

# Balanced Scorecard and Hoshin Kanri:

## Metric-Driven Strategic Planning and Organizational Alignment

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### Introduction

The term Strategic Planning became popular in the late 1960's and early 1970's as the method organizations used to transform themselves in order to meet the needs of the future. Over the past decade, however, most senior managers and executives have begun to realize that traditional strategic planning approaches are failing American businesses. The plans created by such approaches—usually the work of a senior management strategy committee—suffer from a variety of shortcomings.

Top-down, with little input from the rank and file, it is a rare strategic plan that actually gets executed. Most end up in three-ring binders collecting dust on management shelves. Line managers often, if subtly, adopt a “not invented here” mentality and show little commitment to the plans stated goals—if they understand them.

Since few of these plans have goals that actually relate directly to the “day jobs” of the company's employees—and, rarely demand accountability for their achievement—it is little wonder that so few are implemented.

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### Our Approach

This lack of accountability—directly related to a dearth of metrics and measures—led Marketing Partners to seek out and develop alternative methods of guiding organizational direction and performance.

For over a decade, Marketing Partners has been using and refining one of the first and best of these approaches—an import from Japan called *Hoshin Kanri*. In essence, *Hoshin Kanri* is a way of making dramatic improvements in an organization in a short time.

Hewlett-Packard, Motorola and others pioneered the use of *Hoshin Kanri*—a way of powerfully integrating planning and management—in this country as part of the quality revolution. It incorporates an intense, goal-driven focus on *metrics* and *measurement*, an emphasis on the *voice of the customer*, and alignment of the organization through *deployment*, *catchball* and *visual communication* processes that concentrate resources on breakthrough strategies.

At MPI we have developed ways of bringing the power of what was originally a manufacturing-oriented planning process to knowledge-based, service organizations.

In the mid-1990s, Robert S Kaplan and David P. Norton, in a series of seminal articles for the Harvard Business Review, developed a system of organization management called the *Balanced Scorecard*. The interest in the method sparked by those articles led to their business bestseller, “The Balanced Scorecard: Translating Strategy into Action”, published in 1996.

The *Balanced Scorecard* is a management and measurement system that helps managers at all levels monitor results in their key areas. There's nothing new about using key measurements to take the pulse of an organization.

What's new is that Kaplan and Norton have recommended broadening the scope of the measures to include four areas:

*Financial performance;*

*Customer knowledge;*

*Internal business processes; and*

*Learning and growth.*

Since 1996, MPI has employed its own strategic planning process called Master Planning. MPI has developed its own approach that takes the best of both systems and integrates them into a powerful tool called Master Planning.

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## Hoshin Kanri

*Hoshin Kanri* systems have been widely used business tools in Japan for more than 25 years. But they are not a Japanese invention. Hoshin kanri traces its genealogy to Douglas MacArthur, Edward Deming, Peter Drucker and what became the quality movement.

In its simplest form, *Hoshin Kanri* is nothing more than a system of forms and rules that encourage employees to analyze situations, create plans for improvement, conduct performance checks, and take appropriate action. In practical application, however, is much more than forms and rules...

Hoshin is a philosophy of management.

What truly distinguishes a hoshin-based planning and management system from conventional strategic planning is how the principles inherent in the hoshin approach integrate planning *throughout all aspects of the organization*.

In essence, hoshin planning provides a better way for people to work together.

The process builds on a strong foundation of policy-level *rigorous prioritization* that enables organizations to create intensely focused strategies to achieve breakthroughs to new heights of success.

*Rigorous prioritization* persistently focuses the leadership of the organization as a whole on its job of making good strategic decisions. Senior management's principal concern becomes setting the organization's one Breakthrough Goal, or a *very limited* number of overarching goals (depending on which goal-setting model is employed), and then determining the best way to measure success through a time-bound and quantified target.

Unlike conventional strategic planning, which is a once-every-so-often effort, hoshin engages the entire organization in an iterative, ongoing process that acts as a highly visible *management compass*.

**"Hoshin planning can be made difficult but it is really a very user-friendly system."**

*David Demers,  
Vice-president of corporate planning,  
Fletcher Allen Health Clinic*

The power of hoshin comes from its intense, goal-driven focus and the technique's ability to align the organization.

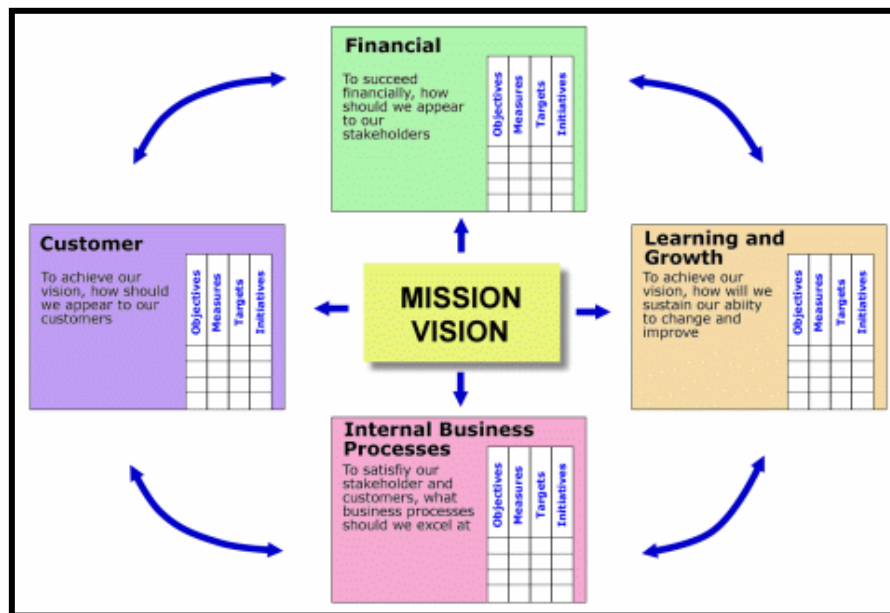
Hoshin-based planning is neither a top-down, nor a bottom up system. Rather it is both, with a cascading technique that encourages multi-level dialogue throughout the planning process.

