Hoshin Kanri

The Strategic Approach to Continuous Improvement

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GOWER
In the 1950s the American Management Guru, Peter Drucker, suggested that in order to be successful in business it is necessary to be better than all of your competitors for at least something that will be important to the customer. There must be some specific reason why they would choose to buy from you rather than buy from a competitor, even if on average the competitor can outperform you.

If for example your organisation scores more points in total for Quality, Price and Delivery, but a competitor can out score you on one of them, say Quality, then that supplier will win when the customer is mostly concerned with that issue. If another has a reputation for being better on price then he will win in a price competitive market irrespective of your abilities on the other two criteria.

It is not only important to actually be the best, it is even more important to be ‘perceived’ as being the best. Perceptions and reality are often very different. Many organisations fail because they do not understand this important fact. They may know what they are good and bad at doing but the customer may well see things very differently. Even if the customer is mistaken it will still be their prerogative to choose.

In a fiercely competitive global market, the pressure is on to attempt to be the best across the broadest possible spectrum of customer-sensitive features. This raises several questions. What, for example, does ‘best’ mean? Again it is the customer’s perception of what is meant by ‘best’ that is important, not the vendor’s. Their perception of our performance may be very different from our own and this difference might well cost us our business in a competitive market. For example, a large Middle Eastern steel company was perceived by its local customer, a large automobile company, to produce rolls of steel strip to a lower quality of surface finish than that achieved by foreign competitors. When this perception became known to the steel producer an investigation showed that there was no discernible difference. However, because they were local and because both they and the customer were located in a dry arid desert, there was no need to protect the steel reels during transportation. On the other hand, the steel produced by the competitor was wrapped in oiled paper to protect it from the corrosive salt air during a long sea journey. The oiled paper gave the impression of superior quality when, in fact, there was no difference. Had the study not been carried out, the producer might well have engaged in an expensive improvement process which might not have changed the perception unless this had also included wrapping the steel in oiled paper, which was the root of the false impression.

When demand exceeds supply and the vendor can sell everything they can make, it is possibly difficult to convince them of the importance of this philosophy. The customer will have to buy their product regardless of the quality of the service, the price, delivery or after-sales support. This will usually be the case in monopolistic situations where the customer has no choice. There is therefore no pressure on the supplier to achieve anything because they know that they are secure.
Alternatively, when supply exceeds demand, the rules change completely. Suddenly the customer becomes king and collectively has the power of life or death over the hapless vendor.

Since in this situation, every competing vendor wants to be amongst the survivors, the pressure is on to be amongst those who are favoured by the customers and in the end it will only be the best who will survive.

Hoshin Kanri is the only proven means by which this can be achieved when competition is at its most severe. It is a systematic approach that can be ruthlessly applied to grind down even the most severe competition.

Toyota have persistently applied Hoshin Kanri-style management for several decades. They have never wavered in this. In the 1950s, they were well behind most of the world’s leading automotive producers but, year by year, one by one, they moved through the pack passing one competitor after the other until in the end, in 2007, they outstripped the giant General Motors to become the world’s leading automobile producer. For years both Ford and GM attempted to stop their advance but they were unable to do so for no other reason than they did not fully understand Hoshin Kanri, Japanese Total Quality Management (TQM), (they did attempt the American version) and now they are fighting for survival with huge losses reported on the Internet.

Japanese Total Quality Management (TQM) is founded on the principles that each individual in an organisation is recognised as being the expert in their own job, that humans seek recognition and want to be involved and are motivated by a desire to be recognised as a contributor to the success of the community to which they belong. The overall objective of this form of TQM is to attempt to create an organisation (which includes the entire supply chain) in which the collective thinking power and job knowledge of all of these individuals is galvanised into a programme in which everyone is working both individually and collectively to work towards making their organisation the best in its field, both in fact and in the eyes of its customers, and all other interested parties.

It involves both voluntary and mandated team-based activities systematically carried out on a project-by-project basis at all levels of organisation to continually improve business performance in all of its aspects both on an inter- and intra-functional basis.

