Strategy Implementation and Control IIIB

Only Study Guide for

MNG3702

Printed and published by the
University of South Africa
Muckleneuk, Pretoria

MNG3702/1/2020–2022

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CONTENTS

OVERVIEW

Dear Student

Welcome to module **MNG3702** entitled *Strategy Implementation and Control*. In this module, we explore the implementation and control of strategy as part of the strategic management process. We will provide you with detailed theory and applications of the theory pertaining to strategy implementation and control. We will also provide you with additional opportunities to evaluate decisions and choices with regard to strategy implementation and control in practical business situations – which is a requirement to pass this module.

1 PURPOSE OF THE MODULE

Students who complete this module can identify, analyse, interpret and critically evaluate the choices made in implementing and controlling business-level strategy, and think strategically when making recommendations on strategy implementation and strategic control measures in practical situations. The module has seven specific learning outcomes:

Specific outcome 1: Conceptualise the fit of strategy implementation and control within the broader strategic management process.

Specific outcome 2: Develop a plan for strategic change in an organisation.

Specific outcome 3: Develop a framework for resource allocation for successful strategy implementation in an organisation.

Specific outcome 4: Develop a plan for an organisation to become a learning organisation.

Specific outcome 5: Construct an organisational architecture for successful strategy implementation.

Specific outcome 6: Develop a plan and tools for strategic control in an organisation.

Specific outcome 7: Develop a risk management framework for successful strategy implementation and control in an organisation.

2 PRESCRIBED BOOK

The following book is prescribed for this module:

Venter, P & Botha, T (eds). 2019. *Practising strategy – a southern African context*. 2nd ed. Cape Town: Juta. ISBN 9781485125150

3 FRAMEWORK OF THE MODULE

To ensure that you will be able to achieve the module outcomes, we will provide you with eight lessons. Each lesson will focus on a specific learning outcome and it will be presented in a certain format. Firstly, you will be referred to the appropriate chapter that you need to study in the prescribed book, for example:

Read

Lesson 1 is based on chapters 1 to 7 of the prescribed book. You should read these chapters before you commence your study of Strategy Implementation and Control.

Secondly, each lesson will provide you with the specific outcomes that you should be able to achieve after studying the lesson and the corresponding chapter or chapters of the prescribed book. It is extremely important that you take cognisance of these outcomes, since you will be tested on them in the examination, for example:

Learning Outcomes

After you have completed the lesson, you should be able to

- define the term *strategic management*
- explain what strategy implementation and control entails
- demonstrate an understanding of where strategy implementation and control fits into the strategic management process

Thirdly, all the key concepts are highlighted in the text, for example:

Key Concepts

Strategic management is the process for planning, implementing and controlling strategy for the organisation.

Throughout each lesson, we provide you with activities and feedback on the activities. It is vital that you attempt these activities – they provide an opportunity for you to apply the theory in practice, to evaluate decisions and choices with regard to strategy implementation and control critically, and to make recommendations in practical business situations. An example is provided below:

Activity

Since its founding in 1929, Edgars Consolidated Stores Ltd (Edcon) has established itself as one of the leaders in South Africa's clothing, footwear and textile retail arena. Visit the Edcon website (http://www.edcon.co.za/about-strategy.php) and identify statements of the long-term strategic direction of the company.

In this space, you can write your answer.

Feedback

In this space, guidelines are provided to answer the questions posed in the activity.

Each lesson also contains questions for discussion on the **Discussion Forums** on myUnisa. You are strongly encouraged to participate in these discussion forums, since they provide you with another learning opportunity. An example of this is provided below:

Discussion Forums

Questions for discussion on the myUnisa Discussion Forums

It is widely held that the primary responsibility of top management is to determine an organisation's goals, strategies and structure and to implement strategic control systems.

- Do you agree with this statement? Substantiate your answer.
- Explain the role of middle-, lower- or first-level managers in terms of strategic management.

Lastly, each lesson contains a tool that allows you to work towards continuous assessment. **PLEASE NOTE:** These assessments are for your own personal development and will not be assessed. In the lessons, continuous assessment will be indicated as follows:

Continuous Assessment

Go to the online ***Assessment*** *tool on myUnisa, and complete the questions based on* ***Strategy Implementation as Change Management****, before you continue with the next lesson.*

4 OUTLINE OF THE MODULE

The following table provides you with the outline of the module. For each lesson, the title as well as the corresponding chapter in the prescribed book are provided.

Table 1.1: Outline of Strategy Implementation and Control

Lesson	Title	Chapter in prescribed book
1	Introduction to strategy implementation and control	1 to 7
2	Strategy implementation as change management	8
3	The learning organisation	9
4	Resource allocation for strategy implementation	10
5	Organisational culture and strategy	11
6	Responsible strategic leadership	12
7	Organisational structure and strategy	13
8	Strategic control and risk management	14

5 HOW TO USE THE ICONS IN THIS STUDY GUIDE

In this study guide the following icons are used:

Key concepts

The key concepts icon draws your attention to certain keywords or concepts that you will come across in the chapter concerned.

Learning outcomes

The learning outcomes icon indicates what aspects of the particular chapter you have to master and demonstrate.

Read

The read icon directs you to certain sections of the prescribed book which you should read for background information.

Activity

The activity icon refers to activities that you must do to develop a deeper understanding of the learning material.

Assessment

When you see the assessment icon, you will be required to test your knowledge, understanding and application of the material you have just studied.

Feedback

The feedback icon indicates that comments are provided on how you could have answered the self-assessment activities.

6 CONCLUDING REMARK

We wish you all the best with your studies and trust that it will contribute to your personal success and development. We are looking forward to being your partners in this exciting endeavour.

Kind regards

Lecturers

Strategy Implementation and Control

Lesson 1

INTRODUCTION TO STRATEGY IMPLEMENTATION AND CONTROL

Lesson 1 is based on chapters 1 to 7 in the prescribed book. You should read these chapters before you commence your study of Strategy Implementation and Control.

Before we commence our study of *Strategy Implementation and Control*, it is important to refresh our memory and understanding of the concept *strategic management*. Although module **MNG3701** entitled *Strategic Planning* is a prerequisite for module **MNG3702** (*Strategy Implementation and Control*), for some qualifications students are permitted to register for both modules simultaneously. For this reason, we will commence this module with an overview of Strategic Management by first discussing the traditional approach and then the contemporary framework thereof.

