EyeOn
Planning & Control Solutions

From Strategy to Action – Planning for Value

The EyeOn approach to implement strategy

An EyeOn research report

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From Strategy to Action – Planning for Value

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1 Management Summary

Most organizations understand that strategy implementation is key to performance. However, many organizations are not sufficiently able to communicate this strategy throughout the organization, nor to translate strategy into mid and short-term action plans. Successful strategy implementation requires the seamless integration of strategic planning, budgeting/forecasting and management reporting.

The concept of key value drivers provides organizations with an effective way to better communicate strategy and to make strategy actionable. Key value drivers are defined as those key areas of performance that are essential for the organization to accomplish its mission. Key Value Drivers are at the heart of a coherent Performance Management system of an organization. KVDs provide the essential link between strategic and tactical planning as they are used to measure and manage progress against strategic objectives via performance indicators.

EyeOn has designed the Key Value Driver (KVD) approach to strategy implementation and performance management. It facilitates strategy deployment throughout the organization and aligns the organization in executing strategy. The KVD approach allows top-management of an organization:

- to implement the key value drivers of the strategic plan into the organization via tactical and operational plans
- to establish focus on a limited set of relevant KVDs and KPIs to steer and monitor strategy implementation
- to make the strategic plan far more actionable
- to make objectives and indicators SMART

In short, the KVD approach will contribute to improved business and company performance, as strategies are successfully implemented.

The approach has been validated and implemented at Dräger Medical in Best. We want to thank Bas Dirkson (President & CEO), Rob Janssen (VP controlling & CFO), Wolf van Diesen (VP product management), Rob Wilcke (VP research & development) and Hans van Ommen (VP operations) for their active participation in the validation. A KVD-KPI framework has been agreed upon by the management team of Dräger Medical and will be implemented in the next few months.

Bas Dirkson (President & CEO):
“The KVD Approach is the tool we needed to effectively communicate our strategy throughout the organization”.

Rob Janssen (VP controlling & CFO):
“The KVD Approach is an excellent method to focus on mutual goals and develop consistent performance indicators and a useful framework for further actions”.

2 Introduction

To be successful, an organization must anticipate changing circumstances in its environment. To effectively monitor strategy implementation, a performance management process is needed, the process that enables an organization to deliver a predictable contribution to sustained value creation.

More and more it becomes clear that the quality of the performance management process enables companies to perform better. An increasing number of literature sources and case studies show that companies which have implemented an excellent performance management process perform better, both financially and non-financially, than those companies that are less performance management driven. (Waal de, A.A. 2002).

Nowadays many organizations design their management processes around the budget and operating plan. The periodic management meeting reviews financial performance versus plan, discusses past performance, and requests action plans for dealing with short-term variances. However, a successfully linked strategic planning and budgeting process depends not only on integrating all the entities of the organization, but mainly on reconciling long-term goals (strategy) with mid and short-term plans and actions.

“85 percent of the management teams spend less than one hour per month discussing strategy” – Kaplan, June 2001

“It can be much easier to think of a good strategy than to implement it”. Numerous shortcomings in the strategy area are attributable to failures in the implementation process rather than in the formulation of strategy itself (Woolridge and Floyd, 1990). Therefore, most organizations recognize that there is a significant gap between their strategic plans and their ability to execute. A recent survey conducted by CFO Research Services showed that 60 percent of organizations said they were dissatisfied with the alignment between strategy and budgets.

Research (Ikävalko,H., Aaltonen,P 2002) indicates that organizations have problems in translating their strategic plan into activities that achieve strategic objectives. Although they often have a good strategic plan, many companies are not able to communicate this plan effectively throughout the organization, and to translate it into mid and short-term action plans. Thereby the strategy development process is too much focused on calculating future financial results, instead of planning for value creation while looking at the effects of non-financial indicators on the business. In addition, research states (Porter, 2001) that exclusive reliance on financial measures is insufficient in a management system as it could promote behaviour that sacrifices long-term value creation for short term performance. Financial reporting focuses on past performance and does not stipulate the future value drivers of a company and does not detail how these results were achieved. Therefore, an organization requires more than only financial reporting of past performance, but must also look into the future performance of the organization.

This paper describes a framework and approach that is designed for organizations to integrate strategic planning, tactical planning and the management reporting process. Chapter 3 explains the main issues that hamper strategy implementation. Chapter 4 describes the concept of Key Value Drivers. Chapter 5 elaborates on the backbone of the EyeOn KVD approach. Chapter 6 describes the implementation and results of the approach at Dräger Medical, a Dräger and Siemens Company. Finally Chapter 7 presents the eight golden rules for effective strategy implementation

3 Strategy implementation in practice

3.1 The characteristics of an effective strategic plan

Most organizations formulate long-term strategic plans. There is, however, a difference between a good and a bad strategic plan. An effective strategic plan is all about managing the activities which directly support the organizations’ strategic objectives and therefore the long-term vision. This plan acts as a road map, showing the organization the way from the current level of performance to the desired level of performance, based on the business environment. More specific, **effective strategic plans...**

- … are feasible and coherent with organizations’ vision. Besides that, organizations are prepared for different scenarios in case they are needed.
- … are focused. Organizations must focus on a limited number of business drivers to ensure adequate attention is paid to each one and that operating plans can be developed at a meaningful level. More detail does not equal more accuracy.
- … include all key aspects of the business. Besides the financial measures, a substantial part of the measures must be non-financial to ensure organizations’ strategic objectives will be achieved in future.
- … include a set of targets that guide operational execution and allow progress to be tracked against strategic goals and objectives.
- … are SMART. Strategies require measures of success which are:
  - **S**pecific; goals should be straightforward and emphasize what you want to happen. It helps to focus our efforts and clearly define what we are going to do.
  - **M**easurable; establish concrete criteria for measuring progress towards the attainment of each goal you set.
  - **A**chievable; goals you set which are too far out of your reach and you probably won’t commit to doing.
  - **R**ealistic; the goal needs to be realistic for you and where you are at the moment.
  - **T**imely; putting an end point on your goal gives you a clear target to work towards.
- … include monitoring and assignments for accountability. Organizations need to monitor and timely review progress against business targets. Therefore, specific people need to be responsible for individual measures.
- … have cause-and-effect linkages between strategy and activities. Activities need to be linked into a cause-and-effect hierarchy because the achievement of the strategic objectives is the result of doing the right things well; the key value drivers.

