

## NON-EXEC GOVERNANCE OF VALUE-STREAM INTEGRITY

*Non-executive directors have never had so much power within the company, nor so much responsibility and liability. Stellar® is an architecture through which the company's strategic initiatives can be evaluated, challenged and enhanced.*

### Value and the Value-stream

Every company exists to supply value, to bring value into the world with sustainable profit. 'Sustainable profit' means that an overall gain is made by all stakeholders as against the cost – that there is optimal net gain and no overall loss to the world. Defining overall gain, however, is subjective, depending on how far and over what time-span one acknowledges one's responsibility for the costs, consequences and implications of the company's actions, whether financially, socially or ecologically.

The point of sustainability is therefore to create *genuinely* added value over at least the company's lifetime. It is to create value that is in excess of the cost of production, however that value and cost is measured. This seems to be the fundamental drive of the human condition – it is the urge to grow new life. And that is surely the core characteristic of every truly successful entrepreneur, every authentically healthy company, and every long-lived organisation. Genuine profit *means* growth.

Value is whatever is experienced by the customer as being of value and meaning. A company's creation of value is expressed within its value-stream, which is that set of processes that transforms an original idea of value into customer experience of value. The company *is* its value-stream – any action that fails to contribute to the value-stream has no purpose in the interests of the company. If an action adds no value, why do it? To own a value-stream, however, a company must first own a value-creation capability. The value-stream is the outcome of the company's execution of its value-creation capability.

The leader's task is to manage the company's optimal execution of its value-creation capability within its value-stream, creating genuine added value for all stakeholders. To do that, however, the leader needs clear understanding not only of the company's value-creation capability but also of its uniqueness. If a company fails to uniquely differentiate its products or services from those of its competitors it is likely to remain a commodity company, competing in terms only of operational efficiency and cost, with the inevitable outcome of diminishing margins and a consequent downward spiral of profit and reinvestment. Knowing the company's uniquely differentiated value-creation capability is key to a company's sustained success. Stellar® is presented as a powerful architecture for clarifying a company's unique value-creation capability, for managing how that might best feed into its value-stream, and maybe most importantly, for governance auditing of its value-stream integrity.

### The Stellar® Architecture

The Stellar® value-stream architecture identifies twelve archetypal value-creation capabilities that together create the company's value-stream. No value-creation capability operates outside of these twelve value-stream

domains. All of these capabilities inhabit all of the value-stream all of the time, managing materials and resources in the manufacture and delivery of a product or service. Stellar® embraces *everything* that is of any real consequence to the company’s leadership, management and governance directors.

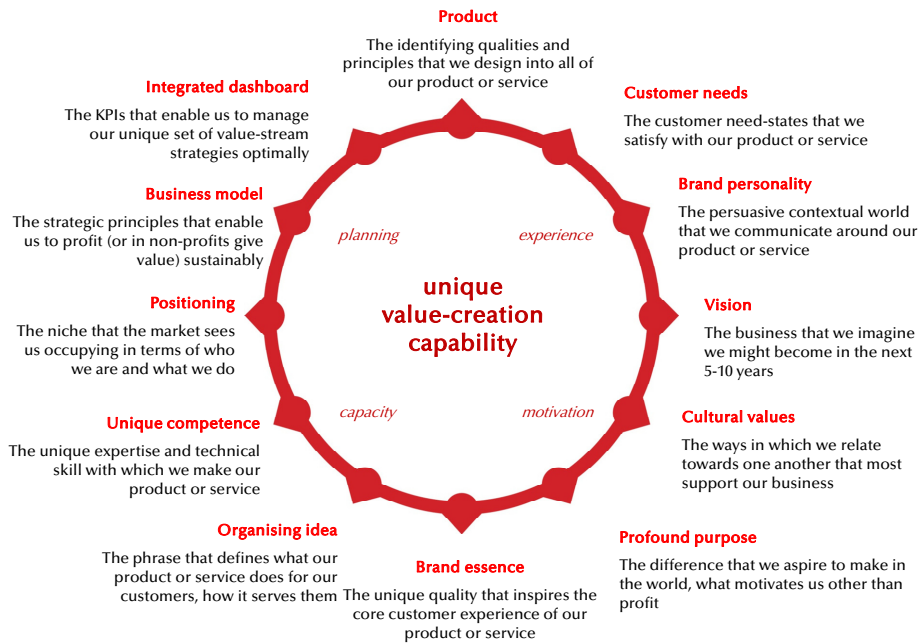


Fig. 1 – The twelve Stellar® value-stream domains of unique value-creation capability

Each domain in Fig. 1 describes one archetypal dimension of the value-stream, and Stellar® requires the company to define its precise capability to create unique value within that specific dimension (see Fig. 2). The resulting definition within each domain precisely describes the unique value-stream value that the company owns the capability to create when at peak performance, when at very best.

