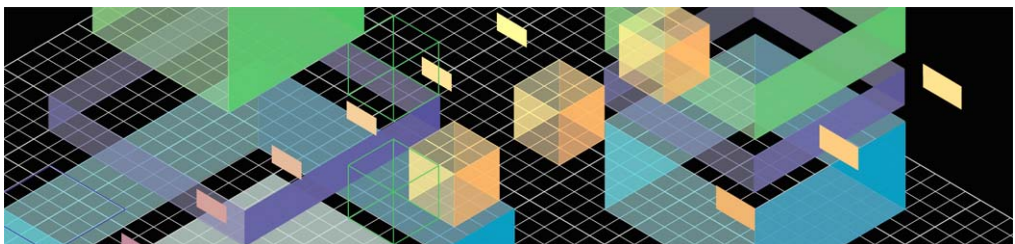




Business Strategy Revisited: Effective Growth Management through Strategic Deployment

Growing in popularity as a simple and useful approach to growth management, Strategic Deployment (“SD”) is a highly disciplined process through which senior management systematically eliminates waste from the business and achieves breakthrough performance levels in key areas such as customer service, quality and ultimate profitability. By filtering all annual improvement initiatives against their fact-based ability to support breakthrough performance objectives, senior management can be assured that the intellectual and mechanical horsepower of the extended enterprise is mobilized to achieve published strategic goals and objectives.

- Strategic deployment has gained considerable attention over the past several years as a simple and disciplined process designed to more closely align breakthrough performance improvements with the organizational resources required for their success.
- Strategic deployment provides a highly useful filter through which all potential improvement efforts are scrutinized based on their direct ability to support breakthrough performance objectives.
- Unlike more traditional performance improvement methods, strategic deployment drives waste reductions (waste elimination that improves quality, increases customer service levels and lowers total cost) at two levels including the improvement effort filtering process and the use of kaikaku and kaizen lean principles at the individual value stream level.
- While offering a proven method to eliminate waste, strategic deployment promotes more profitable growth by re-deploying the physical assets and intellectual horsepower of the business to their most productive uses.
- Strategic deployment relies on the proven Plan-Do-Check-Act (PDCA) cycle which affords senior management the continuous opportunity to promote strategic goals and objectives while enforcing rigorous waste reduction efforts.



Introduction to Strategic Deployment

Business leaders and middle managers have often employed a bifurcated approach to business management. Broad-based strategic objectives guide future growth and marketplace offerings while tactical cost accounting policies attempt to impose fiscal discipline and short-term financial health. While this approach, out of necessity, drives senior management to achieve respectable growth rates by maximizing initiative investment returns and scaling key hurdles rates, it often promotes a complex tactical management process in which cost goals and strategic objectives are never properly reconciled.

In recent years, the concept of strategic deployment has gained considerable attention not only as a means to more effectively mobilize the entire enterprise based on an integrated suite of growth initiatives, but also to harness the strategic development process as a means to filter competing project initiatives (along with their relative financial costs) against the strategic direction of the company.

Outlined in greater detail below, strategic deployment, through its simple combination of clear disciplines and methodical follow-up routines, can offer organizations of all sizes and growth clear advantages not commonly associated with more traditional strategic design and cost management techniques:

- By design, strategic deployment fosters clear alignment between strategic goals and the multi-functional resources required to for integration and achievement.
- Through the strategic filter, strategic deployment provides a logical waste elimination capability that ensures scarce financial and organizational resources are funneled to their highest strategic use.
- Complete integration and alignment of proven lean management concepts and disciplines translate strategic objectives into innovative, tactical business process changes driving institutionalized waste and excess costs from the business.

Through these key benefits, organizations are reevaluating the role that strategic development can play in reaping breakthrough marketplace performance while significantly reducing institutionalized waste.

Philosophy and Origins of Strategic Deployment

Deeply rooted in the classical Japanese philosophy of Hoshin Kanri, Strategic Deployment (“SD”) seeks to combine the desired roadmap to success with the governing principles of waste elimination. Hoshin, referring to an organization’s compass, and Kanri, emphasizing the concepts or management control, yield a brutally efficient process through which senior managers can actively control an organization’s future direction and ultimate financial success.

