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Strategy

Navigating the Complexity of the New World

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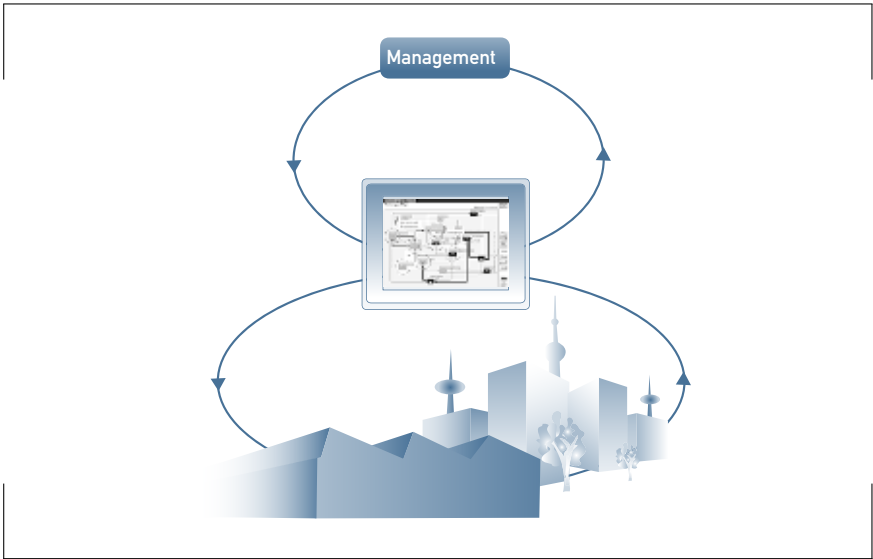


Figure 100: This is how it works: the internal model of the outer world

While these capabilities continue to be important for senior executives, they are now complemented and supported by a SensiMod specifically developed for control purposes, as shown in figure 100. This is the help our systems and tools provide: they enable executives to make optimal use of their capabilities.

This inner model of the outside world is not a static but a dynamic depiction; i.e., the continued changes in the outside world are fed into the model and—as we have come to know from the GPS system in a car—keeps showing us where we are and what our options are at any given time. It is exactly the same with this application of the SensiMod in organizations.

EKS: Dynamic Specialization

Another cyber-tool to be used in strategy design is the *Minimum Factor-Focused Strategy* (or EKS, from its original German name *Engpass-*

*konzentrierte Strategie*⁵⁶). It is also applied simultaneously with the Syntegration method. Contrary to its conventional, stand-alone application, which produces outstanding results in its own right, its impact is massively reinforced by its simultaneous application in the syntegrative context, and the time required is reduced by up to 90 percent.

The EKS approach is the general *heuristic* by which the evolutionary strategy of specialization is transferred to the field of corporate strategy. Wherever it was rigorously applied, which was in tens of thousands of cases, it enabled the establishment of businesses that dominated their markets. It made numerous entrepreneurial dreams come true and helped to build and secure livelihoods. The EKS approach is therefore key to managing the Great Transformation, as the transition from the Old to the New World cannot be the exclusive responsibility of large corporations; rather, we are likely to experience a grass-roots revolution.

First off, what is a heuristic?

It is a searching, or rather: a finding principle. My book *Corporate Policy and Governance* included a chapter on the subject and here, too, the term is again of crucial importance, which I will explain in the chapter following the next.

While an *algorithm* is a program which—correctly applied—helps to *positively* find targets that are *known beforehand*, a *heuristic* is a program which helps find *unknown* targets with a high degree of *probability*—in particular *moving targets*, as are typical of times of major change.

In the case of the EKS approach, the unknown target is the *best possible specialization* for a business, enabling it to obtain an unassailable and *unique position* in the market. However, as markets permanently change, EKS is also—in line with the natural principle of evolution—a method of *dynamic specialization*⁵⁷, i. e., a specialization which keeps challenging itself and which, if applied correctly, will automatically adapt to changing conditions.

