Abstract

This article is based on 140 English language books, book chapters, journal articles and occasional papers, with some important selected conference papers, and covers a period stretching from the late 1980s to the present. The core substance of this literature was established by work from the United States agency, GOAL/QPC, and Akao (and others) seminal edited text. A basic hoshin kanri process is outlined and the links to cross-functional and daily management explained. The failure in Western strategy and strategic management thinking to incorporate hoshin kanri is noted and some reasons offered. While hoshin kanri has been widely adopted in the automobile and health sectors, it may be necessary to take a looser approach for wider adoption. A more theoretical understanding is also required from strategic management. It is possible that the variety of capitalism prevalent in English language countries may constrain the adoption of hoshin kanri as a strategic rather than an operational approach.

Key words

hoshin kanri, policy deployment, strategy deployment, strategic management, varieties of capitalism

Introduction

This article examines the theory and practice of hoshin kanri as it has been explained in English language texts and practiced since the late-1980s (for a full annotated bibliography, see Witcher 2013). Four areas of literature have been considered for this article: dedicated books (16 titles),
journal articles and occasional papers (91), chapters/sections in books (23), and selected conference papers (10). The early years of 1990-1995 saw a peak (including six books) that roughly corresponds to the high water mark of total quality management (TQM) in Western countries. Another peak (including four books) occurred in the period, 2006-2010; a time when the popularity of TQM revived as a general interest grew in using six-sigma and adopting forms of lean production. The aim and context of the literature are little changed up until the present. Much of the explanation of practice and discussion continues to fall within the quality management and operations literature, rather than in that of strategy and strategic management. While quality management emphasizes the strategic power of hoshin kanri, there are virtually no available sources within the mainstream strategy and strategic management canon about hoshin kanri (there are two exceptions, see Osada 1998; Witcher 2003).

Learning from the Japanese

The competitive success of Japanese companies in world markets during the 1980s saw in the United States the rise of new infrastructure comprised of institutions that sought to learn from the Japanese, especially about total quality. One of these was GOAL/QPC, a nonprofit educational institute, originally formed in 1978 as a community-based group to promote jobs; it was called the Growth Opportunity Alliance of Greater Lawrence. However, it took an early leadership position in advocating hoshin kanri (Cole 1998), and in 1988 formed a members’ research team to promote Hoshin Planning/Management by Policy. The team involved participants in discussions from Dow Chemical, Procter & Gamble, Hewlett-Packard, and IBM. Its report was the first long English language text about hoshin kanri (GOAL/QPC 1989). In the same year a GOAL/QPC executive, Bob King, published his text about hoshin planning, which was based on a visit to Japan by GOAL/QPC delegates the previous year (King 1989).
The GOAL/QPC report presented a model that depicted three distinct areas for total quality: daily control, cross functional management, and hoshin planning. While daily control maximises an individual’s departmental performance, the second maximises coordination and cooperation among related functions, while hoshin planning maximises a focus extending from the CEO to line employees on strategic targets. Hoshin Planning was described as “simply PDCA applied to the planning and execution of a few critical (strategic) organizational objectives.” PDCA is the Deming cycle of phases needed to manage a business process: these are plan the process, do the work to plan, check that the plan is being carried out effectively, and act if it is necessary to change the plan or to do things differently. The point of originality here for thinking about strategy and strategic management, is that the formation of strategy, and its implementation through planning, are business processes like any other and should be managed to the PDCA principle. A model was given of the ‘core hoshin planning process’, illustrated thus in figure 1:

**Figure 1: The core hoshin planning process.**

For each step the report gave a list of key elements and key tools. While the model looks broadly like any traditional planning process, the difference lies in the application of planning tools with quality principles and tools. For example, the latter include PDCA, a small number of focus points for developing annual objectives (following the Pareto principle), the strong customer focus, a use of fact-based data, and root-cause problem solving. The last step in the model involves reviewing the hoshin process itself - a concern with process as much with performance outcomes is unusual in conventional strategic planning.

The one year plan starts the ‘heart of hoshin planning process’. Annual objectives are developed out of the broad areas of vision and longer-term plans into a few key objectives that must be achieved during the year (step 3). The key departments/functions are identified and involved in the
development of sub-objectives and plans to achieve the one year plan. The direction flows down iteratively meeting the needs of organizational capability/commitment considered in an upward direction. The coordination of the two is worked out during deployment through a process of reaching agreements about how plans can be achieved; because this involves throwing possibilities to and fro between effected parties it is likened to a game of catchball (in step 4, figure 1).