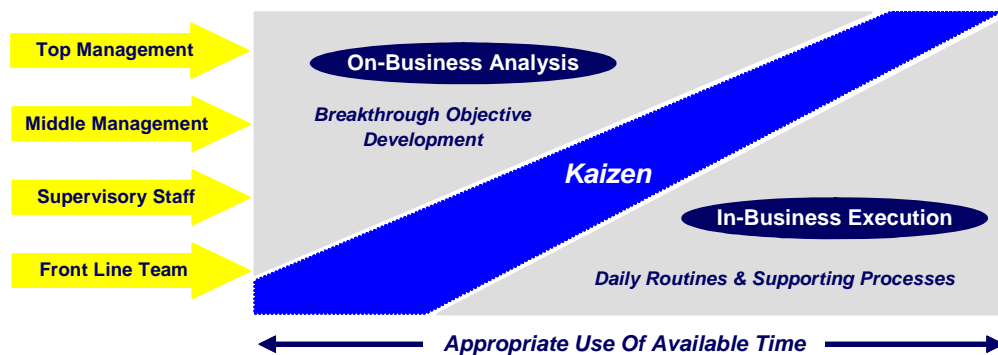
At its core, SD, consistent with its Japanese heritage, is an annual journey through which senior management commits the entire organization to achieve breakthrough levels of financial and marketplace performance. SD also attacks waste that typically prevents the achievement of such breakthrough performance levels. In that regard, SD requires senior managers to evaluate the current business on two fundamentally different levels:

1. **On-Business Analysis:** In order to identify, confirm and implement breakthrough performance levels, senior managers must first rise above day-to-day management routines and focus on those marketplace drivers and future customer requirements that will drive the very purpose of the enterprise.

2. **In-Business Execution:** Through confirmation of the enterprise purpose, senior managers then earn the right to channel resources “in” the business to enact new policies, processes and tactics designed to directly support SD initiatives through Lean principles.

As seen in Exhibit 1, below, the ability to segregate organizational responsibilities is critical to the success of on-business analysis and in-business execution in terms of deploying limited resources to their highest-value use to the enterprise. Top management, and to a lesser degree middle management, bear the chief responsibility of evaluating marketplace conditions and customer requirements in order to confirm organizational purpose which in turn yields the breakthrough objectives required to achieve that purpose. Supervisory personnel, together with the front-line production team members, are then tasked with in-business execution whereby breakthrough objectives are achieved through various lean initiatives that eliminate waste and drive increased profits:

Exhibit 1: Resource segregation based on Strategic Deployment responsibilities:



SD, by design, provides a series of simple disciplines that enable senior managers to not only distinguish between the need to focus “on” and “in” the business, but further mobilizes the enterprise to justify all in-business projects, process development, costing and resource allocations based on their direct linkage to on-business requirements.

Strategic Deployment and the Drive for Breakthrough Improvements

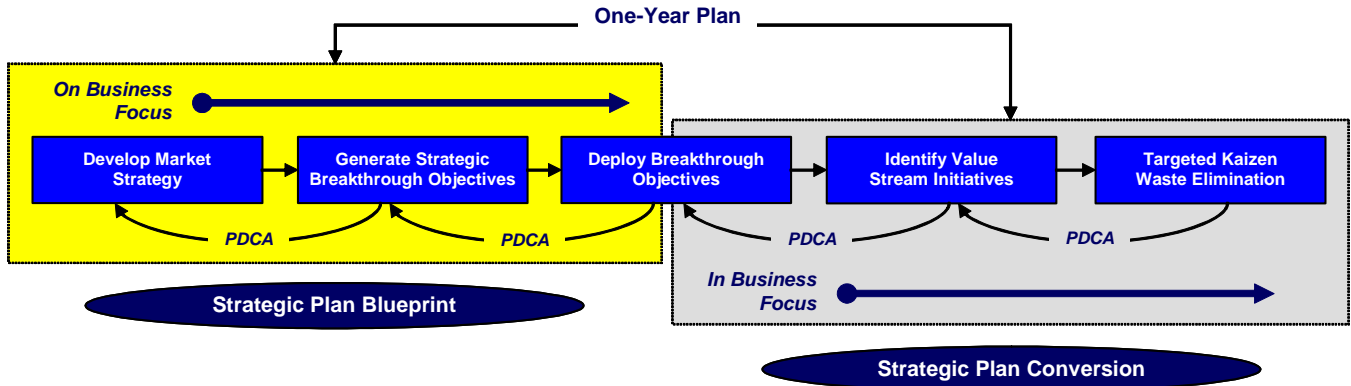
Significantly more than a controlled compass, SD is a comprehensive one-year series of planning and implementation events designed to achieve strategic, long-term breakthrough objectives beyond historical measures. At its highest level, SD offers a five-tier methodology designed to seamlessly match on-business strategic requirements with tailored in-business lean capabilities:

- A. SD operates on a one-year cycle that attempts to realize process-driven results beyond a traditional financial budget
- B. Focuses on the development and implementation of long-term (3-5 years) breakthrough objectives designed to deliver superior financial results
- C. Links strategic breakthrough objectives to specific organizational resources
- D. Aligns cross-functional resources with the organization based on their certified ability to support (and achieve) breakthrough objectives
- E. Systematically monitors, manages and controls resources in order to convert the strategic plan into reality

Strategic Deployment, then, is the controlled process through which clearly defined strategic market-place driven breakthrough objectives are developed and implemented through a rigorous process in which all improvement initiatives are justified on their direct linkage to

each breakthrough. Furthermore, as demonstrated by Exhibit 2, below, disciplined use of the Plan-Do-Check-Act (PDCA) cycle continually stress-tests each improvement initiative ensuring that the linkage not only remains strong, but is producing the desired waste elimination necessary to support the strategy:

Exhibit 2: Conversion of strategy into operational reality



Integral to the SD process is the great emphasis placed on two highly proven and effective tools again highly rooted in Japanese manufacturing theory:

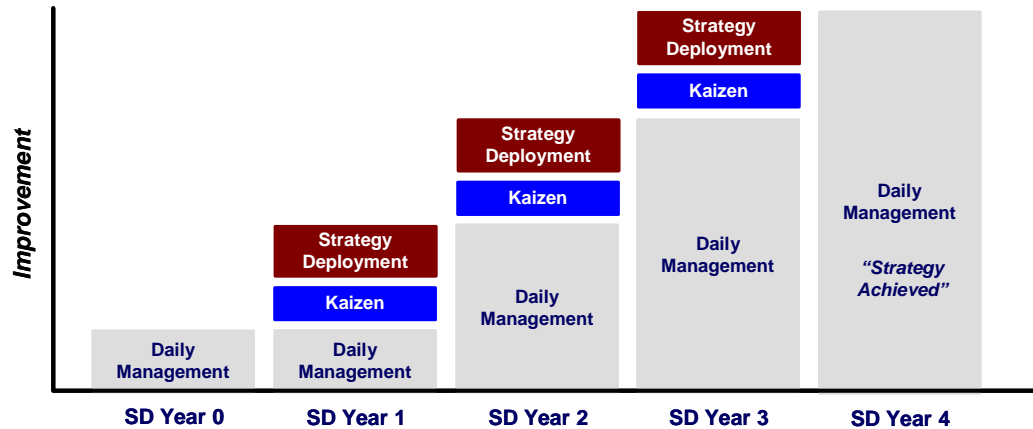
- **Kaikaku (“radical improvement”)**: Often considered the radical path to improvement, Kaikaku disciplines drive total value stream design up to and including replacement of existing processes that prevent achievement of breakthrough objectives.
- **Kaizen (“incremental, continuous improvement”)**: Within a given value stream, Kaizen concepts and disciplines drive incremental, continuous improvements where waste is methodically eliminated and costs are reduced to the largest degree possible.

Why the emphasis on Japanese manufacturing philosophy? The critical factor here is *waste*: SD forces a tight linkage between strategy and the Lean improvement initiatives designed to convert that strategy into financial success. Through the application of these highly proven techniques, senior managers are far better equipped to channel scarce organizational resources directly (and only) to those value streams where waste is driven from the business the point where the conversion of strategy to financial success is complete.

In addition to channeling focus *to* the right processes, SD channels the requisite level of energy *within* each process to match process-specific requirements to the most appropriate lean tool. For those capabilities requiring fine-tuning to better manage costs, kaizen improvement teams are best suited to achieve incremental improvements. For those processes and systems incompatible with the future enterprise purpose, kaikaku (radical improvement) initiatives are necessary to reengineer or replace those systems.