Learning Outcomes

After you have completed the lesson, you should be able to

- define the term strategic management
- explain the contemporary strategic management framework
- demonstrate an understanding of where strategy implementation and control fits into the strategic management process
- identify the components of organisational architecture
- demonstrate a basic understanding of organisational architecture and its role in strategy implementation

1.1 STRATEGIC MANAGEMENT

Take a moment and formulate a definition of the term *strategic management*. When you Google the term you will literally find hundreds of different explanations of the term. A closer look at all these definitions will reveal certain common elements. Firstly, strategic management is about setting direction for an organisation as a whole, setting goals and crafting a strategy. Secondly, strategic management is about implementing and executing strategy, and then over time and through a controlling process, initiating whatever corrective adjustments and corrections are deemed appropriate. This view is considered a more traditional view of strategic management and it provides us with a good starting point to understand strategic management. The traditional view of strategic management boils down to three distinct phases, namely strategic planning, implementation and control. This is also referred to as the process perspective of strategic management.

Key Concepts

Strategic management is the process for planning, implementing and controlling strategy for the organisation.

More recent views of the strategic management concept suggest that strategy is not this sequential and discrete, in other words, following a neat process of planning, implementing and controlling strategy. Instead, it is a rather messy, overlapping and iterative process. Independent of the approach followed (the traditional view or the more contemporary view) to develop and manage strategy in an organisation, the purpose of strategic management is to ensure that the organisation applies four key elements, namely:

1. a clear and consistent long-term strategic direction in terms of what the organisation wants to achieve in future
2. a profound understanding of the external environment to ensure that the organisation is able to align itself with opportunities and to deal with threats as effectively as possible
3. an objective knowledge of the key resources, capabilities and weaknesses that the organisation possesses as well as their value to allow the organisation to build on these and develop a distinct competitive advantage
4. a proper alignment of organisational strategies, structure, systems, culture, and functional and operational management (collectively referred to as organisational architecture) to ensure the effective implementation of strategic plans, portfolios, programmes, projects and initiatives

Although we acknowledge the contribution of traditional strategic management perspectives to our understanding of this important field, we also need to acknowledge and incorporate newer thinking in our perspective of strategic management. To this end, we have devised a contemporary framework of strategic management. Before we take a closer look at the contemporary strategic management framework, let us try to apply each of these key elements of strategic management to a South African company, Edcon, to enhance your understanding thereof. The first activity below, focuses on element 1, namely the determination of a clear and consistent long-term strategic direction in terms of what the company wants to achieve in future.

Activity

Since its founding in 1929, Edgars Consolidated Stores Ltd (Edcon) has established itself as one of the leaders in South Africa's clothing, footwear and textile retail arena. Visit the Edcon website (http://www.edcon.co.za/about-strategy.php) and identify statements of the long-term strategic direction of the company.

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Edcon's vision is to ensure that the company remains "The Places to Go" in its chosen markets and to entrench its position as southern Africa's largest non-food retailer. The company focuses on distinctive retail formats, exceptional value proposition and choice of product, focused customer groupings and creating unique experiences for its customers.

The following activity focuses on element 2 of the strategic management process, namely a profound understanding of the external environment to ensure that the organisation is able to align itself with opportunities and to deal with threats as effectively as possible.

Activity

Access the **Edcon Acquisition Proprietary Limited Unaudited Trading update for the 13 weeks ended 23 December 2017** that is available online: https://www.edcon.co.za/pdf/announcements/2018/edcon-acquisition-proprietary-limited-trading-update-q3-2018.pdf. Critically evaluate the external environment of Edcon to identify the opportunities and threats that the company faced during the fourth quarter of 2017.

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Feedback

During the fourth quarter of 2017, Edcon faced a number of threats, such as the following:

- *low consumer confidence*
- *increased competition for the Edcon Group from established market participants as well as new market entrants*
- *weaker consumer demand*
- *tight credit conditions*
- *low growth in consumer disposable income*
- *high unemployment rates and high fuel prices*
- *fierce price competition through ongoing promotions and clearance activity by competitors*

Apart from the threats, Edcon also faced a number of opportunities, for example:

- *Edcon found a buyer for its Legit business*
- *information technology*

The next activity deals with the third element of strategic management, namely an objective knowledge of the key resources, capabilities and the weaknesses that the organisation possesses as well as their value to allow the organisation to build on these and to develop a distinct competitive advantage.

Activity

Access the **Edcon Acquisition Proprietary Limited Unaudited Trading update for the 13 weeks ended 23 December 2017** *that is available online:* https://www.edcon.co.za/pdf/announcements/2018/edcon-acquisition-proprietary-limited-trading-update-q3-2018.pdf. Critically evaluate the internal environment of Edcon to identify the most important resources that the company has access to and its most important capabilities. Also, identify the weaknesses in the company's internal environment that are evident in this report.

Feedback

The most important resources and capabilities of the company during the third quarter of 2017, were the following:

- *well-managed input costs*
- *negotiation skills with suppliers in terms of rebates and discounts*
- *foreign exchange management – Edcon applies a strategy of hedging committed foreign denominated orders*

Apart from the resources and capabilities, the report also highlights certain weaknesses of Edcon, for example:

- *the company had to sell its Legit business and exit non-profitable international brands*
- *Edcon had to close unprofitable stores*
- *weak financial performance (the company had to be taken over by banks and bondholders in 2016 to avoid collapse)*

The last activity focuses on element four of strategic management. This element entails a proper alignment of organisational strategies, structure, systems, culture, and functional and operational management (collectively referred to as organisational architecture) to ensure the effective implementation of strategic plans, portfolios, programmes, projects and initiatives.

Activity

Read the feedback in terms of the previous three activities provided. Then, read the following article: **Edcon of South Africa plans to Close Chains in Recovery Plan,** which is available online https://www.bloomberg.com/news/articles/2018-07-04/edcon-of-south-africa-plans-to-shut-down-chains-in-recovery-plan. Do you agree with Edcon's decision to close its chain stores Red Square and Boardmans in an attempt to lure customers to its flagship Edgars clothing stores. Substantiate your answer.