The Bob King (1989) text complements the report by presenting a more fully developed exposition of hoshin kanri for practitioners. Reporting on a visit to Japan by GOAL/QPC delegates in 1988 he found hoshin kanri to be the only system common to the dozen companies visited. He argued analogous to Maslow’s hierarchy of needs, the higher-order goals of organizations are possible only when the lower-order needs of operations have been fulfilled. In other words, strategic goals must be founded on meeting the needs of daily management. “Hoshin planning helps to control the direction of the company by orchestrating change within a company. This system includes tools for continuous improvement, breakthroughs and implementation. The key to hoshin planning is that it brings the total organization into the strategic planning process, both top-down and bottom-up. It ensures that the direction, goals, and objectives of the company are rationally developed, well defined, clearly communicated, monitored, and adapted based on system feedback.”

The GOAL/QPC work is centred on process and the discussion emphasises hoshin planning as a system of management. King translates hoshin as policy or target and means, and kanri as planning or management. The term, hoshin planning is used by Yokogawa Hewlett-Packard, and policy deployment by Florida Light and Power. These companies were the early pioneers - Florida Light and Power was the first Western company to adopt hoshin kanri, and both companies were winners of the Japanese Deming Prize.
GOAL/QPC is known today for its series of quality process control memory joggers and it has recently published one for hoshin kanri (Colletti 2013). This is a small ring-bound guide that fits into a pocket for quick reference on the job. It provides an excellent summary of the ground and includes some associated tools. It is the only pocket guide of its kind.

Management by objectives
A major theme that runs through the literature is to distance hoshin kanri as a deployment system that is distinctly different to management by objectives (MbO). The origins of hoshin kanri in Japan owe much to the adoption there of MbO. In Western organizations MbO has often been used to cascade sub-objectives, when superiors have used it as a means to control the performance of subordinates, rather than to manage the objectives themselves. The development of MbO in Japan owed much to Schleh (1963), who advocated that the “specific accomplishment expected of each individual [should be accomplished] ...so that the work of the whole management group is soundly blended at a particular moment of time” (1963: 19). Targets and means should be determined so it is to the advantage of one person to help another. Otherwise a strong drive toward one particular result may lead to an imbalance in the company; in particular, each objective should be carefully scrutinized to determine the optimal point beyond which the objective might be detrimental to the achievement of other objectives. This point is discussed in Akao’s Hoshin Kanri.

Yoji Akao and hoshin kanri
The most widely cited work in the English language is edited by Yoji Akao (1991) and can be regarded as the seminal text for hoshin kanri. Published originally in Japanese (1988), the book was translated into English (1991) by Glenn Mazure, with an introduction by Greg Watson (Compaq Computer Corporation) and its chapters were written by a selection of Japanese academics. It is a technical and difficult introduction for managers unfamiliar with quality management and operations, but it is full of detailed insights. The book also gives a history of what it explains as the
‘impetus to systematize hoshin kanri’ in an appendix. The term, hoshin kanri, appears first in an internal document in 1962 of the Bridgestone Tire Company, which had combined hoshin kanri with total quality control following a review of Deming Prize winners. The formulation and implementation of strategies and plans had previously been understood as stand-alone management items rather than as an organization-wide managed business process.

Akao outlines a ten step hoshin kanri process: (1) establish company motto (purpose statements), quality (customer) policy, and promotion (i.e. how to carry it out) plan; (2) devise long and medium term management strategies; (3) collect and analyse information to determine longer term policies; (4) plan target (the what) and means (the hows); (5) set control items and prepare a control item list (the determination of annual targets and means); (6) deploy the policy, deploy the control items; (7) implement the policy plan (understanding targets how to manage them, catchball); (8) check the results of implementation (the daily management of targets/means); (9) prepare status reports for implementing hoshin kanri (periodic reviews by senior management, including annual diagnosis). A diagrammatic definition of the hoshin kanri process is also given by Nomi (pps. 22-23). This is useful for it clearly shows how the steps relate to the overall PDCA cycle for the process, and another starting first with the check part (a CAPD cycle) for the overall annual management of annual priorities.