Although there were not many who shared my point of view, I realized as early as in 1970 that the cybernetic, self-regulating processes of natural evolution are of enormous significance for the control and management of companies. Shortly thereafter, I learned about Wolfgang Mewes and his

⁵⁶ See related comments in the list of registered trademarks and copyright-protected names
⁵⁷ Malik, Fredmund; Friedrich, Kerstin, and Seiwert, Lothar: *Das große 1x1 der Erfolgsstrategie. EKS®—Erfolg durch Spezialisierung*. 13th edition, complete revised and amended, Offenbach, 2009.

EKS concept, which intrigued me for precisely this reason. Forty years had to pass by, however, for me and Mewes to meet..

Thanks to the integration of the EKS concept into our cybernetic management systems, combined with our other cyber-tools, it can now unfold its full power for mastering complexity, just in time for the Great Transformation.

Wolfgang Mewes changed the name of the concept several times, to make it clearer what his innovation is capable of accomplishing and to be understood as a pioneer of new thinking in this field. He first named it *Evolutionskonforme Strategie* (“*Evolution-Compliant strategy*”), then *Energo-kybernetische Strategie* (“*Energo-Cybernetic strategy*”) and finally *Engpasskonzentrierte Strategie* (“*Minimum-Factor Focused Strategy*”). This latter reflects the insight that forces are always applied best and most effectively by focusing on the minimum factor, i.e. the essential key strengths.

Evolutionary Specialization for Every Company

Allow me to spend a few words explaining the scientific background of my early interest in EKS. The phenomena of specialization are among the most exciting topics in evolutionary and behavioral research. *Konrad Lorenz*, the great pioneer of behavioral research and Nobel Prize winner, gives an impressive description of the principles of evolutionary specialization and its fantastic results in a variety of manifestations.

All forms of life are highly specialized, as a result of their strategies for mastering complexity and for maximizing energy efficiency—and the only exception seems to be the human being, who is an all-rounder. But even man is a specialist, according to Konrad Lorenz: a *specialist for non-specialization*—a specialist on a higher level. As a species, this enables humans to adapt to almost any type of circumstance. This, in turn, is one of the most powerful solutions of nature for mastering complexity, as it combines two overlapping ways of tackling complexity.

So, maximizing the ability to adapt through non-adaptation is the principle of evolutionary cybernetics which Mewes also discovered for corporate strategy, and which he made usable for all companies—even the smallest ones—by defining a brilliantly simple sequence of steps.

Then Rupert Riedl, Konrad Lorenz’s disciple and colleague, created one of the most comprehensive collections of literary works on evolutionary theory, including his *Order in Living Organisms* and the generally more popular book *The Strategy of Evolution (Strategie der Evolution)*. Lorenz

and Riedl's work had already influenced me when I started working on my PhD, and their findings, as well as those of other great exponents of evolutionary research, found their way into my professorial dissertation *Strategy of the Management of Complex Systems*. And so it happened that bionics experts started taking an interest in the subject. Prof. Dr. *Ingo Rechenberg*, one of the German pioneers of bionics, was able to prove that it is not only the outcomes of evolution which have been optimized but also the method that nature used to achieve these outcomes⁵⁸, which I also commented in my professorial thesis.

Adaptation and specialization are two of the basic principles and drivers of evolution in all its manifestations, from single-cell organisms to global society structures. Even further, they encompass everything from cosmological structures beyond social systems to the manifestations of informational and communicative structures and systems.

Specialization in business, and in society overall,

- conforms to evolution,
- eases competitive pressure
- enables peak performance,
- leads to better problem solutions,
- is easier to communicate,
- raises expectations with regard to competence, and
- expands the scope for action.

Frequent objections, according to which specialization also has its disadvantages, apply primarily where specialization turns into overspecialization and diminishes the ability to adapt. That is why EKS is about *dynamic* specialization. The advantages of *proper* specialization by far outweigh its disadvantages.

⁵⁸ Malik, Fredmund: *Bionics. Fascination of Nature*, Deutsche Bundesstiftung Umwelt, 2007; Malik, Fredmund (Ed.): *1., 2. und 3. Internationaler Bionik-Kongress* ["1st, 2nd, and 3rd International Bionics Congress"], Malik Management Zentrum St. Gallen, 2008, 2007, and 2006.

