“Office of Strategy Management”
Closing the gap between strategy formulation and implementation

Dr. Tim Wolf
Denis Muratcehajic

2016
Strategy implementation as key factor for corporate success

The challenge: Strategy implementation

In a competitive environment molded by accelerated technological change, increasing global competition and volatile markets, the quality of strategy work is decisive factor for long-term corporate success. Successful strategy work is based on two dimensions: the strength of concept of the business model (“Be different”) and the strength of implementation to achieve strategic goals (“Be better”).

![Fig. 1: The two dimensions of successful strategy work](image)

The business models of above-averagely successful companies (“market masters”) consist not only of strength of concept but also a high degree of implementation skills which enable them to fully unleash the power of their strategy. In a market environment where the strategies of competitors are often very similar [cf. Horváth & Partners (2014)] it is successful implementation work which makes one company stand out from the rest.

Once believed by many, the idea that “good” strategies pretty much implement themselves has proved itself false [cf. Raps (2008)]. Indeed, reality has shown there is considerable need for development when it comes to the ability of companies to implement their strategies [cf. Raps (2008)]: nine out of ten top decision-makers definitively state that the successful implementation of strategies has a decisive impact upon the future competitiveness of the company [cf. The Economist Intelligence Unit (2013); Wunderer & Bruch (2000)].

The findings from renowned studies also show that between 60 and 90 percent of companies are dissatisfied with their own strategy implementation.

![Fig. 2: Failure rates in strategy implementation](image)

Given that the ability to – quickly and effectively – implement strategies has a major impact upon the long-term success of companies, this is reason enough to investigate the causes for the failure of strategy implementation and to identify potential solutions [cf. The Economist Intelligence Unit (2013); Raps (2008)].

Causes for the failure of strategy implementation

Different studies have already investigated strategy implementation in companies (selected studies from 2004-2014 are listed in this paper’s sources). A cross-section analysis of these studies shows that both external and internal factors influence the quality of strategy implementation.

To investigate the internal factors, we have drawn upon the findings of 12 studies and specialist articles [including our Strategy Study (2013/14) and the brief study Office of Strategy Management (2015)]. All the publications show similar reasons for the failure of strategy implementation. There are ten factors which are responsible for the breakdown between strategy formulation and implementation:

- **Poor coordination of processes relevant to the strategy:** The smooth execution of the main processes needed for strategy work (including strategy development, strategy operationalization, strategic planning, budgeting, resource management, initiatives management, performance reporting) cannot be guaranteed.
- **Insufficient attention from top management:** Der Management executives do not dedicate sufficient time and attention to strategy work.
- **Weak strategy communication:** The employees do not know or understand the strategy, resulting in a lack of orientation.
- **Resource management not aligned with strategy:** Financial and staffing resources do not reflect the strategy and are often insufficient for the implementation of projects.
Poor monitoring of strategic performance: There is no strategy-based selection of performance indicators nor are these discussed regularly or their performance monitored.

Inadequate incentive systems for strategy implementation: Employee behavior is not managed in line with strategy. This means that any motivation potentials for reaching strategy goals are not fully leveraged.

Organizational structures out of sync with strategy: There is a lack of support from and for the organizational structures as they have not been changed to fit the new strategy.

Unclear allocation of roles and responsibilities: Strategy implementation has not been broken down into concrete responsibility levels. This means there is no basis for the necessary coordination, especially for cross-functional targets.

Poor and inconsistent transition from strategy to operative planning: The strategy has not been strictly transferred into operative budgets. Thus, there is a risk that functions and departments will base their budgets on the previous year and carry on with “business as usual” without implementing the required changes.

Inadequate leadership guidelines: Strategy work is the responsibility of the management. If management executives on all levels fail to act as role models, the whole company's performance will suffer. Without strategy-aware management executives, even the best strategy will fail to yield results.