In principle, the process is similar to the GOAL/QPC model. However much of the book is devoted to the relationship of hoshin kanri to cross-functional and daily management, in particular how the daily and cross-functional control items are used to manage policy. According to Nomi (1991) cross-functional management can be defined as control activities that include planning for elements like quality, cost, delivery, and employees (QCDE). Daily management or departmental/functional management is defined as all the activities that each department must perform for itself on a daily basis that are necessary to most efficiently achieve their business goals (Nomi, p. 47). He defines
hoshin kanri “as all organizational activities for systematically accomplishing the long and mid-term goals as well as yearly business targets, which are established as the means to achieve business goals” (ibid.).

Nomi states that daily control is like paying attention to one’s health every day: this might include activities getting enough sleep, eating properly, drinking in moderation, and exercising. Hoshin kanri on the other hand, is paying attention to critical events, such as illness, and includes long-term health measures such as buying a membership in a sports club. Hoshin kanri involves identifying the critical items from the daily control items and changes them. The same control items are set up for both daily control and hoshin management. They are evaluated throughout the company so that further action can be taken as necessary.

Sheridan (1993) is another early book, this time written by a manager who worked in the management services department of Florida Power and Light. This work refers to the roles of an executive-level policy committee to conduct the hoshin kanri process, and executive cross-functional committees to oversee performance in the areas of quality, delivery, cost, safety and morale (or QCDE). The cross-functional committees provide input to the policy committee and later to the quality committee to draft and check policies. The cross-functional committees review project work that relate to the QCDE areas and which is additional to routine work.

The use of cross-functional committees seems to have been common in large Japanese corporations. Such institutional supports for the corporate-wide management of strategic objectives seem almost unknown in Western organizations. At the time when the Japanese were first introducing cross-functional structure in the 1960s, a time when hoshin kanri was first being developed, Western corporations were moving away from management by committee towards more devolved and divisional forms of corporate control (Jantsch, 1967). Thus may to some extent account for the
neglect of cross-functional management in the West. Although something of the idea is represented in Michael Porter’s work on the value chain, a framework for coordinating activities across an organization’s functional areas to sustain a generic business strategy (Porter 1985).

**Hewlett-Packard**

Hewlett-Packard was influential for its standardised materials, including an annual hoshin planning table, implementation (Gantt style) table, review table, and a business fundamental table. This last one took a similar form to the hoshin plan table, but instead defines the success of a key business process, such as customer value, employee development, an internal business process, products/services, and partnerships (Witcher and Butterworth 2000). At Hewlett-Packard hoshin plans and business fundamentals were kept separate; the former concerned with only a very few breakthrough objectives, and the latter with more numerous key performance indicators for driving incremental improvement. While the two were regarded as conceptually different, and reviewed separately at different times, they were never considered in isolation from one another. The dual model provides a basis for the concepts explained on the web pages of Total Quality Engineering, and which are explained more fully in Babich (1996).

**The balanced scorecard**

The division in thinking between breakthrough and improvement management is evident in Kaplan and Norton’s discussions of the balanced scorecard. To ensure that scorecard objectives and measures remain low enough in number to be proactively manageable at a senior level, Kaplan and Norton argue that a corporate scorecard has to be only based on making a visionary change for improving the future position of the organization. This is in contrast to an operational or performance management scorecard, which relate to business fundamentals which can have numerous key performance indicators (KPIs) and are used to monitor fitness for purpose – or the health of the organization to carry out its existing mission. KPIs are diagnostic measures and should
involve a senior level only when significant corrective action is required. In this sense, a policy is typically a scorecard strategy or strategic initiative designed to advance vision; these are likely to bring changes to the organization’s existing business model and may as a result involve making changes to KPIs.

There are obvious similarities between the balanced scorecard in its role as a strategic management system and hoshin kanri. Arthur Schneiderman developed the first balanced scorecard in 1987 while Vice President of Quality and Productivity at Analog Devices Incorporated, a semiconductor company based in the Boston area (Schneiderman 1999: 7). Analog is mentioned in the original Kaplan and Norton (1992) article and it is probably the anonymous semiconductor company referred to as ECI, which is used by Kaplan and Norton to show how a scorecard can be used to operationalise a strategic vision with the use of a limited number of critical indicators of current and future performance.

