

In the fall, when you close out the books for the fiscal year, does your management team breathe a sigh of relief? Do you see this closure as a time to relax, or do you start looking forward to the coming year? Does your team plan for success or just hope that the markets favor you and your bottom line?

A company that has committed to a lean transformation also has committed to working toward long-term growth and success. This requires planning for the future as well as creating operational excellence today. Although many companies understand the need for planning, doing so is perceived as much more difficult than dealing with the day-to-day operational improvements, and so often planning goes undone or poorly done. And yet, if a company wants to truly transform, its management team must learn to plan for the future. A lean company does this planning through policy deployment.

No organization can afford to waste energy and resources on efforts that do not support its objectives. You can use policy deployment to build consensus on a few critical things that will generate growth and long-term success.

Policy deployment is a process for focusing a company's resources on those few critical objectives that improve execution and drive growth.

Policy deployment is an integral part of the senior management leadership process that lies at the center of an organization's lean transformation.

Because this is the time of year when companies should be planning for the future—and it won't do to wait till the end of the year and hope New Year's resolutions will suffice—we have decided to reprint from our book *The Antidote* the sections that describe policy deployment and the steps necessary to implement it. We hope that this will be the jump start some companies need to start implementing policy deployment to improve their growth and success.

Focusing on the Vital Few

The transformational management system treats strategic planning much the same way it treats leadership, employees, customers, suppliers, and processes, which is to say very differently than the old approach to strategic planning. Policy deployment takes significantly less time than the old approach to strategic planning. It gives everyone involved in the process equal input into the outcomes. It ensures that the necessary buy-in and resources exist before the plan is implemented. It demands relentless accountability and follow-up to achieve objectives. It delivers results aligned with the organization's vision, its need for operational excellence, and its desire for growth.



2 x 4

Policy Deployment Initiative

“We do a top-down, bottom-up process,” said Tim Powers, president and CEO at Hubbell. Hubbell engineers manufacture and sell electrical and electronic products such as wiring systems and lighting for offices, products for the utility infrastructure, and specialty communication products. It employs more than 11,000 people with annual sales of \$2.5 billion. “The major benefit is that management as a team reassess where it is on an annual basis. It helps us focus on the vital few and get rid of the typical problems facing most companies of having too many priorities.”

Tim and his leadership team embarked on their lean journey early in 2002. “We were in a situation where we had too much working capital, our ability to adapt to rapidly changing market conditions was too slow, and we needed to be quicker, more flexible, more able,” said Tim. “I thought our company needed dramatic change.”



In 2002, the first full year of its lean journey, Hubbell coined a “2x4” strategy: two times improvement in many critical metrics by 2004.

Its goals included 2x inventory turns by '04, 2 margin points by '04, and 2 percentage point market share improvement by '04. The “2x4” strategy helped the organization focus on the vital few goals that would help Hubbell improve speed, flexibility, and quality. It started lean transformation in six sites and expanded to all thirty of its locations by 2004, a steady transition that makes its results even more astounding. From 2002 to 2004, Hubbell made dramatic improvements including:

- Net sales up 54 percent
- Net income up 320 percent
- Sales per employee up 17 percent
- Inventory down 53 percent and inventory turns doubled
- Working capital as a percent of sales down 45 percent
- Space reduction of more than 1.5 million square feet

“Our new management methodology has helped us take several hundred million dollars out of working capital and put it into cash,” said Tim, “and that’s allowed us to buy more companies.” Hubbell’s acquisition strategy is a key component of its plans to grow the company. It has used policy deployment since 2002 to select—and deselect—the objectives and actions that support its strategies.



How Policy Deployment Works

The senior management leadership process begins with strategy, vision, commitment, and policy deployment. Policy deployment begins with knowledge of the facts. The initial policy deployment meeting takes three days, typically off-site, and must be attended by the entire management team and other key contributors.



| Step 1 |

Create a Common Understanding

We believe that everyone involved in identifying strategies and developing plans should share the same information. They should have a common understanding of the external environment (opportunities and threats) and internal environment (strengths and weaknesses), short- and long-term goals, and strategic direction, so that they can provide informed and reasoned insights.

