STRA TEGY EXCEL LENCE

A white paper by Staufen AG

STAUFEN.

CONTENT

1. WHY STRATEGIES FAIL

From the moment a company is established, the managementis confronted regularly with strategic questions – from the selection of the market segment to new product developments on through to the set-up of the supply chain. The reason for this is the fact that the value of a product or service portfolio for the customer only remains constant across years or decades in exceptional cases. The value of the portfolio is always influenced by external forces, such as technological developments, political decisions or social changes.

It has long been known that companies must consider how they handle these influences, since a failure to act causes a company's economic performance to decline. The question that currently needs to be asked is why strategy is now gaining renewed attention.

There are two developments responsible for this: one the one hand, the speed and significance of the effects of external influences such as political decisions and shorter technology cycles on companies' market environment. Because of this, the added value that companies create for their customers is put under pressure faster and to a greater extent than just a few years ago. On the other hand, many companies are experiencing more and more problems with implementing their strategic initiatives. Recent studies have shown that the rate of ineffective strategic initiatives is around 50% and thus represents a waste of resources that companies can no longer afford.

There are many causes for failed strategies – here are three:

- Lacking implementation energy in top management and a lack of agreement among department managers

- Lacking implementation energy in the entire organization due to insufficient incorporation of the employees, who do not recognize their contribution to the strategic goals

- Slow recognition of irrelevant assumptions in the development of the strategy and thus ineffective projects

For companies, the result of these three developments is the necessity of implementing excellent processes for strategy development and policy deployment in order to ensure long-term success on the market. Entirely in keeping with the Staufen lean mission "We enable you to create value," the goal of Staufen's strategy approach is to introduce these excellent strategy processes.

In addition to the development of strategy detailed in the literature, the Staufen approach uses some elements not considered in "classic" approaches that resolve the cause of failure discussed above. To generate implementation energy in the top management, we begin by checking and formulating a common target image for the company's future in the top management, for an agreed-upon target image is required so that the strategy can be carried by management to the organization. To ensure that the formulated strategy doesn't just remain on paper, a detailed examination of the operative process environment is required. Thanks to an analytic approach, projects can be formulated with the greatest possible certainty that they will succeed. With the analytic examination of the processes and the subsequent formulation of KPIs,

the strategic projects are put into the working context of the operative level and employees recognize their contribution. The KPIs serve as early indicators and enable the managers to detect ineffective activities early on and countersteer in timely fashion.

The following chapters will present the strategy excellence approach in more detail and provide an illustrative project example.

2. STRATEGY DEVELOPMENT AND POLICY DEPLOYMENT PROCESSES

Since the topic of strategy and the associated terms are currently being used very loosely in publications and at companies, when examining this topic, it is recommended that you refer to a structure that defines and organizes the vocabulary. For this, Staufen AG uses the St. Galler management model. These structured core elements, which are required for the management of a company, exist on three levels. On the top level are the normative elements, such as the vision, mission, and values; they explain the reasons why the company exists. These elements are based largely on the management's basic convictions about corporate action and on the pursuit of ideas, and they therefore cannot be proven with facts. The middle, strategic level includes aligning elements such as the strategic initiatives and the leadership system. Based on empirical data or experiential knowledge, it is possible to derive statements for these elements that can be validated. The third, operative level illustrates processes and the cooperation in everyday life. These elements are palpable in practice and can be observed, they have a direct effect and can be influenced on short notice.

| Management		Vision with goals, focus, emotions, and boundaries			Guiding principle justifying
	normative	**Value system**	**Politics**	**Constitution**	
		· Ethics · Moral	· Mission · Strengths profile	· Laws · Directives	
	Strategic	**Leadership system**	**Program**	**Organizational structure**	Strategy sufficient
		· L instruments · L style	· Processes, products, and methods	· Work relationships	
	Operational	**Behavior**	**Processes**	**Careers**	Benefits executing
		· Culture · Morals	· Responsible persons	· Professional perspectives	
		Awareness	Activities	Structures	

Figure 1

A company's strategic focus can be broken down into two main phases: the conceptual design and the implementation of the strategy. The conceptual design describes the development of approaches with which an image of the future (the vision) and the normative goals should be realized. The policy deployment and oversight of the strategy constitute the second phase. Staufen AG uses the Japanese concept "Hosin Kanri" for policy deployment. This concept answers the question how a company will implement its strategy, which is typically designed for 3-5 years, in everyday life.

In addition to the purely process-related and methodical components, both of which essentially shape the policy deployment, a second, almost more important aspect is often forgotten. Involving all employees is a key component toward effectively aligning the organization. Added value for the company can only be created by inviting the target group to cooperate and act in the interest of the vision and strategy. As the pioneer of modern management theory, Peter Drucker, once said: "Strategy is a commodity, execution is an art!" Of course it is true that without a properly developed strategy, there can be no sensible policy deployment, however the larger hurdle for companies is frequently the implementation.