3.2 The difficulties when implementing strategy

Organizations face several difficulties that hamper a successful strategy implementation. Based on research and experience with our clients we have identified the following difficulties and roadblocks.

• The strategy is not of the right quality
In too many cases, what is referred to as business strategy is deficient in analytical rigour, creative insight, ambition or practicality. The strategy emphasises what has happened previously with no sense of vision or challenge for the organization. As mentioned before, an effective plan needs to be specific, realistic and give the organization something to strive for. Hay and Williamson (Hay M., Williamson P.,1997) argue that a strategy worth implementing should provide inspiration, help staff see how their own tasks link with strategy, be used as a guide for prioritising decisions, create discretion for staff to manoeuvre and facilitate communication. If your strategy does not have these qualities, it will appear vague and irrelevant.

• The organization has defined too many business value drivers.
Management today is dealing with many different information needs. The traditional way of dealing with these needs was by adding new information to the old stack. This resulted in reports getting more voluminous and information systems that did not

yet fulfil new information requirements. However, it is a challenge to not try to know every detail. The art of management is not to know everything that is happening in an organization, but to know what the key issues of the business are. The trick is to focus on the critical business issues, on key value drivers that are crucial to the business, on exceptional events or figures, on analyzing financial and non-financial results, and to take decisions and actions on these. Management reports should trigger decision making for action-taking.
Therefore, too many business value drivers and a lack of cohesion between them makes it very difficult to prioritize initiatives and difficult to make effective resource allocation decisions.

- **The link between strategic plans and tactical plans is limited to the first year financial targets.**

The focus of management is mainly on the financial results, how the results will be achieved is not really important, as long as the (first year) financial targets are achieved. Therefore the organization creates short-term financial sub-optimization and leaves non-financial value drivers out of scope. An effective plan includes all key aspects of the business. This means that a substantial part of the measures within a plan must be non-financial. For example, an organization can save short-term costs on its marketing expenses to achieve profit targets on the short-term, as a consequence, long-term market share growth, a non-financial value driver, may not be achieved.

- **Tactical plans do not reflect the strategic objectives because of the lack of vertical plan integration. (Geelen P., Aertsen F., Tullemans P., 2006)**

Organizations recognize that there is a gap between their strategic plans and their ability to execute them because the strategic plan is not aligned with tactical planning and control budgets. This means that tactical activities are not linked into a cause-and-effect hierarchy with the strategic objectives. Strategy should be translated and communicated throughout the organization. Therefore, structural communication is needed to make strategy an integral part of the daily job. The communication plan should not only include the senior management team, but also the middle management, and other key stakeholders.

- **Besides the annual strategic planning meeting, no meeting occurs where managers discuss strategy.**

Because organizations operate in an ever-changing and dynamic environment, nothing goes exactly according to plan. It is important that changes, which will inevitably be encountered along the way, are acknowledged and addressed. Therefore, people should be given clear and specific responsibilities and periodic relevance checks on the strategy that should be conducted.

Basically organizations need an integrative process that links strategic planning to budgeting and management reporting. We have found that the concepts of key value drivers provide organizations with an effective way to better communicate strategy and to make strategy actionable.

4 The Key Value Driver concept

4.1 Implementing strategy with Key Value Drivers

An organization aims to improve its market value, increase shareholders' wealth and demonstrate stakeholders' well being. The organization's mission embodies this focus by stating the organizations' purpose, vision, and values. Stakeholders are best served when an organization operates in a manner that ensures the mission is accomplished. Accomplishing the mission in a logical and systematic way requires the organization to develop a strategy. This strategy should provide a common lexicon the whole organization can understand and use. As research indicates (Norton, 2006), strategy should be decomposed in between three and five strategic objectives around which an integrated strategy/tactical planning system can be designed. For example, the strategy map for a major consumer bank contains three strategic objectives:

- Growth through innovation
- Increasing demand from customer partnerships
- Building loyalty through operational excellence.

A strategic objective is thus a building block of strategy. Strategic objectives provide the architecture around which an integrated strategy planning/ budgeting system can be designed. First and foremost, objectives serve to adequately describe the strategy. Because objectives are holistic, transcending organizational and functional silos, they provide a foundation for the cross-silo management of such things as accountability, resource allocation, goal setting, monitoring, networks, and communities. In that respect, they enable a new approach to organizational design. This approach accepts the silo structure of the organization as a given fact, and creates an overlay that allows the organization to focus on cross-functional issues. Strategic objectives, then, provide a bridge to the management system; the management system, based on the strategic objectives, becomes the critical lever for motivating behaviour. The strategic objectives are transformed into lower level tactical plans and activities to be carried out at various levels throughout the organization. This process of strategic planning provides a means for ensuring that the entire organization is focused on a shared purpose and vision. However, setting strategic objectives and developing plans to achieve them is only one factor in accomplishing the organizations' mission. The organization must also perform well in a few key areas that are unique to its mission and to the industry in which it operates. In fact, failure to perform well in these areas may be a major barrier to achieving the strategic objectives. These key areas can be described as a set of key value drivers: the limited number of areas in which satisfactory results will ensure competitive advantage for the organization and enable it to achieve its mission.

Key value drivers are the key areas of performance that are essential for the organization to accomplish its mission.

Managers implicitly know and consider these key value drivers as they direct operational activities and tasks. However, when these key value drivers of performance are made explicit, they provide a common point of reference for the entire organization. Thus, any activity or initiative that the organization undertakes must ensure consistently high performance in these key areas; otherwise, the organization may not be able to achieve its strategic objectives and consequently may fail to accomplish its mission. To monitor progress on strategic objectives as well as key value drivers, appropriate measures need to be defined. These measures are the basis for establishing the management reporting requirements of the organization. The key concept is depicted in figure 4.1.