Feedback

Edcon struggled for many years to perform better financially. An analysis of the company's external environment indicates weak consumer spending and weak economic growth leading to weak sales and profits. The current poor economic situation in the country (and even worldwide) has a direct influence on the company, which will not change or improve dramatically in the near future. There are few opportunities that the company can explore to improve its poor financial situation. An analysis of its internal resources and capabilities, reveals very poor financial performance over a number of years (you may have a look at the annual reports of the company for the past five years that are available online). The company had to be taken over by banks and bondholders to avoid its collapse. The recovery strategy will cut floor space by 17% over five years to boost profitability, so that Edcon can focus primarily on Edgars. Edcon will retain its CNA and Jet divisions. Its recovery strategy is probably the only possible strategy that will save the company from liquidation.

Questions for discussion on the myUnisa Discussion Forums

It is widely held that the primary responsibility of top management is to determine an organisation's goals, strategies and structure and to implement strategic control systems.

- Do you agree with this statement? Substantiate your answer.
- Explain the role of middle-, lower- or first-level managers in terms of strategic management.

1.2 A CONTEMPORARY STRATEGIC MANAGEMENT FRAMEWORK

In this module, we adopt the contemporary strategic management framework, which is also the framework used in the prescribed book. This framework is depicted in the figure below and gives us a clear indication of where strategy implementation and control fits into the strategic management process:

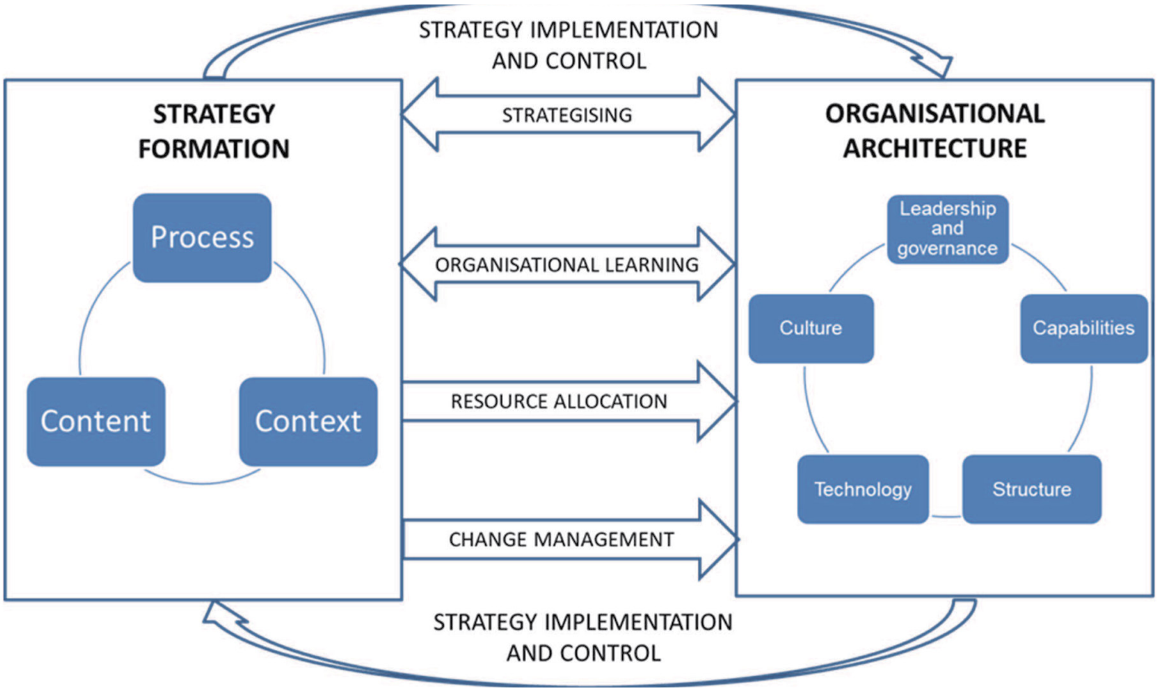

Figure 1.1: A contemporary strategic management framework

Source: Venter (2019:12)

Strategy formation

As indicated in figure 1.1, strategy formation consists of three components: process, context and content.

Process. In the first place, there are certain general processes, which can be both formal and informal, to develop strategy. This addresses the question "how" strategy develops in the organisation. The process (or traditional) perspective of strategic management is addressed in chapter 3 of the prescribed book and was also covered in module **MNG3701** entitled *Strategic Planning*. According to this perspective, strategic management consists of three stages. The first stage is strategic planning, which is a conceptual process that consists of an environmental analysis and the development of strategies. The second stage is called strategy implementation, which is also referred to as the action phase. During this phase, all staff in the organisation are tasked with implementing the strategies. The third and last stage is strategic control, which is also referred to as the review or monitoring phase. The strategy review phase is aimed at monitoring progress and providing feedback. The *process* part of strategy formation also relates to strategists and strategising, which are explained in chapter 4 of the prescribed book and covered in module **MNG3701**.

Context. Strategy is always context bound. In other words, it takes place in a certain external and internal context, and this provides us the "why" of strategy. Organisations function in a globalised economy and therefore need to explore its global, continental, regional, country, industry, and internal issues and forces. The external context and the risks it presents is explored in chapter 5 of the prescribed book, while the internal context and the strategic resources and capabilities of the organisation in covered in chapter 6 as well as in the **MNG3701** module.

Content. The content of strategy refers to the actual development of strategies (i.e. the "what") to compete in industries and to create shareholder value, and is examined in chapter 7 of the prescribed book as well as in the **MNG3701** module.

In figure 1.1, the lines between the above three components (process, content and context) indicate that the components are interrelated. Strategy is a process, which takes place in a certain context, with the aim to develop actual strategies to compete in industries and to create value. Next, we look at strategy implementation.

Strategy implementation

The actual strategies developed during strategy formation, should be implemented and controlled. Therefore, figure 1.1 indicates arrows between strategy formation, implementation and control. Strategies are implemented through various elements, indicted in the organisational architecture block of figure 1.1, namely leadership and governance, capabilities, structure, technology and culture. **Organisational architecture** also influences the future strategic direction, therefore an arrow leads from the organisational architecture block to the strategy formation block. Strategy implementation consist of three important elements, namely change management, organisational learning and resource allocation.

