

STRATEGIC MANAGEMENT AT HORA GMBH & CO. KG

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Abstract

Small and medium-sized enterprises (SME) perform strategic management only rarely. One reason for this, amongst others, is the lack of targeted scientific and empirical evidence models and processes, which the executive board and managers of SMEs can apply and implement.

This paper presents a strategic management phase model and tools, which have been implemented in Holter Regelarmaturen (HORA), an SME that has been able to proactively and successfully establish itself in a turbulent market.

In the summary it will be shown that this model is transferable to other SMEs.

Keywords

Strategic Management, Phase Model, Balanced Scorecard, Methods and Tools for Corporate Management

1 STRATEGIC MANAGEMENT NECESSITY IN SMEs

Studies show that strategic management is mainly used in large corporations [1], [2]. In SMEs systematic, long-term corporate development is often neglected [3], [4]. SMEs are, therefore, not maximizing their potential for success [4].

This ascertainment is alarming in that, in Europe, 90% of all corporations can be categorized as SME and these employ one third of all employees [5]. Moreover, the OECD regards SMEs as an important source of innovation and technical progress, most importantly of all the economic prosperity and technical competitiveness of European economies are secured by it [1], [6].

The necessity of strategic management is increasingly important because SMEs in particular are subject to grave challenges, such as internationalization, skills shortages, increase in complexity, keener competition coupled with pressure to innovate and rationalize.

In this paper, strategic management is defined as a comprehensive management concept with which the corporation can be prepared for the

future and with which the long-term success of the corporation can be secured through an analysis of the current situation and anticipation of possible future developments [7]. Future-proof, preventative corporate decisions can be made on this basis. A phase model, with the relevant tools will be described in more detail later.

The question is, why such a systematic approach to future-proofing is rarely applied in SMEs, although empirical studies prove that strategic planning has a positive impact on SME corporate success [4]. A study by Clausthal University of Technology and Haufe Academy (228 respondents) shows that corporate strategy is viewed by medium sized businesses as being highly relevant to corporate success, but often exists only in the minds of the management [2]. The results of this and other research can be summarized to identify the constraints illustrated in figure 1, which may differ from SME to SME.

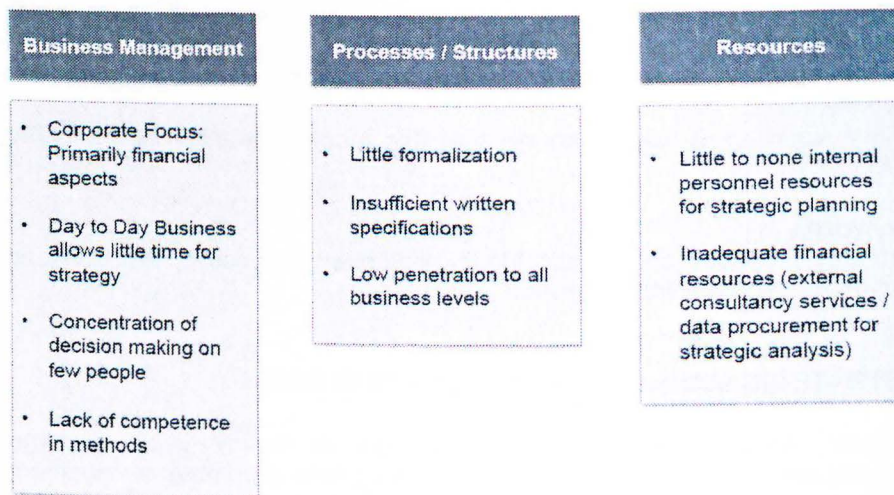


Figure 1: Strategic Planning Characteristics in SMEs taking [2], [4] into account

As an example the column "Business Management" in figure 1 is explained shortly. Mostly, strategic planning in SMEs is concentrated on the entrepreneur, with financial perspectives being a high priority. Managers are also fully occupied with day-to-day business and hardly have time for further activities. To further complicate matters, strategic decisions are usually made by only very few executives. Even if basic strategy tools, such as product lifecycle analysis or value chain analysis are known, they are often unused [2], [4].

If one examines the relevant strategic management literature, it is noticeable that, whilst there is a great amount of textbooks; practice based

SME oriented publications are very rare. This may also be a reason why the incidence of strategic corporate management is so low in SMEs.