Successful Application Examples

Companies applying EKS include renowned market leaders such as Würth, Kärcher, Logitech and Kieser Training. Much of their entrepreneurial success is owed to the rigorous application of the EKS concept.

In his book *Hidden Champions*, Hermann Simon explained that, while there are many and greatly differing paths to entrepreneurial success, there is one strategy which successful companies apply with remarkable frequency: EKS.⁵⁹ Apart from the renowned names mentioned above, there are numerous small and medium-sized companies which have attained market leadership positions based on excellent, often highly creative achievements.

For instance, a simple painting and decorating business based in the federal state of Baden-Württemberg, the kind of which there are thousands in Germany, specialized in floor marking services for sports facilities and became the world market leader in its field. An ordinary bed-and-breakfast in the Bavarian Forest turned into a special, very successful hotel for handicapped people which is always booked to capacity. An optical store in the state of Hesse successfully specialized in sports eyewear. Another successful EKS practitioner in the Munich area teaches athletes the fine art of sprinting. It is not simply “training” they offer—as opposed to many others—but “sprint training” for athletes in all the sports where sprinting is key.

Now, for the transition from the Old to the New World in the context of the Great Transformation, the importance of EKS can hardly be overestimated, for it is one of the quickest ways to bring about another economic miracle—which will have to be based, above all, on major advances in the capillaries of our economic system: in small and medium-sized businesses. Perhaps even more importantly, EKS can enable individuals to specialize successfully, thus boosting their life skills. This will be one of the supreme forms of self-management. More on this subject can be found in the first volume of this series, *Management. The Essence of the Craft*.

⁵⁹ “In the context of specialization and focus, we were able to find that the EKS approach has been applied surprisingly often. This is one of the few secrets we revealed about the ‘Hidden Champions.’” Hermann Simon *Hidden Champions. Lessons from 500 of the World’s Best Unknown Companies*. New York, 1996.

EKS-Based Specialization: One Law of Nature, Four Principles, Seven Steps

Building on the fundamental ideas of biology and evolutionary theory, in particular the natural law of the most effective use of forces, Wolfgang Mewes developed EKS as an approach based on four principles and seven steps.

With brilliant simplicity, it leads to the most strikingly successful forms of specialization, often in niches which may be small but, precisely for that reason, are usually very profitable. These companies just need to be careful not to get carried away seeking growth for growth's sake.

But EKS is also applied in very large markets, Würth and Kärcher being cases in point. The key criterion is not large or small, but whether or not it is a *defendable specialization*. The more “pointed”—i. e., focused—a specialization is, the higher the probability that EKS will enable the company to gain market leadership and ultimately take a unique market position, a de-facto monopoly—based not on governmental protection but on its own superior performance.

The objective of EKS is to become or remain the best problem-solver for a certain target group.

The four *principles* of EKS are:

1. Concentrating one's resources and reinforcing one's strengths
2. Solving bottleneck situations
3. Delivering value rather than reaping profits
4. Non-material values taking precedence over material ones.

The seven methodological *steps* of EKS are:

1. Analyzing the status quo and specific strengths
2. Finding a promising specialty
3. Identifying a promising target group
4. Performing a bottleneck analysis
5. Developing a specialization-innovation strategy
6. Developing a specialization-cooperation strategy
7. Determining the constant basic need in order to secure long-term success

The similarities with the Strategy Map and PIMS principles are obvious, making EKS fit perfectly in our set of tools.