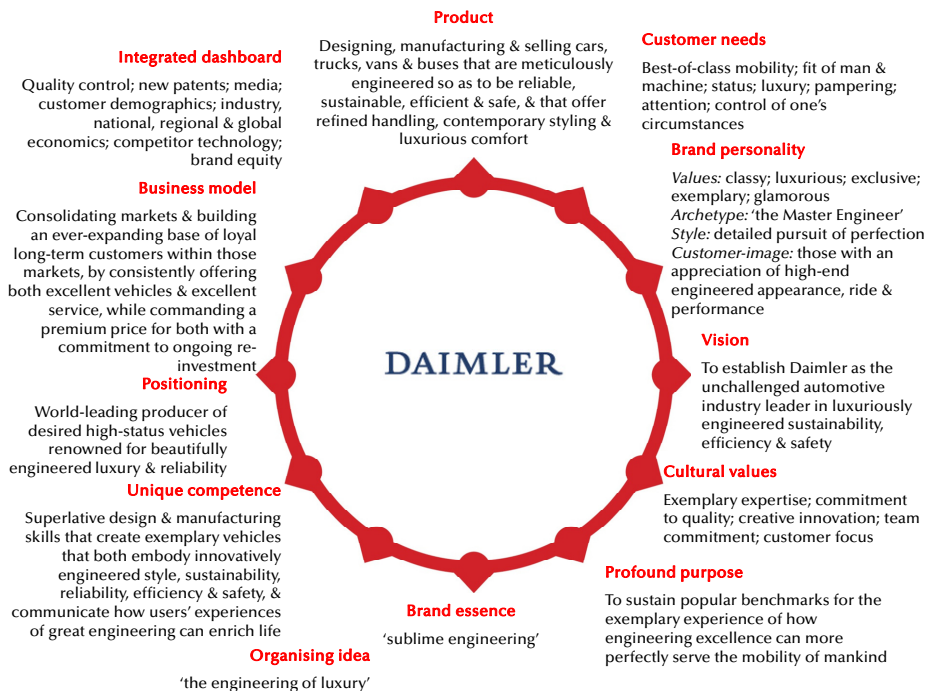


Fig. 2 – The Stellar® domain definitions of Daimler’s peak performance value-creation capability

Each domain definition is of the company's peak capability of value-creation that is proven and demonstrated, however briefly (and not imagined, desired or envisioned). These definitions of unique value-creation capability serve as natural parameters for every decision that is made within the company. If a decision calls for capability that is outside of those parameters, or equally if it fails to engage capability that it owns, it will by definition fail to perform at its full capability. One cannot execute what one has no capability to execute, and not deploying one's full capability is both wasteful and potentially dangerous. Conversely of course, the more capability one executes, the more successful the outcome is likely to be. The strategic aim is therefore to optimally align all decisions within the parameters of the domain definitions, the consequence of which will be to bring the company towards peak performance of its unique value-creation within all twelve domains of the value-stream.

The value-stream, however, is a whole-system. Its domains are inter-dependent, symbiotic and fractal, with each domain effecting outcomes throughout all of the company's functions, actions, behaviours and processes. Indeed each domain of capability effects some degree of input, presence and consequence throughout all of the value-stream. Neither part nor the whole of the value-stream can be properly understood without a conscious awareness of the real contributory influence of all twelve domains. The value-stream comprises a constant flow of all enacted capabilities that results in the gradual emergence of the created value that is carried by the company's product or service, at as close as possible to peak performance within the domain parameters.

Every decision within the company by definition strategically engages with the whole value-stream, and can only be competently made and executed from within a full understanding of the twelve value-stream domains. And every decision should indeed be evaluated (and usually improved) in terms of how effectively it engages and implements each capability, and how well that contributes towards the company's peak performance.

Performance will rarely, however, be consistently at peak within domains, but by defining capability *at best* one has an aspirational measure that is wholly appropriate to current performance. Current domain performance can be related to peak definition within a spider's web radar, identifying the gap between current and peak that needs to be either closed, or at least understood and engaged with. Such a radar can be compiled for overall performance of the company, for individual strategies, current or proposed, and for strategies that are deliberately extending beyond the parameters of the domain definitions. As such it can be a powerful tool for both evaluating the alignment of a decision or strategy with the company's unique capability, and for designing closer and more effective strategic alignment. This is particularly true in the classic areas of new product development, adjacencies and acquisitions, all notorious for disastrous failure rates.