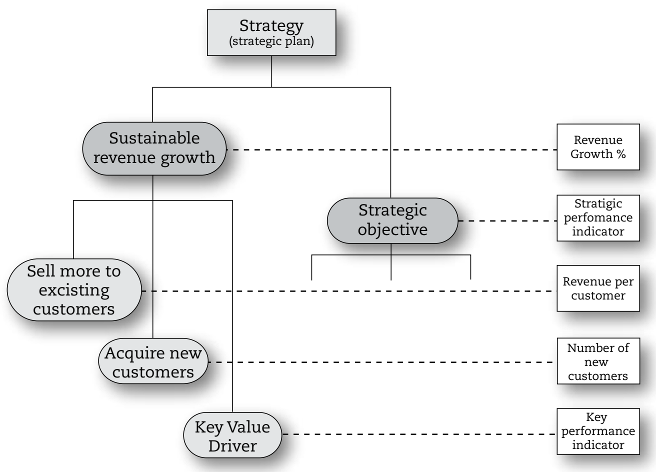


Figure 4.1: Example of strategy implementation with key value drivers (based on Axson, 2003)

A successful synchronized strategic and tactical planning approach, based on strategic objectives and key value drivers, provides a bridge to an integrated management system.

4.2 Positioning of Key Value Drivers in planning and control cycle

Key Value Drivers can be positioned as part of the (desired) Enterprise Performance Management system (see figure 4.2). An EPM system enables a closed-loop process that starts with understanding where the organization is today, where it wants to go to, what targets should be set, and how resources should be allocated to achieve those targets.

Target setting, the point of reference for any management system, is different for strategy and budgeting. A variety of approaches is used to establish targets in both the budgeting and strategic planning processes. Targets set in the strategic planning process should be visionary, aggressive, and motivational.

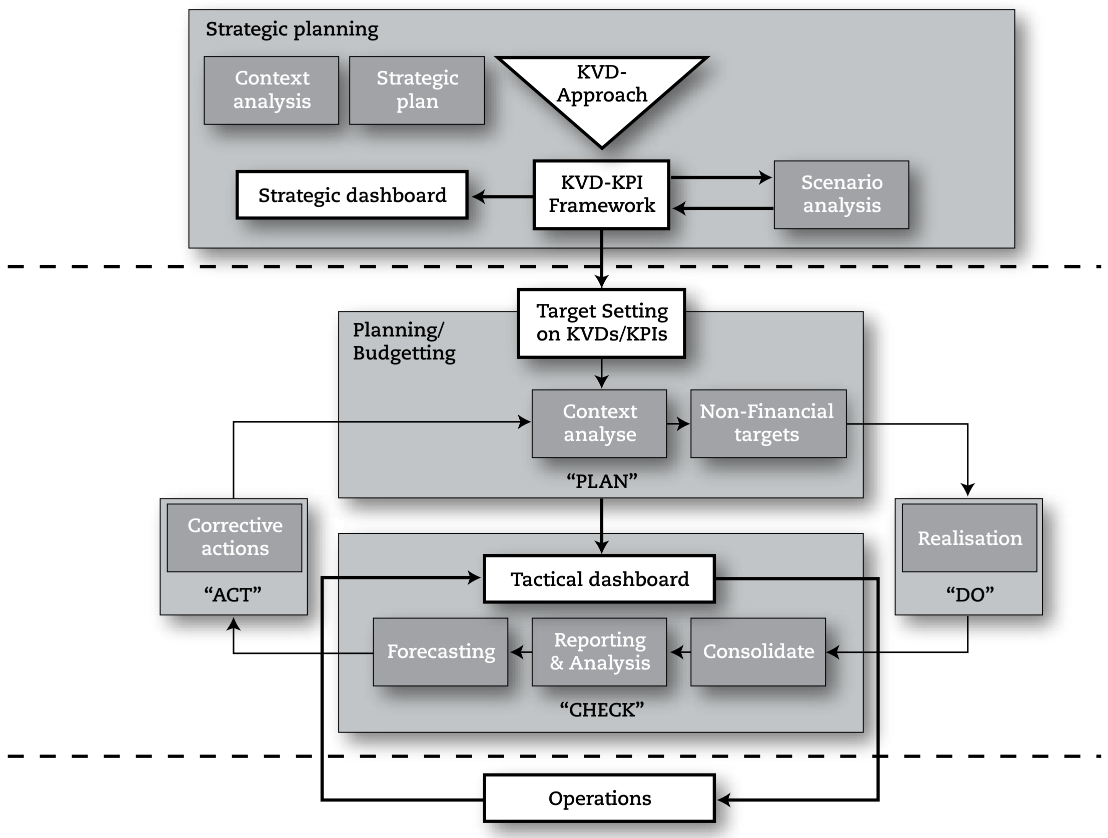


Figure 4.2: Positioning of Key Value Drivers in planning and control

Budgeting targets tend to be predominantly incremental adjustments to previous quarters or years. Strategy is about validating the cause-and-effect hypothesis that focuses on the key value drivers (leading indicators) that create desired financial results (lagging indicators). To be strategic, a target cannot stand in isolation; it must be related to other variables in a logical chain of cause and effect. Employee turnover, for example, may impact customer confidence, which, in turn, will impact revenue. Target setting for strategy should thus be built around the cause-and-effect relationships defined in the KVD-KPI framework.

Once plans have been set, the system should then monitor the performance of those plans, highlight exceptions, and provide insight as to why they occurred. These performance indicators are the basis for establishing the management system reporting requirements displayed in a management dashboard. The performance indicators are characterised by the mixture of two kinds: Lagging indicators or core outcomes (financial reporting) and leading indicators on tactical level. Lagging indicators are derived from the strategic objectives in order to represent the organization's performance. They are lagging performance indicators, reporting how well an organization's strategy worked within a previous time. Leading indicators highlight the performance of the particular issues derived from the key value drivers. They respond faster than result performance indicators and are selected to indicate progress towards long-term objectives. Leading indicators are indicators that measure and track performance before a problem arises.

Finally the system supports the evaluation of alternatives from which decisions can be made - which then closes the loop by leading back to deciding on where the organization wants to go.