Change management. The alignment of organisational architecture with strategy formation does not happen naturally, and the organisation has to put in place formal processes to manage the large-scale change associated with strategy. This aspect is explored in lesson 2 (chapter 8 of the prescribed book). You will notice the one-way arrow between strategy formation and organisational architecture in terms of change management. The reason is that various management processes are specifically aimed at aligning architecture with strategy, thus following a top-down approach.

The learning organisation. The less formal processes of organisational learning to recognise and respond to the need for change is discussed in lesson 3 (chapter 9 of the prescribed book). You will notice the two-way arrow between strategy formation and organisational architecture in terms of organisational learning. The reason for this is that organisational learning is iterative. Organisational architecture also influences learning, which can then have a bottom-up effect on strategy formation.

Resource allocation. The allocation of resources to portfolios, programmes, projects and organisational structures responsible for giving effect to strategy is the topic of lesson 4 (chapter 10 of the prescribed book). You will notice the one-way arrow between strategy formation and organisational architecture in terms of resource allocation. The reason is that various management processes are specifically aimed at aligning architecture with strategy, thus following a top-down approach.

Next, we look at the last part of strategic management, namely strategic control.

Strategic control

Continuous environmental scanning (both formal and informal) helps to ensure monitoring and control processes. On the one hand, environmental scanning and control need to ensure that the strategy as planned is on track and to alert key decision makers if interventions are required. This is represented by the arrow from left to right. On the other hand, leaders, strategists and other role players in the organisation (e.g. market intelligence experts) may pick up signals from the environment that could affect the strategy formation process. This is represented by the arrow from right to left. This aspect is examined in more depth in chapter 14.

Organisational architecture

Organisational architecture is a management tool that is used to describe the workings of an organisation, especially with regard to the alignment of strategy and the organisation. It is a model of the organisation that can be shared by everyone involved in managing change and aligning strategy with structure. There are many different perspectives on organisational architecture and what it comprises of, but for purposes of this module we have focused on the three main elements, namely culture, leadership and governance, and structure.

Culture. Organisational culture is so powerful that no plan will work if it is counter to the culture of the organisation. In lesson 5 (chapter 11 in the prescribed book) we focus on organisational culture and its vital role in aligning strategy and organisational architecture.

Responsible leadership. Lesson 6 (chapter 12 in the prescribed book) deals with the closely related issue of leadership and its role in strategy implementation and governance.

Structure. The structure of the organisation refers to the physical manifestation of the organisation in terms of geographical distribution, positions, reporting and communication lines and so on. The role of structure in the alignment of structure and strategy is the topic of lesson 7 (chapter 13 in the prescribed book).

Resources and capabilities

The success of organisations is very dependent on their possession of unique strategic resources and valuable capabilities that form the foundation upon which the organisation is built and can grow. The role of resources and capabilities in the alignment of structure and strategy is the topic of chapter 5 in the prescribed book, which you have already covered in your studies for the module **MNG3701**.

You will notice that the elements of organisational architecture in figure 1.1 are linked. This indicates that these elements are interrelated. Together, these elements also provide inputs to the future strategic direction and strategy formation, therefore an arrow from organisational architecture to strategy formation is also indicated in figure 1.1.

1.3 STRATEGY IMPLEMENTATION AND CONTROL

In the following seven lessons, we will focus on the important aspect of strategy implementation and control and where its fits into the strategic management process. We will also indicate the role of organisational architecture in strategy implementation and control. *Strategy implementation and control* refers to all the informal and formal practices and processes that embed the strategy (as developed during strategy formation) in the *organisational architecture* and make the strategy a part of the organisation's DNA. If you think about building a house, you may realise that it is a complex business. It is not simply about stacking bricks and putting a roof on top. Firstly, there is the process of designing the house, and during this process, the rules of structural design and the rules of the municipality have to be considered. Architectural and engineering capabilities are required to draw up the plans and to calculate the costs of the project. Only after the plans have been approved can building begin. During this phase, certain skills (e.g. project management, building, plumbing and electrical installation skills) and technologies (e.g. earthmoving equipment) are required. The plans (which are an expression of the vision and goals of the architect and the owner) provide the guidelines for what should be built, how it should be built and what materials should be used. Building a house (or any other building) entails a complex combination of various subsystems. An organisation is also a construction, albeit in more than just the physical sense. It involves people, and for that reason, we could say that organisations are social constructions that are constructed by the people who are involved in it. This social construction is in a sense also architecture, although it is more fluid than a physical building and continuously evolves. The organisational architecture is a holistic representation of the key subsystems of an organisation and their interaction with each other, which can be used to align the operational aspects of an organisation with its strategic objectives. At the heart of the notion of organisational architecture is the idea that the key subsystems in the organisation all have to be in balance and consistent with each other. In our framework for this module, we used a simplified version of the organisational architecture that includes leadership and governance, capabilities, structure, technology and culture as the main organisational components.

Strategic management is essentially about effecting change in the face of internal and external environmental factors, and for that reason, **managing strategic change** is an important element of strategy implementation. This aspect is addressed in **lesson 2**. Planned change processes are developed to align the organisational architecture with the strategy, and for that reason it is more "top-down" and as a result a one-way arrow. But strategy implementation is an iterative and flexible process, and without the ability to learn and adapt, organisations will fail at it. For that reason, **organisational learning** (**lesson 3**) is also important, as it emphasises the ability of the organisation to dynamically adapt to its environment, even to the extent of exerting an influence on strategy formation. In contrast to planned change processes, organisational learning is a much more organic and iterative process, where elements of organisational architecture can "learn" (such as leadership at middle-management level) and can also influence strategy formation; for that reason, it is a two-way arrow.

Strategic choices made by the organisation ultimately have to reflect in the organisational architecture. This module also addresses the alignment of **organisational culture** (**lesson 5**), the critical role of **responsible strategic leadership** (**lesson 6**), and the alignment of **organisational structure** (**lesson 7**) with strategy.

A large part of strategic success has to do with the **allocation of sufficient resources** to ensure the successful implementation of strategies. This aspect is expanded on in **lesson 4**. Like planned change processes, the purpose of resource allocation in strategy implementation is to align the organisational architecture with the strategy, and as a result it is also a one-way arrow.