Fig. 3 is a Stellar® of Chrysler, and the radar of current performance shows their weakest domains as Customer Needs, Organising Idea and Business Model. To close those gaps in particular will require special effort, but by deeply exploring the meanings of the various domain definitions, and by engaging with what is preventing the company from performing at peak, the Stellar enables a deep-level analysis and understanding of Chrysler's situation. The dotted line radar describes the potential for integration with Daimler (see Fig. 2), something that a brief comparison of the two Stellar®s will show to be fanciful.

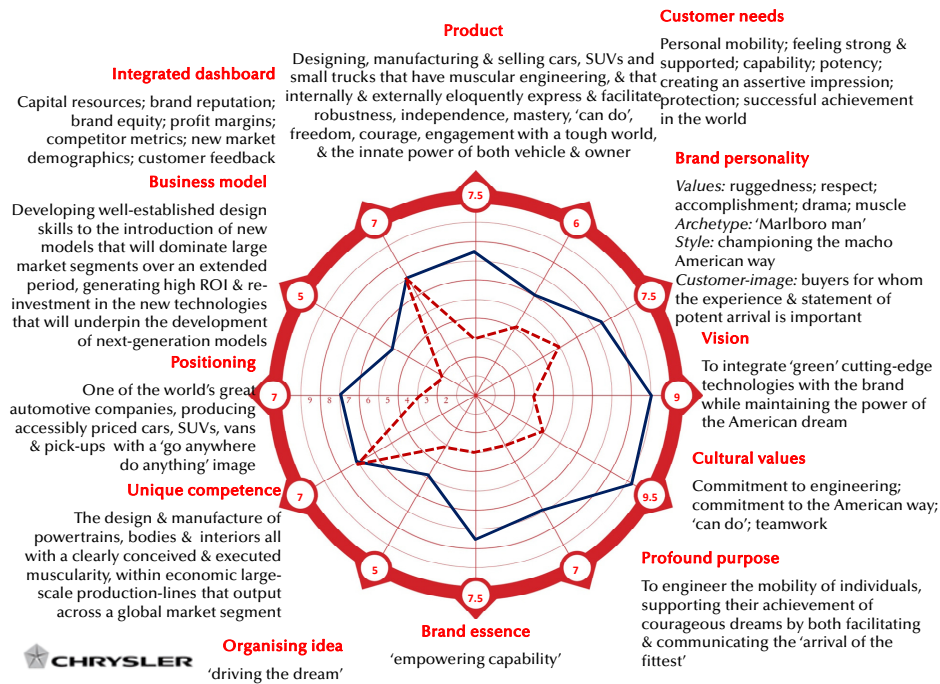


Fig. 3 – The Stellar® domain definitions of Chrysler, with a radar scoring overall current company performance in relation to peak (blue line) and a radar evaluating potential integration with Daimler (dotted red line).

## Value-stream Governance

Stellar is an obvious tool for leaders, but it is almost certainly of greatest value within the hands of the company's Non-Executive Directors as an audit architecture. Although of course their roles vary enormously between companies, NEDs have prime responsibility for the well-being of the company, serving as 'outsiders' who are expected to bring a more disinterested and objective viewpoint to company strategy. Although they often also bring particular expertise, their main duties are in the general area of governance, and that tends to be oriented mostly towards legal and financial compliance.

What is missing within the instruments and processes that have emerged from the discipline of governance is any means by which the NED can monitor and evaluate strategic policy in other than financial terms. Every analysis of a proposed acquisition predicts financial success but 75% fail. Auditing strategy is surely one of the most potentially valuable tasks that can be carried out within the Board-room. Most CEOs are usually wrapped up in and blinded by a multiplicity of big ideas of the moment, whether in maintenance fire-fighting, for example by introducing lean, down-sizing or sales drives, or in expansive growing, for example by new product developments, adjacencies or acquisitions. At such times it is difficult for NEDs to grasp hold of and question issues of strategy with any confidence or conviction. Stellar® uniquely offers a powerful instrument for looking at, critiquing and challenging the integrity of the company's value-stream management. It can bring governance persuasively into that core strategic arena, helping to audit major decisions in terms of their significance for the long-term welfare of the company, its employees, its investors and its host society, with clarity, intelligence and deep insight.