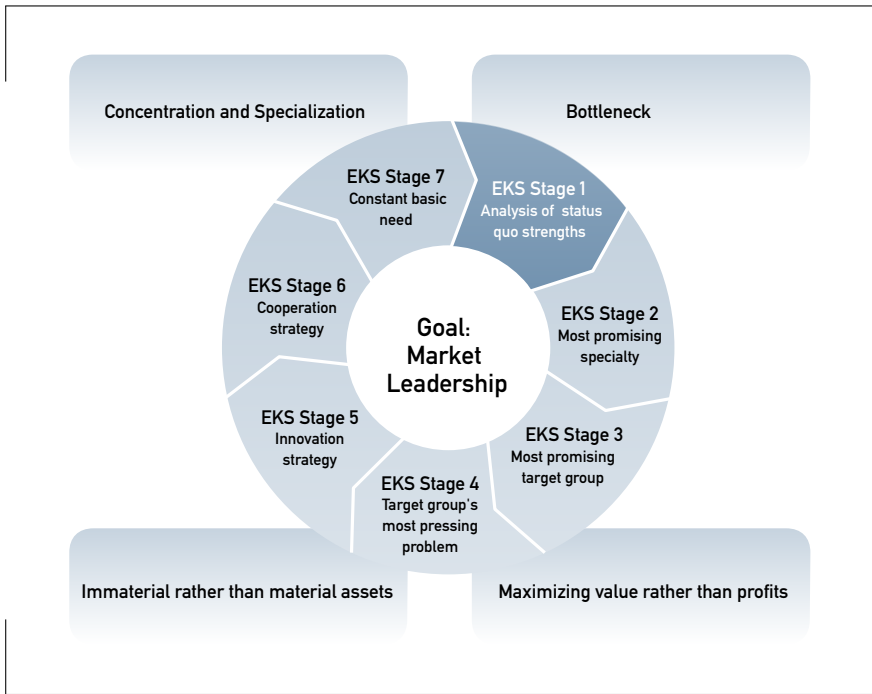


Figure 101: EKS—principles and methodological steps

Figure 101 shows the principles and steps of EKS.

The above-mentioned books by Friedrich, Malik and Seiwert contain further details on the methodology, in particular key checklists and questions, as well as numerous application examples.

The EKS Success Spiral Market Leadership and Unique Position

The rigorous and iterative application of EKS creates an evolutionary success spiral, as shown in figure 102.

It is set in motion by concentrating one's own resources and pursuing a dynamic specialization on certain target groups and market niches. The logic of this success spiral is both simple and compelling: Even the first steps in the focusing process will provide learning gains leading to increases in efficiency and productivity. This, in turn, will improve financial results and enable companies to further enhance their market performance,

which will trigger more demand leading to sales and profit increases. At the same time, increasing market shares will expand the entrepreneurial scope of action and reduce economic and financial dependencies.

These *outcomes* of the EKS logic are not new; yet the logic and adherence to its principles and steps are either unknown to many people or not applied with sufficient rigor. It corresponds to a wish that probably most entrepreneurs and executives have: being provided with a magic formula for success.

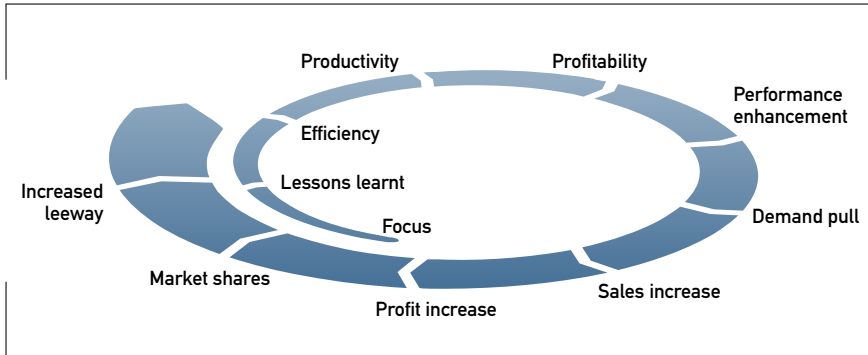


Figure 102: The EKS success spiral for market leadership and unique position

The EKS success spiral also comprises many of the strategy elements I have described in my chapters on the Navigation System, the Strategy Map, and PIMS.

Management System Audit (MSA): New Ways of Functioning and Implementing

The next simultaneous application of Syntegration with “time-lapse” effects is our *Management System Audit*. Years ago, we developed this cyber-tool for diagnosing the status quo of a company’s management systems compared to the standard defined by our Integrated Management System (IMS®).