To understand what an effective implementation might look like,first it's necessary to explain how a company can align itself according to a common goal. Alignment always means organizing cooperation in a social system in a particular way and designing the group dynamic processes required for this. At its core, efficient cooperation is based on a consensus about particular answers to questions. This consensus is "generated" during the strategy development and policy deployment. This can be done through the targeted use of tools such as analytical tools in group workshops or the innovation reports that Staufen uses (see Chapter 3, p. 12 ff.). The process of generating the consensus is also called the catchball process in the Hoshin-Kanri concept.
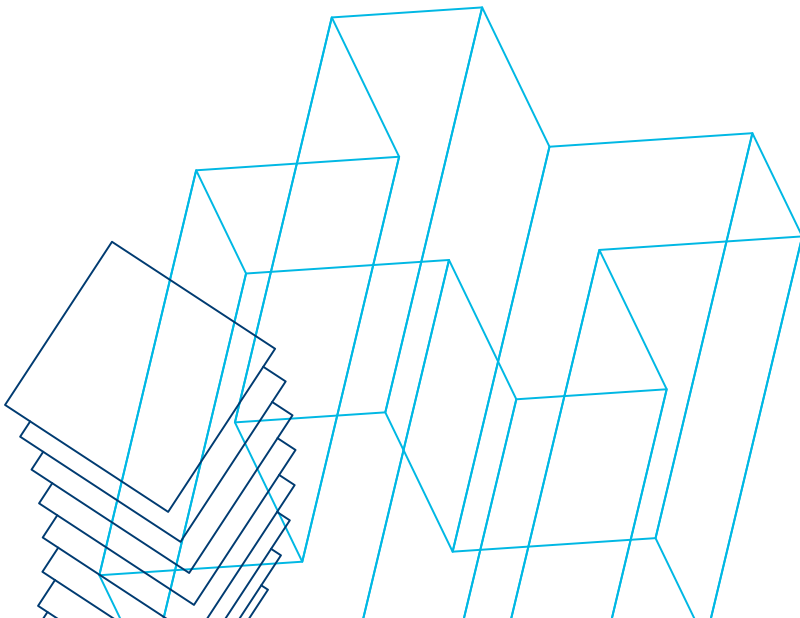
This term illustrates throwing a ball back and forth between two people so that they understand each other better each time and approach a consensus. The organization's managers take on a decisive role here. In the cases where there is a consensus, their primary task is to understand the other side, to address the contradictions that lie beneath the surface, and to invite people persuasively to follow along down the path that the company is blazing, and to contribute to the necessary consensus.

This requires empathy, charisma, and the power of persuasion.
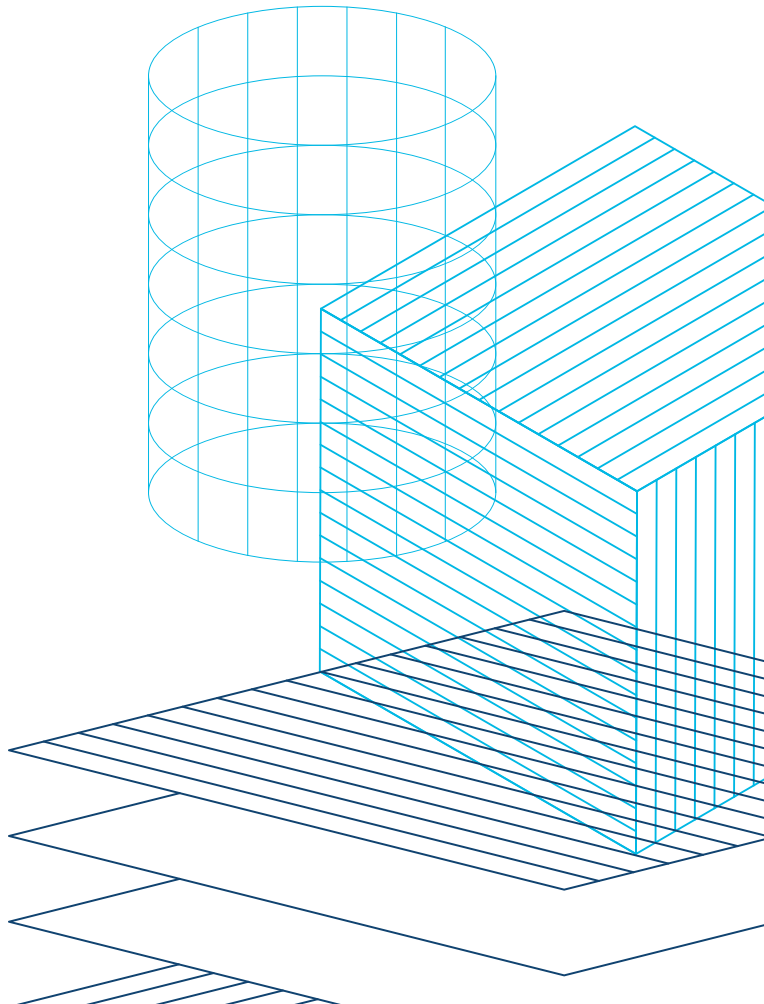
3. THE STAUFEN STRATEGY APPROACH