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## Balanced Scorecard

As its direct descendent, the Balanced Scorecard bears strong similarities to Hoshin Kanri.

Both seek breakthrough performance, alignment, and integrated targets for all levels; however, the Balanced Scorecard specifically suggests which areas should be measured for a balanced picture. Rather than a contradiction to hoshin planning, Balanced Scorecard represents a refinement of the approach that provides additional focus to the hoshin method.



The Balanced Scorecard defines and specifies the critical measurement areas or perspectives necessary for your organization to succeed:

### FINANCIAL

- How do we look to our stakeholders?
- Focuses on whether strategy, implementation and execution contribute to bottom-line improvement.

### CUSTOMER

- How do customers see us?
- Focuses on the specific objectives and measures that matter to your customers.

### INTERNAL PROCESS

- At what must we excel?
- Focuses on critical internal operations that enable customer satisfaction.

## LEARNING and GROWTH

- Can we continue to improve and create value?
- Focuses on an organization's ability to innovate, improve and learn.

Emphasizing these four key areas, the Balanced Scorecard approach not only monitors present performance, but also tries to capture information about how well the organization is positioned to perform well in the future.

Kaplan and Norton cite the following benefits of using the balanced scorecard:

- Focusing the whole organization on the few key things needed to create breakthrough performance.
- Helping to integrate various corporate programs, such as quality, reengineering, and customer service initiatives.
- Breaking down strategic measures to local levels so that unit managers, operators, and employees can see what's required at their level to roll into excellent performance overall

Compellingly, these are the very attributes of hoshin that first attracted MPI to the method as a tool for its clients.

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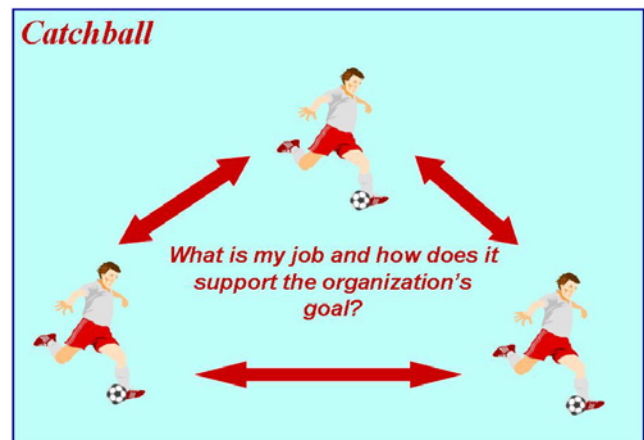
## Bringing it all together

Recognizing that Balanced Scorecard offered some new dimensions to the hoshin process, MPI developed an approach it calls Master Planning. Master Planning takes the top-to-bottom, total organizational-involvement of hoshin, marries it with the measures and metrics focus of Balanced Scorecard and adds elements of team-building and organizational development to provide strategic planning efforts that truly transform and improve organizations.

A key element that hoshin planning contributes to the Master Planning process is something that the Japanese *emphasize*—*catchball*. *Catchball* is the process of give and take between organizational levels that helps to define strategy in Japanese companies. This overcomes a potential drawback of the balanced scorecard method which seems to be more of a one-way street—the executive team creates the strategy, and it cascades down from there.

*Catchball*—by involving multiple levels of an organization on an ongoing basis— allows Master Planning to be more responsive and flexible than many Balanced Scorecard efforts. With such a strong focus on measures, while overall a good thing employees may be tempted to focus their work only on particular targets (most likely those driving incentive pay). Kaplan and Norton, recognizing this, emphasize the importance of a *balanced* set of measurements, which is good. Even so, the risk remains that people will work to achieve their scorecard goals, and may ignore important things that are not on the scorecard. Or, if the scorecard is not refreshed often enough, what looked like an important goal in January may not be very germane in June.

These are the very risks that MPI's hoshin-based Master Planning approach is designed to overcome. By incorporating a team-based, bottom up approach that structurally incorporates frequent



*catchball* sessions, MPI Master Planning gives all organizational participants a birds-eye view of how their particular goals and targets interact with those of other departments. Master Planning draws a clear path from each individual's "day job" responsibilities to an organization's overarching goals and targets.

Balanced Scorecard and Hoshin Kanri represent the very best of breakthrough strategic planning. Though closely related, each brings some unique strengths to the formidable task of steering an organization and its employees through the treacherous shoals and reefs of the modern organizational management. MPI Master planning unites and focuses these complimentary strengths to provide an even more powerful tool.

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## About the Authors

**Leslie Gilreath** is a vice president of, and client services director for Marketing Partners. Her experience includes the development and implementation of market research, strategic planning, advertising, marketing and public relations programs for clients in consumer durables, electronics, health care, education and professional and trade associations. She holds a Master of Arts in Professional Writing from Western Michigan University.

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**Marketing Partners, Inc.** is a strategy and business services organization serving , consumer packaged goods, consumer durable and health care clients, as well as individual membership societies and associations across the United States. The firm's focus is on organizational and business improvement — principally in three areas:

*Customer Focus*, which includes using market research to create market-driven products and processes designed to gain and retain customer loyalty;

*Organizational Advancement*, which views the organization itself as the product and focuses on developing both strategy and organizational capabilities including custom-designed strategic and breakthrough planning processes; and

*Revenue Enhancement*, which employs both fund raising and marketing tools to identify and tap new sources of revenue.



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