A look at the external factors influencing strategy work also reveals a highly dynamic and challenging environment, one which we described as part of our Strategy Study (2013/14) and the brief study Office of Strategy Management (2015):

Volatile markets: Unforeseeable market developments make it difficult to plan how to reach targets. At the same time, strategies must be capable of offering added value in volatile markets and not mutate into a corset-like hindrance.

Technological change: “Old” business models suddenly find themselves challenged by new Internet-based ones. New technological possibilities such as dealing with energy, digitization, communication or the transfer of information lead to rapid change and upheaval.

Changing competitive landscape: Heightened global competition or the sudden appearance of new, financially strong competitors leads to new business models.

Data as a resource (Big Data): Data is becoming a resource in its own right. Ensuring access to data and its intelligent use are creating wholly new challenges for strategists.

The fact is that these and other factors listed in the studies create additional challenges for strategy work on top of the internal aspects. As a result, strategy functions are exposed to a wide range of new internal and external challenges which impact upon both dimensions of strategy work, concept design and implementation.

At the same time, we see that strategy work has developed enormously in the last decades. It is now an established function in most companies and no longer merely a “secret” sidebar for top management to resolve pragmatically. Experts in strategy functions serve as “conceptual think tanks”, look after the strategy process and relieve at least some of the burden upon management executives. Having said that, only a few strategy functions have sufficient capacity, processes and experience to actively supervise strategy implementation.

Thus, a new approach for strategy work is required to ensure that the organization and implementation of strategies is more successful in the future.

**Strategy implementation with the Office of Strategy Management**

Core idea underlying the Office of Strategy Management (OSM)

We at Horváth & Partners see the OSM is an organizational unit which supports the management in every task relating to the concept design and implementation of strategies. In doing so, the OSM views the organization as a whole and becomes actively involved in the design of structures, processes and performance management systems to ensure they all conform with the company’s strategies. Thus, the remit of the OSM goes far beyond that of the “classical” strategy departments.

---

**Fig. 3: A comparison of the focus of strategy work without and with the Office of Strategy Management**
The OSM designs, manages and monitors the strategy process from analysis through to implementation on all levels, thereby linking strategy design with strategy implementation. To do so, the OSM takes over responsibility for the core processes and the derived processes. For the third category of processes, the OSM coordinates the activities and ensures they remain in synch with the strategy. This integrated process model ensures there is a link between strategy work and operations (see Fig. 4). The “process house” acts as a basic framework for individual customization and expansion depending on the specific needs of the company.

Fig. 4: Service processes of the Office of Strategy Management

The special features of an Office of Strategy Management compared with “classical” strategy functions can be described in four dimensions.

Fig. 5: Development stages in strategy work

Processes: Integration and interconnectedness
Strategy-relevant processes are completely linked together to form an end-to-end process. In this way, the process house adheres to the principle of a clock’s mechanism in which the processes relevant to the strategy are interconnected to one another by means of logical process sequences, interfaces and practical tools and templates thereby ensuring that each and every impulse automatically leads to follow-up activities and subsequent effects.

Fig. 6: Integration of the processes by the OSM

The most common cause of failure in strategy implementation is the poor coordination of processes. The highly dynamic market environment requires the strategic orientation to be adjusted on a regular basis, thus raising the added value of this process integration considerably. This is because process integration not only enables strategy modifications to develop their fullest potential but also to do so in a very short time. Rapid reactions to unexpected developments in the market and competitive environment take effect far more quickly and possible negative impacts are ameliorated. Moreover, one positive and not insignificant side effect of introducing an OSM is that the strategy process is tightened up by the elimination of redundancies, which in turn raises efficiency. While at first glance the necessity for discipline in process design and execution might seem to be a disadvantage as there must be strict compliance with the defined milestones by all involved parties to ensure the overall process actually works, the ends justify the means.

Organization: Transformation and coordination of the functions
From the perspective of the organizational structure an OSM brings about two major changes. First, the existing organizational structure of the entire company must be subject to critical scrutiny against the background of the new strategy and, if necessary, modified. The OSM initiates this process and ensures the required transformation is sustainable.