This section explains the Staufen approach to strategy development and policy deployment and explains the most important elements for elimination of the causes of the failure of strategic initiatives in detail. The core elements of the approach are: Vision/Mission, breakthrough goals, strategic analysis, strategic recommendations for action, annual goals, innovation reports, improvement projects, and success factors (see Figure 2).

	Core belief and visions	Strategy development	Strategy deployment
Normative level	Vision Mission / Break-through goals		
Strategic level		Face reality/ Strategic analysis / Assessment / Strategic recommen-dations	
Opera-tional level			Innovation report: driver/effect / Improvement projects / Success factors

A. NO PROGRESS WITHOUT A CLEAR TARGET IMAGE

The cornerstone of a company's strategic focus is the target image. What are the top management's core beliefs with regard to the company's development? Where should the company be in ten years? What customer benefit does the company generate? All of these questions are answered in the vision and mission and serve as input for the strategy.

Only with a clear and powerful picture of the future can the path that leads there be formulated. That's why precisely this target image is checked at the beginning of the strategy process with the so-called Vision Check. Ideally, the vision is a short statement that presents an abstract yet comprehensible target image for the company that serves as a "source of power" – a challenge recognized by employees that the company wants to confront. In addition to formal criteria such as the scope, target state description, and harmony with the company's goals, the radiance of the vision is also analyzed according to "soft criteria." The radiance is expressed in resilience, universal attractiveness, and selflessness. Ideally, the vision will outlast political, cultural, and technological trends (resilience), exclude no group of employees (universal attractiveness), and generate an energy by setting a "higher" goal. This means that by realizing the vision, first and foremost there is benefit for the customer, society or the environment. This is how intrinsic motivation is created in the organization; working on this goal – a target image that only includes the enrichment of the company owners would not have any effect.

In the next step, the top management derives the breakthrough goals from the abstract vision. This derivation is not a methodology; instead, the breakthrough goals are formulated based on the experience, the courage, and the ideas of the top management (what would bring the company to a completely new level in three to five years?). What's important here is that the employees can believe in this "better future" and "set out down the path" although the achievement of the goals is not sure at the moment. If here only pre-calculated, pre-analyzed, and thus goals that are certain to be reached are set, the company will not advance beyond its current capabilities. The organization will not "reach for the stars." It's the task of top management to select the degree of exertion so that there is a high bar, but the organization is not overmatched. The annual goals are then cascaded from the breakthrough goals.

B. NO SUSTAINABLE ALIGNMENT WITH-OUT VALID ANALYSIS

After reviewing the corporate vision and formulating the break-through goals, the actual strategy is developed. The result is ranked recommendations for action based on analysis results, which are assigned to the previously defined goals. These recommendations are not concrete projects, but rather topics to be treated that will be valid for several years, e.g. "digitalization of the sales channels" or "diversification of the portfolio in two additional profitable market segments." The recommendations for action increase the efficiency for the development of the concrete annual projects. Without a valid information basis (analysis of the current situation) for development of the recommendations for action and projects, there is a danger of incorrect assumptions and the resources deployed will not be effec-tive – waste in the sense of the lean methodology. Here, the analysis is conducted from two different perspectives – looking inward at the company itself, and looking outward at the company's environment. The scopes of the analysis are revealed in Figure 3.

Inward view*

- Company situation (sales, costs, development of results, KPIs)
- Profitability by industries and product segments
- Core processes and competencies in functions (V, EK, P, E, Inno)
- Resources in organization, HR, and IT
- Management system and corporate culture

Strategy

- **Development of various options for market positionings (if necessary, assessment of scenarios)**
- **Decision for strategic recommendations**