Schneiderman used hoshin kanri to deploy his scorecard at Analog. He had spent time in Japan and was in touch with people at Hewlett-Packard who were using hoshin planning. There is little evidence, however, to show that hoshin kanri has been used very much to deploy the scorecard. Kaplan and Norton (2009) cite two examples, and DeBusk G. and DeBusk C. (2011) claim another six (and Tata use it, see below). The balanced scorecard’s four-part objective set is very similar to the cross-functional management of QCDE objectives: quality corresponds to the customer perspective, and the cost, delivery, and employee objectives correspond to the financial, internal business process, and learning and growth perspectives, respectively. However, Kaplan and Norton defined ‘quality’ narrowly and included it in the internal business process perspective: “By the mid-1990s...quality has shifted from a strategic advantage to a competitive necessity...It has become a hygiene factor; customers take for granted that their suppliers will execute to product and service specifications,” (1996: 87).
This suggests that the scorecard and hoshin kanri may be competitors as alternative ways of thinking about strategy: that is a Western and a Japanese way. The scorecard is centred on selecting and monitoring the right measures to drive change, while hoshin kanri is primarily focused on the capability of the organizational processes that deliver value to the customer. The balanced scorecard is strong on what should be done, but has little to say about how it should be done. There is an assumption with the balanced scorecard an organization has the necessary understanding of its processes to make sure of deployment and implementation.

**Strategic planning**

An excellent paper by Kano, giving a Japanese view of TQM in Western organizations, he points out that there are two categories of strategy implementation: one is effective immediately after decision making, which involves personnel, budgeting, or mergers and alliances, and another one that is effective only with a company-wide effort such as hoshin kanri. He argued that the Japanese emphasize company-wide effort (Kano 1993). This dichotomy is partly a reflection of two traditions that dominate thinking in strategic management. One of these is focused around the importance of the direction of external influence on making strategic decisions, which is a market-based view; and the other is focused on the importance of internal influence, a resource-based view of strategy.

The most significant strategy scholar of the last thirty years has been Michael Porter of the Harvard Business School (1980, 1985). His ideas about how strategy should sustain an organization’s competitive position in its chosen industry classically define strategic management as the management of competitive difference. Porter’s thinking belongs to a well-established industrial organization tradition, which dates back at least to the 1960s, and places an importance on the external environment as a determining influence for successful strategy. The direction of this
influence is outside-in, from the external, especially the competitive, environment, see Figure 2. Outside-in is also sometimes referred to as market-based thinking.

Figure 2: Outside-in and inside-out influences on strategy.

The order of strategy thinking starts with the external environment, the determination of an industry’s attractiveness, the design and formulation of a strategy to achieve above-average returns in the chosen industry, and a value chain to manage organizational activities to sustain the chosen strategy. The purpose of outside-in is to identify and address the opportunities and threats in the external environment and classically a SWOT analysis is used to fit and position the organization within its environment so that it will be able to sustain above-average returns over time and withstand competition from rivals.

A second, and contrasting, strand of thinking in strategic management is centred on the internal, especially an individual organization’s strategic resources, called the resource-based view of strategy. This is an inside-out approach to strategy thinking. Its origins go back in economics at least to Edith Penrose (1959). At its heart is the idea that strategic resources are not economic resources as such, but are organization-specific, which makes them difficult for rivals to understand and emulate. So the emphasis is on the internal rather than the external environment and the direction of influence on forming strategy is inside-out.

The direction of influence follows from an understanding of an organization’s internal environment and the configuration and development of strategic resources, the integration and alignment of core processes and core competences, and development of dynamic capabilities. The purpose of inside-out thinking is essentially to build a framework for marshalling the learning abilities of an organization around those core business areas that are of most importance to the creation of value
for its customers. The aim is to achieve an internal fit of strategic resources so that they sustain above average returns.

How a top management favours a particular strategic approach depends upon to some extent on background and experience. There is evidence that individuals and teams favour one of the other. To some extent this reflects whether leaders see their role as either a big-picture strategist or a hands-on manager; the former taking an outside-in view and the latter the inside-out. Both are necessary, of course, and hoshin kanri has the potential to bring outside-in strategy into inside-out strategy.

However, hoshin planning looks to an outsider to be systematized to a degree that is probably unprecedented for most organizations. Hoshin kanri texts in general introduce a world of management philosophies and business methodologies that seem to make for a mechanistic operational world, as some have put it, of ‘tool heads’. The last fifty years has seen a retreat in Western strategy thinking from formalization and long-term planning to favour a looser view of strategy formation as a creative if uncertain mix of strategy formulation and implementation; as a result, strategic planning as a detailed subject is rarely included in strategy and strategic management textbooks.