There are many Western interpretations of this but they are mostly focused on the creation of ‘systems’ and not the human aspects. As a result they often become policing style regimes parallel to the production processes rather than an integral part of them.

Organisations that have applied Hoshin Kanri have in some cases come from being also rans in their field to becoming performance record breakers in only a matter of 3 to 4 years. Hoshin Kanri is not a difficult concept to understand or to apply. Most organisations will have some of its elements in place and in some cases a large percentage. However, Hoshin Kanri does require meticulous planning, targeted benchmarking and the effective and systematic use of the tools for continuous improvement at all levels of the workforce. In short it is a means of managing a business.

Hoshin Kanri is a Japanese management term which has no direct equivalent in the English language. The term roughly embraces four key elements of business management namely: Vision, Policy Development, Policy Deployment and Policy Control. It is also directly linked to a fifth, which is TQM, which is the means by which the Goals, which have been determined in the Hoshin Kanri process, are achieved.

Figure 1.1 gives an outline of the elements of Hoshin Kanri.

1. The Goals, aims and future scope of the organisation are derived from the Vision.
2. It requires the development of Strategy, Policy, Benchmarking and Targets.
3. The deployment of the Targets must be to all levels through a cascade process and the creation of policy at each level of management.
4. There must be a feedback loop of results to complete the Plan-Do-Check-Act (PDCA) Cycle which is the Shewhart Cycle (which some nowadays refer to as the Deming Wheel).
It has no value unless it also includes TQM (the Japanese version not the suspect version that fluttered for a while in the West in the late 1980s) which is not part of Hoshin Kanri but represents the Do part of the PDCA Cycle.

Hoshin Kanri and Japanese-style TQM are intrinsically related to each other. In fact, the Japanese would say that Hoshin Kanri represents the ‘what it is that we want to achieve’ and TQM (often referred to as Total Quality Control or TQC) is the means by which to close the gap between Current Performance and target performance. Japanese TQC/M includes everything that is to be found in Six Sigma, Lean Manufacturing, Total Productive Maintenance (TPM), Quality Function Deployment (QFD) and Quality Circles and all other quality-related sciences and disciplines. It would be nice to be able to include an in-depth treatment of all of these in this book but unfortunately it would then extend to several volumes. The intention has been to provide a solid base on all the key concepts and to encourage organisations to acquire ever greater expertise in each of the disciplines. As Professor Ishikawa said on many occasions, ‘Quality begins and ends with education.’

The term Hoshin Kanri has four components:

1. Ho – means Direction.
2. Shin – refers to Focus.

It can be likened to ‘a leading star’ or the way that one point of a compass always points towards the North Pole.

Perhaps more appropriate is the way that iron filings go into alignment on a piece of paper if the pole of a magnet is placed underneath. Each small iron filing could be considered to be just one employee with everyone focused towards the Vision and Aims of the organisation.

The concept is based on the principle that the most powerful organisation is the one which has managed to harness the creative-thinking power of all of its employees in order to make the
organisation the best in its business. It requires that each person in an organisation be regarded as
the expert at their own job and their contribution recognised. All the members of an organisation
must have a clear understanding of the organisation’s Vision and Goals. With all members in perfect
alignment and clearly understanding their own role in the achievement of those Goals as they
are trained and encouraged to work together to achieve them, then the productive power of the
organisation would be optimal.

THE CHALLENGE! – THE NEGATIVES THAT HOSHIN SEEKS TO ELIMINATE

Unfortunately most organisations are a very long way from the Hoshin ideal. In many cases, they
exhibit a blame culture with recriminations and punishment when things go wrong and very little
in the way of praise when they go well. Direct employees are treated as robots, nobody asks them
anything or involves them in anything. They are only given the minimum training and in some
cases no training at all. They are not given much information as to how the company is doing in
its marketplace or even the purpose of their own jobs. Only the directly relevant negative financial
Goals and financial constraints are clear. All other organisational Goals are either stated in vague or
very subjective general terms and are often open to wide interpretation.