Outward view*

- Customer base, potential in inventory
- Market and industry development
- Competitors and purchase-deciding criteria
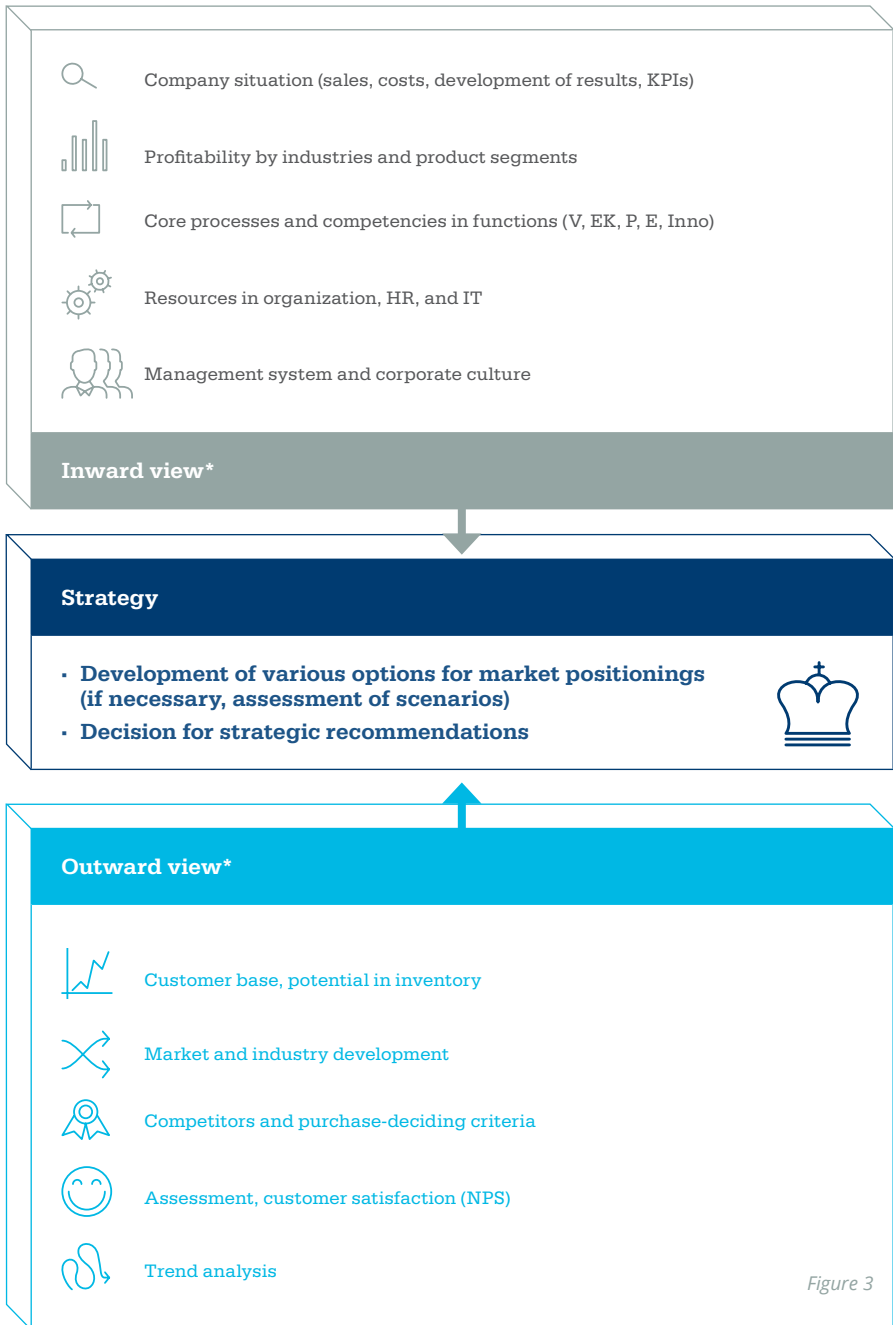- Assessment, customer satisfaction (NPS)
- Trend analysis

Figure 3

The development of various options for market positioning and clearly formulated, medium-term strategic recommendations follow from the inward and outward views. Possible methodologies for this are SWOT and BCG matrices. The evaluation of the options is then done with scenario techniques or point value analyses. Due to widespread knowledge of these methodologies, we will not explain them in any more detail here.

C. WE THINK LEAN – ONLY PROJECTS THAT CONTRIBUTE TO GOAL ACHIEVEMENT

NAfter evaluating and clarifying the future positioning and the recommendations for action comes the actual operationalization of the strategy. The result is specific, annual improvement projects. This point is especially important in the Staufen approach, for only if projects are selected the goals of which are likeliest to be realized, can resource waste be prevented. Since these are breakthrough goals for the company, whose path to achievement is unknown, a new, innovative state is striven for with the implementation of the projects. Here, the frequently used method of brainstorming results in projects that are formulated too generally, where there is no clear relationship between the project (called the "driver" below) and goal (called the "effect to be achieved" below). This is the main cause of a large number of strategic projects that are not managed and completed. With the Staufen approach, therefore, an "innovation report" is used, which leads employees and managers through the process within which

an innovation should be created, to visualize innovations and derive project ideas with a driver-effect relationship.