Yet an over-whelming number of organizations continue to use strategic planning and the current consensus among business people and consultants seems to be that strategic planning should be tight enough to set direction and overall priorities, but loose enough to facilitate organization-wide learning and local initiative. However, the experience in recent years of corporate mistakes (and scandals) suggests that senior managers do not involve themselves closely enough with daily management in ways that enable them to understand strategic issues at an operational level.
From research it is clear that hoshin kanri is often perceived by senior management as an activity for operations. The importance of organizational review, particularly a need to include top management in the annual review, and the vital role for senior managers to manage the strategic management process to PDCA principles, is not understood in Western circles. Nor is the holistic and integrative nature of Japanese TQM, cross-functional management, and daily management understood. The adoption of related management philosophies and business methodologies exemplifies what is termed an autocatalytic process: one that catalyzes itself in a positive feedback cycle, going faster and faster once it has started. This requires time, patience, and a long-term organization-wide ability to learn. A tipping point into holistic management has never really occurred in most industries, but this is less true for the automobile industry and in parts of the health sector.

Automobiles

Virtually all vehicle and car companies use hoshin kanri. This is partly a consequence of the success of companies such as Toyota and Nissan and the use of the approach by their suppliers (Witcher and Butterworth 2001). It has taken time. The early General Motors and Toyota joint venture, which for GM aimed to introduce its American managers to the Toyota Production System, was largely unsuccessful; it was many years later before GM was able to refine its own version of lean production. GM wanted to cherry pick elements without focusing on the whole system; it took about eight years for GM to understand the dependency of the different parts of the system and develop a good sense of the philosophy that underpins it (Inkpen 2005). However, for some companies, including Ford, there is little real organizational connection between business strategy departments and hoshin kanri being carried on plant level. Ford recently sold its British brands, Jaguar and Land Rover to India’s Tata Group, which has a very different approach to Ford.

During the mid-1990s Tata Sons, the groups’ holding company, introduced a Brand Equity and Business Promotion Agreement, which requires the group’s companies to pay a percentage of their
annual revenues for using the Tata name and brand. The companies must also apply the group’s code of conduct, which documents Tata’s general principles and ethics and its Tata Business Excellence Model (TBEM), which is based on the Baldrige Excellence Framework and used by Tata to deliver strategic direction and drive business improvement.

The TBEM is managed as an annual review process, which includes checking and assessing the core values of the Tata group, including business methodologies and management philosophies, such as customer driven processes, a long-range view of the future, and a systems perspective. A key part is the strategic planning process: that is, how a Tata company develops strategy, including its strategic objectives, action plans and related human resource plans, and how plans are deployed and performance-tracked. This process is shown in figure 3.

**Figure 3: The strategic management process at Tata.**

Seven tasks are involved, which in the figure from right to left are purpose statements (vision, mission, values), through to performance and progress review. The figure shows beneath these the processes involved in carrying out these tasks, moving through time from left to right. Strategy is developed through a consideration of purpose, an analysis of the environment and opportunities, objectives and targets, and the determination of the key strategic initiatives and functional excellence plans.

Balanced scorecards are used to derive the key strategic imperatives from the strategic objectives, which are linked to the needs of key stakeholders. The voice of the customer and the importance of
critical success factors are shown carried forward across the departments, and the management of performance and its review. Rewards and recognition refer to the alignment of human resource plans, and the internal communication forums are used to provide company-wide feedback for strategy development and deployment.

The TBEM provides a framework for the Tata group to understand how strategy is being applied in the Tata companies and how it works at an operational level. Executives from other Tata companies participate in a company's annual audit activity and play a part in assessing the extent to which the company, such as Jaguar Land Rover, conforms to the criteria laid down in the group's Brand Equity and Promotion Agreement. The feedback is used to promote best practice in the group at large through regional forums.

In fact Jaguar Land Rover does not use the hoshin kanri label and understand it as a method for deploying its annual corporate scorecard. The scorecard objectives are deployed using a framework called the Value Triangle with twenty cross-functional objectives and targets. From these priorities are determined and cascaded as projects from the whole organization to address. In the words of the senior manager who manages this process, hoshin kanri is now part of the company's DNA, which makes it possible to ask fundamental questions about the business.

Toyota has received much attention: see Dennis (2006), Mothersell et al. (2008), Liker and Covis (2012), Liker et al. (2008) and Shook (1997). Shook was one of first Western managers to become directly involved with Toyota and was involved in attempts to introduce hoshin kanri ideas into Western organizations, including the GM/Toyota joint venture. His account is insightful: “Policy management is often confused with policy deployment, a relatively simple prioritization process in
which the desires and objectives of senior management (the company) are deployed throughout the organization (the employees). That is a good first step. But policy management Toyota-style was a much more dynamic process, with lower levels of the organization taking part in formulating policy as well as carrying it out. As lean organizations mature policy deployment should evolve into policy management.” (1997: 58).