In the next chapter we will introduce the EyeOn KVD Approach. It builds on the concept of key value drivers. It provides a consistent top-down method and terminology to overcome the gaps between organizations' strategic plans and their ability to execute. This approach will help organize the thinking process and improve its quality, which in turn will contribute to improved business and company performance, as strategies are implemented. By the introduction of the KVD-KPI framework, the EyeOn KVD Approach facilitates strategy deployment throughout the organization and aligns the organization in executing strategy.

5 The EyeOn KVD Approach

5.1 The KVD Approach

The Key Value Driver (KVD) approach follows a coherent top-down approach (see figure 5.1). This paragraph describes the straightforward approach that offers a simple, logical framework for design and implementation. It comprises three main steps, executed with structured interviews, and workshops to collectively agree on the outcomes. In the next sections each step and the workshop are further described.

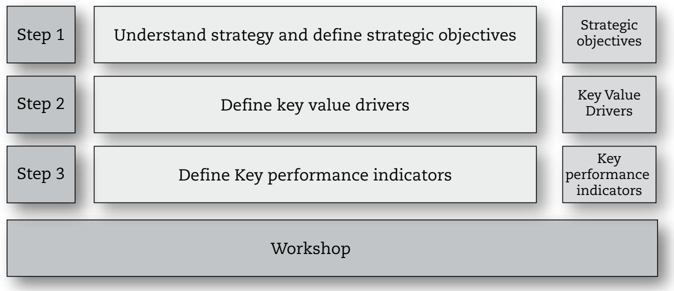


Figure 5.1: The steps in the KVD Approach

5.1.1 Understand strategy and define strategic objectives

The first step is to develop a clear and concise understanding of the overall strategy around which operating and financial plans must be developed. This insight is gained by discussing the organization's vision, mission as well as internal and external environment. Subsequently, the strategy is described as a limited number of statements of strategic direction (strategic objectives). According to Hackett between two and five strategic objectives should be enough to focus the organization's efforts during a forthcoming 3-5 year period. Strategic objectives express the aspiration that defines the purpose or expected level of achievement of the organization.

To come to a solid framework, input from all functional areas is essential. Therefore, interviews with the senior executives are conducted. During these interviews, each executive has to list and rank a minimum of two but no more than five strategic objectives.

Table 5.1 shows an example of a set of strategic objectives.

Strategic objectives
Establish year-over-year improvements in yield and cost efficiency
To take a leading position in all markets that we serve

Table 5.1: Example of strategic objectives

The outcome of the interviews is discussed in a plenary workshop where the team has to agree on a maximum of five strategic objectives. This results in a framework shared by the participants of the approach. The workshop is described in paragraph 5.1.4.

5.1.2 Define key value drivers

When the strategic objectives are defined, each strategic objective is translated into the areas which the organization will need to focus on in order to be successful. These components are the key value drivers (KVDs).

Defining the key value drivers is the first step in translating what needs to be achieved into how it will be achieved. Key value drivers provide the framework for defining the right performance measures, developing operating plans and budgets, and assigning accountability for results. Each strategic objective is supported by a limited set of two to five key value drivers. Table 5.2 shows an example of key value drivers for the strategic objective establishing year-over-year improvements in yield and cost efficiency.

Strategic objectives	Key Value Drivers
Establish year-over-year improvements in yield and cost efficiency	Improve manufacturing cost efficiency Decrease Bill of Material costs

Table 5.2: Example of the key value drivers associated with a strategic objective

In this example this organization has defined two key value drivers associated with its

ability to meet the strategic objective of year-over-year improvements in yield and cost efficiency. According to Hackett ideally no more than twenty key value drivers should be defined for the total set of strategic objectives to ensure adequate focus is paid to each one and that operating plans can be developed at a meaningful level.

5.1.3 Define performance measures

The previous steps provide a structured view of the business that links the overall strategy to the key areas a business must plan and execute to deliver the results required. The next step in the KVD Approach is to add the performance measures. Table 5.2 shows the performance indicators defined for the strategic objective and key value drivers described in table 5.1.

Strategic objectives	Key Value Drivers	Performance indicator
Establish year-over-year improvements in yield and cost efficiency		Manufacturing costs as % of net sales
	Improve manufacturing cost efficiency	Overall Equipment Effectiveness (OEE) by machine
	Decrease Bill of Material costs	BoM cost as % of net sales

Table 5.3: Example of the defined key performance indicators for the value drivers

For each strategic objective and key value driver an appropriate measure must be identified. Doing this establishes the management reporting requirements of the organization. Each of the key value drivers may have multiple measures associated with it. However, to ensure appropriate focus and minimize complexity, one has to be defined as primary measure and the others as being supporting measures.

5.1.4 Workshop

After the one-on-one interviews with the executives a preliminary framework is built. This framework contains a list of candidate value drivers and performance indicators which are ranked by each executive. In the workshop the executives meet collectively and go through a process of rationalizing the list to those who are most important. The framework is projected which allows people to visualize the relationships; moreover, it makes it possible to change and develop the framework in an interactive way. The workshop is organized as follows:

- First the strategic objectives in the preliminary framework are discussed. In the end the team has to agree on a maximum of five strategic objectives and commit to use them as the basis for all future decision making.
- Next, for each strategic objective the candidate key value drivers are discussed. The team must agree on a maximum of five key value drivers per strategic objective.
- Then for all key value drivers in the framework the key performance indicators are defined.
- Finally, the logical relations between the key performance indicators and the Economic Value Added (EVA) tree are drawn. This step is described in the next paragraph.

5.2 The results

5.2.1 Focus on value creation

Based on the result of the KVD approach a KVD-KPI framework can be created. This framework is constructed around three levels: related KPIs, mathematical KPIs and the EVA tree.

In the framework an explicit distinction is made between the performance indicators. As mentioned before, the sources of value no longer consist of only financial, but also out of non-financial parameters such as brand names and human capital. For this reason the non-financial, leading indicators, related to the key value drivers are separated from the financial, lagging indicators.
In this paper the financial, lagging indicator used is 'Economic Value Added': EVA (see figure 5.2). EVA can be applied to all activities

and investments of an organization. It can be used to evaluate if the various activities and participations add value to the organization, or whether investments had better be stopped or made elsewhere.