On the one hand, this method ensures that resources are only focused on projects that make a contribution to goal achievement; on the other hand, by incorporating employees, it is ensured that the alignment will also be borne by the operative level. As Figure 4 shows, the innovation report seeks new properties in the operative processes that will create a never-present innovative state for the process or product generated and therefore lead to the achievement of the breakthrough goal. "Property" can refer to a product property (e.g. a technical parameter that is specified by development) or a process property (e.g. the generation of purchase interest in a particular product, which is specified by sales). Strategic recommendations, analysis results, experiential values, and best practices support the search for the process and the property with regard to the innovation. Finally, there is a search for drivers in various categories using an Ishikawa diagram; in the future, these should be used to generate the innovative property in the process. Through the search for properties and the analysis of driver-effect relationships, the innovation report ensures that projects are defined with which the company is as sure as possible to achieve its defined annual goals. Company resources are deployed in a focused and successful fashion.

Figure 4

Driver-effect relationship

| Place of the first property assignment | Place of the new property induction | Point of the effect to be achieved |

Place where driver of the effect is generated

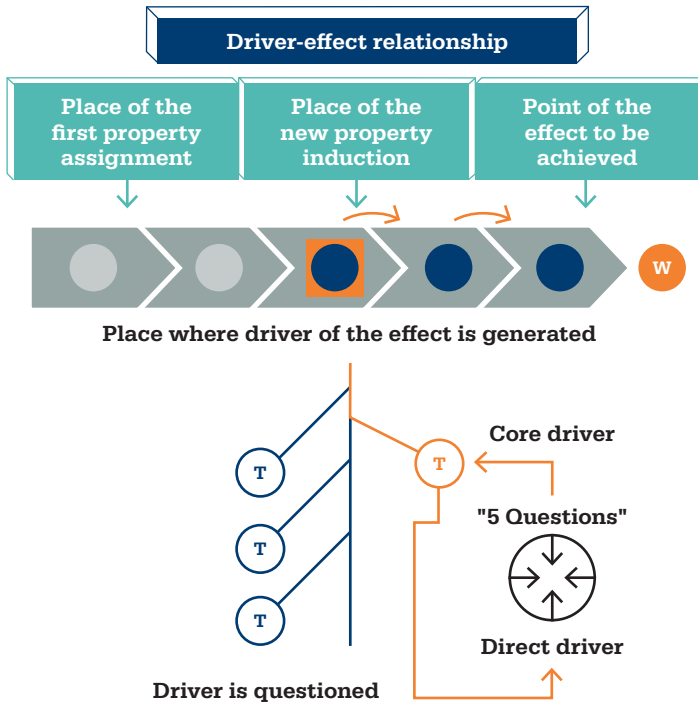Core driver

"5 Questions"

Direct driver

Driver is questioned

D. HOW TO MAKE IT HAPPEN – CORPORATE COMPASS OF EARLY INDICATORS

To guarantee implementation of the strategy, the Staufen Strategy Excellence Approach uses specially defined early indicators with which the management can see, as on a compass, whether the company is

developing toward its goals. Without these success factors, strategic projects are frequently lost in daily business and all investments in their formulation are wasted. The success factor makes the formulated driver-effect relationships between project and goal measurable. This brings transparency and enables short cyclic deviation management. Employees recognize their personal contribution to the future of the company in the operational business and they do not lose sight of the "overarching goal." Two different types of success factors are defined for each improvement project. The first type shows the actual creation of the process property, which "wanders" through the process chain. This is necessary because the creation is not a sure thing based on the innovation; with the success factor, however, it becomes transparent and it can be monitored. The second type serves to measure what effect the creation of the property has on the annual goal.

With these two success factors, you can monitor the driver-effect relationships. If the project team has made a mistake with regard to the relationships, they can react in due time. Each improvement project will be assigned to people within the company, who will be responsible for the implementation in the future. Your work will be structured and controlled, as in classic project management, with project plans. The success factors and activity plans will be analyzed at appropriate intervals on the responsible company level, and in case of deviations, appropriate measures will be taken.

