Strategic Management

Lecture 11
Strategy Execution

Learning Objectives

- Describe the transition from formulating to implementing strategies
- Discuss five reasons why annual objectives are essential for effective strategy implementation
- Identify and discuss six reasons why policies are essential for effective strategy implementation
- Explain the role of resource allocation and managing conflict in strategy implementation
- Discuss the need to match a firm’s structure with its strategy
- Identify seven different types of organizational structure

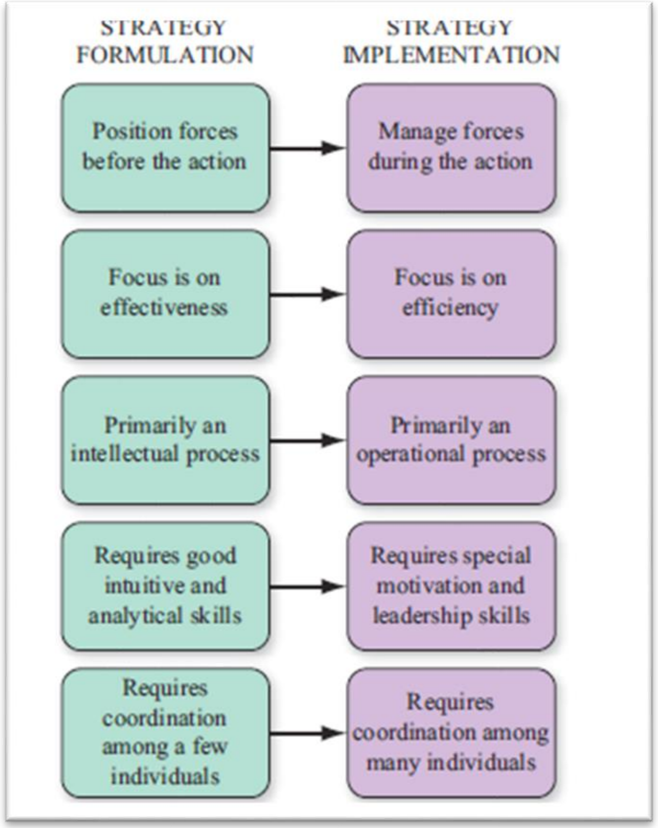
Topics

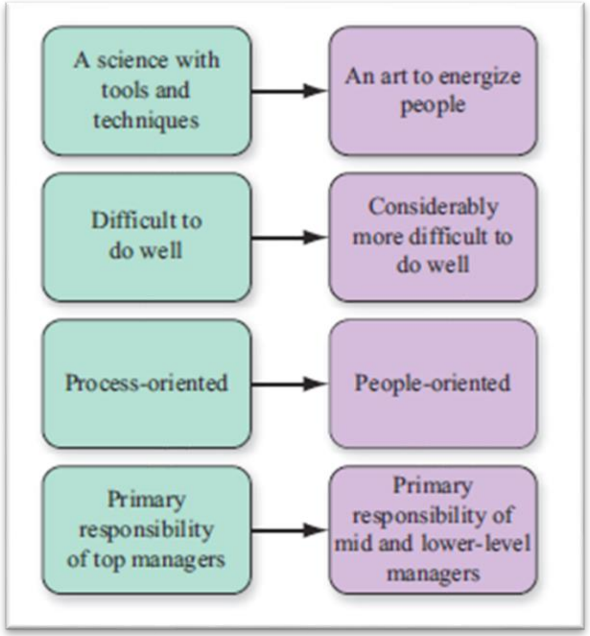
- ❑ Transitioning from Formulating to Implementing Strategies
- ❑ The Need for Clear annual Objectives
- ❑ The Need for Clear Policies
- ❑ Allocate Resources and Manage Conflict
- ❑ Match Structure with Strategy
- ❑ Types of Organizational Structure