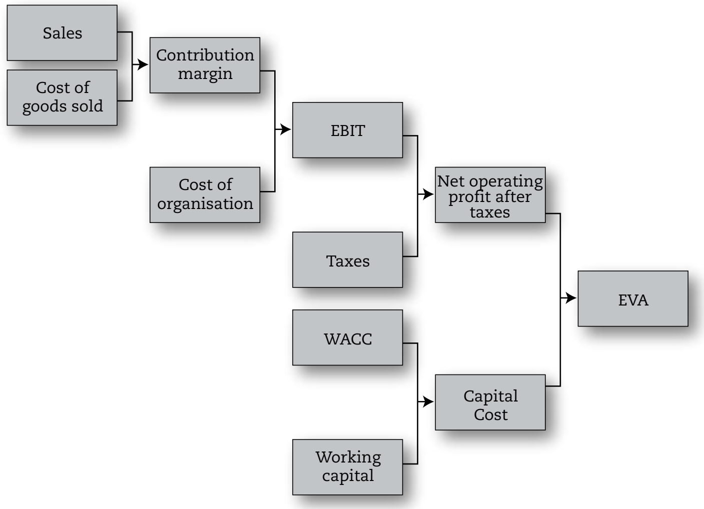


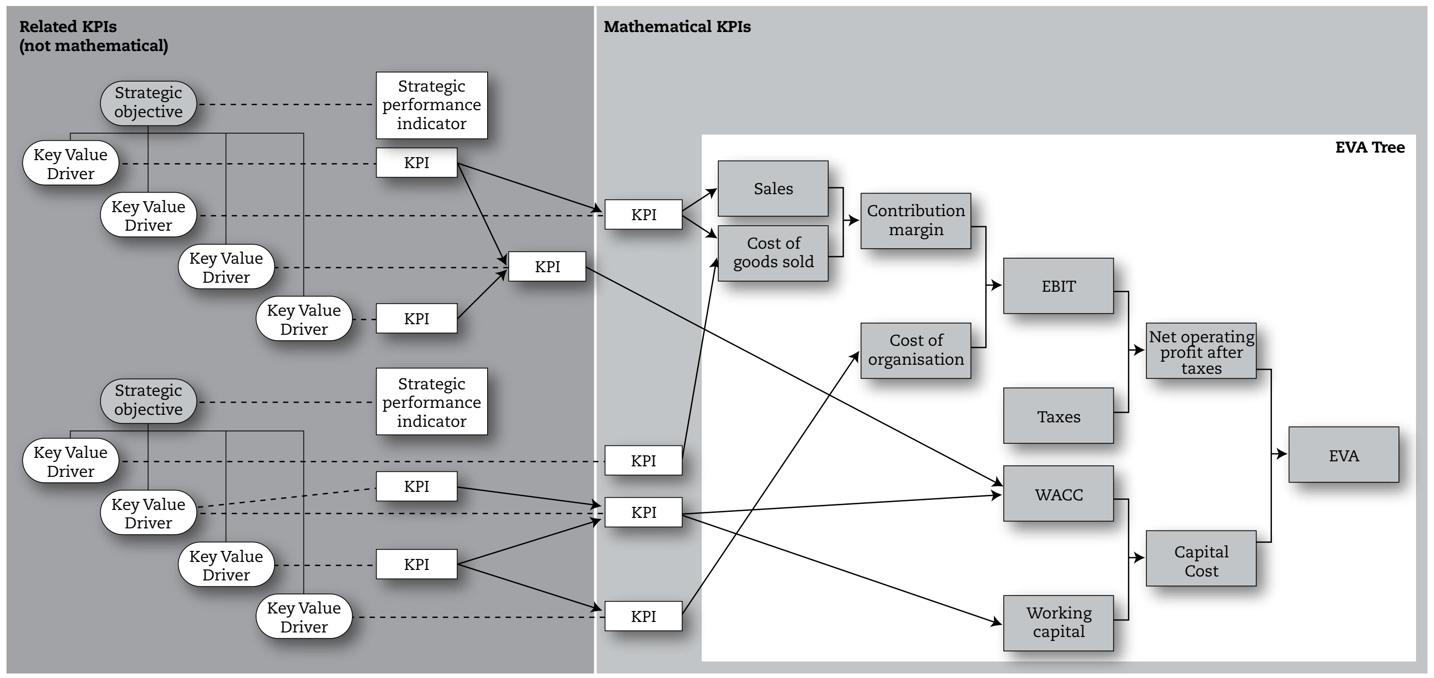
Figure 5.2: The bottom line financial consequences are processed in the Economic Value Added financial structure. This structure combines elements of the profit and loss account and the balance sheet

5.2.2 The KVD-KPI framework

The next step is to link EVA tree to strategic and operational value drivers and calculate the financial consequences of the strategic choices. Therefore, the key performance indicators are linked to the EVA tree. There is, however, a distinction between mathematical and related KPIs. The mathematical KPIs have a direct mathematical relation to the EVA tree: this means that the financial consequence of change can be calculated. The related KPIs also have an effect on value creation, but there is no direct mathematical relation to the EVA tree. They influence other KPIs in a non-mathematical way. For example, increased brand recognition does influence the number of new customers and indirectly your sales, but it is not possible to calculate the effect easily. So, the financial indicators in the EVA tree are influenced by variances of the mathematical KPIs. These logical relations are a basis for simulation models where scenario analysis shows the consequences on the bottom line results.

A focus on value creation increases the overall value creation ability of an organization. This is because everyone in the organization sees and understands the link between their activities and their contribution to both the financial results and strategic objectives of the total organization. Also, value creation becomes measurable at every level of the organization. The KVD-KPI framework combines financial objectives, strategic plans and operational performance into an integrated framework focused on value creation as depicted in figure 5.3. According to the KVD Approach, organizations translate their strategy into the logical architecture of a KVD-KPI framework, and create a common and understandable point of reference for all organizational units and employees.

Figure 5.3: KVD-KPI framework



5.3 The reporting requirements

The framework is the first step in integrating the reporting and planning processes. The completed KVD-KPI also defines those elements of the business that need to be planned and forecasted. The strategic objective and key value drivers form the table of contents for the planning process. Initiatives, resources and results must be aligned around them, and management should be held accountable for performance against them. The KVD-KPI framework is the source for all aspects of planning, reporting, and forecasting. The relationships in the framework define the objectives, major strategies, tactics, and performance measures that will be used to analyse success. This is a critical step if behaviour is to be aligned with plans.