As demonstrated in Exhibit 3, below, by deploying these improvement concepts through SD, those enabling processes (known as daily management) directly linked to enterprise strategy will evolve over time to where waste is driven from the business thus delivering the results required to support the given strategy (Exhibit 3, next page):

Exhibit 3: Daily management improvements to drive strategy conversion



Breakthrough Objectives that Confirm Enterprise Purpose

Although this article was not designed as a primer on the art of strategic development, “strategy” is none-the-less the gateway for SD. As such, a few brief reminders on what constitutes an acceptable strategy are probably in order.

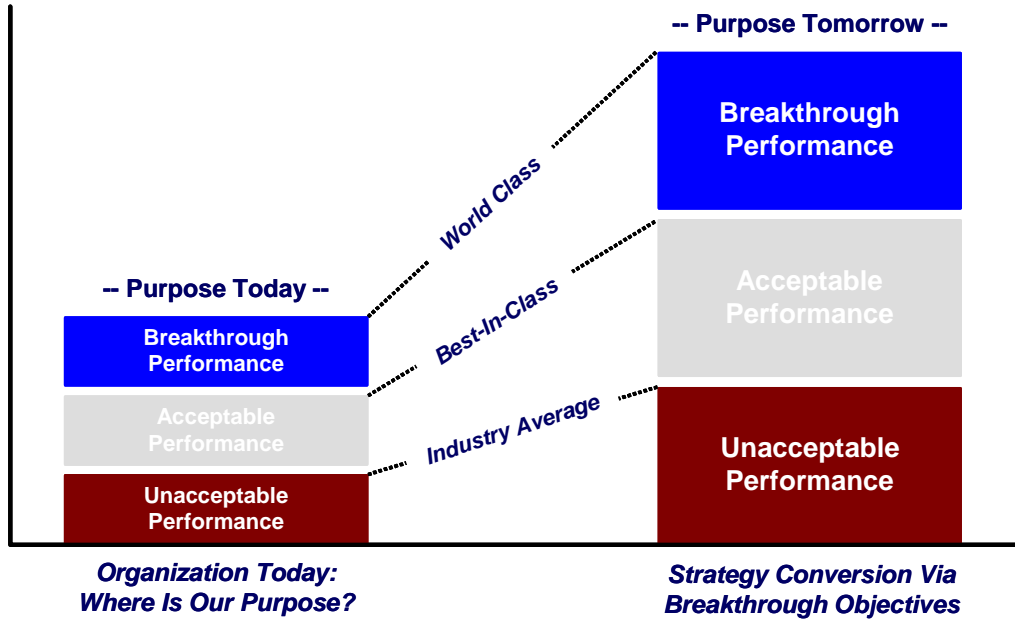
According to a recent studies and surveys, many Fortune 500 companies lack a well-defined strategy that is both easily articulated and understood across all levels or the organization. Based on the experience of LHC, we have further experienced the problem where reasonably well-defined strategies were hopelessly disconnected from the tactics required to achieve lasting success. As a result, organizational resources were poorly deployed and were unable to achieve the financial results required to achieve strategy conversion. Based on these issues and concerns, any adopted strategy should contain the following fundamentals:

- Reflect the voice of the customer in order to drive the purpose of the organization
- Be simply worded to promote clarity, understanding and ownership
- Factually link market conditions to the actions required to achieve success
- Convey a compelling and logical story that is believable and achievable

Believable, articulate and simple strategies are only as good as the tactics applied to their conversion. More often than not, strategy conversion is tied to the development, administration and achievement of the organization’s annual budget; rather, strategy conversion must be tied to three or four breakthrough objectives that will transform the organization into one capable of providing innovative market offerings with considerably lower financial costs.