Transitioning from Formulating to Implementing Strategies

- Many organizations tend to spend an inordinate amount of time, money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as afterthoughts!
- Change comes through implementation and evaluation, not through the plan
- A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed
- Although inextricably linked, strategy implementation is fundamentally different from strategy formulation
- In all but the smallest organizations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers
- Implementation problems can arise because of this shift in responsibility, especially if strategy-formulation decisions come as a surprise to middle- and lower-level managers
- Managers and employees are motivated more by perceived self-interests than by organizational interests, unless the two coincide. This is a primary reason why divisional and functional managers should be involved as much as possible in both strategy-formulation and strategy-implementation activities

Transitioning from Formulating to Implementing Strategies …





Contrasting Strategy Formulation with Strategy Implementation

The Need for Clear Annual Objectives

- Annual objectives are desired milestones an organization needs to achieve to ensure successful strategy implementation. Annual objectives are essential for strategy implementation for five primary reasons:
  1. They represent the basis for allocating resources
  2. They are a primary mechanism for evaluating managers
  3. They enable effective monitoring of progress toward achieving long-term objectives
  4. They establish organizational, divisional, and departmental priorities
  5. They are essential for keeping a strategic plan on track
- Considerable time and effort should be devoted to ensuring that annual objectives are well conceived, consistent with long-term objectives, and supportive of strategies to be implemented
- Active participation in establishing annual objectives is needed for the preceding reasons