5.3.1 Embed KPIs structurally in the organization

Performance measurement must be structurally embedded in the planning and control cycle and integrate the measurement of performance of all levels within the organization. The KPIs show the improvement of performance against the overall strategic objectives and are critical to the organization's success. To monitor progress on strategy implementation for each individual performance indicator several attributes need to be defined. The requirement of a good performance indicator should consider:

- The relation to the Key Value Drivers and their objectives.
- That they provide timely feedback and are part of a closed management loop.
- An explicitly defined formula and source of data
- Clearly defined roles and responsibilities. They must be applied consistently in the performance management process.

To test whether the right measures have been identified, ask following questions on each measure:

- How do we determine whether the measure is on or off target?
- What actions are we likely to take if the measure is off target?
- Are those actions consistent with meeting the strategic goals and objectives agreed-on?

5.3.2 Design reporting dimensions and process

When the measures have been defined the next step required is to define the process of capturing, storing, reporting and using KPIs as part of the planning and control cycle. The following activities should be executed:

- Define KPI attributes (see table 5.4)
- Design user interface. Contents as well as formats. (e.g. reports and dashboards)
- Design the process: collecting, storing, transforming and using management information.
- Agree on technology, roles and systems
- Integrate planning and reporting
- Training of stakeholders

Attributes
KPI owner
Review meeting
Frequency of measurement
Formula
KPI target setting owner
Measurement responsible
KPI measurement period
Source of data

Table 5.4: Examples of KPI attributes

6 Case: Dräger Medical

6.1 Introduction to Dräger Medical

Dräger Medical is one of the world's leading manufacturers of medical equipment. The Company offers products, services and integrated CareArea™ Solutions throughout the patient care process – from Emergency Care, Perioperative Care to Critical Care, Perinatal Care and Home Care. With headquarters in Lübeck, Germany, Dräger Medical employs nearly 6,000 people worldwide, around half of whom work in customer sales & services. R&D and production are located in Lübeck, Germany; Best, Netherlands; Telford, PA, and Andover, MA, USA; and Shanghai, China. The Company has sales and service subsidiaries in nearly 50 countries and is represented in more than 190 countries.
Dräger Medical provides innovative solutions for the acute point of care which are the result of a clear focus on core competencies, a close dialog with customers, over a century of experience in the market, and continuous investment in R&D. The company's goal is to help improve the quality of patient care while supporting care process efficiency in order to assist in healthcare cost savings.

The KVD Approach has been conducted within the Business Unit Pre and Post Hospital Care (PPHC). This Business Unit has its headquarters in Best, The Netherlands. In the next paragraphs Dräger Medical B.V. is abbreviated to Dräger.

6.2 The KVD Approach at Dräger Medical Best

To establish a representative and concrete framework shared by the management of Dräger input from all functional areas is essential. Interviews have been conducted with five senior managers who are part of the management team. These five participants, Bas Dirkson (President & CEO), Rob Janssen (VP controlling & CFO), Wolf van Diesen (VP product management), Rob Wilcke (VP research & development), and Hans van Ommen (VP operations), gave input from different functional areas and therefore the outcome is representative for this organisation. All participants are interviewed individually to gain more un-biased insights, not influenced by other managers. Furthermore, discussion in the workshop is guaranteed. Before the results of Dräger are discussed, the interview process is discussed.

6.2.1 Interviews

Every interview started with an introduction of the Approach to the manager. Clear definitions as well as good preparations of strategic objectives and key value drivers turned out to be essential for the quality of the output. Very helpful in this was Dräger's clearly defined and documented strategic plan. In a process of triggering with examples and possibilities, all participants listed the top four or five strategic objectives for the company. The five interviews yielded a list of ten different strategic objectives.

Subsequently each strategic objective was further translated in a set of key value drivers. Defining the key value drivers was the first step in translating what needed to be achieved into how it would be achieved. This step proved to be the most difficult one. We initially let each participant set his own pace with minimal guidance identifying the KVDs. When they were making choices we occasionally challenged them after which most participants had a pretty good first draft of the KVD framework.

Finally, the KPIs for all strategic objectives and key value drivers were discussed. The process used was similar to that in the previous step. A useful stimulus is the types of KPIs used by other organizations through benchmarking. Experience suggests that the initial set of measures will need to be changed during actual use.

6.2.2 Preliminary overview

We initially created five different KVD overviews. To come up with an integrated KVD overview in the workshop we needed to combine them. First we needed a maximum of five strategic objectives. By sorting the strategic objectives mentioned by themes we could meet our restriction of five. Finally, we translated each of the themes in a strategic objective which best reflected the answers given. With this exercise the strategic direction of Dräger was determined. One of Drägers strategic objectives is presented in table 4.1. This strategic objective was identified by all interviewees and indicated as essential for Dräger.

Continuing with the KVDs makes the strategic objective more concrete and shows what needs to be achieved to obtain the objective. For creating flexibility Dräger focuses on modular development, speed of processes and on core competences. These three drivers are a first draft based on the interviews and therefore basis for discussion. See results in table 4.1.

In the last column of table 6.1 the performance indicators are presented. These indicators mentioned by the interviewees are an initial set of measures which should be compared with currently used measures and benchmark measures to come to a final set. Doing this establishes part of the management reporting requirements of the organization.

Strategic objectives	Key Value Drivers	Performance indicator
Create flexibility		Capacity utilization
		Lead time accuracy
	Modular development	% R&D expenses modular design from total expenses
		# of times a module is used again
	Speed up processes	Lead time per process
	Focus on core competences	% of time spent on core competences

Table 6.1: Part of preliminary Dräger KVD overview

6.2.3 Workshop

The workshop should yield an agreed KVD overview. A structural top-down approach, from strategic objectives to the performance indicators is used. All interviewed managers, from the various functional areas, contributed to the intense discussion. The discussion was experienced as very valuable by all of the participants. In an additional step, to create commitment and a stable foundation for further improvements, the other members of the management team were involved.
The workshop outcome was discussed in a management team meeting and final corrections were made. As a result, a KVD overview shared by all managers of Dräger was defined. The strategic objectives and KVDs were improved, corrected and changed in comparison with the preliminary overview See table 6.2.

