Getting Your Act Together: Management by Policy

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Seeking dramatic business improvements in customer service, cost reduction, and safety, the Southern Pacific Lines (SP) used Management by Policy (MBP) from the beginning of their Total Quality (TQ) journey. SP utilized the support of a core group of seasoned quality practitioners from the inside and hired from the outside. They began after only 2 days of Total Quality education for the management group. Basic process improvement tools (primarily the Pareto chart and cause and effect diagram) were introduced and systematically used during regular reviews of progress against the objectives.

SP's approach to MBP was to "just do it," learn by doing, use TQ methodologies, and continuously improve the MBP process. They reasoned that applying selected TQ principles to a vital few objectives, a major MBP tenet, was the better thing to do. Also, they felt that this approach would integrate TQ with management of the business from the start. Their approach has been successful — SP has met or exceeded targets during 1992 and 1993 in many key focus areas.

What is Management by Policy?

MBP is a strategic management process. It is also called policy management, policy deployment, hoshin planning and, in Japan, hoshin kanri. The term hoshin planning is limiting because the process involves both planning and execution.

MBP was originally developed by Japanese companies as a defensive capability for dealing with large unforeseen events. The pioneering companies were often victims of soaring oil costs or dramatic loss of market share. However, MBP has evolved into a major offensive weapon. MBP provides the focus, the means, and the driving force for excellent companies that aspire to dominate world-wide markets.

Although cynics sometimes state that MBP is merely the way Management by Objectives (MBO) is supposed to work, there are several key differences. MBO is frequently limited to the financial objectives of the company; MBP focuses on a few major corporate operating performance improvements or opportunities — the strategic "hows" behind financial results. MBO is geared almost exclusively toward company needs; MBP focuses on customer needs. It marshals the means within the company to satisfy those needs. MBO focuses solely on results. MBP focuses on both results and the processes by which results will be achieved.

MBO translates company goals directly into functional and individual performance objectives; MBP is more comprehensive. MBP concentrates on the improvement of processes that cross functional lines and departments, so top management leads through process instead managing only for results.
Factors in Total Improvement Process

MBP is obsessed with the customer. All improvement activities are driven by customer needs, focusing on a few major improvements or opportunities. It gives careful and detailed attention to process, means, and results. It recognizes that most major improvements will require cross-functional cooperation. To identify major improvement objectives and the means to achieve them, MBP requires a high degree of participation by the people who must realize the goals.

The participatory nature of the process must be emphasized to keep it from degenerating into another exercise. Many companies can use the tools of quality and have a zeal to serve the customer, but their efforts "chase too many rabbits." To focus their effort, they need a strategic methodology that incorporates honest reviews of what is actually being done — and what can be done. That's MBP.

Most U.S. companies that have set out to implement MBP — ALCOA, AT&T, Blount, Digital Equipment Corporation (DEC), DuPont, Florida Power & Light, Hewlett-Packard (HP), Intel, Proctor & Gamble, Southern Pacific Lines, Texas Instruments, some units of Ford and GM, and some automotive suppliers — feel that it has significant advantages although they may be still short of world class in the implementation of MBP.

Who's world class in executing MBP? Canon, Toyota, Aisin Seki, and a number of Japanese companies that have won the Deming Prize during the past decade. So far as is known, the American companies engaging in MBP, by whatever name, have reached the same levels of proficiency, although at the time of winning the Deming Prize, Florida Power & Light was judged to have a process comparable to many leading Japanese companies.

**Success Factors**

MBP is for companies ready to manage by facts and willing to engage in a rigorous interactive process to select the right objectives for major corporate improvement and to align everyone behind them. The objectives developed through the MBP process should:

- Represent major opportunity for improvement from the customer's perspective.
- Be cross-functional.
- Deserve high-level management attention.
- Be urgent, such as when a significant threat is encountered. With the Japanese, the oil shortage in 1973 and extreme currency fluctuations are examples. Both provided a strong impetus to develop MBP.

**The Three Phases of MBP**

Each of the three phases of the Management by Policy process must be successfully executed to have a successful process. The three phases are: policy establishment, policy deployment, and policy implementation.

**Phase 1: Policy Establishment**

The first phase is a process of selecting the right objectives. It considers the customer's needs, the business environment, the company's long-term plan, internal issues and capabilities, current performance, critical success factors, and regulatory requirements.