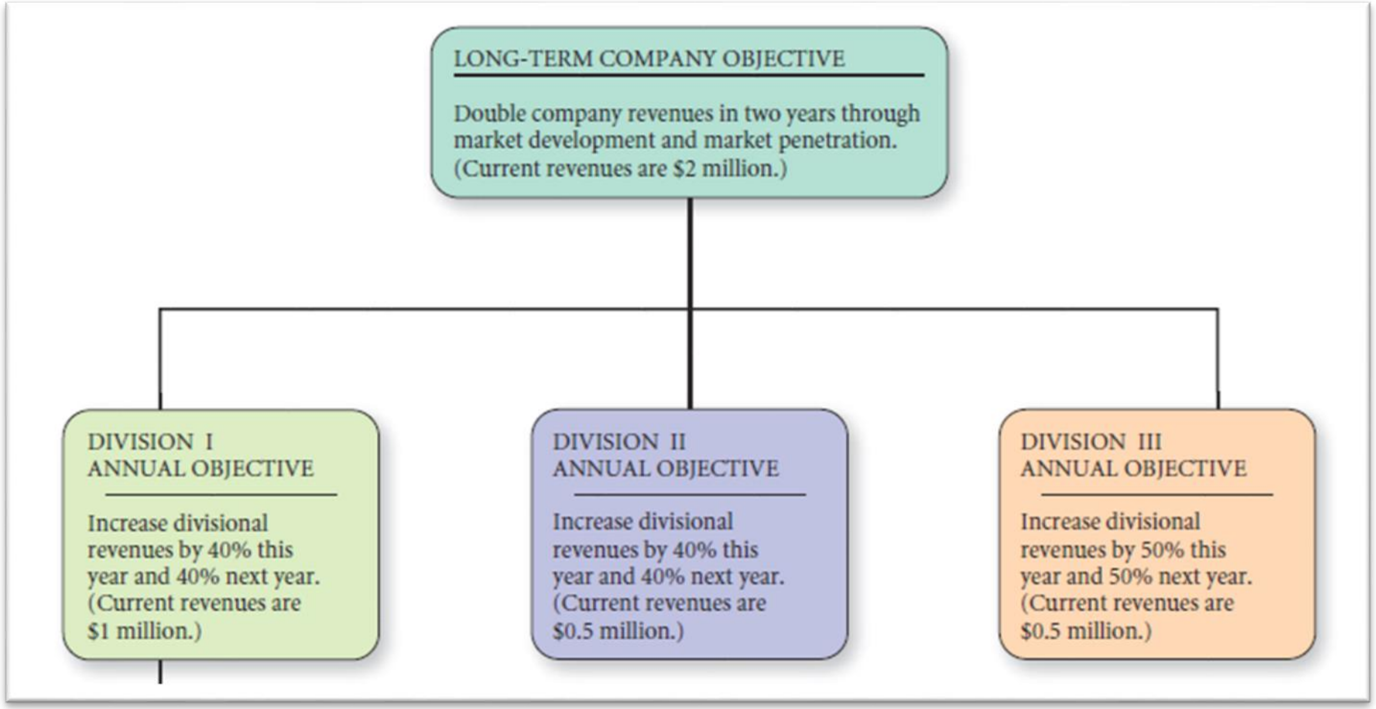
The Need for Clear Annual Objectives …

Approving, revising, or rejecting annual objectives is much more than a rubber-stamp activity. The purpose of annual objectives can be summarized as follows:

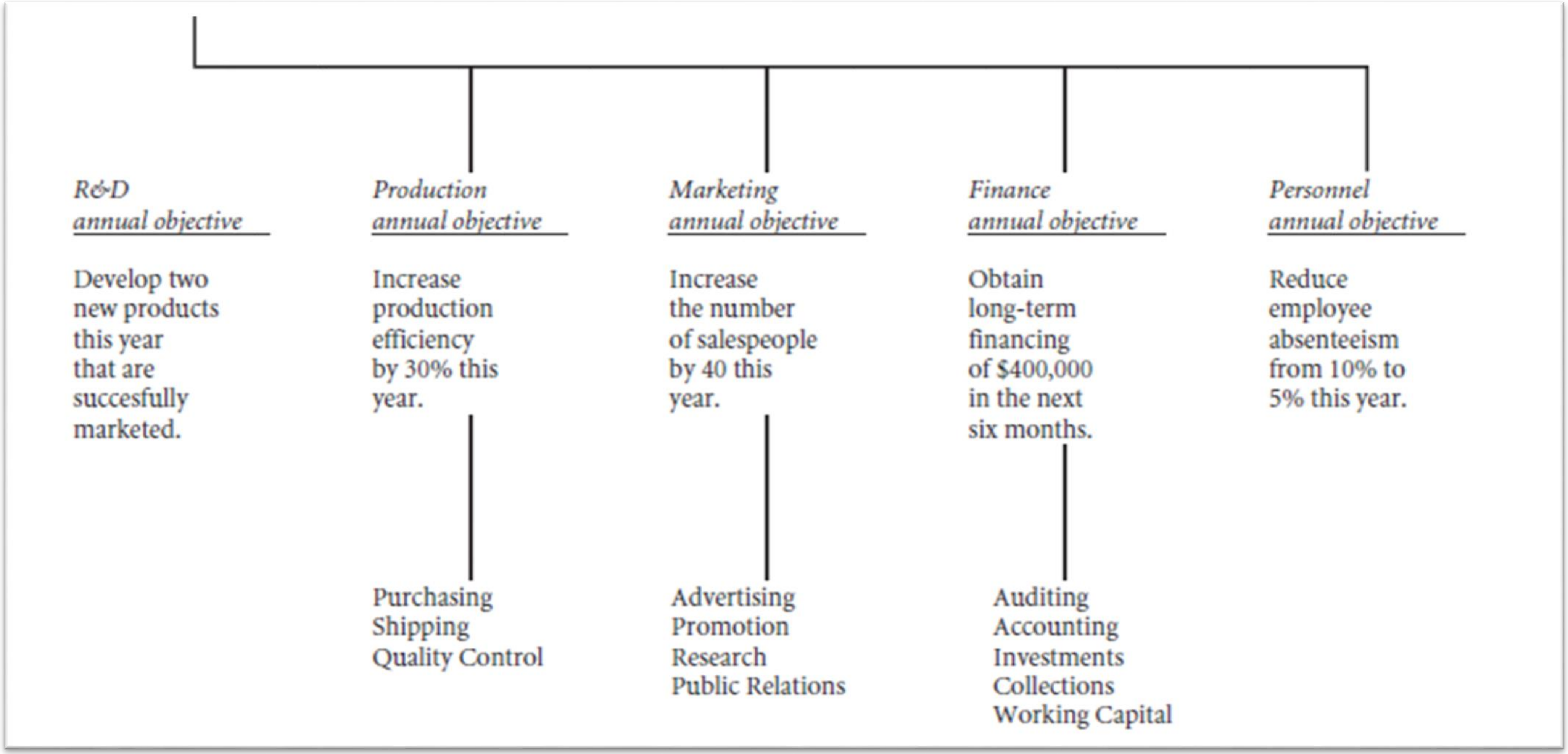
- ✓ Annual objectives serve as guidelines for action, directing and channeling efforts and activities of organization members
- ✓ They provide a source of legitimacy in an enterprise by justifying activities to stakeholders
- ✓ They serve as standards of performance
- ✓ They serve as an important source of employee motivation and identification
- ✓ They give incentives for managers and employees to perform
- ✓ They provide a basis for organizational design