Strategic objectives	Key Value Drivers	Performance indicator
Create flexibility to react fast to changing markets and customer needs		Time to market for new products and product enhancements
		Project lead time accuracy
	Modular development	% of new products using modular technology
	Improve product development process	Time, cost, risks and quality monitoring on projects
	Increase production efficiency and flexibility	Ramp up/ ramp down time
		% of productive hours per employee (production)
	Quality commitment	First come through rate

Table 6.2: Agreed Dräger KVD overview

6.2.4 KVD-KPI framework

Now with the KVD overview completed, a KVD-KPI framework for Dräger could be created. The framework was constructed around three levels: related KPIs, mathematical KPIs and the EVA tree. In the framework an explicit distinction between the performance indicators has been made. As mentioned before, the drivers for value are no longer purely financial, but increasingly intangible assets like brand names and human capital. For this reason the non-financial, leading indicators, related to the key value drivers are separated from the financial, lagging indicators. Figure 4.1 shows an excerpt from a partially completed KVD-KPI framework for Dräger that displays the relationships between the key value driver and their key performance indicators to the EVA tree.

> **The KVD-KPI is an easy way to create overview and strategic focus. The addition of the EVA tree and linking the KPIs to our bottom-line results is very useful.**
> **- Hans van Ommen**

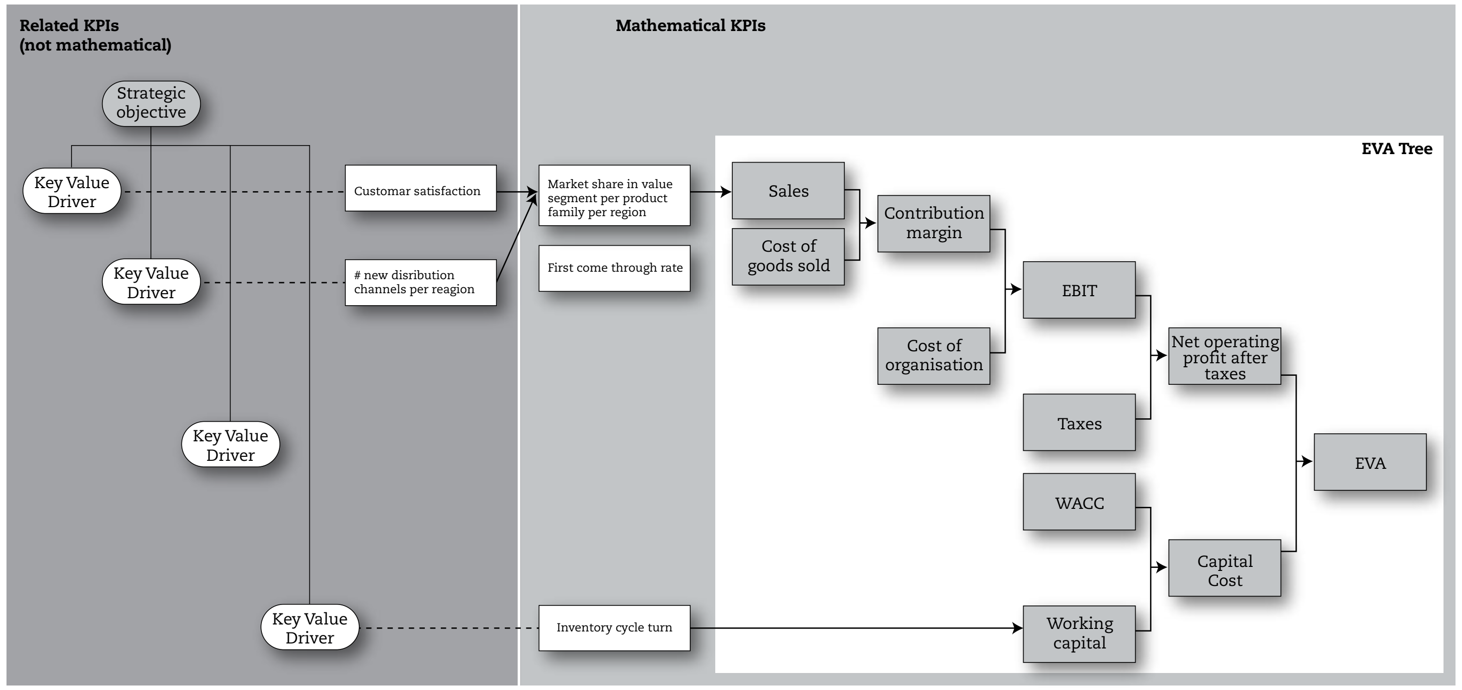


Figure 6.1: Partially completed KVD-KPI framework for Dräger

6.3 Conclusion Dräger

The KVD Approach at Dräger turned out to be a helpful instrument to make the strategic plan far more actionable, to make objectives SMART and more ambitious and to establish focus on the limited set of KVDs and KPIs relevant to monitoring strategy implementation.

> **Not only helpful but necessary to create the ability to steer and measure your business efficiently!**
> **- Rob Wilcke -**

Furthermore, Dräger recognizes the strength of the KVD Approach to bring their strategy into action. Therefore, Dräger already started with the next steps based on the KVD Approach.

> **The KVD Approach perfectly fits within the current improvement activities of Dräger.**
> **- Wolf van Diessen -**

> **The KVD Approach is an excellent method to focus on mutual goals and develop consistent performance indicators and a useful framework for further actions.**
> **- Rob Janssen -**

The first step to bring the strategic KVD-KPI framework into action is by defining operational actions as an extension of the value drivers. Operational actions are therefore aligned with strategy and adapted to specific groups or individuals in the organization to effectively communicate strategy throughout the organization. The framework will require regular attention for continuous improvements driven by changes in the market, developing customer needs and changing business environment.

> **The KVD Approach is the tool we needed to effectively communicate our strategy throughout the organization. - Bas Dirkson –**

To embed the KVD-KPI framework, including the operational actions, in the planning and control cycle the attributes for all KPIs are going to be defined. (See paragraph 5.3.2).