Customer satisfaction is the central driving force. That is a fundamental premise. Consequently, the process starts with identifying customer needs and determining customer satisfaction. Actions to determine these needs vary from, "We already know our customers' needs, so let's stop wasting time," to "Oh no! We have to come up with a million dollars to get the best survey people in the country on board."

There is a happy medium. While it is important to ask the customers what they need, it is also important to first figure out who the customers are. The complaint records will identify the complaining customers and some of their needs. But don't forget about those who do not make an effort to complain.

Policies are formulated by reflecting upon the company's current status. (See Figure 1.) Companies accomplish this reflection differently. For example, the president of Komatsu goes alone to a mountain retreat.
for several weeks armed with voluminous data. He returns with suggested policies for the next year. In some companies, the top management team collectively debate until they reach consensus on the significant few. In others, middle management suggests the initial policies. In some, both top and middle management reflect in parallel. Asking yourself the following questions will help ensure the quality of the strategic analysis:

- How will you measure superior value in the future?
- How do you know what it takes to win?
- What are the sources of competitive advantage? Of market presence? Of market access? Of core competencies? Of work processes? Of organizational structure?
- What gaps must be bridged? What do you need to be able to do that you’re not now doing? What can you stop doing? What processes must be improved?
- What is the motivating and aligning goal of the organization?

Policies should then be prioritized by considering several factors, principally: importance to the customer, opportunity for competitive advantage, and areas with the greatest need for improvement (the worst performance relative to the competition). Ultimately, the goal is to identify the critical few things to work on.

Once the critical areas for improvement have been selected it is important to determine how progress will be measured. Measurements are called indicators, which suggests not confusing a measurement with genuine accomplishment. An indicator of an important output of a process is called a control point, whereas indicators for process parameters are called check points.

Long-term and intermediate “draft targets” must be proposed for each indicator. An improvement target communicates the degree of change required. Targets frequently cause discomfort. Those who work with a process may be reluctant to be pinned down to a concrete number denoting a level of improvement that must be pursued. They may simply not want to be held accountable, or they may believe that the MBP process has not yet resulted in an analysis thorough enough to substantiate the desired goal.

The draft target is the result of the best analysis available from the corporate perspective. In all likelihood it does not have the benefit of local analysis or identify the capability of local processes. Furthermore, up and down the organizational ladder those who are expected to bring about the necessary changes must “buy-in” to each target.

For example, a policy might be the reduction of emergency field service calls. The indicator would be a specific definition of emergency calls and a formula for measurement, along with the current performance number. The draft target might suggest reducing the number by half within a year.

The policies, indicators, and draft targets should be published company-wide well in advance of the budgeting process so that the areas singled out for dramatic improvement are highly visible to everyone. Wide visibility allows those most affected to complete the analysis and identify the improvement actions they must implement to achieve each draft target.

Phase II: Policy Deployment

Phase two, policy deployment, is making sure that all of the right people are included and that they have a clear picture of what they must do. Contributors must have confidence that they are working on the right things at their level. Their targets need to be both challenging and achievable.

The scientific method (Plan, do, check, act — PDCA or the equivalent) is used to conduct analysis.
Then consistency of direction is ensured, and clear linkage from top to bottom is established. The top-level objective merely points toward an opportunity. To get to the next level the question, "Why is this a problem or opportunity?" must be answered. This process of questioning is followed down through the organization to the furthest point possible. Analysis should answer the question, "Why?" This analysis becomes the thread that connects the strands of deployment into a single, tightly-woven fabric. Good analysis requires that answers be supported by facts and data.

Participation and buy-in is assured through "catchball." Catchball is an iterative process: developing objectives and the plans to obtain them, sharing them with persons who must execute the plans, requesting and considering their input. After sufficient involvement and commitment by all affected parties, objectives and plans are finalized. Catchball is two-way communication that results in joint commitment and joint ownership. (See Figure 2.)

Figure 3 shows how objectives and means are cascaded throughout the organization. Indicators are established for objectives and means respectively. In this example, the policy is to reduce the customer order leadtime of a product that is built to order.

**Phase III: Policy Implementation**

The third phase, policy implementation, is possible once the areas for improvement are selected, the appropriate people are on board, the analysis has been done, and the contributions are identified as sufficient to achieve the overall corporate target.