On the basis of this general situation, in the following the initial situation at SME Holter Regelarmaturen (HORA) is described, fifteen years ago. A phase model formed the basis of this SME oriented, incrementally implemented strategic management. SME oriented meaning that essential tools were selected in order to implement them gradually. Examples will be given of how such tools were used at HORA and what has changed through the use of this system. In summary it will be shown how it is possible to transfer this process to other SMEs.

2 INITIAL SITUATION AT HORA GMBH & CO. KG

2.1 HORA Corporation

HORA – Holter Regelarmaturen GmbH & Co. KG is an SME with 300 employees and a turnover of 50 million Euros, which was founded in 1967. It is a family owned enterprise, currently being run by the second generation. HORA develops, produces and sells control valves and actuators exclusively from the Schloss Holte-Stukenbrock (Germany) headquarters. Sales and distribution are supported by a worldwide network of partners, with the export ratio being over 65%.

HORA concentrates on two of the very segmented valve markets. In order to serve the unique requirements of the two market segments *Flow Control* and *Power Technology*, the company is divided into two Business Units:

In the Flow Control (FC) Business Unit, variants of control valves and actuators for building automation are custom-built to order. These control valves can have lead times of a few hours.

The Power Technology (PT) Business Unit designs, develops and manufactures valves as tailor made solutions for fossil-fired power plants and may have lead times of one year.

2.2 Challenges Facing the BU Power Technology (HORA PT)

Since the end of the boom in power technology for the former East Germany in the mid 1990s there has been a new challenge due, in particular, to the internationalization of the power business outside of Europe.

In the last fifteen years, the construction of fossil-fired power stations has increased greatly in “emerging markets”, particularly in China, India and Russia.

Critical control valves are usually imported from Europe or the USA.

The strategic shift of turnover to markets outside of Europe brings new challenges with it, such as a rise in order handling complexity, country specific product solutions and approvals, as well as the prompt and local

availability of after sales capacities. The dependence upon international sales partners is also growing.

In China and India, which have meanwhile become the most important export countries for HORA PT, technical competence is growing locally to such an extent that control valve imports from Europe for low and mid-tech applications are, for cost and delivery timescale reasons, barely competitive. For domestic business it is essential today, in the middle of Germany's changing energy policy, to find answers to the decline in power production by fossil-fired stations.

Internationalization is, however, a strategic challenge not only in sales, but also in procurement of important raw materials such as steel castings. HORA has also used the past few years for a strategic readjustment to worldwide sourcing.

Alongside these challenges on the customer and procurement side, for the past few years competitor's power technology business structure has also been changing. Important competitors, after many mergers and acquisitions are no longer small, independent units but part of large, internationally operating multi national listed concerns. These concerns often have more than one valve producer in their portfolio in order to effectively use synergies and economy of scale.

This short outline makes clear that the HORA PT business unit, since approximately 2000 has and is still facing enormous challenges, which have increased in intensity. A professional strategic management was and is, therefore indispensable.

3 STRATEGIC MANAGEMENT IMPLEMENTATION APPROACH AT HORA GMBH & CO. KG

3.1 Phase Model

It is often suggested in the pertinent literature, that strategic management should follow a sequence of defined phases [7]. Figure 2 shows the five relevant phases, with the breakdown of the phases to the second detailed level. For reasons of legibility, breakdown into the fourth detail level will be omitted. Figure 3 shows further detail. The authors collected the subdivisions after a comprehensive review of the relevant literature, from consultancy projects in various SMEs and from practical experience. In essence, the detailed levels contain practice-oriented tools, which is described in further detail in [8].



Figure. 2: Strategic Management Phase Model (simplified).