Because the environment is constantly changing, strategy and strategic management can never be static. It will always face risks and require interventions in the face of key changes in the environment. For that reason, the final Lesson (**lesson 8**) focuses on **strategic control and risk management**.

Continuous Assessment

Go to the online **Assessment** *tool on myUnisa, and complete the questions based on* **Introduction to Strategy Implementation and Control**, *before you continue with Lesson 2.*

1.4 CONCLUSION

In this lesson, an overview of strategic management and the traditional strategic management process were highlighted. Then, the contemporary strategic management framework, upon which this module is based, was introduced. This framework provided you with an indication of the topics that will be addressed in each subsequent lesson in this study guide and the corresponding chapters in the prescribed book that you need to study. You should now be ready to embark on your study of Strategy Implementation and Control. We sincerely hope that you enjoy the journey with us.

Lesson 2

STRATEGY IMPLEMENTATION AS CHANGE MANAGEMENT

Lesson 2 is based on chapter 8 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of strategy implementation as change management.

I refreshed your memory in lesson 1 in terms of the contemporary strategic management framework that we adopt in this module and in the prescribed book. Lesson 2 is the first lesson that addresses strategy implementation as well as a key element thereof, namely change management.

Researchers and practitioners agree that strategy implementation is the most difficult part of the strategic management process. Research indicates that it is much easier to formulate a strategic plan than to implement it and that it is at the implementation stage that strategies often fail. The fact remains – the best strategy in the world will get nowhere without efficient and effective operations to implement it. In this lesson, we will first focus on strategy implementation and what it essentially entails, after which we will address strategic change and the management thereof.

Learning Outcomes

After you have completed this lesson, you should be able to

- define *strategy implementation*
- differentiate between *strategy formation* and *strategy implementation*
- explain the various barriers to successful strategy implementation
- explain the principles in overcoming the barriers to strategy implementation
- make recommendations to overcome barriers to strategy implementation to an organisation
- discuss change as a fundamental strategy implementation element
- differentiate between the various types of strategic change
- identify the type of strategic change evident in an organisation
- differentiate between the various models of planned change
- identify the model of planned change evident in an organisation that went through a change process
- explain the barriers to successful strategic change and ways to overcome them
- make recommendations to overcome barriers to successful strategic change to an organisation

2.1 DEFINING STRATEGY IMPLEMENTATION

Take a moment and formulate your understanding of strategy implementation. You will find many different definitions of the term "strategy implementation" on the internet and in various strategy textbooks. In this module, we will adopt the following definition:

Strategy implementation is the process during which the organisation draws on both human and non-human factors in the organisation to ensure that the strategy is executed in line with the plans devised during the strategic planning phase. Selected strategies are turned into action in order to realise the vision, mission and goals of the organisation during strategy implementation. It is the phase of the strategic management process where management aligns strategic leadership, organisational culture, organisational structures, reward systems, policies and resource allocation with the chosen strategies.

Key Concepts

Strategy implementation is the process during which the organisation draws on both human and non-human factors in the organisation to ensure that the strategy is executed in line with the plans devised during the strategic planning phase. It is the phase of the strategic management process where management aligns strategic leadership, organisational culture, organisational structures, reward systems, policies and resource allocation with the chosen strategies.

2.2 THE DIFFERENCES BETWEEN STRATEGY FORMATION AND STRATEGY IMPLEMENTATION

Strategy formation and implementation differ from each other in a number of ways:

- Strategy formation is regarded as the intellectual phase of strategic management, while strategy implementation is the "action" phase.
- Internal and external forces drive strategy formation, whereas strategy implementation is mainly driven by internal, organisational and operations-related forces.
- Strategy formation requires strategists to be intuitive with good analytical and forecasting abilities, while strategy implementation requires strategists to have excellent motivation and leadership skills, in other words, people-related skills.
- Strategy formation is regarded as the main responsibility of senior management, whereas the lower or first levels of management are regarded as having the responsibility to implement strategies.
- Strategy formation is concerned with the overall goals and objectives of the organisation, whereas strategy implementation is concerned with the deliberate choice of a set of activities or steps needed to achieve strategic goals.
- Strategy formation follows a top-down approach – strategic goals and plans are developed that lead to the development of tactical and operational goals and plans. On the operational level, goals and plans for portfolios, programmes, projects, deliverables and activities are developed. Strategy implementation follows a bottom-up approach – the execution of activities will lead to the realisation of planned

deliverables, deliverables will realise project goals, the realisation of project goals will lead to the realisation of programme and portfolio goals. Then, the realisation of portfolio goals will lead to the realisation of operational, tactical and ultimately strategic goals.

As stated in the introductory paragraph of this lesson, the best strategy in the world will get nowhere without effective and efficient operations to implement it. The following case study provides proof of this statement.

The DaimlerChrysler merger of 1998

On 7 May 1998, Daimler-Benz Aktiengesellschaft in Germany, the manufacturers of the iconic Mercedes-Benz range, and Chrysler Corporation in the United States of America (USA), signed a merger contract to establish a new company – DaimlerChrysler AG. The newly formed *Aktiengesellschaft* was organised and existed under the laws of the Federal Republic of Germany. Daimler, who proposed the merger and dominated the strategy, paid US$35 billion for Chrysler. The intention of the merger between the two companies was twofold – (i) to safeguard its long-term competitiveness, mainly by reducing the new company's production costs; and (ii) to increase the new company's footprint dramatically, especially in North America. Sadly, the merger between the two companies is probably one of the most famous international mergers that ended in failure.

Figure 2.1 illustrates the DaimlerChrysler Management Board responsible for managing DaimlerChrysler AG and represents the new company in its dealings with third parties. Jürgen E Schrempp from Daimler and Robert E Eaton played key roles in the merger process.