The MBP system can be visualized as the systematic spinning of a spider's web shown in Figure 4. Its structure is intricate and delicate, so it can be easily broken. Without close care and attention it can become an entangled mess. It does not appear spontaneously because it is the product of skill and intensive effort. The "spider's web" has several anchors around the outside, so that each segment makes its own unique contribution, but the full impact is the *product* of all the pieces. Then the whole is greater than the sum of the parts.

The CEO is responsible for ensuring that the systems are in place to guarantee the quality of products or services, timely delivery, reasonable pricing, safe products, and community confidence. Each of these is required to ensure that a proper balance is provided in
the pursuit of customer satisfaction and the quest to remain profitable.

The CEO's support team consists of the heads of the line organizations, and their roles also cross functional lines. They help the CEO ensure an optimum balance in meeting customer needs. In larger companies it is impossible for the CEO to pay the kind of attention to detail that is necessary to set and achieve targets.

**The Objective Leader**

Each improvement objective selected should be given a "home." Therefore each objective leader (in Figure 4) is responsible for leading the effort to achieve a particular objective. Objective leaders are generally senior executives with a thorough working knowledge of the functional areas spanned by the objective.

The objective leader conducts an analysis to determine current performance and quantify it. Considering the capability of existing processes to support desired performance, the objective leader determines where the performance must be in the short-term and in the mid-term. Since the objective leader must cross functional lines, this person must have the authority to cut through the bureaucracy which is all too often intent upon protecting its turf.

For example, reducing the time from design concept to market is often an important objective. In some Japanese companies it is so important that the president is the objective leader. Clearly, this objective or policy is cross-functional. The leader and team must understand the current process and identify its strengths, weaknesses, and vital few opportunities to achieve the market needs.

Usually the objective leader and objective team commission ad hoc teams to work on a few significant processes (such as concurrent design). By acting as liaison with upper management, the objective leader is also the link to the all-important cross-functional aspect of management at the top of the company.

This person is the catalyst who ensures that the necessary steps are taken on time, and that progress is adequate. An objective leader is a coach who encourages, lobbies for needed resources, teaches, gives feedback, and makes sure that the schedule is maintained. Highly visible, and not leaving good intentions to chance, the objective leader is the conscience of the corporation straining to achieve dramatic improvement.

Effective participation by the CEO's management team is imperative. The choice of the word "team" is significant. In business, sports, and entertainment, we live in an age of superstars, but when success is achieved, teamwork rises above personal idiosyncrasies. Teamwork behavior depends on having a common vision, practicing interdependence, understanding the relationship between personal success and group success, focusing on the common mission, and skillfully reconciling conflicts.

Personal styles of management are submerged in an MBP process. Only by working with a team engaged in an MBP process does the CEO establish or confirm the corporate mission and vision. The team develops company strategies based on objective analysis and assessment. They identify critical objectives for corporate improvement. They monitor progress achieving them. They allocate and manage resources consistent with the mission, vision, and major improvement objectives. They also constantly check to see that the infrastructure facilitates clear communication of their intentions and mirrors their behavior.

**Cross-Functional Management**

"Cross-functional management" well describes how the process actually works. If literally managing across departmental boundaries sounds revolutionary, it's because organizations tend to be territorial in nature. It's natural to refer to "my" department, "my" people, "my" equipment, or "my" product, but in most organizations this inhibits seeing oneself or one's co-workers as contributors to an overall process. Although it becomes critical further up in an organization, cross-functional management is important at every level.

Progress reviews are another critical element in the management web. Reviews should be constructive rather than destructive. In a destructive review the reviewer vents frustration, plays out personal agendas, exercises inappropriate power of position, or otherwise demeans the person being reviewed. In addition, a destructive review focuses only on results.

A constructive review, on the other hand, focuses on both results and the process for obtaining results. By using data describing both processes and results, a reviewer follows a path of diagnosis to more accurately
determine the current status of progress and identify the gaps and weaknesses. In addition, the visibility of such data creates a basis for action that can be tied to a schedule and that can be better understood by everyone. A constructive reviewer feels jointly responsible for both results and for the means by which they can be attained.

Figure 5 is a guide to ensure a systematic approach in conducting reviews. Unless systems eliminate the need to solve the same problem again and again, and are used with meticulous follow through, MBP becomes another bureaucratic exercise instead of a rigorous driver of improvement.