4. APPLICATION IN PRACTICE

Resources

Global competition

Electro-mobility

Digitalization

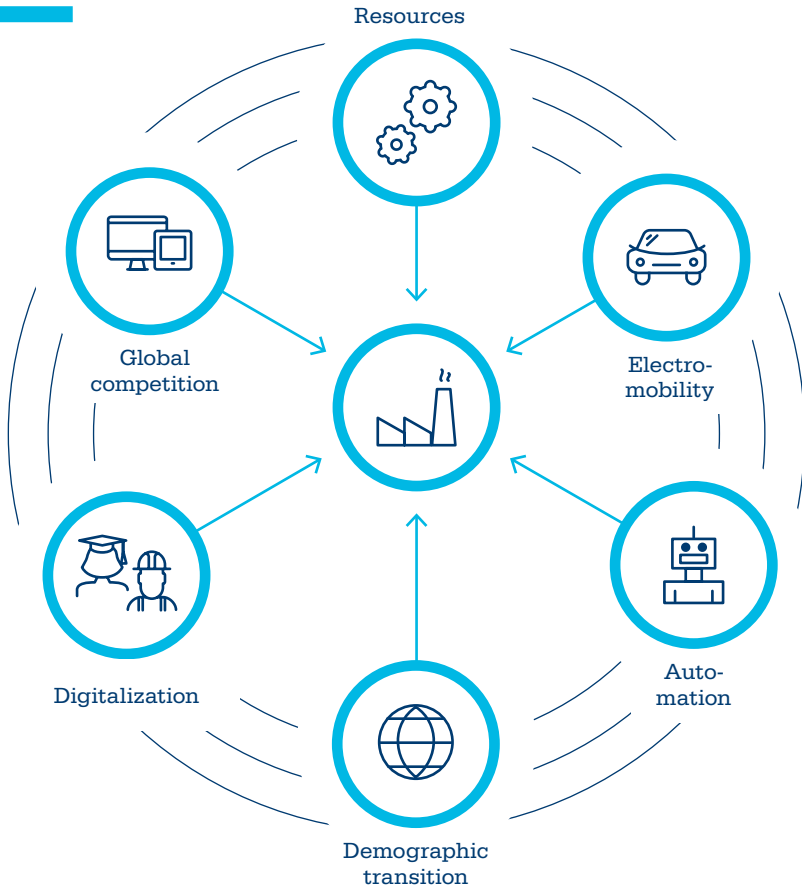Demographic transition

Auto-mation

Figure 5

Strategic analyses have revealed: The transformation in the automobile industry, market trends, and the current situation demand action.

In particular, the automobile industry is currently facing the challenge of setting itself up for the future. The developments in recent years have further emphasized the need to act. Core business fields are changing; the expansion of electromobility is racing ahead, and in many European countries, no more vehicles with combustion engines will be produced and registered in the next few years. Thus, the strategic alignment of a company in the automobile sector is not just important in the core business; instead, employees, customers, suppliers, banks, etc. are clamoring for a clear target image for the coming years.

Vision Mission	Breakthrough goal	Annual goal	Strategic analysis

Shaping the future

• Solution-focused
• Close to customers around the world
• Employee-focused
• Sustainable

Share of non-automotive of total sales > 50%

Share of non-automotive of total sales > 10%
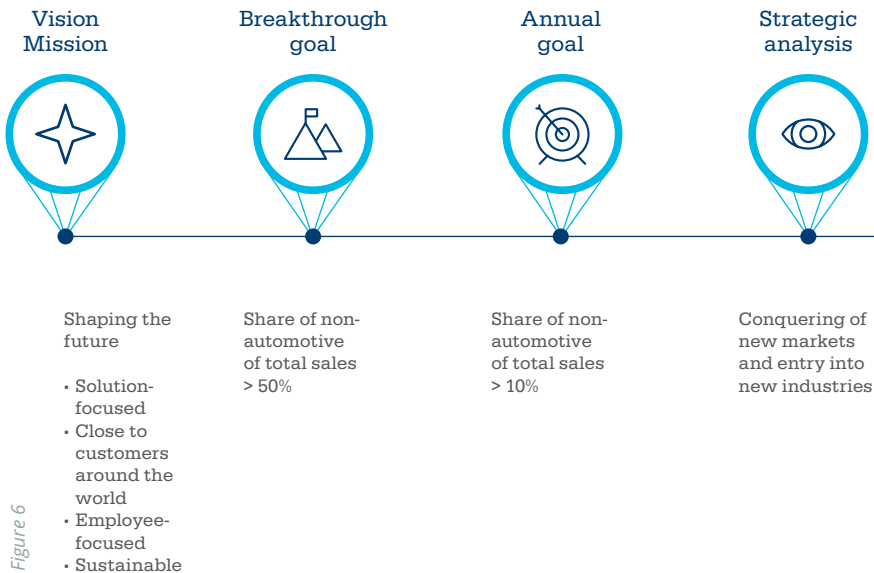
Conquering of new markets and entry into new industries

The specific procedure will be explained below in practical fashion using an example from the automobile industry. The following framework conditions are used as an example here: Sales is approximately EUR 100 million and, of this, approx. 85% is from the automobile business, especially combustion engine technology. There are about 500 employees at the company, who are distributed across three locations in Germany, China, and the USA.