We don't subscribe to the idea that participants in this process should be limited to the president/CEO and his or her direct reports. Every organization has additional "movers and shakers" and informal leaders who can enrich the discussions and strengthen the plan. We encourage you to find the natural "go-to" people who have their coworkers' confidence and respect and tactfully bring them into the process. The ideal number of participants seems to be between twelve and twenty, although we've done policy deployment with fewer and larger groups.

Before the first meeting, determine who will present the critical information to the group that it needs to make decisions.

Topics to be addressed include:

- Customers' perceptions of quality, delivery, service, and value (each key customer/market segment)
- Competitors' strengths and weaknesses
- Current company performance
- Impediments to success
- Operational performance indicators
- Financial performance indicators
- Human resource capabilities and challenges
- Supplier capabilities and challenges
- Economic, legal, regulatory, environmental, and other issues
- Emerging technology and its implied impact on the organization's future

The presentations and discussions during the first meeting should be completed in approximately three hours. It's important early in this meeting to clearly communicate the egalitarian nature of this process. We say "one person, one vote." All ranks and titles are left at the door. Participants need to understand this because each has an equal responsibility for the creation and success of the plan.

| Step 2 |

Key Strengths, Weaknesses, Opportunities, and Threats (Focused SWOT)

The information gathered during the first meeting is used for the focused SWOT analysis in the second part of the meeting. The goal of the SWOT analysis is to identify those significant, vital few issues the organization must address.

Strengths and weaknesses are generally assessed from an internal focus and against customer expectations and competitive pressures. Opportunities and threats are assessed from an external perspective and are generally out of your control.

The exercise begins by asking participants to assume that each is the president or leading executive of the company. If they were the boss, what would their priorities be?

Each person writes down three strengths, one each on a Post-It note. Each strength should be a clear, concise, and complete statement. The participant then prioritizes the strengths by putting stars in the upper right-hand corner: *** for the top priority, ** for number two, and * for the number three. Each participant repeats the process for the weaknesses, and then prints his or her name on the bottom right-hand corner of each note. Participants are encouraged to take their time, but not to discuss their ideas with others in the group. The goal of this silent brainstorming activity is get everyone involved: One person, one vote.

Once this is completed, participants follow the same process for key opportunities and threats. When everyone is finished, the facilitators take their notes and arrange them on a wall by strengths, weaknesses, opportunities, and threats, and under similar categories or sentiments within each. All participants have a chance to review the groupings to make sure their ideas are understood and categorized correctly.

When the review is complete, beginning with strengths, the number of stars under each category is counted to select the top three or four areas for synthesis. Each area is assigned to a sub-team charged with capturing the intent and spirit of all related ideas in a single, concise, clear statement and presenting its statement to the entire group for further synthesis, improvement, and a reality check. Once the group agrees on the nature and wording of the selected strengths, it repeats the process for weaknesses, opportunities, and threats.

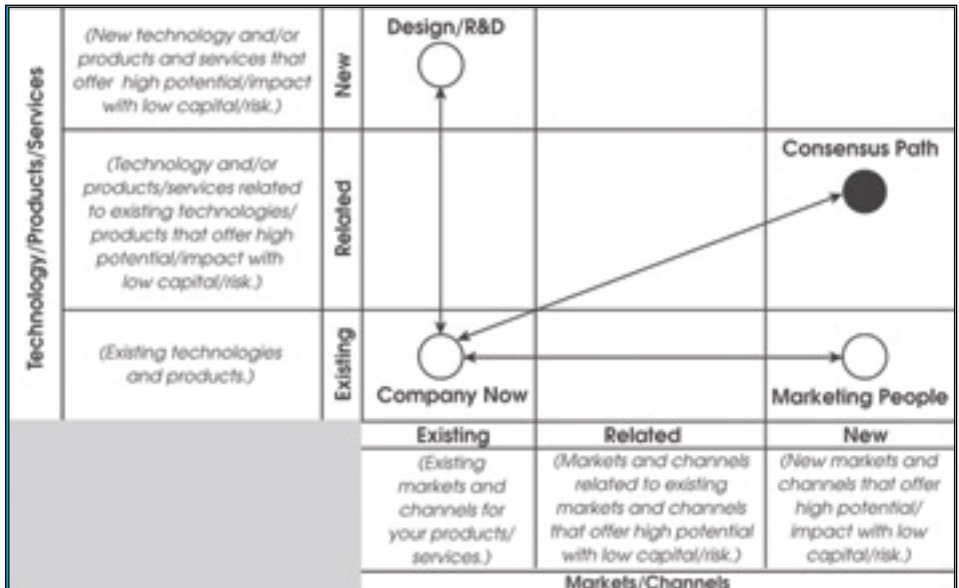
| Step 3 |

Develop Directional Alignment

Leadership's most important step is to align the direction of their organization with the company's vision and the revelations of the SWOT analysis. Leaders determine this direction by evaluating two dimensions, technology/products and markets/channels, to expose both new and related opportunities.