**Approaches to Implementation**

The so-called classical way to implement MBP is the following sequence: First, implement what some people call the Daily Management System. More specifically, you should have a critical mass of competency throughout the organization using the PDCA cycle to improve processes and the SDCA (study, do, check, act) cycle to maintain and standardize improvements. Get the majority of critical processes in control and capable. Have at least 50-60 percent of all persons involved in formal process improvement teams. Second, proactively assess customers' needs and have a reliable method for translating needs into product and/or service requirements. Develop a prevention-based approach for critical cross-functional business systems. Third, implement MBP.

Many U.S. companies implementing MBP generally followed the classical sequence. Some started implementation in the same way that many Japanese companies did — evolving MBO into MBP. In fact, most companies started by deploying top management’s goals vertically throughout the functional organizations with an analysis of the means — which is essentially how Hewlett-Packard began, for example.

**A New Mind Set Is Not Easily Acquired**

Initially many American companies implementing MBP were concerned only with goals; means or methods weren’t considered. There was little analysis, catchball, or cross-functional coordination. They set far too many policies (such as ten to twelve, when three is as many as most companies can concentrate on). Even so, these companies feel that they received significant benefits from the following initial steps:

- Consideration of external and internal customer needs, competitive benchmarking, and the current capability of TQ implementation, in addition to traditional strategic planning inputs.
- Focusing strategic initiatives to a greater degree than before.
- Deploying high level goals in a more consistent way throughout the organization.
- Implementing an ongoing process to assess TQ implementation, (usually using the Malcolm Baldrige National Quality Award criteria).

One output of the MBP design process is an MBP manual, a procedural cookbook for all participants in the MBP process defining who does what by when, why, and how. (Yes, one of those.) By documenting the process, a manual takes MBP from merely a conceptual level to an operational level. Equally important, the documentation pegs where the MBP process itself is so that it can be improved. Actively using a manual to improve a basic process converts it into a means of joint improvement rather than following a distant prescription by someone else. However, care must be taken to ensure that the manual is at the right level of detail. Trying to construct an overly detailed manual before beginning is the classic case of over-planning a new idea before really understanding it.

Many U.S. companies used the classical sequence of implementation because they were well along on the TQ journey before they heard much about MBP. Since little has been written about MBP, companies needed to do some digging. HP, one of the first U.S. companies to initiate MBP implementation, learned about MBP from their Japanese subsidiary, Yokogawa HP, which won the Deming Prize. While HP initially deployed objectives without deploying the means to attain them, their approach has apparently matured to a very good model.

**A Different Approach to Implementation**

On the other hand, Southern Pacific is representative of a few companies that heard about MBP during the initial awareness stage of TQ, and decided to use a limited form of MBP from the earliest stage of implementation. They identified several overarching business objectives (such as improve service reliability, improve locomotive utilization), and began limited use of TQ methodology to marshal their limited expertise toward reaching them. Companies having little experience with TQ analysis deploy the policies as best they can. Southern Pacific used regular reviews of progress vis-a-vis
<table>
<thead>
<tr>
<th>MBP Policy Deployment</th>
<th>Stage I</th>
<th>Stage II</th>
<th>Stage III</th>
<th>Stage IV</th>
<th>Stage V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</td>
<td>General qualitative</td>
<td>Vivid qualitative</td>
<td>Vivid description and some objective goals</td>
<td>Vivid description and comprehensive goals</td>
<td>Operational definition and comprehensive goals</td>
</tr>
<tr>
<td>Strategy to attain the vision</td>
<td>Delegated to a planning group; no obvious competitive advantage or niche</td>
<td>Internal process; capabilities not considered</td>
<td>Developed by top management; fair competitor intelligence</td>
<td>Internal capabilities considered</td>
<td>Obvious competitive niche supported by analysis</td>
</tr>
<tr>
<td>Annual policies/ objectives to execute the strategy</td>
<td>General</td>
<td>General; indicators and targets not required. Little use of basic or planning tools.</td>
<td>Focused; indicators and targets required but little analysis. Some use of tools.</td>
<td>Indicators and targets required; some consideration of means to obtain objectives. Widespread use of tools.</td>
<td>Contribution to improvement based upon analysis of means to obtain objectives</td>
</tr>
<tr>
<td>Policy deployment degree of catchball</td>
<td>Nonexistent</td>
<td>Input from one management level. One level</td>
<td>Input from two management levels. Two levels</td>
<td>Input from three management levels. Three levels</td>
<td>Input considered by all who must execute. All levels</td>
</tr>
<tr>
<td>Integration and degree of deployment</td>
<td>None</td>
<td>Some integration</td>
<td>Moderate — but little integration</td>
<td>Fair degree of integration</td>
<td>Integrated indicators across and down organization</td>
</tr>
<tr>
<td>Reviews — frequency</td>
<td>None</td>
<td>Occasional at top level of management</td>
<td>Regular at top; occasional at next level</td>
<td>Regular at some levels but not at all levels</td>
<td>Regular at all appropriate levels</td>
</tr>
<tr>
<td>Review process</td>
<td>Judgmental of people; only interested in results</td>
<td>Some interest in means</td>
<td>Interested in means and results</td>
<td>Focused more on process; no interest to place blame</td>
<td>Purpose is to seek cause and to better understand processes which cause results</td>
</tr>
</tbody>
</table>