In an organisation which does not practice Hoshin Kanri or something similar, then in the
absence of clearly-defined quantitative Goals, managers are somehow mysteriously expected to
‘know’ them. Usually they struggle to do so but their perceptions as to their meaning will often vary
widely from person to person and across the organisation. The resulting confusion will generally lead
to serious underachievement against the potential capabilities of the organisation when everything
is in alignment.

Since all departmental managers will be managing in line with their own interpretations of the
business Goals and Targets, there will be considerable conflict and sub-optimisation. Departmental
Goals which may seem clear to the managers will be considered to be more important than
organisational Goals which appear vague and indistinct. Goals for Quantity which will derive from
the financial Goals and constraints will often appear to be very clear whereas Goals for Qualitative
requirements will usually be stated in euphemistic terms, if at all: for example, ‘we must have better
performance’ or ‘increase customer satisfaction’. On the face of it, these seem like laudable Goals but
in reality they mean nothing because they are too vague. This vagueness cannot compete with the
clarity of the financial Goals; as a consequence the qualitative Goals will always be the poor relation
even though their sustained non-achievement could result in dramatic financial impact or even
threaten the future of the operation.

This lack of clarity also leads to rivalry and conflict between departments. Managers have their
own ambitions and these may not always be compatible with the Goals of the organisation as a
whole or the local Goals of other departments. For example, the IT manager might have the Goal
of perfect information flow. In order to achieve it, they might propose the use of some complex
documentation by other departments. In order to satisfy their needs, the relevant managers might
be required to spend their precious time filling in the forms required by IT when they would prefer
to use it for their own needs. The consequence is that there is now a conflict between the demands
of one department and the local needs of the others.

A further common problem is the lack of process ownership. For most of the 20th Century, the so-
called Scientific Management System prevailed in the West and also throughout the Soviet system. In
such organisations, each department was almost an independent fiefdom. In some cases, it literally
bought and sold its products and services from or to the other departments within the organisation.
Each of these ‘fiefdoms’ were fiercely hierarchical. Promotion, hiring and firing only occurred within
the department, with the consequence that each was a self-contained unit. Whilst the organisation may have had business-wide advisory and service departments such as maintenance, training, HR, industrial engineering, and so on, they were often regarded as intruders by the managers and treated with hostility and suspicion.

As a consequence, these organisations had very strong vertical fibres of organisation but were very poor horizontally. As can be seen in Figure 1.2, processes run horizontally across departments which meant in effect that no one owned the process.

In the worst case scenario, each department performs its activities and then in effect ‘throws the output over the wall’ to the next department. There would be very little communication in either direction between the two and virtually no understanding of each other’s needs. When things inevitably and frequently went wrong, the practice for each would be to blame the other. Some managers would be more expert at the blame game than others, consequently they would appear to be the most competent and therefore the ones most likely to be promoted. Since this was how everyone was promoted, they then found themselves confronted with a better class of enemy!

The nearer they got to the top of the organisation, the tougher and more sophisticated became the competition.

At the highest levels intimidation was the main weapon. The most successful managers would eat in a separate and more luxurious restaurant, they would have large offices, deep-pile carpets, oak panelled walls, named car park locations, dress differently and never speak directly to the workforce. Such distinctions are regarded as ‘perks’ but in fact are really a form of intimidation. This method of management could be regarded as the modern equivalent of the Native American’s war paint! Companies which pride themselves in more participative styles of management scorn these distinctions and make great efforts to avoid them. Whilst the worst extremes of the autocratic approach have thankfully largely become less obvious in recent years, it is nevertheless more often than not still lurking beneath the surface and few managers are either trained or encouraged to use participative management techniques. We are therefore still faced with the worst in macho-based autocratic management, and no wonder so many executives and managers have stress disorders and heart attacks in their late 30s and 40s!
Whilst autocratic management methods may appear to have receded in recent years and are regarded as being ‘politically incorrect’, they are nevertheless proving to be self-sustaining and very resilient. The executives and managers who reach the top in such organisations do so because they are good at this style of management. They know how to make the method work in their favour and are not interested in experimenting with any alternative that might make their position less secure. Their belief is also strengthened by their observations of the behaviour of those beneath them. They have created a work environment ruled by fear. People work in such conditions not because they choose to but because they may have little choice. It is a way to earn a crust and nothing more. As a consequence, they will do the least they can get away with in order to satisfy their basic needs and to keep out of trouble, but no more. Their loyalty is minimal because they resent the way they are treated. Managers who have created or are sustaining such an environment believe from their own observations that their workforce are lazy, slothful and indolent and the only way they can get results is through Threats, fear and ‘carrot and stick’ methods. They are convinced that this is the only way to manage and will not accept that it is their behaviour and not that of the workforce that created the problem in the first place. They will not listen to any alternative, no matter how convincing it might appear.