7 Eight golden rules for strategy implementation

To monitor strategy implementation, a performance management process is needed. Effective performance management requires the seamless integration of strategic planning, budgeting/forecasting and management reporting. In essence there are three dimensions for a best practice performance management process as depicted in figure 7.1. Decisive in the set-up of 'best practice' performance management process are **quality**, **speed**, and **efficiency**.

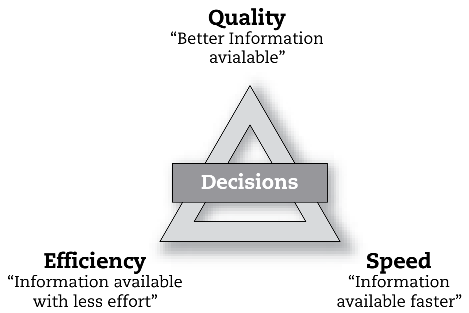


Figure 7.1: Quality, speed and efficiency in the performance management process

Quality means that managers need to explicitly determine and decide on the key objectives and drivers that need to be integrated with the budget and financial forecast. The strategic plan must be easily understood and communicated if it is to be quickly translated into practical actions and deliver sustainable results. Especially in turbulent markets it is vital that information can be shared through a planning and control cycle with a short throughput time where relevant information is disseminated to relevant people at the moment it becomes available.

Based on our experience we recommend the following eight rules for effective strategy implementation; rules that guarantee quality, speed and efficiency in performance management:

1 Decompose strategy in a limited number of strategic objectives.

The concepts of strategic frameworks and strategic value reports provide the organizations with an effective way to represent and monitor their strategies. Every strategy framework contains between two and five strategic objectives. These strategic objectives provide the architecture around which an integrated strategy planning and reporting system can be designed.

2 Ensure top management support.

Sponsorship at the top level of the organization is essential and must be apparent to everybody involved in the design and implementation of business strategy.

3 Limit the number of key performance indicators.

The performance indicators should be few in number, but highly relevant and focused. If too many measures are used it is likely that balance will be lost and it will be impossible to focus on the important issues. Many companies have a large number of key performance measures of which only a few are actually used by management to measure performance. It is not the number and reach of the measures that is most important. It is the relevance. The setting of appropriate parameters for relevant measures and the adherence to and monitoring of the measures inside those parameters are essential for successful implementation.

4 Relate targets to leading performance indicators.

Strategy is about validating the cause and effect relations that focus on the key value drivers, measured with leading performance indicators, that create desired financial results, the lagging indicators.

5 Focus on value creation.

A focus on value creation increases the overall value creation ability of an organization. This is because everyone in the organization sees and understands the link between their activities and their contribution to both the financial results and strategic objectives of the total organization. Also, value creation becomes measurable at every level of the organization, giving it the focus and attention that it deserves.

6 Ensure that management reporting enables pro-active steering.

Translate strategy from 'what should be achieved' into 'how it should be achieved' via the key value drivers. Increased focus on the future should become apparent in the balance between non-financial indicators, which look to the future, and financial indicators, which look at the past. The management reporting must enable pro-active steering: 'what should be done to achieve future targets' and limited focus on 'why the past targets were not achieved'

7 Assign accountability for each performance indicator.

It must be clear who is responsible and accountable for achieving the targets of each performance indicator. This will ensure the required focus and dedication of the organization and the individuals. They must be empowered, rewarded and have control of the resources to ensure the delivery of the activity and targets.

8 Make planning a continuous process.

Organizations should link strategy to the budgeting process. The budgeting process must protect the long-term initiatives from the pressures to deliver short term financial performance. Introduce management meetings on a monthly or quarterly basis to review strategy. Create open reporting in which performance results are made available to everyone in the organization. Evaluate the strategic hypotheses when feedback systems report on actual results.

Definitions

- **AICPA.** American Institute of Certified Public Accountants (AICPA)

- **AKey Value Driver (KVD)** is the translation of a strategic objective into how it will be achieved.
  - Variables that must be achieved or implemented successfully to meet strategic objectives and for the intended strategy of the business to succeed.
  - These variables are the few key areas where things must go right for the business to flourish. If things would not go right in these key areas, this would cause strategy to fail.
  - Synonymous to KVD are the terms critical success factor (CFS), and key performance areas.

- **KeyPerformance Indicators (KPI)** are quantitative measures to monitor KVDs.
  - Many things are measurable. That does not make them key to the organization's success. In selecting Key Performance Indicators, it is critical to limit them to those factors that are essential to the organization reaching its goals.
  - It is also important to keep the number of Key Performance Indicators small just to keep everyone's attention focused on achieving the same KPIs.
  - A mathematical KPI is related to the EVA tree whereas this relationship can be expressed via a calculation rule or formula.

- **Lead performance indicator ("cause").** Measures that indicate progress against a process or behaviour. Helpful in predicting the future outcome of an objective.

- **Lagperformance indicator ("Effect").** Measures to determine the outcome of an objective that indicates performance at the end of a period. Result-oriented and not reflecting a process. (mostly financial)

- **Strategicobjectives** express the aspiration that defines purpose or expected level of achievement of the organization.

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In 100 days EyeOn delivers structural improvements in speed, efficiency and output reliability of the planning processes. EyeOn is a consulting firm specialized in designing and implementing planning solutions in complex organizations.

About Corporate Performance Management – Business Planning Knowledge Network

The knowledge network 'CPM-BP' offers finance professionals a learning network on contemporary trends and best practices in corporate performance management and business planning. CPM-BP enables the members to share experiences and learn from each other via research and benchmark studies whereas members' needs are closely reflected. EyeOn and CPM Partners have initiated the network as per November 2004.

There is a possibility to meet each other in person semi-annually during Round Table sessions. CPM-BP is targeted at large sized companies realizing at least Euro 1b sales revenues. The participating companies include: ASML, Campina, Coca Cola, Cosun, DSM, Dräger, Ericsson, FEI, Ferro, Heineken, Hero, Nashuatec, NXP, Océ, OPG, Philips, Shell, Stork, TNT, TomTom and Wessanen.

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