The sample project started in fall 2020; with it, budget planning, the strategic goals, and projects could be defined. At the start, the existing vision and mission were checked with the vision/mission check. On the one hand, this revealed a need to act in the area of substance: an out-of-date target value for sales growth was taken out of the vision statement, for the point was not specific details, but rather substance

Strategic recommendations

Conquering of new markets and entry into new industries

Innovation report

Process progress (property):

Market analysis Core driver: Specific market analysis for new industries and products

Improvement projects

· Conducting of a market analysis

· Internal coordination dates with sales and product management, development

Success factors

· Number of new customer visits conducted with non-automotive customers

orientation. Furthermore, the area of selflessness had to be tuned up: If in the existing vision the focus was on added value for the company, in the reworked version, the focus was placed on customer added value in the form of solutions offered. The breakthrough and annual goals are derived from this. It was important here to focus on a few goals, among other things on sales and profits. To set themselves up so they are less dependent on the changing automobile industry, the breakthrough goal was set to increase the non-automotive share of total sales – in a first step for 2021 to >10% and by 2025 to >50%. This was a target state for the company that was difficult to imagine, but courageous at first glance. Based on the subsequent analysis, by examining the inward and outward views, a clear face-reality image could be created. For this, internal analyses by the customer were combined with the external industry expertise of Staufen. The changing market requirements and the flexibility to react to these did not match up with the initial percentage situation at the company. Using a sales funnel analysis, the bidding process was analyzed; it proved to be extremely inefficient – the hit rate was less than 5%. An analysis of the production process revealed insufficient productivity through a production audit – just 20% of working hours were spent on value creation. Market and competitive analyses were other important building blocks.

The analysis insights were transferred into a SWOT analysis (strengths, weaknesses, opportunities, risks), from which specific strategic recommendations were derived. For example, it became clear that existing products that are generally very standardized are also essentially suitable for non-automotive industries and can thus participate in growth industries.

In the next step, a specific driver-effect relationship was formulated using the innovation report. For this, the process chain of the sales process was examined in connection with the development process.

Strengths

- High technical state (machine equipment)
- Standardized products
- Ability to react quickly
- Lean organization
- Relatively flat organization

Weaknesses

- Lacking sustainability of projects
- Time-consuming bidding process
- Lacking qualification of employees
- Action is more reactive than active

Opportunities

- Growth opportunity e-mobility
- Growth opportunity non-automotive
- High productivity reserves
- Own customer market can be exploited further
- Management team with great freedom

Threats

- Dynamics of the market
- Lacking transparency in the process
- Age pyramid
- Great fluctuation

Figure 7

In the sales process, the process step of the market analysis was identified as the location for the generation of a new property. In the future, this must generate potential for existing and new products

in new industries (property). Identified core driver is the stronger use and incorporation of development expertise even in this early phase. In the development process, by contrast, the focus is on the process step "checking of the technical feasibility" of a product. Technical parameters and manufacturability should be checked in greater detail in the future. Core driver for this is a new checking process in order to ensure that product ideas can really be implemented in new industries.

For the concrete implementation in the next year, the improvement projects were derived from the innovation reports and formulated by the project teams in order to increase the commitment among employees. In this example, this was done in an activity plan with the essential main and subactivities, for example, the conducting of market analyses and meetings with internal specialists from development with regard to a possible implementation. For the measurable effectiveness test, appropriate success factors were defined, in this case the number of new customer visits conducted with non-automotive customers with the goal of expanding into new industries. With the start of the implementation of the strategic improvement projects, activity plans and success factors were created by the management on a monthly basis. Important here was an agreement on the resource expenditure for the strategic projects and the daily business, for example the incorporation of the pursuit of new customer visits in the weekly regular sales appointments. This way, interlocking with daily business was ensured and each individual employee at the company could see his/her visible and measurable contribution to the strategy implementation.

The applied methodology of deviation management enabled the early detection of goal achievement, the definition of countermeasures, and the consistent pursuit of these.

Thanks to the focus on a limited number of projects per calendar year, a successful implementation was ensured. Making a significant contribution to this were the proven templates (activity plans and bowling charts). In the course of the roll-out to the other foreign locations, the software of a Staufen cooperation partner was used. This increased global transparency, always kept the data up-to-date, and minimized the resource expenditure for the preparation of regular appointments. In addition, with the digital tool, it was possible to map the resources in order to ensure sufficient capacities for strategic projects in addition to daily business.

5. SAMPLE PROJECT RESULTS

The structured alignment of the company using a strategy development and policy deployment process produces both qualitative and quantitative results. Implementation and application create the basis for continuous improvement of competitive capability and the economic efficiency of a company.

On the quantitative side, the implementation of the projects reflected a direct driver-effect relationship in the goals. Companies from project examples realized the following with the Strategy

Excellence Approach:

- An increase of delivery reliability to 90%, precisely to the day with regard to the 1st confirmation of the delivery date,

- Sales growth in new business of 20% and

- Increases in market share of 25%.

The qualitative project successes were reflected in:

- Improvement of the cooperation across departmental boundaries (less conflict),

- Improved understanding of the alignment of the company – employees recognize their contribution to corporate strategy – and in

- Improved management performance thanks to the use of the success factors as an instrument for coaching employees.