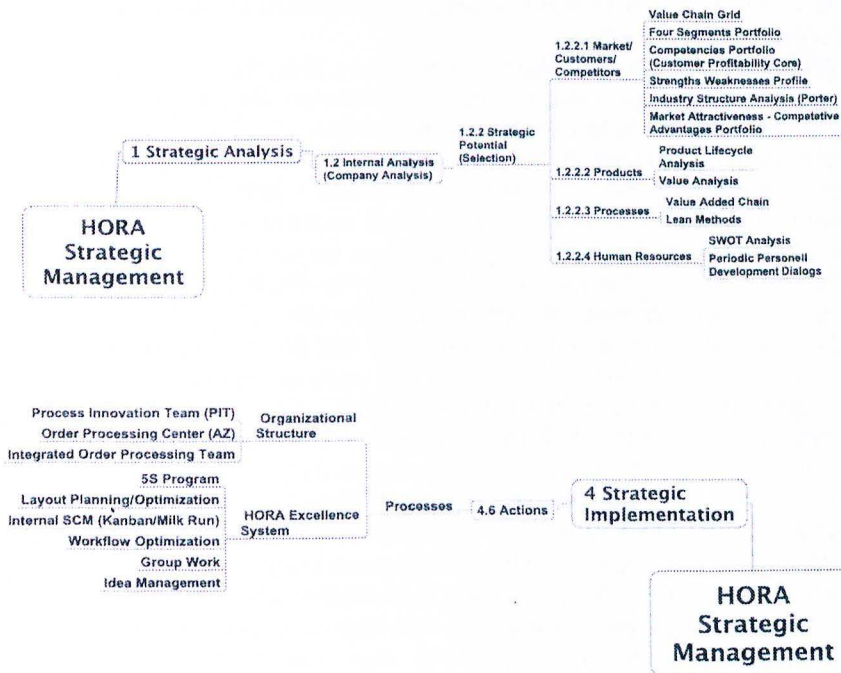


Figure 3: Phase Model (Examples in Detail).

Phases 1-3 contain primarily general tools, phase 4 (figure 3) is much more corporation specific because the strategy implementation has to be tailored to the SMEs particular operational requirements. The single phases will often not take place in the theoretical correct chronology, but with phases being performed in advance or at a later stage. After completion of the process, it may be re-started due, for instance, to a change in market needs, or new competitors having entered the market [9]. Strategic management therefore means a continual cycle of all phases.

3.2 First Steps of the Strategy Process Implementation at HORA PT (2000-2005)

In 2000, before HORA began the strategy process, the company had been experiencing growth, from a manually structured company in the early 1990s, with fewer than 100 employees, to an industrial enterprise. Strategy processes had not previously seemed necessary, but the boom between 1990 and 1995, after the fall of the wall in Germany, led both business units to believe that success was practically inevitable. Strategy processes appeared until then to be unnecessary.

Figure 4 shows the complete strategic management phase model. Due to this paper's printing format, it is not possible for this to be legible, but the point is to demonstrate HORA's strategy implementation status in 2000 and the progress achieved since.

Until 2000, the business was primarily driven by financial considerations (financial figures, budget planning, liquidity planning etc.), it was therefore more reactive (relatively few spots, see figure 4).

As described in paragraph 2.2, for HORA PT the market environment changed significantly for the worse in the mid 1990s. Given this, it was important to introduce the strategy process appropriately and to keep the employees on board. The following steps were begun in 2000:

The analysis of the internal and the external environment (see internal analysis in figure 2) was at first performed with a rudimentary SWOT analysis, the results of which were not only not complex enough, but also only partially complete. However, the results were nevertheless the ideal tool to raise awareness of the coming strategic process.

The company philosophy was formulated into a Vision, Corporate Mission Statement and Claim (see direction 2.1 in figure 2).

Working on and with key figures was introduced across the company, an essential tool for this process was the implementation of Balanced Scorecard (BSC) Concept, which lasted approximately two years [10]. The degree of realization of the committed department and company objectives has since been measured locally, with the use of scorecards updated on a monthly basis. Commercial controlling was improved. A management information system (MIS) provides key figures in the intranet.