In great contrast, as will be explained in considerable detail later in this book and especially in the chapter on Quality Circles, Hoshin Kanri demands a very different approach. The Hoshin organisation is seen as a community which has common Objectives and in which each participant has a contribution to make. It is also founded on some fundamental beliefs about the nature of work. At the core of these beliefs is an understanding that each individual is the expert in their own job and that people want to be listened to, perceived to be respected and developed to improve their achievements. Therefore there are two key defining elements to Hoshin Kanri. On the one hand it involves a very clear and well-defined structure of roles, responsibilities and metrics. On the other, it must concentrate on the development of its people with the aim to galvanise the creativity and job knowledge of its entire people to make it the best in its field for the pride and satisfaction of them all.

It is clear that introducing change of this nature is not going to be easy. The challenge therefore is how to persuade what might be an intrinsically autocratic organisation to move towards such a strongly participative style. Some autocratic managers are so entrenched in their beliefs that they are probably incapable of change. Experience indicates that they would rather threaten the very survival of the organisation than change their habits. The business graveyard is positively filled with such companies.

So far we have deliberately set out the contrasting extreme states. Very few organisations will be anywhere near either extreme, they will be somewhere between the two, but where? Undoubtedly, most readers will be able to identify with some elements of both.

Figure 1.3 dramatises the worst case. The large arrows show the distribution of the energies of each of the departments when they are not working well together. Ideally they should all be aligned and pointing towards the top (as in the case of the iron filings and a magnet). However, they are not, they are pointing in all directions, indicating conflicts between departmental Goals and those of other departments and the organisation itself. The managers are probably not even aware that they are behaving in a negative way, they probably think they are doing the best they can in the circumstances in which they operate. Also they probably do not see anything wrong with it because that is the way of the world they grew up in and are probably unaware that things could be very different. The more ambitious amongst them will already be learning how to make it work for them!

The most striking features of such an organisation are the following:

- No clear Vision. Whatever the intentions are of the chief executive, they are not known possibly either to themself in any coherent way or to their subordinates. They are managing by hunch and
instinct. This applies also to each of the senior executives, who are probably totally preoccupied
in defending their own fiefdoms against the attacks of those who should be regarded as their own
colleagues and will also be managing by hunch and instinct.

No process ownership. Each function does what it believes to be its job then throws the
product ‘over the wall’ to the next department. There will be very little feed forward or feedback on
requirements because people are ‘supposed to know’!

Most non-financial Drivers of the business will be qualitative rather than quantitative and will
come in the form of vague slogans. There will be few if any tangible measures for anything other
than those related to volume of work and those related to time constraints.

Not only will competitor performance not be known, in many cases people will not even know
who the competitors are. This ignorance will often lead to crass complacency at all levels even when
the Threats should appear very obvious.

A high proportion of decisions will be based on opinion data rather than factual. This will
invariably lead to considerable sub-optimisation.

A blame culture will almost certainly prevail. As soon as anything goes wrong, which will be
frequently, the question will always be, whose fault was it? A better approach would be to find out
the circumstances that prevailed that caused someone who wanted to do a good job to do something
that neither they nor anyone else wanted. In other words the approach should be to attack problems
instead of people. This is difficult in a macho-style environment.