The Toyota example is probably the only one of significance to be used as an illustrative case of the importance of strategic resources. Hoshin kanri is not explained but the Toyota Production System is used as an example of a dynamic capability to strategically manage those resources that are specific to Toyota and which gives it a competitive advantage. Teece, Pisano and Shuen (2000) give a detailed description of Fujimoto’s (1994) account of production activities in the Japanese auto industry, and they identify the Toyota Production System as an advanced form of lean production, which they explain as a high order dynamic capability. In fact, most of the auto-makers have similar production systems, but these vary considerably in practice between companies, especially in relation to hoshin kanri and cross-functional management. The important thing is how they are used strategically in a company-specific way to create competitive advantage.

The health sector

The most complete text on hoshin kanri in the health sector is Melum and Collett (1995); it contains cases derived from a range of health centres. The influence of GOAL/QPC is very evident and King writes a useful preface. The work as a whole makes the roles for leadership explicit and the reason for hoshin kanri is given to achieve breakthroughs for its customers (patients) within a TQM-conditioned environment. The planning process involves focus, alignment of the organization’s activities with focus, implement the plan, and review and improve.
Since the 1990s the context has switched from thinking about a TQM to a lean conditioned environment, particularly following the Toyota Production System. The leading centres are the Virginia Mason Medical Center (Bohmer and Ferling, 2006) and the Thedacare Center for Healthcare Value (2011). Both have been influential in an extension agency role for the sector. This has influenced hoshin kanri applications in the UK at Royal Bolton Hospital Trust, and the Northeast Strategic Health Authority. The Royal Bolton has based its system on the Thedacare X-Matrix model – an approach that emphasises visibility, see figure 4.

Figure 4: A visual representation of hoshin kanri using an X-matrix.

The Northeast Strategic Health Authority based its approach on Proctor & Gamble’s Objectives, Goals, Strategies and Measures – although changing the name slightly to ‘Objectives, Goals, Initiatives, and Monitoring Metrics’ (Kunonga et al. 2010). There is very little in the literature about OGSM. An exception is Riccaboni and Leone (2010) although the main thrust of this article is about how Proctor and Gamble deployed its sustainability objectives.

The emphasis given in the hoshin kanri literature to the lean philosophies and methodologies, the use of quality tools, six-sigma, and deployment tables and charts such as the X-matrix, has probably discouraged those who feel that strategy requires a looser (even bottom-up) approach. Because of its integrative, most of the books often seem to the lay reader more about supporting infrastructure and tools than about hoshin kanri (see particularly Hutchins 2008). One can be forgiven for thinking sometimes that TQM itself has sometimes got in the way of understanding hoshin kanri as a creative, even exploratory, process for forming strategies.

The FAIR model for strategic management
At Xerox UK, a service organization for Xerox Corporation, an approach was developed much more loosely to suit marketing people, rather than the parent company’s Management for Results, a name more in keeping with an engineering culture (Witcher and Butterworth 1999). This emphasized the steps in the process in terms of those principles that are central: the need to provide focus on a vital few policies (called programmes at Xerox); to align everybody’s plans and management systems with the vital few through catchball; to integrate the PDCA principle in daily management, and to manage annual review as the check on the annual cycle. This is the FAIR model for managing hoshin kanri as an annual cycle, which on occasion has been called the British model (Cwiklicki and Obota 2011), see figure 5.

Insert figure 5: The FAIR phases for managing strategy as a PDCA annual process.

The complexity of associated ideas and the importance of taking an integrated approach to the management of processes, gives rise to issues of understanding and organizational culture. The adoption by Western organizations of Hoshin Kanri to a mature level of implementation is long-term, and any assessment of its impact on organizational strategy and organizational effectiveness is difficult to gage for what is really an adoption of an alternative organizational state of being. A key part of FAIR is the annual review and the involvement of senior executives. This is evident at Xerox and Tata, which both use a form of business excellence model after the European and American ones respectively. Nissan is different and uses a top shindan audit or top executive audit.

Nissan uses a corporate business model that is comprised of thirteen core business areas or cross-functional capabilities (one of these is its hoshin kanri process itself) (Witcher et al. 2008). It also specifies seven corporate-wide core competencies: daily control, the determination of hoshins, the coordination of hoshin development and deployment, the establishment of control items (that is, functional-based incremental objectives), analytical and problem-solving abilities, check and action
taken, and leadership and participation by high-ranking personnel. This last is important as it defines a form of leadership that involves understanding how strategy is implemented and executed.