The directional alignment exercise typically involves the same group that participated in the SWOT analysis. It begins with the group suggesting new and related products the company could offer, new and related technologies it could pursue, new and related markets it could enter, and new and related channels it could explore. Sub-teams of the group define each new/related opportunity and anticipate its potential, impact, capital required, and risk. They present their conclusions to the entire group, which then uses the same silent brainstorming technique described in Step 2 to select the top four to five high potential/high impact areas with low capital/low risk rating.

Sub-teams for each of the top selected areas identify their area's impact on sales and earnings, and its capital and other resource requirements. They outline the action steps and implementation schedule necessary to move forward. Then they describe their findings to the entire group, which discusses the plans, completes the strategic directional matrix, and reviews each plan and all plans together for practicality.



SWOT analysis and strategic directional matrix

| Step 4 |

Outline the Strategic Plan

Policy deployment is a three-phase process that begins with the development of goals that are then translated into objectives and projects through the policy deployment matrix, which are reviewed monthly throughout the year to ensure that the objectives are being met.

The SWOT analysis and strategic directional matrix are key inputs for Phase I. The planning team uses these inputs to outline a three- to five-year strategic plan that identifies concrete and quantitative goals in four specific areas:

- Quality/customer satisfaction
- Productivity/cost reduction
- Delivery/responsiveness
- Morale/ergonomics/safety

Once the goals are established, the team reviews current performance on them and establishes concrete, measurable goals for each operating unit that will contribute to achieving the overall business goals.

| Step 5 |

Create the Policy Deployment Matrix

The policy deployment matrix captures business objectives, projects, goals, financial impact, and implementation teams for the organization or for individual business units on a single page. To complete the matrix, the leadership team for the organization or business unit groups the strengths and opportunities identified during the SWOT analysis to guide the development of growth objectives. It then groups the weaknesses and threats to help develop operational improvement objectives. We refer to growth objectives as "offensive" and operational improvement objectives as "defensive," or basic "blocking and tackling." In our experience, the focus of the first year of the transformation is on the defensive side, on shoring up the weaknesses and threats and getting your house in order. Through operational excellence, your organization earns the right to go on the offensive and plan for growth.

The matrix is a grid with 8 rows and 8 columns. The top-left quadrant (rows 1-4, columns 1-4) is labeled 'Selected Projects' and contains a diagonal of stars from (1,1) to (4,4). The bottom-left quadrant (rows 5-8, columns 1-4) is labeled 'Project Impact In 5' and contains a diagonal of stars from (5,1) to (8,4). The right side of the matrix (rows 1-8, columns 5-8) is labeled 'Implementation Teams' and contains a grid of stars. The stars are arranged in a pattern that suggests a mapping between projects and implementation teams.

Policy Deployment Matrix

With both a defensive and offensive focus in mind, each member of the leadership team develops three prioritized business objectives for the next three to five years that are broad enough to address specific SWOT statements, yet specific enough to produce achievable, measurable annual targets. As in Step 2, each participant writes down his or her three longer term objectives on Post-It® notes, using stars to prioritize them and printing his/her name on each. Again, the goal of this silent brainstorming activity is get everyone involved, although we notice that people tend to be “gun shy” the first time around.

When everyone is finished, the facilitators arrange their notes on a wall under similar areas of focus. All participants have a chance to review the groupings to make sure their ideas are understood and categorized correctly.

When the review is complete, the entire team uses the grouping and the stars to select the top three or four business objectives for the next three to five years. Each objective is assigned to a sub-team charged with capturing the intent and spirit of all related ideas in a single, clear, concise statement. The team then identifies one, two, or, at the most, three specific projects required to achieve the first year intent of the objective, key measures for success for each, and the potential financial impact of completing the projects and meeting the objective.