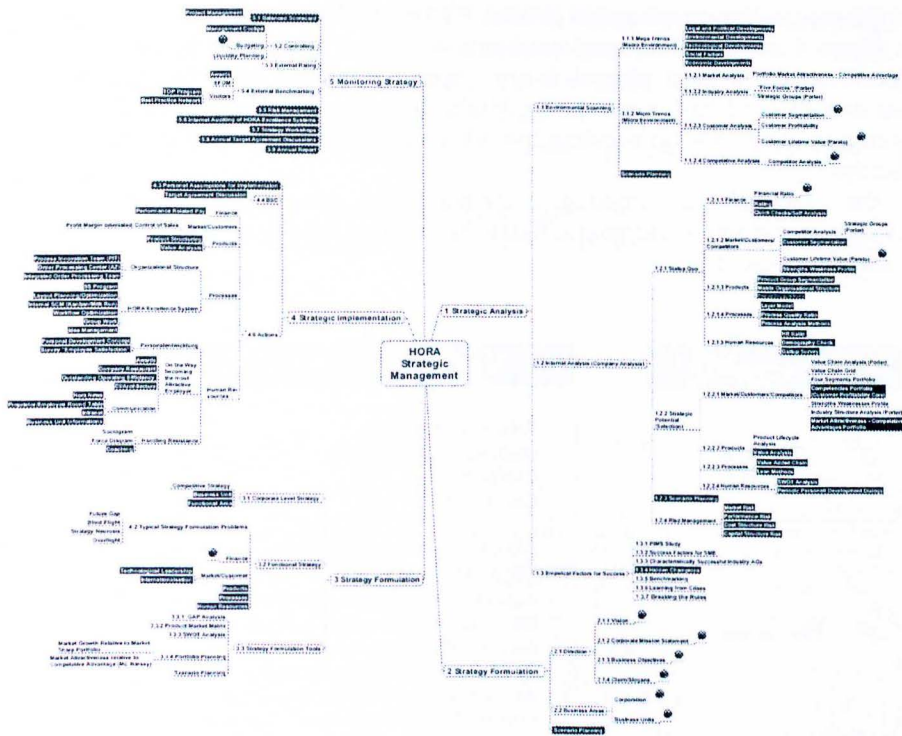


Figure. 4: Phase Model of Strategy Implementation.
 Before 2000: Marked with a Spot
 Between 2000 and 2013: Marked in Black

With the introduction of these steps, the company has had the following experience: in the mean time all departments work with agreements, action plans and projects. This system did not previously exist.

It is not easy for every department to develop meaningful, easy to understand scorecards. Management quality quickly becomes clear, with the help of three questions:

- Does the manager set ambitious objectives?
- Is the manager able to define and implement the necessary measures (actions, projects, ...)?
- Is every member of a department able to explain the scorecards on the information boards, to for example an external person?

3.3 Strategic Management at HORA PT from 2000-2013

As figure 4 shows, the developed phase model has, over the past nearly fifteen years, covered almost every important sphere of activity. Step by step and tailored to the company, HORA has successively amended every procedure and tool, improving the strategy process and making it more effective.

At the start of the process activities were concentrated on strategy monitoring and implementation, these have since become firmly established, as shown in figure 5.

Perspective	Tool
Finance	<ul style="list-style-type: none"> • Risk Management • Multi-annual Planning • Budgeting • Controlling
Processes	<ul style="list-style-type: none"> • HORA Excellence System (div. Lean Tools) • Organizational Structure and Business Processes Adjustment (PT Order Processing Center, PT Outer/Inner Sales, Cell Structure for PT Production, Product Management) • External and Internal Auditing • Benchmarking through Awards • Annual Target Agreement Dialogue
Market and Customers / Products	<ul style="list-style-type: none"> • Product Development Planning • Product Structuring
Employees and Management	<ul style="list-style-type: none"> • Periodic Communication Procedures and Quarterly Half-Day Target Agreement / Achievement • Personnel Development Programs SXP, JXP • Knowledge Management • Performance Based Compensation

Figure 5: Established Tools at HORA PT.

In the mean time, due to the acute changes in the market described in paragraph 2.2, the focus has shifted more towards strategic analysis and strategy formulation. For some years now, detailed internal and external analysis has been performed using typical strategic management tools, resulting in new or improved strategies. Integrated into all phases, is the BSC model structure of the five perspectives Finance, Market/Customer, Product, internal Business Processes and Human Resources.

After significant progress in the BSC-perspectives "finance" (value-based management) and "processes" (operational excellence) the HORA Business Unit PT now strengthens the perspective "market, customer and product" too, as shown in figure 6:

- Market/Customer and Product Perspective: Strategic market approach
- With which products, in which markets and with which competitive advantages can HORA be successful in the future?
- Process Perspective: Operational excellence
- How will HORA attain general and industry specific benchmarks in business operations?
- Finance Perspective: Value-based management
- Success will be measured by the short, mid and long-term increase of the corporate value.