Depending on the use case and company size, a "Return on Consulting Costs" of approximately ten months was realized (medium-sized company example.
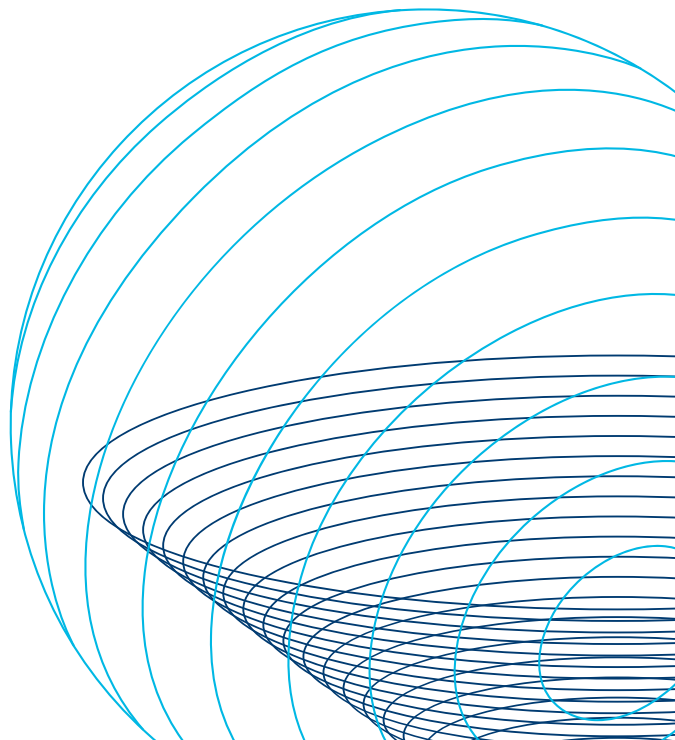
6. CONCLUSION AND STARTING POINT FOR STRATEGY EXCELLENCE

Many companies' current need to act with regard to strategy development and policy deployment results from the quickly changing loss of customer value of their own products and services combined with problems with the implementation of strategic initiatives – companies can no longer afford this. The Staufen Strategy Excellence approach leads companies methodically from corporate vision to the strategy for implementation and in the process, ensures effectiveness through ...

- ▪ ... agreement on the target image in top management in order to ensure that the management carries the strategy to the organization,

- ▪ ... a detailed examination of the process environment of the operational level, in order to define projects with the greatest possible certainty about their effectiveness, and

- ▪ ... an installation of early indicators (success factors) in order to be able to react in case of negative influence on the strategic goals.

In a two-day quick check of the strategy development and policy deployment, you can have the main fields of action in the strategic alignment of your company evaluated and thus create the basis for improving the strategy processes:

The Strategy Excellence Quick Check focuses on the following dimensions:

Strength and timeliness of the vision

- How clear and accepted is your company's vision by top management down to the operational level?

- How do you show employees their own contribution to the corporate vision?

- How do you focus on innovative breakthroughs within the corporate goals?

Validity of the strategy development

- How current and sound are your analysis of the inward and outward view?

- How do you determine the "right" projects for goal achievement?

- How do you prove driver-effect relationships at your company between projects and goals?

Effectiveness of the policy deployment

- How do you ensure at the entire organization that you generate implementation energy among employees and ensure goal achievement?

- What is your quota of planned projects at the beginning of the year to implemented projects at the end of the year?

- How do you measure the success of your projects within the company?

Maturity level of the leadership system (Leadership Excellence)

- How do you use your corporate KPIs (rear-view mirror or early indicator)?

- How do your managers handle deviations and problems?

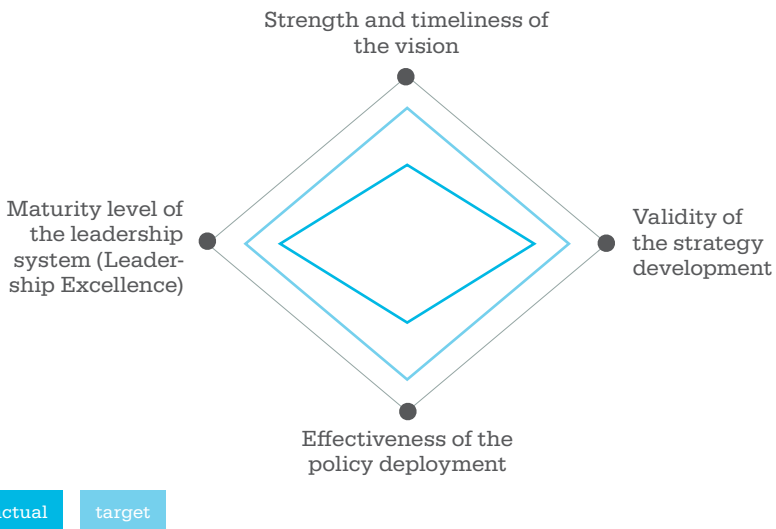- How much do managers drive the strategic initiatives at your company?

Figure 8