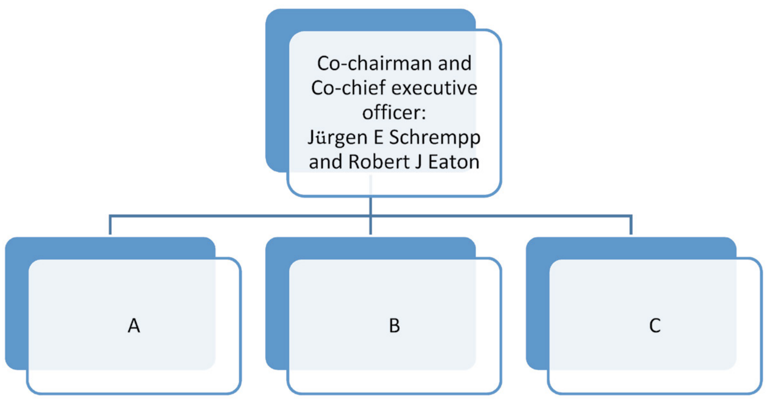

Figure 2.1: DaimlerChrysler AG Board of Management

Group A consisted of board members that represented the following interests in the company:

- Research and technology
- Services
- Aerospace
- Commercial vehicles
- Sales and marketing: Mercedes-Benz

Group B consisted of board members that represented the following interests in the company:

- Passenger cars: Mercedes-Benz
- Passenger cars and trucks: Chrysler and integration
- Corporate development
- Chief financial officer
- Global purchasing

Together with the co-chairmen and co-chief executive officers, Group B's board members formed the Chairmen's Integration Council.

Group C consisted of board members that represented the following interests in the company:

- Sales and marketing: Chrysler
- Human resources: Daimler-Benz
- Product strategy and design: Chrysler
- International: Chrysler
- Procurement and supply: Chrysler
- Manufacturing: Chrysler

In 2007, Daimler sold its Chrysler division in the USA (for which they paid US$35 billion in 1998) to Cerberus Capital for US$7.4 billion. Cerberus Capital Management took an 80.1% stake in the automaker for that amount. The financial performance of Daimler increased dramatically after the sale. Without Chrysler, Daimler reported a net profit of €4 billion for the year 2007 (compared to €3.8 billion in 2006). Sales rose to €99.4 billion from €99.2 billion. The sheer difference in the amounts of money paid for Chrysler by Daimler and later by Cerberus Capital, makes one really wonder how such a promising merger could fail so dramatically. "We obviously overestimated the potential of synergies," Dieter Zetsche, chief executive of DaimlerChrysler, said at a news conference at the company's headquarters in Stuttgart, Germany, after Daimler sold its Chrysler division to Cerberus Capital Management.

Upon closer examination, the two companies merged, but numerous differences between them hindered the success of the merger tremendously. Table 2.1 compares the two companies in terms of the following aspects:

- the attitude of workers towards a formal hierarchy, formal structures and a bureaucratic culture in the company
- the values of the company
- the trust that existed between Daimler and Chrysler workers after the merger
- the decision-making process (centralised versus decentralised)
- the control process employed
- the official language employed
- products offered
- currency traded

Table 2.1: Comparison between Daimler and Chrysler

Aspect of comparison	Daimler	Chrysler
Attitude towards hierarchy and structure	Follows a strong and formal hierarchy, clear chain of command, bureaucratic culture with respect for authority. Little payment disparity exists between various levels in the organisation.	Follows an informal, team-oriented and flexible approach. Payment disparities between various levels in the organisation exist.
Company's values	Values reliability and the highest levels of quality.	Focuses on catchy designs and offers cars at competitive prices.
Trust	Daimler workers felt reluctant to work with American workers. Daimler was imposing and tried to dictate the terms on which the new merged company should work.	Chrysler workers felt reluctant to work with German employees. Chrysler's employees mistrusted Daimler and raised some serious communication challenges. Chrysler's middle managers and engineers saw the merger as a sell-out to foreigners, and they feared an invasion of rigid working practices from the German company into their own rather freewheeling company.
Decision making	Daimler used centralised decision-making.	Chrysler workers were used to creative and decentralised decision-making practices.
Control	Daimler employed methodical control practices.	Chrysler encouraged adaptability in control processes.
Official language	The official language at Daimler was German.	The official language at Chrysler was English.
Products offered	High quality, luxurious motor vehicles, offered at high prices.	Attractive and comfortable motor vehicles were offered at very competitive prices.
Currency	Daimler traded in German marks.	Chrysler traded in US dollars.

An analysis of the differences after the merger, as indicated in table 2.1, indicated a merged company with no "deep" integration of activities, processes, cultures and structures. Differences in the first two aspects compared in the table, resulted in conflicting orders given by managers to their subordinates and the formulation of different goals in different departments. American and German managers had different values which drove and directed their work. Different departments were heading in opposing directions. The two companies were never integrated into a cohesive whole and the potential synergies that were identified as reasons for the merger, went unrealised. Furthermore, employees of the two companies did not like each other – they could not cooperate to the extent necessary to make the merger a success.

Mistrust between German and American employees and between management and their subordinates were mainly caused by the realisation that the agreed term "merger-of-equals" did not materialise and that it was, in actual fact, a takeover of Chrysler by Daimler. During the initial stages of organisational integration, huge bulks of Chrysler's key executives either resigned or were replaced by Germans counterparts. Poor communications led to sharp decreases in the productivity of the merged companies.

In theory, the Daimler-Chrysler merger should have yielded two potential sources of competitive advantage. The first potential source was cohesive global brand architecture. The second source lay in the creation of a coherent platform strategy. The cost of developing new motor vehicles is very high. Therefore, manufacturers design "platforms" from which they create families of vehicles. They also try to share parts between platforms to drive economies of scale in manufacturing.

Realising synergy in brand architecture and platform strategy would have required deep integration of Daimler and Chrysler. One of the plans of the merger was for Chrysler to use Daimler parts, components and even vehicle architecture to sharply reduce the cost to produce future vehicles. Unfortunately, problems surfaced when Daimler's Mercedes-Benz luxury division, whose components Chrysler were supposed to use, was reluctant to share with its mass-market partner. In return, Daimler had hoped that Chrysler would dramatically increase its footprint in the promised land of auto sales – North America. Due to increased competition from Asian motor car manufacturers, Chrysler fell short. The management team needed to develop a global brand strategy and associated logic of competitive positioning. None of this happened. Management of the merged company managed the two companies as separate operations.