Approach	Strategic market approach	Operational excellence	Value based management
Objectives	<ul style="list-style-type: none"> ▪ Country specific products ▪ proactive after sales ▪ growth in emerging markets ▪ (product-) USP 's ▪ new key accounts and/or countries ▪ new applications ▪ extension of engineering-competence (calculation incl. tools like product configurator, CFD, FEM, Test Facilities) 	<ul style="list-style-type: none"> ▪ State-of-the art production facilities (welding, machining, CAD-CAM) ▪ stability of the order-handling-processes for production and administrative activities ▪ response-time and -quality for inquiries ▪ professional project management ▪ standardising of product structures for tailor-made products (incl. software tools like PDM) 	<ul style="list-style-type: none"> ▪ inventories management ▪ cash management ▪ risk management
Typical KPI's	<ul style="list-style-type: none"> ▪ Sales ▪ USP 's 	<ul style="list-style-type: none"> ▪ leadtime ▪ in-time-delivery ▪ cost coverage ▪ quality cost 	<ul style="list-style-type: none"> ▪ Capital Employed ▪ EBIT

Figure 6: Present Strategic Approach at HORA PT.

3.4 Success of Strategic Management at HORA PT

Since HORA PT set out to pursue strategic management methodically and consistently, the Business Unit PT has achieved measurable success, examples of which are:

- HORA PT turnover doubled between 2005 und 2011.
- PT has been successful in evolving from a medium-tech to a high-tech producer of valves for power stations.
- In 2000, this business area achieved less than 10% of the turnover in this field. Today the high-tech share of PT's turnover is almost 50%.
- The percentage of PT sales to China, India and Russia ((B)RIC) in 2000 were less than 10%, in 2011 these were already over 50%.

- Products in the BU PT were hardly standardized. The “product structure management” project, together with product data management (PDM) and product configurator tools will enable individual, tailor made product solutions to be made from standardized components (along the lines of the platform concept in the automobile industry).
- Internal order processing was unsuitable for punctual delivery of non-standard control valves: The percentage of products delivered on time improved from 30% in 2003, to over 90% today.
- The management team has long since accepted the process-orientation of strategic management. The specific phase model used by HORA is a central theme of the business, providing orientation, quickly highlighting areas needing attention and, most importantly showing gaps. Working with the most important tools has helped enormously in professionalizing company management.

4 SCENARIO PROJECT “THE FUTURE BUSINESS ENVIRONMENT FOR HORA PT SERVICE”

The following summarizes how a very modern tool, Scenario Management™, has been used at HORA for the second time (see also [11]). The systematic and participatory process has been successfully used in various practical projects since 1998.

The question arose as to whether it made sense to further develop the After-Sales-Service in PT as a strategic business area. Due to the extremely complex environment and the scope of this decision the management board decided to employ an external consultant, in the form of Scenario Management AG (ScMI AG) in Paderborn. During the “Strategic Management” course within the Masters Double Degree “Production Engineering and Management” approximately 25 students with technical training from the University of Trieste and Ostwestfalen-Lippe University of Applied Sciences worked on this topic. Technical experts from ScMI AG moderated and HORA employees provided the input required. Over one semester, the students worked through the scenario development phases shown in figure 7.

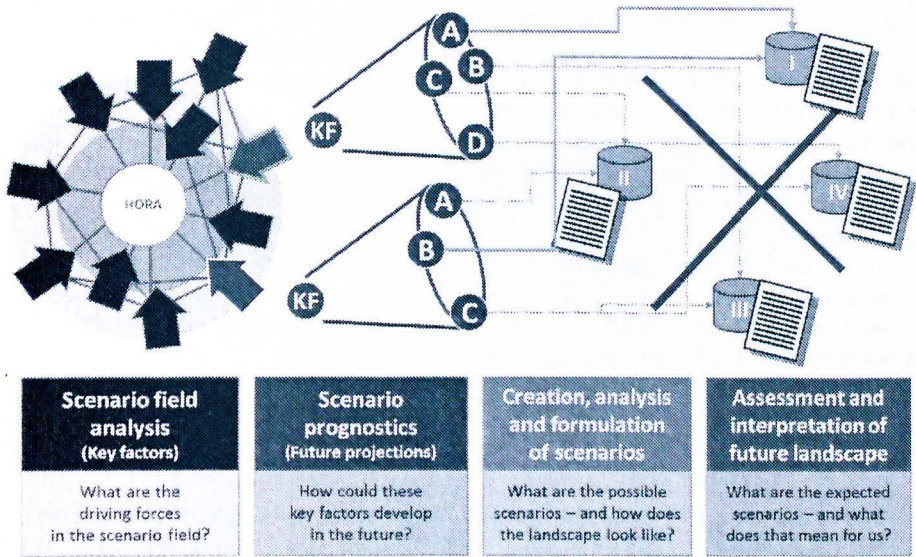


Figure 7: Four Steps of Scenario Development. (ScMI-internalchart)

The result was seven alternatives, but consistent scenarios developed and visualized in a map (figure 8).