Not to be confused with common “stretch goals” that commonly result in short term-only performance improvements, breakthrough objectives are those goals that are logically tied to strategy, represent significant financial improvements over historical levels and allow the organization to achieve sustainable and scalable performance levels. In short, senior managers are tasked, through the SD process, to select the three or four breakthroughs that will yield world-class (not best-in-class) performance levels consistent with the very purpose of the organization (Exhibit 4, next page):

Exhibit 4: Achieving purpose via breakthrough objectives



President Kennedy provided a crisp, logical strategy to place a man on the moon. In order to do so, breakthrough objectives were developed including dramatic improvements in rocket technology, human endurance and manufacturing capabilities. Although radically different when compared to each other, they all had four unifying characteristics:

- They provided a significant benefit to the enterprise
- Each was tied to the overriding strategy
- They stretched existing capabilities by a considerable degree
- The mandated cross-functional support to develop new capabilities

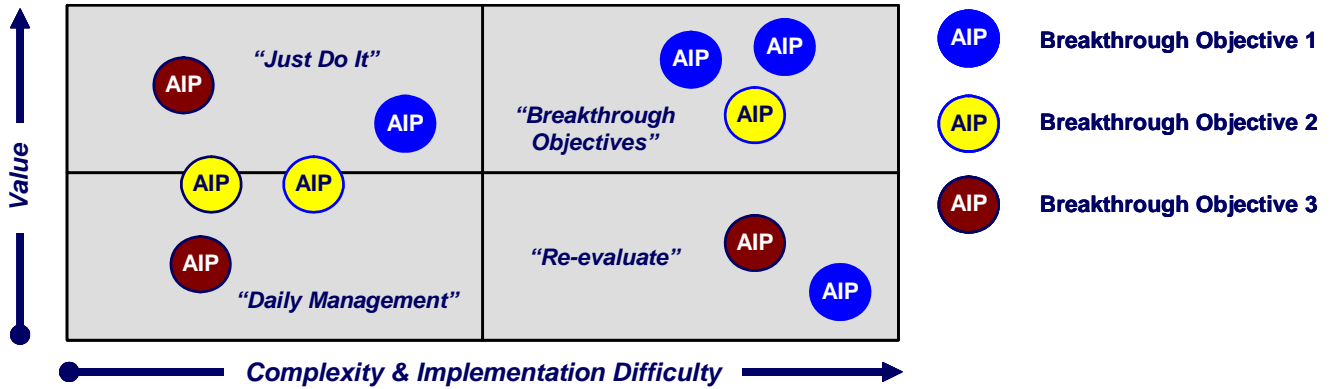
What will your purpose be in three, four or five years? Is the purpose to remain “on budget” or achieve breakthrough performance levels that will transcend both existing and potential future competition?

Annual Improvement Targets that Drive Breakthrough Waste Reductions

Breakthrough objectives unite the enterprise around the three or four core goals that, once achieved, convert strategy to operational success. Annual improvement targets represent the cost filters that mobilize the entire organization to improve all key processes and value streams directly affecting each breakthrough objective.

Annual improvement priorities (“AIP’s”) are process-based priorities that require improvement, implementation or outright replacement in order to achieve each breakthrough objective and thus convert strategy to operational success. Generated each year, AIP’s impose a powerful discipline on the organization that systematically evaluates, accepts or rejects potential improvement projects (and their associated financial and organizational costs) based strictly on their support of all breakthrough objectives. In addition to balancing AIP selection against each breakthrough objective, they are also cross-matched against their estimated financial benefits and implementation complexity (Exhibit 5, below):

Exhibit 5: Evaluating AIP's based on financial benefits & implementation challenges



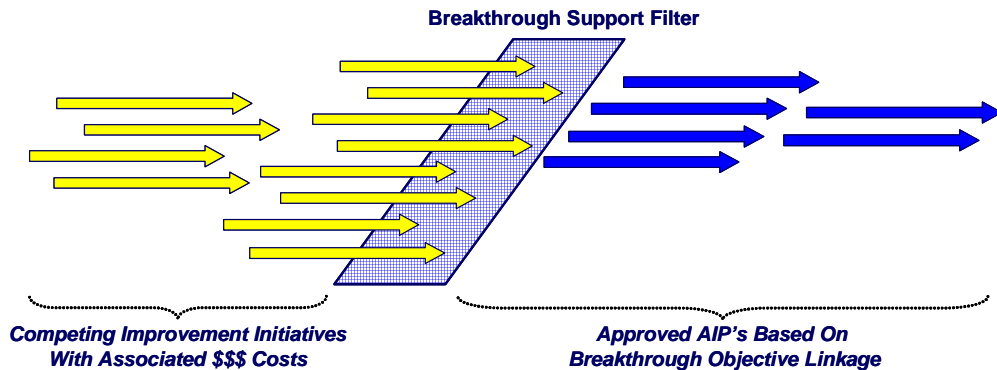
During the annual planning cycle, every organization struggles through the time-consuming process of evaluating and selecting improvement initiatives based on implementation costs, ROI, resource availability and other factors. As a general rule, most improvement initiatives are designed to improve key processes or systems *based on key process or system needs* and are therefore detached from strategy conversion. AIP's, however, are "filtered" based on four acceptance criteria:

- Direct AIP linkage (underlying process, system, etc.) to a breakthrough objective
- AIP ability to drive cross-functional (finance, production, sales) improvement teams
- AIP ability to deliver a clear, compelling benefit to the organization
- Stretch existing capabilities to reach breakthrough performance at the local level

Unless an improvement initiative can meet the above criteria, SD will not allow scarce financial and organizational resources to be deployed to its implementation. In that regard, SD drives profit and cost management across three entirely different levels of the organization:

- A. **Global Cost Management:** By directing valuable financial and organizational resources only to those breakthrough objectives identified with strategy conversion, poorly conceived or unlinked projects are filtered and rejected thus preventing resource expenditures incapable of advancing strategy conversion (Exhibit 6, below):

Exhibit 6: Breakthrough objective AIP filtering process



- B. **Local Waste Reductions:** Through the rigorous application of kaikaku and kaizen principles, linked AIP's drive waste elimination by focusing on cycle time improvements, resource reductions, throughput increases and other related lean concepts.

- C. **Predictable, Managed Growth:** Appropriate assignment of personnel via strategy deployment combined with the relentless elimination of waste yields a superior formula for managing and achieving growth. Inevitably, fresh capacity (discovered by lowering costs and diminished waste) is channeled to promising new avenues including technological developments, higher-margin products and innovative services.

While “productivity improvement” is a glamorous phrase, it does not represent an acceptable AIP. Only by identifying core process and systems-related activities and linking them to each specific breakthrough objectives can an organization reduce institutionalized waste while facilitating strategy conversion.

Enabling AIP’s through People and the Metrics that Guide Them

As discussed earlier, SD requires a highly disciplined and systematic support networks in order to convert strategy into operational success. Once improvement initiatives have been properly filtered and are classified as acceptable AIP’s driving core breakthrough objectives, senior managers can then mobilize each AIP by assigning the most capable cross-functional team guided by concrete targets matched to the most appropriate metrics.

- A. **Cross-Functional Involvement:** Each AIP (generally 2-3 per breakthrough objective) requires a cross-functional team lead by a motivated leader. While the role of the leader may be clear, the need for cross-functional support is often less apparent. Strategic conversion is designed to transform the whole enterprise, not just certain components.

If the transformation is to be successful, all functions of the enterprise, including sales, operations, supply chain, finance and product development must converge through the AIP implementation process and (with the aid of *kaikaku* and *kaizen*) drive improvements in all functions. Unless the energy of the entire enterprise is harnessed, strategy conversion will always be less than an unqualified success.

- B. **Target & Metrics Assignment:** Just as “improve productivity” makes for an ineffective AIP, so too does it represent a poor target. Defined as the quantitative measure of an effective AIP, targets clearly outline the destination for any AIP and have three fundamental characteristics:

1. They are quantitative in nature with frequent measurement
2. Targets represent a logical cause-and-effect relationship with the AIP
3. They stretch local capabilities to reach historically high performance levels

While targets highlight the destination, metrics keep cross-functional teams on the right course. Where *reengineer and launch new product development process* is a representative AIP, metrics related to shop floor capacity, new-product forecasting and supplier development will most likely be necessary to guide team members to the final destination. Based on experience, two to three metrics are usually sufficient to achieve success if a strong cause-and-effect relationship exists.

Strategic conversion requires cross-functional support, and people must be guided. For any AIP to achieve success and drive the waste reductions required to achieve each breakthrough objective, senior managers can only officially sanction an AIP once these critical elements are in place and actively engaged.