The Need for Clear Annual Objectives …

- Clearly stated and communicated objectives are critical to success in all types and sizes of firms. Annual objectives are often stated in terms of profitability, growth, and market share by business segment, geographic area, customer groups, and product. Below is an example of the hierarchy of objectives.



The Need for Clear Annual Objectives ...



The Need for Clear Annual Objectives …

- The previous example reflects how a hierarchy of annual objectives can be established based on an organization’s structure
- Objectives should be consistent across hierarchical levels and form a network of supportive aims. Horizontal consistency of objectives is as important as vertical consistency of objectives. For instance, it would be ineffective for manufacturing to achieve more than its annual objective of units produced, if marketing could not sell the additional units
- Annual objectives should be measurable, consistent, reasonable, challenging, clear, communicated throughout the organization, characterized by an appropriate time dimension, and accompanied by commensurate rewards and sanctions
- These elements are often called the “characteristics of objectives.” Too often, objectives are stated in generalities, with little operational usefulness

The Need for Clear Annual Objectives …

- Annual objectives, such as “to improve communication” or “to improve performance,” are not clear, specific, or measurable. Objectives should state quantity, quality, cost, and time and also be verifiable
- Terms and phrases such as maximize, minimize, as soon as possible, and adequate should be avoided
- Annual objectives should be supported by clearly stated policies. It is important to tie rewards and sanctions to annual objectives so that employees and managers understand that achieving objectives is critical to successful strategy implementation
- Clear annual objectives do not guarantee successful strategy implementation, but they do increase the likelihood that personal and organizational aims can be accomplished
- Overemphasis on achieving objectives can result in undesirable conduct, such as faking the numbers, distorting the records, and letting objectives become ends in themselves. Managers must be alert to these potential problems

The Need for Clear Annual Objectives …

Based on management activities such as establishing clear annual objectives, *Fortune* annually ranks companies as the most admired in the world; its recent ranking is revealed in Table 10-2. Note that the top 10 firms are U.S. companies, but two outside-U.S.-headquartered companies made the top 20: BMW (#14) and Singapore Airlines (#18).

TABLE 10-2 The Most Admired Companies in the World

Rank	Company	Author Comment
1	Apple	The most valuable brand on the planet
2	Amazon.com	Delivers 80 percent of the e-books read globally
3	Google	Produces driverless cars and "smart" products
4	Berkshire Hathaway	Very highly diversified; owns many companies
5	Starbucks	Offers tea, beer, wine, lunch, and dinner
6	Coca-Cola	Shifting into healthier drinks
7	Walt Disney	Produces great movies; owns ESPN and ABC Sports
8	FedEx	Delivers the goods as people shop and ship more
9	Southwest Airlines	Has reported 40 straight years of profitability
10	General Electric	Highly diversified; competes in many industries

Source: Based on information at http://fortune.com/worlds-most-admired-companies/apple-1/

Extract from the textbook – ranking of 2014

FORTUNE World's Most Admired Top 50 All-Stars – Top 10:

1. Apple
2. Amazon.com
3. Microsoft
4. Pfizer
5. Walt Disney
6. Berkshire Hathaway
7. Alphabet
8. Starbucks
9. Netflix
10. JPMorgan Chase

Ranking of 2022

The Need for Clear Annual Objectives …

What are the attributes of reputation on which companies are evaluated in determining the industry rankings?