The likelihood of insecurity at all levels of organisation is obvious. Such organisations usually
suffer high levels of staff turnover, sickness and absenteeism.

Departmental Goals are often clearer than organisational Goals largely due to the vagueness of
the latter.

Quick fix solutions are frequently not sustained when crisis management prevails.

Figure 1.4 below compares this with the ideal state which is the Goal of Hoshin Kanri and is
shown on the right-hand side. This represents the essence of Hoshin Kanri-style management.
Note that instead of the thick arrows being randomly orientated, the arrows in the diagram on the right are pointing towards the top. Notice the effect that this has on the arrow showing performance output. The sum of the energy from all of the departments in the diagram on the right is significantly greater than for the diagram on the left. The challenge of Hoshin Kanri is to be able to move the organisation as far towards the diagram on the right as possible.

Before commencing Hoshin Kanri, people will want to know, ‘Where in this spectrum is our organisation right now?’ Not only do we need to have at least an idea about this, more important is how far to the right we are in comparison with our competitors and who is moving fastest in that direction. It is this comparative rate of improvement that is critical because even if we are ahead of them now, if they are moving faster than we are then it follows that we will soon be overtaken.

This point is well illustrated in Figure 1.5. The diagram shows two businesses in competition. Initially Business A was far superior to Business B and it is possible that this had been the case for many years. As a consequence both Business A and the market in general will have grown used to it being the market leader. Unfortunately for Business A, this may have led to both complacency and arrogance. Because it has become accustomed to everyone else looking towards it as the market leader, it stops checking on its competitors. Business B then starts to move. It introduces a more dynamic form of management with the intention of closing the gap. Year after year the gap narrows until it closes. Still Business A does not react because it is unaware of what is going on. Its arrogance and conceit are now bigger problems than the performance of the competitor. Now the competitor moves ahead but still it is not noticed by Business A until the gap is quite large. Eventually, the difference becomes such that it cannot fail to draw attention, Business A suffers a slump in profits whilst Business B declares stunning growth and financial performance.

A period of panic now sets in at Business A. At first there is denial and disbelief but eventually action must be taken. Typically this could involve sacking the chief executive, or even the whole Board, closing down some of the least profitable parts of the organisation in order to consolidate. These are short-term measures but, sooner or later, the facts must be faced that the old Strategy no longer works. The new market leader is not going to be easily dislodged. They knew what they were
doing when they moved ahead and they will be watching every move made by Business A. The likelihood is that Business A can never regain its position. At best it can move up a parallel track to Business B. If it wanted to regain its original position it would be forced to move ahead at an even greater rate than Business B and this might not be possible.

The lesson is that whoever we are, we must never let a rival get past us if it can be prevented. We must continually benchmark the competition and try to go up the steepest curve it possibly can irrespective of the policies of competitors because we can never be totally sure what they are doing. Only through Hoshin Kanri-style management can this be achieved and the Goal must be to become and remain the leader in our field or Risk being second to those that are. The consequence of this will be tight margins, tough markets and the ever present threat of being wiped out.

**THE HOSHIN MODEL**

Enough of the negatives. The remainder of the book will concentrate on how to install the positives and to drive your organisation to the pole position. The Hoshin Kanri model shown in Figure 1.6 has been developed by David Hutchins and is based on many years of practical experience in the implementation of Hoshin Kanri in industry.

It is being used here as a road map for the rest of the book and we will work progressively through each of the boxes in the diagram. Readers will be referred back to this page constantly as we progress through the book.

