of relationships, authority and communication

Target: expected results for example ‘reduction in reject rate’

Vision: describes an organisation’s most desired future state.

Vital few objectives: denotes those areas which are priorities for organisational action.
FIGURE 1

FIGURE 2
Catchball Activity

Annual Planning Session

TEAM 1

Objective  Strategies/Measures

TEAM 2

Objective  Strategies/Measures

TEAM 3

Objective  Strategies/Measures

TEAM 4

Objective  Strategies/Measures

Implementation Plans (all levels)

FIGURE 4
FIGURE 5
FIGURE 3

operating environment

past

what should be done

future

reflection

last years policy management results

(policy management framework)

(what is)

focus on vital few objectives

focus on vital few objectives

mid-term plan

long term plan

(what might be)

Top level policy objective

fact

vision