1. Ability to attract and retain talented people
2. Quality of management
3. Social responsibility to the community and the environment
4. Innovativeness
5. Quality of products or services
6. Wise use of corporate assets
7. Financial soundness
8. Long-term investment value
9. Effectiveness in doing business globally

Per Korn Ferry website

The Need for Clear Policies

- Policies refer to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals
- Changes in a firm’s strategic direction do not occur automatically. On a day-to-day basis, policies are needed to make a strategy work
- Policies facilitate solving recurring problems and guide the implementation of strategy
- Policies are essential instruments for strategy implementation, for at least six reasons:
    1. Policies set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior
    2. Policies let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be implemented successfully
    3. Policies provide a basis for management control and allow coordination across organizational units
    4. Policies reduce the amount of time managers spend making decisions. Policies also clarify what work is to be done and by whom
    5. Policies promote delegation of decision making to appropriate managerial levels where various problems usually arise
    6. Policies clarify what can and cannot be done in pursuit of an organization’s objectives

The Need for Clear Policies …

TABLE 10-3 A Hierarchy of Policies

Company Strategy
Acquire a chain of retail stores to meet our sales growth and profitability objectives.

Supporting Policies
1. "All stores will be open from 8 AM to 8 PM Monday through Saturday." (This policy could increase retail sales if stores currently are open only 40 hours a week.)
2. "All stores must submit a Monthly Control Data Report." (This policy could reduce expense-to-sales ratios.)
3. "All stores must support company advertising by contributing 5 percent of their total monthly revenues for this purpose." (This policy could allow the company to establish a national reputation.)
4. "All stores must adhere to the uniform pricing guidelines set forth in the Company Handbook." (This policy could help assure customers that the company offers a consistent product in terms of price and quality in all its stores.)

Divisional Objective
Increase the division's revenues from $10 million in 2016 to $15 million in 2018.

Supporting Policies
1. "Beginning in January 2017, each one of this division's salespersons must file a weekly activity report that includes the number of calls made, the number of miles traveled, the number of units sold, the dollar volume sold, and the number of new accounts opened." (This policy could ensure that salespersons do not place too great an emphasis in certain areas.)
2. "Beginning in January 2017, this division will return to its employees 5 percent of its gross revenues in the form of a Christmas bonus." (This policy could increase employee productivity.)
3. "Beginning in January 2017, inventory levels carried in warehouses will be decreased by 30 percent in accordance with a just-in-time (JIT) manufacturing approach." (This policy could reduce production expenses and thus free funds for increased marketing efforts.)

Production Department Objective
Increase production from 20,000 units in 2016 to 30,000 units in 2018.

Supporting Policies
1. "Beginning in January 2017, employees will have the option of working up to 20 hours of overtime per week." (This policy could minimize the need to hire additional employees.)
2. "Beginning in January 2017, perfect attendance awards in the amount of $100 will be given to all employees who do not miss a workday in a given year." (This policy could decrease absenteeism and increase productivity.)
3. "Beginning in January 2017, new equipment must be leased rather than purchased." (This policy could reduce tax liabilities and thus allow more funds to be invested in modernizing production processes).