Second, it is important to remember that there are a great number of functions and departments involved in the OSM processes and their associated tasks. The basic principle underpinning the OSM is that it has full responsibility for coordinating these processes. This means it manages the contributions from other functions within the processes, ensures the interfaces are all clear and working and it has overall responsibility for the entire strategy process. Even if some tasks such as strategic planning, BSC management or budgeting are carried out in different organization units and/or on different hierarchy
levels, these processes run smoothly within a harmonized process model. This facilitates cooperation and coordination between units. The organizational structures no longer hinder or block strategy implementation.

The added value behind the Office of Strategy Management (OSM) lies in the coordination of these central functions for strategy work under the umbrella of the OSM (cf. Fig. 7). The OSM is structured here in four core functions: OSM Process Model (entire), Strategy and Planning, Strategy Anchoring, and Strategic Initiatives. Sufficient capacities and competences must be built up within the OSM in order to be able to execute the defined processes properly.

Data: Automated availability of strategic and operative management information

A further advantage can be found in the standardization of the strategic performance monitoring processes. Automation and the use of technologies allow us to make strategic and operative management information available while at the same time reducing workload considerably. The use of business intelligence solutions enhances the quality and efficiency of performance reporting significantly. Where before numerous different data sources, data standards, contact persons or analysis methods made consolidating and preparing the data a tiresome, manual process, the new systems deliver fast and reliable solutions for reporting. Thus, dashboards and reports can be accessed directly via numerous online and offline channels, allowing us to initiate any necessary countermeasures immediately.

People: Strategic management competence

The findings of our Strategy Study 2013/14 and from our analysis of the most common hurdles in strategy implementation prove: Managers spend too little time on strategy work. In our opinion, there are two main reasons for this: first, operative priorities arising from the pressures in the daily business and, second, reluctance due to the effort and the complexity of strategy work.

Managers should and must, to a great extent, be able to make their own decisions on priorities in their function. However, shared leadership principles can be defined and further developed, and in the final analysis these must be lived top-down. Only when managers can see the added value of strategic management for themselves and for the company can a change in behavior be brought about. Thus, a set of general principles which are developed by those affected is an absolutely vital basis for a broad-based qualification program which combines strategic thinking and action with the daily work in the whole company [cf. Horváth & Partners (2014)].

At the same time, however, strategy work must also become easier and more effective for managers. Endless hours spent debating terms and minutiae place the effects for the company in a questionable light. Also, the real work of strategic management doesn’t start until after the strategy has been defined. If merely collecting the information for a quarterly strategy implementation review is an onerous and strenuous task, the resulting strategy document is often simply stuck back in the drawer and ignored. “Classical” strategy functions which already shoulder some of the management’s workload in these
areas tend to focus mainly on support in concept design, while it is rare to find capacities allocated to supporting strategic management.

The added value of the OSM lies in the fact that it goes far beyond the remit of “classical” strategy functions in both strategic and operative strategy work and takes on responsibility for important operative strategy tasks from the management. In this context, for example, it monitors the progress of strategic initiatives and drives target achievement. Additionally, top management meetings are provided with updates on the state of strategy implementation. Thus, strategy becomes a central element of the agenda on a regular basis. The benefit here lies in closing the gap between operative and strategic strategy work and in relieving the burden of top management, thereby allowing them more time for making important strategic decisions. Once they see these new benefits, it is easier to convince managers of the added value of strategic management.

In general, our experience shows that the introduction of an Office of Strategy Management results in change across the entire company. As a result, topics such as communication and enablement are especially important. Both aspects are seen as cornerstones of the long-term success of strategy work and involve the continuous development of leadership skills. This ensures that the ability to implement strategies is not only in place at the time of introduction but is also continuously further professionalized.