Only two years after the merger, the new company admitted that it needed to deal with many barriers that prohibit it from realising its initial merger goals. Over and above the differences between the two merged companies (indicated in table 2.1), time differences between the US and Germany also posed a big problem – managers from both companies crisscross the Atlantic in a stream of meetings and workshops, seeking ways to drive down expenditures and share future development costs. People such as Mr Hubbert from Daimler (member of the Chairmen's Integration Council and responsible for Passenger cars: Mercedes-Benz), acknowledged that Daimler, seeking to solve strategic problems of its own, had engineered a friendly takeover of the American car manufacturer. The merged company also faced financial problems. It was admitted that renewed cost-cutting efforts had to be undertaken to improve its operating results. The merged company also realised the importance of communication with investors when its share price fell more than 40% in 1999, only one year after the merger. Competition in the motor vehicle industry intensified, especially in Chrysler's home market. At the time of the merger, share options became hugely available, which resulted in senior Chrysler managers becoming rich. This triggered concern in Germany. Furthermore, Americans were remunerated two, three or even four times as much as their German equivalents. Management also needed to coordinate hundreds of integration projects, for which they formed an automotive council of five senior managers to which all projects needed to report every four to six weeks. Despite all management efforts, the merger culminated in failure – one that will long be discussed in management and strategy studies.

Adapted from http://www.commisceo-global.com/blog/cultural-differences-in-international-merger-and-acquisitions; (ii) http://www.casestudyinc.com/daimler-chrysler-and-the-failed-merger; (iii)http://www.economist.com/node/341352; and (iv) http://www.globalsepri.org/uploadphotos/2008912171836151.pdf.

Activity

Read the case study on the DaimlerChrysler merger of 1998 and identify the strategy implemented by Daimler.

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Feedback

Daimler proposed the strategy to merge with Chrysler and dominated the strategy, as indicated in the introductory paragraph of the case. Two years after the merger, people such as Mr Hubbert from Daimler acknowledged that the company, seeking to solve strategic problems of its own, had engineered a friendly takeover of the American car manufacturer.

Questions for discussion on myUnisa Discussion Forums

- Do you agree with the statement that strategy formation follows a top-down approach and that strategy implementation follows a bottom-up approach? Substantiate your answer.
- Do you think that the decision to merge two giants such as Daimler and Chrysler was a good decision made by the top management of these two companies? Substantiate your answer.

2.3 BARRIERS TO SUCCESSFUL STRATEGY IMPLEMENTATION

In the introductory paragraph of this lesson, we noted that strategy implementation is the most difficult part of the strategic management process and that it is much easier to formulate a strategic plan than to implement it. You may now ask the question why it is so difficult to implement strategies. Kaplan and Norton (2001) identified the following four main barriers to successful strategy implementation:

The people barrier. Organisational management does not link incentives to strategy implementation, which is indicated as a people barrier.

The vision barrier. Organisational management does not ensure that its workforce has a thorough understanding of the strategy that the organisation intends to implement in order to realise its vision, which is indicated as the vision barrier.

The management barrier. Executive teams do not spend sufficient time managing organisational strategy, which is indicated as the management barrier.

The resource barrier. Organisations do not link sufficient resources to strategy execution, which is referred to as the resource barrier.

Barriers to successful strategy implementation:

- people barrier
- vision barrier
- management barrier
- resource barrier

Activity

Read the case study on the DaimlerChrysler merger of 1998. Can you identify Kaplan and Norton's four barriers to successful strategy implementation in the DaimlerChrysler case? Substantiate your answer.

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Feedback

Kaplan and Norton's four main barriers to strategy implementation is clearly evident from this failed merger between Daimler and Chrysler:

- **The people barrier.** *No incentives were directly linked to the merger. In fact, at the time of the merger, share options became hugely available which resulted in senior Chrysler managers becoming rich. This triggered concern in Germany. Furthermore, Americans were remunerated two, three or even five times as much as their German equivalents.*

- **The vision barrier**. *Daimler and Chrysler were heading in different directions; employees had no idea nor understanding of the strategy that the new organisation was implementing in order to realise its vision. The two companies were never integrated as a cohesive whole and the potential synergies that were identified as reasons for the merger went unrealised.*
- **The management barrier.** *Managers gave different orders to employees, and formulated different goals for different departments. American and German managers had different values which drove and directed their work.*
- **The resource barrier**. *There was no evidence of resources allocated to implement the merger strategy effectively.*

Questions for discussion on the myUnisa Discussion Forums

Evaluate your current position in the organisation that you are working for. Can you identify Kaplan and Norton's barriers to successful strategy implementation in the organisation?

Can you think of ways that the organisation can overcome these barriers?

The next question that you can now ask, is "how" an organisation can overcome the barriers to successful strategy implementation. This is the focus of the next section.

2.4 PRINCIPLES OF STRATEGY IMPLEMENTATION

In order to overcome the barriers to successful strategy implementation explained in the previous section, various principles should be followed. Kaplan and Norton (2001) highlight five principles, which they call the "principles of a strategy-focused organisation":

- **Principle 1:** Translate the strategy into operational terms. The first principle refers to the translation of the corporate strategy into the logical architecture of a strategy map and balanced scorecard (BSC) to specify the details of the critical elements of the corporate strategy. A strategy map is drawn up by specifying strategic objectives for each element (financial, customer, internal business processes, learning and growth) of the BSC.
- **Principle 2:** Align the organisation to its corporate strategy. Organisations consist of various sectors, business units and functional departments, each with its own operations and often, each with its own strategies. Functional departments, such as finance, marketing, procurement and so on, have their own bodies of knowledge, language and culture. Functional silos may arise and become a major barrier in successful strategy implementation, since organisations may have trouble in communicating and coordinating activities across these specialised functions. For an organisation to create synergy (to be more than the sum of its various parts), individual strategies must be aligned, integrated and linked. Therefore, the second principle involves the creation of synergy and to ensure that these linkages actually occur, in other words, the alignment of all hierarchical levels (business units, functional units and individual employees) to the strategy.
- **Principle 3:** Make strategy everybody's job. Senior management and other strategists cannot implement strategies on their own – they need the actions and ideas from everyone in the organisation. The third principle requires that all employees understand

the strategy and conduct their day-to-day activities in such a way that they contribute to the success of the strategy.

