Emerald for Managers

Feature of the Month

Balanced scorecard and *hoshin kanri*: managing strategic priorities

The scorecard and *hoshin kanri* are integrative cross-functional approaches used for managing strategic priorities across the functional hierarchy of the firm. They provide firms with an overall capability for sustaining strategic management over time.

The scorecard's strength lies in its ability to clarify long-term statements of corporate purpose. *Hoshin kanri*, on the other hand, is strong as a management system for the deployment and execution of purpose as short-term actions. In fact the balanced scorecard was originally developed from *hoshin kanri*.

The balanced scorecard

It is generally perceived that there are two kinds of scorecard in use. These are a strategic form, which concerns corporate level objectives and measures, and an operational form, which applies to a sub-unit level. There is sometimes confusion between what can be taken as a truly strategic measure, and what should really be operational.

The design of the scorecard is the same for corporate and other levels. It is composed of a limited number of strategic objectives and measures grouped into four perspectives. These are:

1. financial;
2. customer;
3. internal business process; and
4. learning and growth based.

Traditionally, measures of performance are primarily centred on financial indicators. These are typically based on past performance and do not take into account future performance, nor do they necessarily take full account of the improvement of (more intangible) strategic assets. The scorecard offers the opportunity to take these other indicators of performance into account while still allowing managers to retain a focus on short-term financial needs.

Hoshin kanri

The words “*hoshin kanri*” translate as policy management, where “policy” refers to a statement of a strategic objective and its strategies – sometimes called guidelines. The Chinese kanji characters for “*ho*” used in the Japanese language suggest method, while for “*shin*” they suggest the light that reflects from a compass needle to show the way. So together they signify a business methodology for direction and alignment.

Hoshin kanri developed in Japanese firms as a strategic management approach to enable the corporate level to manage strategic objectives across the functional hierarchy of the firm. It is particularly useful where it is necessary to achieve an organization-wide collaborative effort in key areas of a business. The principle is that every employee should incorporate into their routines a contribution to key corporate priorities. Then, within a relatively short period the firm concerned will have achieved a significant step forward than would have been possible through normal (typically functionally-based) working.

The balanced scorecard and *hoshin kanri*

The balanced scorecard's four perspectives is similar to one used within *hoshin kanri*. This is the QCDE grouping of objectives used in *hoshin kanri*, where quality objectives and measures (Q), are comparable to those in the scorecard's customer perspective, because customers ultimately define what quality means; cost (C), similarly covers financial objectives and measures; delivery (D), covers process objectives in a similar way to the internal business perspective, and education (E), objectives resemble learning and growth and cover people-based objectives and measures.

Strategic management

The balanced scorecard and *hoshin kanri* are core capabilities in the sense that each is an approach that is central to the strategic management of the firm. Strategic management is the overall and general management of a firm's, or an organization's, long-term purpose. This definition is usefully broad enough to encompass competitive firms and non-profit organizations, including public sector agencies.

The balanced scorecard and *hoshin kanri* are, hierarchically, high order capabilities, which are dynamic in the sense they give to the corporate level a capacity to manage and influence strategic management activities through the organization over time. An effective strategic management system provides the longer-term stability for the firm as a whole to manage and control change in the short-term. Combining the balanced scorecard with *hoshin kanri* makes this possible.

The business model: core capabilities and competences

For the balanced scorecard, in terms of furthering vision, strategy is an overall policy to achieve the scorecard objectives. While accepting this as sensible, strategic management should incorporate the firm's business model: that is, a statement of those critical core capabilities that have to be managed effectively if long-term purpose is to be achieved. It is necessary to identify those business areas, typically cross-functional business processes, which are core to the effectiveness of the firm or organization in achieving its longer-term purpose.

> ***"Many firms specify their core processes as managing capabilities."***

Within firms and organizations that apply lean production the specification of core business processes is an important early design stage for the elimination of activities that do not contribute to value. However, many firms go further and specify their core processes as managing capabilities. For example, Nissan uses a more developed corporate business model that comprises 13 core capabilities. These are:

1. cross-functional activities that include *hoshin kanri*;
2. daily management (*nichijo kanri*);
3. production maintenance;
4. standardization establishment;
5. productivity improvement activity;
6. inspection;
7. production control and logistics;
8. personnel and labour management;
9. cost management;
10. quality control;
11. engineering capability;
12. parts localization; and
13. purchasing.

Nissan also specifies seven corporate core competences, which it calls its business methodologies and philosophies. These are:

1. daily control;
2. the determination of *hoshins*;
3. the coordination of *hoshin* development and deployment;
4. the establishment of control items;
5. analytical and problem-solving abilities;
6. check and action taken; and
7. leadership and participation by high-ranking personnel.