**Value-added of the OSM**

The OSM makes a decisive contribution both for the concept design aspect of strategy work (“be different”) and for the strength in implementation (“be better”) in a company, thereby laying the foundation for sustainably improving the company’s bottom line. Changes are not only initiated but also implemented sustainably. A key aspect here is the interconnected and holistic process model.

A direct comparison to existing forms of strategy work provides a particularly clear picture of the differences (see Fig. 8). While companies which do not have their own strategy function must perforce fall back on pragmatic approaches, the focus of “classical” strategy functions lies on resolving conceptual issues in strategy work. In contrast, the OSM allows companies to pursue a holistic, comprehensive approach to strategy management.

---

![Office of Strategy Management](image)

**Fig. 9: Contributions of the Office of Strategy Management to overcoming hurdles in strategy implementation**

---

© Horváth & Partners 2016
The added value of an OSM lies in its contribution to overcoming barriers and hurdles in strategy implementation (see Fig. 9):

- **Commitment from top management**: The OSM reduces the workload for top management significantly. This means considerably more attention can be paid to strategy implementation.

- **Strategy communication**: The OSM ensures consistent and tailored communication of the strategy to all employees (incl. feedback). The employees have a better understanding of the strategy and know what they have to do.

- **Coordination of processes relevant to the strategy**: Individual processes which are relevant to the strategy (strategic planning, strategy implementation, budgeting, performance reporting, strategic resources management, strategic initiatives management etc.) are linked together by the OSM.

- **Transition from strategy to operative planning**: The complete integration of all process levels by the OSM ensures there is a seamless transition from strategic to operative planning and the content is interconnected.

- **Budgeting/strategic resource management**: The consistent operationalization of the strategy and the close links to strategic initiatives management, strategic resources management and strategic planning ensures strategy-based budgeting. This means that sufficient financial and staffing resources are available at all times for implementing the planned strategic initiatives.

- **Leadership guidelines in management**: The OSM anchors strategic leadership and establishes strategic thinking and action in the daily work across the entire company.

- **Organizational structures which conform with strategy**: The OSM ensures that the organizational structure supports the strategy, thereby fostering sustainable transformation.

- **Clear allocation of roles and responsibilities**: Consistent cascading of the strategy ensures the roles and responsibilities in strategy implementation are clarified and clearly allocated. The alignment principle ensures shared goals are reached across all functions.

- **Incentive systems for implementing strategic goals/initiatives**: Based on the cascading strategy, personal goals are aligned seamlessly with the strategy.

- **Monitoring strategic performance**: The progress of strategy implementation is measured based on the defined goals, key performance indicators and initiatives. Review milestones are defined throughout the year to ensure that top management knows at all times where the company is along the implementation path and which countermeasures need to be initiated if there are any deviations. Effective strategy management is established.

**The Horváth & Partners approach for introducing the Office of Strategy Management (OSM)**

**The OSM Target Operating Model**

Based on our years of practical experience, we have developed a holistic operating model for the Office of Strategy Management – the OSM Target Operating Model (TOM).

The four dimensions of the OSM Target Operating Model (TOM) comprise the design aspects for the operating model. They ensure that the best-possible cornerstones are laid down for the successful introduction of the OSM. They are the mission and guiding principles, organization and governance, processes and instruments, and leadership and change.

**Fig 10: The four dimensions of the OSM Target Operating Model**

**Mission and guiding principles**

The OSM mission summarizes the main tasks of this organizational unit for the company.

The guiding principles provide further details for implementing the mission. This includes defining competences, identifying the OSM's customers, and clarifying which services the OSM will provide to those customer groups. What is laid down here forms the basis for discussions and coordination with all the stakeholders and serves as a reference for the subsequent development of the OSM in the company.
Which services should the OSM provide?
Which role should the OSM fulfill within the organization?
Which competences does the OSM need to be at its most effective?
Which areas within the company will the OSM have the greatest influence on?
Who are the main cooperation partners of the OSM?

Organization and governance

The organizational structure and positioning of the OSM must be clarified on a number of levels depending on the company’s constellation: corporate level, divisional level and within the “OSM” function. This is done using classical instruments: organizational structure and job profiles.