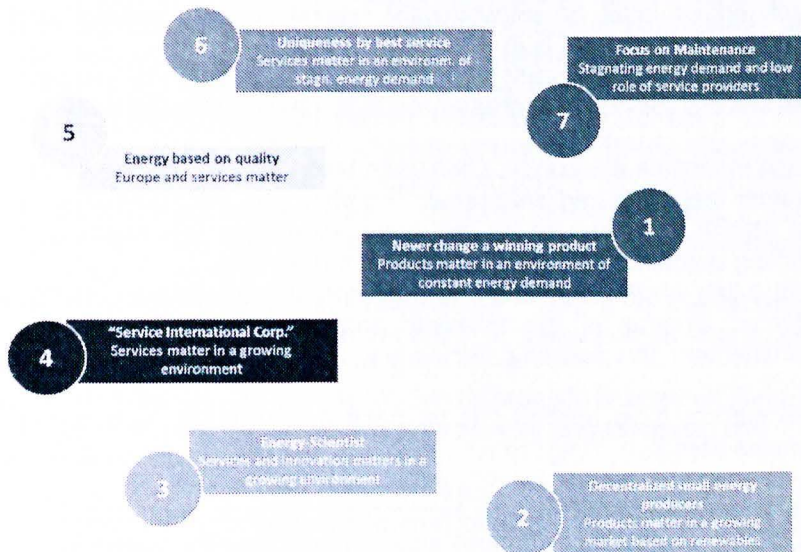


Figure 8: Map of the Future. (ScMI-internal chart)

Discussing the different future visions enabled creation of innovative ideas and the development of various courses of action.

The evaluation of the various scenarios with regard to the desired and expected forecasts stimulated further discussion, the HORA management team preferring the scenarios which were forecast in points three and four of figure 8.

HORA PT derived strategic priorities from these forecasts:

the offer of innovative Retrofit Solutions for optimizing existing plants as well as growing local services (also in cooperation with partners), particularly in non-European countries.

5 SUMMARY

Starting from the assumption that strategic management is very rarely applied by SMEs, an approach for medium sized businesses, including the practically oriented modification of suitable tools, has been developed and successfully implemented, based on the professional experience of HORA.

This process has proven that the phase model provides management with a comprehensible orientation and that it is possible to begin the process with any phase of the model. HORA began with strategy implementation and monitoring, but if the phase model is illustrated using a mindmap and the implementation status is color coded, it will then be clear which area has not been covered (company specific tools and priorities are essential here). Each phase must be continuously refined as the external and internal corporate environment is in a permanent state of change.

As shown in this paper, adherence to a standard process delivers measurable success and greater strategic development stability.

In the meantime this concept has been taken up and applied by the owner of another medium sized enterprise. Together with his managers, he adapted the HORA mindmap to fit his corporation and management has been working successfully with this model for three years.

This paper shows that there is considerable demand for implementation-oriented analysis of the scientific and empirical knowledge of strategic management, this applies particularly to medium sized businesses.

The authors have applied this to make a contribution and gained the first benefits from it.

Any endeavor to implement a systematic approach, supported by tools such as BSC and provide incentives such as performance-based compensation, to strategic management is dependent in the last instance upon the

management team. The process outlined can be implemented only with competent and ambitious managers (figure 9).

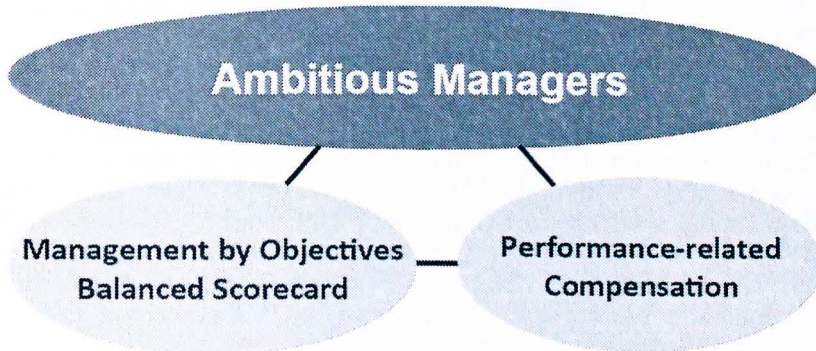


Figure 9: Effectivity of Incentive schemes and Management systems.

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