Corporate headquarters reviews annually its subsidiaries to understand and to influence how its managers and other employees are developing and using their core competencies in the thirteen core business areas. The seven core competencies comprise the items for audit to enable them to be appraised for their use in each of the thirteen capabilities. Afterwards, a two-page summary is issued across the corporate group as a whole that compares how the subsidiaries score in terms of the level of development they have reached in each of the core competencies. In this way the auditing activity is visible and acts to demonstrate a top-level commitment to the Nissan Way – a set of published cross-functional values that underpin the core competencies of the group as a whole.

The use by top management of a periodic organization-wide review to configure, develop and sustain core competencies, is a classic example of a dynamic capability as articulated by Teece et al. (1997) in strategic management theory. Teece and others argue that a strategic view of dynamic capabilities must necessarily be a high-order one that acts to influence lower-level capabilities and competences. It is possible to imagine an organization as a hierarchical nest of dynamic capabilities inserted into each other like a set of Russian dolls. Winter (2003) relates this notion to the concept of organizational routines and suggests that dynamic capabilities are high-level routines that contrast in scope with ordinary (or operational) capabilities, because they concern innovatory change and their nature influences the rate of improvement change in ordinary capabilities.

These ideas have been taken further by Ambrosini et al. (2009), who propose levels of dynamic capabilities. The first level is concerned with the continuous improvement of strategic resources; the second with their renewal, and a third with the regenerative dynamic capabilities that are used to bring changes to the other two levels. Following this conceptual scheme, level one at Nissan is the
management of its core business areas or capabilities. Level two is the annual review of core competencies. Level three is the determination of policies (hoshins) to bring about change in Nissan's core business areas and core competencies.

**Hoshin kanri and varieties of capitalism**

The literature in providing a theoretical grounding for the subject of hoshin kanri does not go very far. The literature is overwhelmingly practice and operations-based. The subject itself is also entirely absent from strategy and strategic management despite the use of strategy concepts in the hoshin kanri literature. The traffic in understanding is all one way. Strategy thinking modes for outside-in and inside-out, do not give much space to strategy implementation, or even as noted strategic planning, and MbO. Few pages in the textbooks are given over to the Kaplan and Norton balanced scorecard despite its prominence in the performance management literature and widespread use in Western organization (and, in fact, Kaplan and Norton themselves marginalise hoshin kanri). A part of the reason may rest in different national cultural views of capitalism.

The economists Peter Hall and David Soskice (2001) argue there are systematic differences for corporate strategy across nations. The important point is that the nature of national capitalism depends upon the strategic interactions and complementarities between institutions and organizations in any one economy, and these influence the prevailing mode of coordination of resources that organizations use for their strategic management. They distinguish between two kinds of market economy, which they call varieties of capitalism. The first is a liberal market economy, where resources are co-ordinated through competitive market arrangements and hierarchies; and the second is a coordinated market economy where resources are coordinated around collaborative institutional relations that act to reduce uncertainty and promote long-term purpose.
In a liberal market economy the near-term needs of an organization’s financial stakeholders are primary. These are typically equity shareholders, when it is a priority for executives is to maintain a level of dividend and a high share price that will protect the organization from a hostile takeover. A government policy emphasis is placed on the encouragement of free competition, and regulation may work to discourage inter-organization collaboration and those alliances that seem counter to free markets. In a coordinated market economy, stakeholders include institutions such as business and employer associations, strong trade unions, and professional networks, which involve cross-sharing of support and ideas. The regulatory systems in these economies work to facilitate a free movement of information and industry collaboration. An organization’s attractiveness as a collaborator may be dependent on its reputation as a consensual decision-taker and its history as a developer of specific organization and industry skills, and other strategic resources.