The Need for Clear Policies …

TABLE 10-4 Some Issues That May Require a Management Policy

- To offer extensive or limited management development workshops and seminars
- To centralize or decentralize employee-training activities
- To recruit through employment agencies, college campuses, or newspapers
- To promote from within or to hire from the outside
- To promote on the basis of merit or on the basis of seniority
- To tie executive compensation to long-term or annual objectives
- To offer numerous or few employee benefits
- To negotiate directly or indirectly with labor unions
- To delegate authority for large expenditures or to centrally retain this authority
- To allow much, some, or no overtime work
- To establish a high- or low-safety stock of inventory
- To use one or more suppliers
- To buy, lease, or rent new production equipment
- To greatly or somewhat stress quality control
- To establish many or only a few production standards
- To operate one, two, or three shifts
- To discourage using insider information for personal gain
- To discourage sexual harassment
- To discourage smoking at work
- To discourage insider trading
- To discourage moonlighting

Allocate Resources and Manage Conflict

- All organizations have at least four types of resources (or assets) that can be used to achieve desired objectives:
    1. financial resources
    2. physical resources
    3. human resources
    4. technological resources
- Resource allocation can be defined as distributing an organization's "assets" across products, regions, and segments according to priorities established by annual objectives. Allocating resources is a vital strategy-implementation activity. Strategic management itself is sometimes referred to as a "resource allocation process."
- In organizations that do no strategic planning, resource allocation is often based on political or personal factors and bias, rather than being based on clear analysis and thought. Strategists should be wary of a number of factors that commonly prohibit effective resource allocation, including an overprotection of resources, too great an emphasis on short-run financial criteria, organizational politics, vague strategy targets, a reluctance to take risks, and a lack of sufficient knowledge

Allocate Resources and Manage Conflict …

- Below the corporate level, there often exists an absence of systematic thinking about resources allocated and strategies of the firm
- Effective resource allocation does not guarantee successful strategy implementation because programs, personnel, controls, and commitment must breathe life into the resources provided
- Yavitz and Newman explain why:

  Managers normally have many more tasks than they can do. Managers must allocate time and resources among these tasks. Pressure builds up. Expenses are too high. The CEO wants a good financial report for the third quarter. Strategy formulation and implementation activities often get deferred. Today's problems soak up available energies and resources. Scrambled accounts and budgets fail to reveal the shift in allocation away from strategic needs to currently squeaking wheels.

Allocate Resources and Manage Conflict …

- Honest differences of opinion, turf protection, and competition for limited resources can inevitably lead to conflict
- Conflict can be defined as a disagreement between two or more parties on one or more issues
- Establishing annual objectives can lead to conflict because individuals have different expectations, perceptions, schedules, pressures, obligations, and personalities
- For example, a collection manager's objective of reducing bad debts by 50 percent in a given year may conflict with a divisional objective to increase sales by 20 percent
- Conflict must be managed for strategy implementation to be successful
- Managing conflict is a strategic issue in most, if not all, organizations.
- Establishing objectives can lead to conflict because managers and strategists must make trade-offs, such as whether to emphasize short-term profits or long-term growth, profit margin or market share, market penetration or market development, growth or stability, high risk or low risk, and social responsiveness or profit maximization. Trade-offs are necessary because no firm has sufficient resources to pursue all strategies that would benefit the firm

Allocate Resources and Manage Conflict …

- Conflict is not always bad. An absence of conflict can signal indifference and apathy
- Conflict can serve to energize opposing groups into action and may help managers identify problems
- Various approaches for managing and resolving conflict can be classified into three categories:
  - Avoidance

    Avoidance includes such actions as ignoring the problem in hopes that the conflict will resolve itself or physically separating the conflicting individuals (or groups)
  - Defusion

    Defusion can include playing down differences between conflicting parties while accentuating similarities and common interests, compromising so that there is neither a clear winner nor loser, resorting to majority rule, appealing to a higher authority, or redesigning present positions
  - Confrontation

    Confrontation is exemplified by exchanging members of conflicting parties so that each can gain an appreciation of the other's point of view or holding a meeting at which conflicting parties present their views and work through their differences