Each sub-team presents its business objective with first year project plans, metrics, and financial impact to the entire group for discussion and refinement. The leadership team must choose which projects to pursue with six being ideal and eight projects the maximum. When all objectives have been finalized, the objectives, projects, goals (metrics), and financial impact are entered on the policy deployment matrix. The last section of the matrix involves identification of the implementation teams for each project, beginning with the project

leader and, if this is for a business unit, a project sponsor at the corporate level. The project leader/sponsor must have been present for the policy deployment process and cannot lead or participate on more than two teams.

The leadership team then selects four to eight members for each project implementation team depending on the size and scope of the project. When we facilitate these activities, we screen people to make sure that the right people end up on the right teams. Implementation team members must represent different functions, bring the customer view-point to the project, and provide the necessary technical expertise. We look for a balance of passion and knowledge, process insiders and outsiders, executives and managers, and other cross-functional perspectives that help create innovative solutions while achieving the objectives. As with the project sponsor/leader, an implementation team member cannot be on more than two teams.

“We establish a policy deployment matrix with our top managers,” said Hubbell’s Tim Powers, “then each business unit aligns its priorities with that. Every single unit ties to our policy deployment matrix. Our goals are the sum of the outcomes of our business units.”

| Step 6 | Choose the Vital Few and Deselect Aggressively

The projects chosen through policy deployment are not the only activities people are working on. The purpose of this step is to select only the vital few breakthrough initiatives that will have a major impact on the company and deselect those that won't, because in addition to these initiatives, people are working on many important activities daily to maintain current levels and achieve superior performance.

We start by asking leadership team members to do a little homework: List all the breakthrough initiatives in which they are involved. Breakthrough initiatives focus on growth: (1) in sales and market share over and above maintaining the current business level; (2) in earnings and asset leverage over and above maintaining the current level of performance; and, (3) to achieve your mission through strategic alignment with long-range plans.

- As a group, the participants put their initiatives in five categories:
- Regulatory, and you have to do them
- Mandatory, and your job depends on them (so you can't tactfully negotiate relief)
- Aligned with the policy deployment matrix
- Aligned strategically
- Not aligned

De-selection involves keeping those aligned strategically and by policy deployment and the regulatory initiatives, killing those not aligned, and questioning the mandatory to see if they must be kept. The group needs to formally "kill" each deselected project and develop action plans for the questionable ones.

Deselecting can be a very tedious process because nobody wants to give anything up. But as Hubbell discovered, it is absolutely necessary. "It helps us focus on the vital few and get rid of the typical problem most companies have of facing too many priorities," said Tim Powers.

Deselection is vital for making progress as a corporation.

We encourage leadership teams to meet after two or three weeks to finalize the policy deployment matrix. This allows time for the ramifications of the matrix to become clear and for a "sanity check" to occur.



| Step 7 | Track and Review Performance

As the name implies, the crux of policy deployment is making sure projects are on track and that actions are taken to achieve the business objectives. This is done through weekly team meetings for progress and monthly project reviews by senior management.

As soon as the policy deployment matrix is complete, leaders develop a detailed monthly schedule for reviewing performance. Following a detailed tracking procedure, each month the executive team reviews the projects that have failed to achieve targeted milestones and devises and implements countermeasures. Visual controls and performance boards help everyone in the organization see how the company—and each team—is doing.

The Power of Alignment

High-performing organizations accelerate improvements and speed past the competition through the power of alignment. If everyone is working on those activities that are vital to your growth and success, your company will grow and succeed, as Hubbell continues to demonstrate.

"The general and agreed upon priorities of our company are innovating the greatest number of products, and serving our markets with the least amount of capital," said Hubbell's Tim Powers. It aligns all business units with these priorities through a one-day policy deployment review process. "We have sixteen managers in our top management team. We start from scratch every year with a SWOT analysis: what has gone on, how we saw it a year ago, what's changed. We get the skeleton of the matrix the next day and then take it out into the field and fill it out during discussions at our locations, to get the exact goals and measures. We do this in the fall so we're ready to go at the beginning of December."

This process takes place at a company with more than 150 different product lines that is reorganizing along those product lines to better serve its customers. The most effective alignment—of policy deployment, product/service development, functional activities, human resources, value streams, and other key processes—begins with the customer.

Policy deployment is indeed at the center of any company's transformation, and now is the time for you to make it the center of yours. ■

Note: This article has been excerpted from *The Antidote*, published by TBM Consulting Group, Durham, NC.