Integration by Cascading SD throughout the Organization

Clear, articulate strategies drive the creation of three to four breakthrough objectives designed to convert strategy into operational success. Each breakthrough objective drives the development and filtering of two to three AIP's that attack the value stream drivers of each breakthrough objective. At this stage, SD will most likely have the following structure:

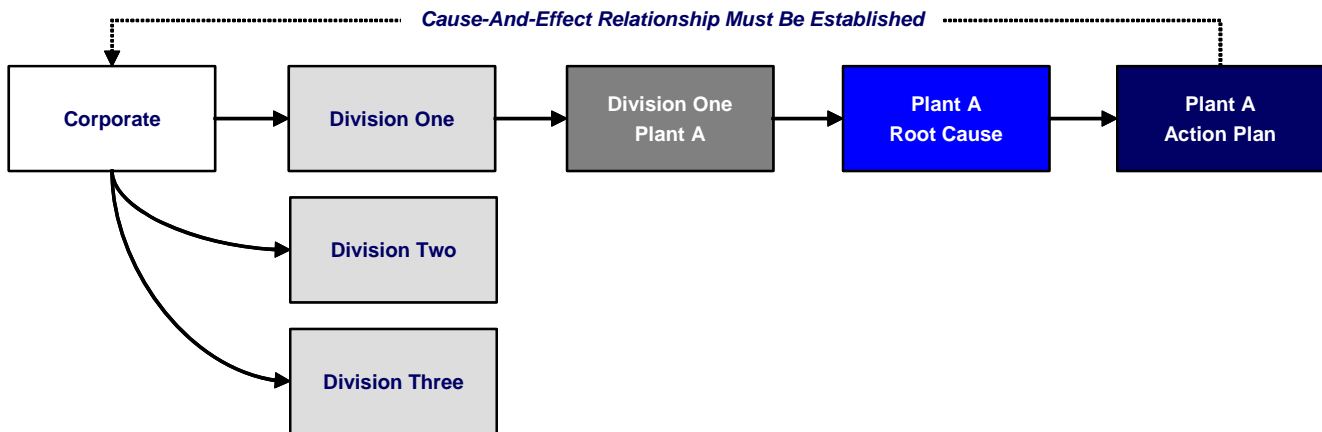
1. Published strategy outlining future enterprise purpose
2. Three to four corporate breakthrough objectives
3. Six to eight corporate API's tied directly to breakthrough objective value streams
4. Six to eight corporate-level AIP team leaders responsible for AIP achievement (along with their associated cross-functional team members)

At the corporate level, SD is now a reality with the entire organization a witness to how each breakthrough objective will align to convert the strategy over a designated time period. Now, SD must infiltrate each plant or division to guarantee SD success at two levels:

- Cross-functional involvement of all facets of the business
- Cross-functional involvement of all divisions, subsidiaries and facilities of the business

To carry SD to its logical and most successful completion, senior managers must now ensure that SD is "cascaded" throughout each component of the enterprise (subsidiaries, plants, divisions) so that the entire enterprise is properly mobilized to achieve all breakthrough objectives and complete the conversion of strategy into operational success (Exhibit 7, below):

Exhibit 7: Cascading SD throughout the extended enterprise



By cascading SD across all functions and down through the entire ranks of the enterprise, senior management can be assured that corporate-level breakthrough objectives will be achieved because key process, value stream and systems problems are traced to their ultimate root cause. Just as the filtering process works at the corporate level, so too does it guarantee waste reductions at the local level. When cascading SD and AIP's down through the enterprise, individual divisions and plants are all required to develop their AIP's and submit them to senior management so that each division or plant-level AIP may be stress-tested against their ability to support and achieve each corporate AIP. Again, implementation costs are minimized as only those AIP's most closely linked to breakthrough objectives are approved with resource commitments.

Managing SD Via the PDCA Cycle

Although there are many implementation methodologies available to help guide and support various corporate initiatives, few offer the simplicity and discipline of the Plan-Do-Check-Act (PDCA) cycle. Although basic in nature, the PDCA cycle is the key SD enabling feature that allows senior management to aggressively monitor cost and waste reductions along with continuing progress on breakthrough objective achievement.