Match Structure with Strategy

- Changes in strategy often require changes in the way an organization is structured, for two major reasons
- First, structure largely dictates how objectives and policies will be established. For example, objectives and policies established under a geographic organizational structure are couched in geographic terms. Objectives and policies are stated largely in terms of products in an organization whose structure is based on product groups. The structural format for developing objectives and policies can significantly impact all other strategy-implementation activities
- The second major reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated. If an organization’s structure is based on customer groups, then resources will be allocated in that manner. Similarly, if an organization’s structure is set up along functional business lines, then resources are allocated by functional areas. Unless new or revised strategies place emphasis in the same areas as old strategies, structural reorientation commonly becomes a part of strategy implementation

Match Structure with Strategy …

TABLE 10-6 Symptoms of an Ineffective Organizational Structure

1. Too many levels of management
2. Too many meetings attended by too many people
3. Too much attention being directed toward solving interdepartmental conflicts
4. Too large a span of control
5. Too many unachieved objectives
6. Declining corporate or business performance
7. Losing ground to rival firms
8. Revenue or earnings divided by number of employees or number of managers is low compared to rival firms

Match Structure with Strategy …

- There is no one optimal organizational design or structure for a given strategy or type of organization
- What is appropriate for one organization may not be appropriate for a similar firm, although successful firms in a given industry do tend to organize themselves in a similar way
  - ✓ For example, consumer goods companies tend to emulate the divisional structure-by-product form of organization
  - ✓ Small firms tend to be functionally structured (centralized)
  - ✓ Medium-sized firms tend to be divisionally structured (decentralized)
  - ✓ Large firms tend to use a strategic business unit (SBU) structure or matrix structure
- Changes in structure can facilitate strategy-implementation efforts, but changes in structure should not be expected to make a bad strategy good, to make bad managers good, or to make bad products sell
- Structure undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy requires massive structural changes, it may not be an attractive choice
- In this way, structure can shape the choice of strategies. But a more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished

Types of Organizational Structure

- Structure matters! There are seven basic types of organizational structure:
  1. Functional
  2. Divisional by geographic area
  3. divisional by product
  4. divisional by customer
  5. divisional by process
  6. strategic business unit (SBU)
  7. matrix.
- Companies, like people and armies, strive to be better organized/structured than rivals, because better organization can yield tremendous competitive advantages. There are countless examples throughout history of incidents, battles, and companies where superior organization overcame massive odds against the entity

Types of Organizational Structure ...

TABLE 10-7 Advantages and Disadvantages of a Functional Organizational Structure

Advantages	Disadvantages
1. Simple and inexpensive	1. Accountability forced to the top
2. Capitalizes on specialization of business activities such as marketing and finance	2. Delegation of authority and responsibility not encouraged
3. Minimizes need for elaborate control system	3. Minimizes career development
4. Allows for rapid decision making	4. Low employee and manager morale
	5. Inadequate planning for products and markets
	6. Leads to short-term, narrow thinking
	7. Leads to communication problems

Types of Organizational Structure …

TABLE 10-8 Advantages and Disadvantages of a Divisional Organizational Structure

Advantages	Disadvantages
1. Clear accountability	1. Can be costly
2. Allows local control of local situations	2. Duplication of functional activities
3. Creates career development chances	3. Requires a skilled management force
4. Promotes delegation of authority	4. Requires an elaborate control system
5. Leads to competitive climate internally	5. Competition among divisions can become so intense as to be dysfunctional
6. Allows easy adding of new products or regions	6. Can lead to limited sharing of ideas and resources
7. Allows strict control and attention to products, customers, or regions	7. Some regions, products, or customers may receive special treatment

Types of Organizational Structure …

TABLE 10-9 Advantages and Disadvantages of a Matrix Structure

Advantages	Disadvantages
1. Clear project objectives	1. Requires excellent vertical and horizontal flows of communication
2. Results of their work clearly seen by employees	2. Costly because creates more manager positions
3. Easy to shut down a project	3. Violates unity of command principle
4. Facilitates uses of special equipment, personnel, and facilities	4. Creates dual lines of budget authority
5. Shared functional resources instead of duplicated resources, as in a divisional structure	5. Creates dual sources of reward and punishment
	6. Creates shared authority and reporting
	7. Requires mutual trust and understanding

THANK YOU