At first sight the diagram probably appears complicated but it will be quickly appreciated that it starts with the Vision on the left-hand side and then progresses through a series of logical steps through to the point where the full programme has been fully established. To do this properly in a medium to large organisation it could be several years before the process was fully bedded-in and is representative of the overall culture. This should not be surprising because for most it represents a very big change and that will always take time, however high the levels of enthusiasm of the pioneers.
One attraction of Hoshin Kanri is the fact that the programme that you develop will be unique and will reflect the personality of your organisation almost from the start. What is included in this book describes a method of development and implementation. The result of that work will be entirely yours. By its nature you could not go to any other organisation and find a Hoshin Kanri programme identical to yours, you could not buy it off-the-shelf. This book will help you to create your own unique programme. If you want outside assistance, make sure that you vet very carefully the track record of those offering their services no matter how well known they may be.

Each box on the model shown in Figure 1.6 is covered by a chapter in this book. The largest chapter is Chapter 16 which covers Quality Circles (or Kaizen) in some detail. The reason is that this topic is fundamental to the success of not only Hoshin Kanri but, in fact, all Japanese-originated concepts. This also includes Lean Manufacturing in particular and whilst Six Sigma was a US-developed derivative of the work of Dr Juran, there is no question that Six Sigma programmes would also benefit from the addition of Quality Circles.

Despite a huge quantity of literature most Western organisations simply cannot, or more likely choose not to, understand either the potential that Quality Circles offers or face up to the fact that they must address this issue if they hope to maximise the potential of their organisations.

Hopefully the material included in the relevant chapter will help to address this issue. As a matter of interest, I have taken and updated most of that material from my earlier book published in the early 1980s, The Quality Circles Handbook. It is long since out of print but second-hand copies are changing hands on the Internet at well over US$120 per copy. Sadly I do not benefit from that but since the copyright is exclusively mine the readers of this book can benefit from that material simply by reading the Quality Circles chapter!

Figure 1.6 The Hoshin Kanri model with chapter numbers
USE OF THE BOOK AND A WORD OF WARNING!

It will be appreciated that Hoshin Kanri is a vast subject embracing every discipline in the organisation and possibly the creation of some new ones. This might indicate the need to use expensive management consultants. This would be absolutely the wrong approach and the temptation to put your fate in their hands should be vigorously resisted however attractive it might appear. Hoshin Kanri can only work if it is the product of the people in the organisation itself. Every step along the way, in the sequence of the chapters in the book, should be the work of the directors and management team in the organisation and no one else.

It is always an attractive idea to delegate responsibility for change programmes to consultants but you will end up with their programme not yours and it will not produce the results that you want. The process of managing your organisation is simply not delegable.

Use an expert Facilitator by all means and it is possible that they may come from outside your organisation. However, remember at all times that the verb ‘to facilitate’ means ‘to make easy’ or ‘to make possible’. Their job will be to bring everyone together, to guide the discussions, to ensure the relevant facilities and resources are available, to produce reports and to offer advice where requested or when it is deemed necessary. They must never take over the project or create any of the materials at any level. This must be done within the organisation itself. I have facilitated many such programmes for very large and very small organisations. I have always ensured that ownership of every piece of work at every level stays firmly in the organisation itself. The pay off is that the sense of achievement when the results begin to appear is enormous and the organisation concerned can be justly proud of their efforts. In contrast, when the work is done by consultants, there is no sense of ownership, no pride in achievement and the results will be mediocre at best.

I have tried to put everything that is essential for success in this book but it is possible that something that is important to you is missing. I commit through the publishers to address any such issues if they arise, either by correspondence or email.

I very much hope though that this book proves a valuable resource for the future improvement in the performance of your organisation, improvement in its competitiveness and improvement in the quality of life of all your people, their families and society in general. This is a tall order but from what I have seen elsewhere it is achievable, but only if you make the effort. You do not have to be the chief executive to make a difference.

I have seen shop floor people and direct supervisors use the relevant methods at their level, sell them upwards to their managers through the results they have achieved and then on upwards to the top. Nobody is entirely a victim of their fate; everyone can make a difference if they work at it. It is never easy and there are some huge frustrations but sheer dogged determination will get you there in the end. If one thing that you try does not work then do not give up, try something else and again and again. There is always a way if only you can find it, so good luck and I hope that through these chapters you too can make the difference.