The important thing here is that everybody is expected to sustain and develop their abilities in managing the core areas of the firm. These competences constitute an important strategic resource to Nissan, and the senior level involves itself in an annual audit of proficiency across the Nissan group.

Medium-term objectives

Hoshin kanri involves the implementation and execution of strategic objectives. It starts at the senior level with a medium-term plan, designed in the form of objectives set for three successive years. These are normally grouped as QCDE objectives in a similar manner to the four perspectives of the scorecard.

In a general sense the scorecard, particularly where a strategy map is used to articulate cause-and-effect issues, provides the desired strategic outcomes, which can be written into a medium-term plan under a strategic theme or challenge. The plan provides the signposts for the firm's near future, which will serve as a basis for setting the annual priorities to execute at the functional levels of the firm. The execution of priorities is a descending sequence of four distinct phrases:

1. Focus

The focus phase involves the senior level setting its priorities for the coming planning cycle. This normally involves a senior management team made up departmental and functional heads. The priorities are based on the needs of the strategic themes and medium-term plans, which are reviewed against current status and an analysis of the external environment.

The priorities are translated as two kinds of annual cross-functional objective:

1. *Hoshin*.
2. Improvement.

These are designed to progress the medium-term plan and take into account the weak points of departmental and corporate cross-functional management. The senior management team considers the firm's functional strengths and weaknesses in relation to the firm's core capabilities

2. Alignment

The *hoshins* and QCDE targets are given to the other levels of the firm to use as priorities in a participative form of business planning called catchball. This is an iterative activity involving passing draft action plans to and fro among the participating parties. It involves agreeing plans at every level of the organizational hierarchy, where teams and individuals have to agree their contributions to the *hoshins* and QCDE targets.

This activity aligns other functional priorities and control systems (including budgets and staff appraisals) to the strategically-linked priorities. The emphasis is on the self-management of means rather than a top-down linked set of activities associated with management by objectives.

3. Integration

Typically, *hoshin* and QCDE related activity is integrated in a form of daily management through PDCA-conditioned TQM. PDCA is the Deming Cycle principle for managing a process of work: where “P” is plan, “D” is do, “C” is check, and “A” is action. The cycle applies to every level of a business process. This is represented by the turning of a review wheel: a firm-wide system of review where checks on the progress of objectives and targets in daily management provide data for monthly operational meetings, which in turn provide further information for quarterly strategic and annual reviews.

4. Review

The review phase of FAIR is the annual input into the review wheel. It is a senior level review of how the firm as a whole is managing its core capabilities. The most advanced forms are found in Japanese *hoshin kanri* and involve executives and board members as auditors, and are referred to for such applications as a top executive audit (TEA).

At Nissan each of its seven core competences are used as audit items, which are explicitly examined for the level of practice and learning in each of the 13 core capabilities. A two-page summary is issued across the corporate group, which compares how different units manage. This includes how people manage *hoshin kanri*, which at Nissan is specified as a core capability.

The functional areas, teams and individuals, are expected to understand what a *hoshin* is for, its link to the medium-term plan, and be able to clarify their contribution. The process is visible and sends messages that confirm top-level commitment to core competences as common ways of managing, especially the importance of strategy to daily management.

Dynamic capabilities

Many argue for a complementary use of the balanced scorecard and *hoshin kanri*. The balanced scorecard is a valuable approach for the translation of longer-term purpose into strategic objectives and strategic themes. These can be managed alongside the firm's model of its core capabilities and competences. They are concerned with the management of longer-term operational effectiveness and do not typically appear on a “strategic” scorecard.

Hoshin kanri is used as an implementation and execution system. This is used to translate scorecard objectives and the needs of the business model firstly into medium term plans and challenges, and then as short-term priorities within the annual planning cycle. *Hoshin kanri* brings advantages to execution that include the specification of a few vital *hoshins*, and the determination of incremental targets to drive and sustain the momentum of change; participative planning; a PDCA cycle-based learning approach for the management of objectives, and a senior level involvement for understanding for developing competences in core operational capabilities.

The scorecard is primarily about the longer-term strategic objectives and measures. The issue is how to ensure that people understand longer-term strategy so they are able to understand how strategy can inform their activities in daily management, and how operations inform strategy. Dynamic capabilities were portrayed, using the example of Nissan, to argue the synergistic combination of the balanced scorecard and *hoshin kanri* as nested forms of dynamic capabilities for the organization-wide management of the strategic fit of strategy to operations.

This is a shortened version of “Balanced scorecard and hoshin kanri: dynamic capabilities for managing strategic fit”, which originally appeared in *Management Decision*, Volume 45 Number 3 2007 pp. 518-538

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