The governance guidelines formally regulate the competences of the function and its employees.

Processes and instruments

When designing the Office of Strategy Management TOM it is important to integrate and interconnect the processes with strategy relevance optimally with one another in order to create a holistic end-to-end process from strategy development through to strategy implementation on all levels. To do this, it is necessary to define all the process levels as this is the only way to ensure the process really is end-to-end.

Leadership and change

The revised leadership guidelines serve to strengthen the strategic leadership. They provide managers with orientation about expectations regarding their role in the strategic leadership of the company.

Six components should be included:

- **Goals**: Development of a clear strategy with clear strategic goals
- **Measures**: Precise translation of the strategic goals into measures
- **Resources**: Provision of the resources required for those measures (FTEs, finance, infrastructure etc.)
Skills: Ensuring the required qualifications and competences

Incentives: Motivation, evaluation of success and incentives to manage behavior

Information: Communication of goals, measures and tasks as well as ensuring that the “big picture” is clear

Roadmap for introducing the OSM

The approach for introducing an OSM is always tailored to the specific company’s situation. Our project experience has shown that the following overarching roadmap works.

The introduction consists of five sub-processes which, apart from the initial health check, run almost parallel to one another. They start with the health check and end with the final handover to the client:

- **Health check**: Analysis of the current situation (processes, organizational structure etc.)
- **Concept design for the operating model**: Basic concept design and detailed modification of the four design dimensions (Mission and Guiding Principles, Organization and Governance, Processes and Tools, Leadership and Change)
- **Run and Roll-out**: Initial go-live and continuous optimization
- **Handover**: Continuous increase in the client’s share of the strategy work
- **Enabling**: Continuous qualification of employees (training courses, workshops, work shadowing, etc.)

One particular focus of introducing the OSM lies on staff training and qualification (see Fig. 14). This is how we ensure that all the pieces are in place for the long-term success of the OSM when it is handed over to the client. We do this by working together with renowned elite universities which offer an OSM certification at the end of the program.

Successful strategy implementation with the OSM – Summary

The Office of Strategy Management (OSM) is an opportunity for companies to set up a new organizational unit which not only improves strategy implementation but also turns it into a core strength of the company. This increases not only the long-term competitiveness of the company but is also proven to result in an improved bottom line.

Precisely how the competitiveness of the company is increased can be summarized in three basic benefits:

- **"React right"**: Create a system of corporate performance management which focuses on the market and the competition
- **"React quickly"**: Improve the ability of the organization to manage performance (business model and strategy)
- **"Cut costs"**: Increase the efficiency of the performance management processes by interconnectedness, standardization and automation

While introducing an Office of Strategy Management is indeed very challenging, it is most definitely a rewarding undertaking.
References


Horváth & Partners – Management Consultants

Horváth & Partners are independent, international management consultants with over 600 highly qualified employees. Founded in 1981 and headquartered in Stuttgart, Germany, we have offices at locations in Germany, Austria, Hungary, Romania, Saudi Arabia, Switzerland and the United Arab Emirates. Moreover, Horváth & Partners are a proud member of the Cordence Worldwide global management consulting partnership, which strengthens our ability to undertake consulting projects in important economic regions of the world with the highest professional expertise and precise knowledge of local circumstances.

Our core competences lie in the fields of Corporate Performance Management and Performance Optimization – both for the entire company and for the business and functional areas of Strategy, Innovation, Organization, Sales, Operations, Controlling, Finance and IT. Horváth & Partners stand for project results which create sustainable benefit, which is why we accompany our clients through the entire process from developing the business concept through to anchoring via integration into processes and systems.

Dr. Tim Wolf
Competence Center
Strategy, Innovation & Sales
Head of Strategy

TWolf@horvath-partners.com

Denis Muratcehajic
Competence Center
Strategy, Innovation & Sales

DMuratcehajic@horvath-partners.com