Richard Whittington (2001), a strategy scholar from the UK, has written that for a period between 1960 and 1990, it was the coordinated market economies that were the most successful. This was an era of large scale mass-production of cars, consumer electronics, and chemicals, when economies were largely stable and strategic planning was important. The core strategic concerns of this period were continuous improvement in quality, cost, delivery, and employee development. This changed around 1990, and until the onset of the global financial crisis in 2008, it was the liberal market economy countries that became more successful: “It looks like the fast-moving, flexible and sometimes ruthless strategizing of the Anglo-Saxon [the liberal market] economies is better suited to the emergent economic conditions of the twentieth-first century than the careful instrumentalism of Germany and Japan” (op cit.: 5).
There is (perhaps) an inbuilt bias in Western organizations that favours outside-in thinking. The fast-moving agile organization has been described by the sociologist, Richard Sennett (2006), as a new form of capitalism. Explaining its culture he describes how cutting-edge organizations want employees who are able to learn new general skills rather than cling to old competencies. Sennett writes about how the new dynamic organization emphasises an ability to process and interpret changing information and practices. This is consistent with the Hall and Soskice characterisation of a liberal market economy, where an employee as a human resource consists in how capable he or she is in moving from problem to problem, subject to subject. This is a general rather than an organization-specific resource, and for global organizations it facilitates the transfer of resources and production from high cost areas to countries with abundant labour and easy access to new markets. In these terms, multinational organizations from liberal market economies have had a global competitive advantage.

In a liberal market economy the generality of strategic resources make them more easy to switch between organizations than the more specific and sticky strategic resources of an organization and its industry in a coordinated market economy. It is easier to assemble, break up, and reassemble project teams, and chop and change structure. In liberal markets, companies may be acquired and divested speedily by organizations through equity markets, and venture capital is available to entrepreneurial scientists and engineers to start up new enterprises. A concentration of strategic decision-making in a few hands at the top of an organization, allows business leaders to implement decisions very quickly and any consequential reorganization is relatively straightforward to implement. In terms of Kano’s two approaches for implementing strategy; one that is effective immediately after decision making, and the other only with a company-wide effort such as hoshin kanri - the former is generally preferred in the West and hoshin kanri is perceived as strategic
operations; for example, the Ford model rather than the Tata (Indian) one. This is a pity if one thinks that strategic management should be a managed organization-wide process.

Bob King in 1989 observed that a study team from a group of American companies that visited Japan had been surprised that the Japanese had copied American principles and practice in the 1950s, and had surpassed the United States in certain quality and management systems. The big surprise was that many of the new systems, like hoshin kanri, were unknown by the leading business schools and not taught on MBA programmes. As far as hoshin kanri is concerned this is still generally the case.

There are views to suggest that ways of managing international organizations are converging globally and that the rise of the multinational has introduced a new multinational variety of capitalism (for example, Albert 1991). It has been suggested that hoshin kanri can be used effectively to combine outside-in with inside-out as an integrated approach, which is likely to suit a multinational’s way of working (Witcher and Chau 2012).

The word, hoshin, can be considered, perhaps fancifully, to mean a bright light reflecting off a silver compass needle, which will show a corporation’s subsidiaries the way to go in making their own decisions about how to drive the greater organizational purpose forward (Bechtell 1995). Good strategic management requires both top-down direction to achieve an organization’s overall purpose, and bottom-up decisions on the means for achieving this purpose. The extent to which top-down is driven by outside-in, and bottom-up inside-out, depends ultimately upon the judgement of those who are leading an organization’s strategic management, but a balance should be accomplished.
Much of the international business literature is about the degree of central direction and its part in the control of overseas subsidiaries. The complexity of global and transnational forms of international organizations are highly organized and collaborative (Bartlett and Ghoshal, 1998). From an institutional and business system perspective, Richard Whitley (2001), points out that it is the commonality across and within subsidiaries that is important. Hoshin kanri is about using a participative and shared commonality of direction, rather than top-down command and control. The over-arching principle is that everybody should be involved in strategy.

References


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Figure 1: The Core Hoshin Planning Process
(Source: GOAL/QPC 1989, p. 13)

(1) Establish organization vision
(2) Develop 3-5 year plan
(3) Develop annual objectives
(4) Deployment/roll down to depts., to develop plans including targets and means
(5) Implementation
(6) Regular progress review – monthly + quarterly
(7) Annual review

PHASE 1: (1)(2)
– Well done strategic planning

PHASE 2: (3)to(7)
– Heart of hoshin planning process
Figure 2: Outside-in and Inside-out Influences on Strategy
(Source: Witcher and Chau 2014: Figure 1.6)
Figure 3: The strategic management process at Tata
(Source: Witcher and Chau 2014: exhibit 8.2)
Figure 4: A visual representation of hoshin kanri using an X-matrix
(Source: TBM Consulting Group)
Figure 5: The FAIR phases for Managing Strategy as a PDCA annual process

(Source: Witcher and Butterworth 1999)