While strategy creation, breakthrough objective development and AIP creation clearly fall under the rubric of “plan” within the PDCA cycle, AIP implementation, routine monitoring (and progress analysis) and consistent action plan development for questionable progress completes the cycle. To function properly and have the maximum effect on the SD process, the PDCA cycle should operate on two distinct levels:

- A. **Local AIP PDCA:** Every chartered AIP team must be equipped with the relevant tools and disciplines required for SD success including team charters, clearly defined AIP’s (and the breakthrough objectives they are designed to support), approved destination measures and the key metrics required to gauge progress against those measures.

On a bi-monthly or monthly basis, AIP team leaders must be required to report on their cost improvement, waste reduction and AIP achievement progress including quantifiable performance improvements, key hurdles and fact-based action plans demonstrating clear understanding of encountered problems and the tactics required to move forward. Our experience has shown that one of the most valuable PDCA tools available is the statistical control chart; the ability to distinguish noise (common variation) from signals (exceptional variation) provides a strong analytical tool to gauge performance improvements against the benchmark and determine if breakthrough (and therefore sustainable) performance levels have been reached.

- B. **Corporate AIP PDCA:** On a monthly basis, corporate senior managers should have the opportunity to review and evaluate the corporate-wide progress being made against all AIP’s and their corresponding breakthrough objectives. Designed to both enlighten and inform, each monthly session should accomplish four critical tasks:

1. Determine the degree to which targets are being met
2. Confirm the sustainability of all improvements
3. Quantify all waste reductions corporate-wide
4. Evaluate tools and tactics most clearly driving success
5. Continually evaluate the alignment of lean tools to their most appropriate use

As discussed earlier, waste reductions are a critical deliverables of the SD process. Through the PDCA cycle, senior management must adopt the monthly discipline of critically evaluating AIP and breakthrough objective achievement levels in order to ensure a consistent cross-enterprise drive to deliver all value stream and process changes (through kaizen and kaikaku principles) required for strategy conversion.

Summary

Fostering clear and unmistakable alignment between published corporate strategy and the breakthrough objectives required to transform the enterprise and achieve unparalleled performance levels, Strategic Deployment offers a number of quantifiable benefits over rival improvement and performance enhancement programs:

1. By its very design, SD forces the clear and precise identification of “how” to move the enterprise towards breakthrough objectives through the fact-based linkage of breakthroughs to their supporting value streams and governing processes.
2. SD offers a highly disciplined approach that generates clear alignment of all facets of the enterprise (divisions, plants, functions) to each breakthrough objective in order to harness all available horsepower for success.
3. Provides a continuous opportunity to reinforce published strategy by constantly measuring the progress towards the conversion of that strategy to operational success while managing growth through the redeployment of fresh capacity to more profitable endeavors.
4. SD delivers a superior waste elimination and growth management vehicle in which scarce financial and organizational resources are only deployed once a clear fact-based linkage has been established between the improvement program and its corresponding breakthrough objective.

Although SD cannot succeed if senior management selects the wrong AIP's or does not rigorously enforce the PDCA cycle, SD does offer a very simple, proven approach that guarantees effective enterprise-wide participation and support to achieve breakthrough levels in performance and customer service.

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Directly mentored by the architects of the Toyota Production System (TPS), Mark DeLuzio is the founding partner & chief executive of Lean Horizons Consulting and is recognized as one of the country's foremost experts on enterprise-wide transformation through Strategic Deployment and lean disciplines. A former Vice President and Corporate Officer of Danaher Corporation, Mark is the architect of the widely acclaimed Danaher Business System.

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About Lean Horizons Consulting

Lean Horizons Consulting offers integrated competencies for achieving enterprise-wide performance transformation to global firms in the manufacturing, energy, consumer products, financial services, pharmaceutical, bio-technology and healthcare sectors. Lean Horizons further serves investment firms regarding acquisition integration and rapid value creation. Lean Horizons aligns Lean and Six Sigma capabilities with the deployment of enterprise strategy to deliver unique, end-to-end solutions that incorporate the organization's business model, core processes, functions and information systems. Lean Horizons' field force of internationally experienced industry professionals bear direct lineage to the Toyota Production System, lending a unique combination of explicit and tacit knowledge to Lean performance transformations.



Strategically Creating Value through the Elimination of Waste

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