**Figure 6.**

Objectives to initiate use of several old quality tools (that is Pareto and cause and effect diagrams). Implementing in this way integrates TQ efforts and business objectives, which is a major hurdle for many companies.

There is no “one size fits all” implementation process for MBP. The approach needs to be customized to the current capabilities of the organization. Figure 6 is a rough guide to the degree that MBP can be employed depending on the maturity level, or stage, of the organization. To decide where to begin, conduct an organizational assessment of current capabilities with respect to TQ in general and to the elements of MBP. The assessment need not be elaborate or expensive.

Some of the most common pitfalls are:

- Trying to do too much too fast beyond the organization’s capability, such as trying to implement at once all elements of the world-class model. One can easily see how this would set up a paperwork nightmare — just another bureaucratic process that ultimately topples from its own weight.
- Insufficient preparation of the organization for a major
- Inadequate planning detail resulting from lack of planning involvement by those who must execute the implementation plan. Using no MBP manual or using it bureaucratically.
- Failure to use the PDCA cycle on the implementation process.
- Not understanding the MBP manual — not learning “how.”
- Not managing the expectations of internal customers; that is, creating the expectation of a world-class model, but implementing a lot less. For example, implementing a version of MBO and calling it MBP.
- Using destructive review processes in which managers continue to blame people for poor results instead of helping to diagnose and improve processes that affect results.
- Insufficient analysis to determine means/counter-measures.
- Lack of of focus — inability to settle on only one to three policies.
• Calling a one-way dictate from top management catchball or two-way interaction.
• Delegation of policy development by top management to a staff planning function.

What Makes Management by Policy Different?

MBP requires persistence. Above all, it stretches management skill in walking the fine line between broad perspective and attention to detail.

The discipline of MBP forces a company to cast a cold eye on reality and, from the customer's perspective, prioritize improvement processes. The ability to select the vital few is central to the achievement of dramatic improvement.

There is no substitute for the human development required for interaction as stratification and analysis are pursued throughout the organization. The tendency to grab quick fixes or to ramrod expert solutions is always inviting. It is also divisive and rarely results in ownership.

Analysis is at the heart of the process, so success also depends on the proper use of analytical tools. For the most part the seven basic QC tools are sufficient, but maturing companies also use new tools such as affinity diagrams, interrelation digraphs, and so on.

The targets set must be correct and consistent with organizational capabilities. Analysis is also required to determine the root cause of the gap between current performance and the target. Only then is it possible to select the actions that ensure that this gap is closed.

Clear leadership does not happen by accident. It requires designated project managers at the executive level. If structured progress is important to the company, it is worthy of executive attention. When a company embarks on MBP, it is important that the question, "Why?" be asked as frequently as, "What," which merely outlines steps and structure. Answering, "Why?" creates the understanding behind the structure that promotes permanence and depth of implementation.

Summary

The integrated approach must make sense in the environment in which it is proposed. It is not a planning model imposed outside the normal business planning, but an integral part of running the business to structure challenges and change.

Many companies implementing TQ are having trouble integrating it with business strategy and execution. Quality is just another item on an already full plate. Management doesn't use quality principles in their daily life. There are too many strategic objectives. Management can't concentrate on them, let alone the total organization. What is missing? A structure to assure that management uses quality methodologies to do their job. MBP is that structure. In essence, it is the missing link in many TQ implementation processes.

What is at stake is the difference between casual improvement and focused, dramatic, and systematic change. This can easily equate to the difference between success and failure.

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