- **Principle 4:** Strategy as a continual process. The fourth principle introduces strategic management as a double-loop process, which integrates the management of tactics with the management of strategy.
- **Principle 5:** Mobilise leadership for change. Principles 1 to 4, focus on the BSC tool, framework and the processes that support it. Becoming a truly strategy-focused organisation requires more than tools and processes. Firstly, it requires ownership and involvement of the executive team. Secondly, it requires change from virtually every part of the organisation.

Activity

Read the case study on the DaimlerChrysler merger of 1998. Study chapter 3 of the prescribed book, specifically the section that explains the balanced scorecard. Design a strategic map for DaimlerChrysler AG. For each element of the balanced scorecard, you should specify at least two strategic objectives.

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Feedback

FINANCIAL: (i) Reduce operating costs, (ii) Increase revenue and profits especially in North America

CUSTOMER: (i) Increase global brand architecture, (ii) Increase awareness as global industry leader

INTERNAL BUSINESS PROCESSES: (i) Create families of vehicles, (ii) Share parts between platforms to drive economies of scale in manufacturing

LEARNING AND GROWTH: (i) Increase expertise, (ii) Optimise technology

Change is a fundamental strategy implementation issue. In the next section, our focus turns to a discussion of strategic change and the management thereof.

2.5 CHANGE – A FUNDAMENTAL STRATEGY IMPLEMENTATION ELEMENT

There is general agreement that the rate and pace of change facing organisations are greater now than they have ever been. As a verb, the term “change” can be defined as the action to make the form, nature, content or future course of something different from what it is or from what it would be if left alone. Being “strategic” is not business as usual but requires large and sustained organisational change. Therefore, we can define strategic as “deep” organisational change that seeks to improve an organisation’s competitive position through improving certain of its features. Strategic change involves a change in the strategic direction of the organisation and the implementation of new strategies, involving major changes to the normal or previous routines in the organisation.

Strategic change involves a change in the strategic direction of the organisation and the implementation of new strategies, involving major changes to the normal or previous routines in the organisation.

Activity

Look on the internet at the website of a large company and find its "corporate history" pages. Notice the many changes that the company has gone through since its founding.

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Feedback

One example of a company that survived 130 years of many changes is the Johnson&Johnson company. You can follow its rich history of commitment to customers and employees on its website https://ourstory.jnj.com/our-commitment-to-women.

Questions for discussion on the myUnisa Discussion Forums

- From your own experience of strategic change initiatives, what are the key factors that determine their success or failure?
- What role do strategic managers play in implementing strategic change?
- In your experience, what is the biggest or most frequent barrier to successful strategic change?

Various types of strategic change can be found in organisations. In the next section, we focus on these.

2.6 TYPES OF STRATEGIC CHANGE

Strategic change can take many forms, for example a change in the organisation's

- vision, mission, strategy, goals and objectives
- products and/or services that it offers
- market to which it offers its products and/or services
- processes used to offer products and/or services to the market
- technology used to offer products and/or services to the market

- values, corporate culture and/or shared beliefs
- outcomes, the way in which people work, or its performance
- location (including internationalisation)
- structure

Strategic change can be classified based on two variables, namely (i) the extent of the change required, and (ii) the speed of the change that is to be achieved. Based on these two variables, the following four types of strategic changes are distinguished:

- **Evolution (transformation; incremental).** Evolutionary change refers to transformational change that is implemented gradually (or incrementally) through inter-related initiatives.
- **Adaptation (realignment; incremental).** Adaptation change refers to change undertaken to realign the way in which the organisation operates.
- **Revolution (transformation; "big bang").** This refers to transformational change that occurs through simultaneous initiatives on many aspects.
- **Reconstruction (realignment; "big bang").** This refers to change undertaken to realign the way in which the organisation operates with many initiatives implemented simultaneously.

Types of strategic change:

- evolution
- revolution
- adaptation
- reconstruction

Activity

Read "The Comair Story" of Comair Limited on its website http://www.comair.co.za/. Looking at the way that Comair has developed since it was founded in 1946, identify major strategic changes of Comair.

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Feedback

Comair's first major strategic change was the launch of South Africa's first low-fare airline, kulula.com in 2001, which revolutionised air travel in the country by making flying easier and more affordable to customers. Its second major strategic change was investing in world-leading technology that could deliver innovative travel to consumers and travel agencies in South Africa (Sabre Airline Solutions). In addition, Comair launched travel and holiday packages – a major strategic change.

In this section, our focus was on the various types of strategic change. In the next section, our focus turns to the models of planned change.

2.7 MODELS OF PLANNED CHANGE

The majority of models of change management are founded on the notion that change can be viewed as a planned activity that requires management. In this context, planned change can be defined as an approach to manage change that assumes that change is an activity that can be managed, organised and led by the senior management of an organisation. The notion that change can be viewed as a planned activity, is also predicated upon the assumption that an organisation can move from one stable state to another. Models of planned change can be classified as either "best practice" or "analytical" models. Best practice models of planned change suggest that there is a recipe that can be learned for managing change successfully, while analytical models provide a framework to help explain the process of managing a change programme. It has to be recognised that change is a messy, very difficult and unpredictable process. In what follows, we will first focus on the best-practice models of planned change, after which the analytical models will be addressed.

2.7.1 Best-practice models of planned change

John Kotter is widely regarded as one of the leading experts in change management, and his eight-step change process is perhaps the best-known best-practice model of planned change. The eight steps in his model are summarised below:

John Kotter's eight step change process:

Step 1: Establishing a sense of urgency

Step 2: Creating a guiding coalition

Step 3: Developing a change vision

Step 4: Communicating the vision for buy-in

Step 5: Empowering broad-based action

Step 6: Generating short-term wins

Step 7: Sustaining acceleration

Step 8: Incorporating changes into the culture

2.7.2 Analytical models of planned change

Analytical models suggest that change management programmes should proceed through various phases – they do not prescribe specific actions that managers should take. One of the most widely cited analytical models of planned changed is that of Kurt Lewin, who argued that change comprises three stages. These stages are summarised on the following page:

Kurt Lewin's change model:

Stage 1: Unfreezing

Stage 2: Changing

Stage 3: Freezing

Based on Lewin's model, Balogun and Hope-Hailey developed a change kaleidoscope, which is founded on the principle that change needs to be context-specific and that the approach to change that the organisation chooses should be based on a thorough analysis of the following: (i) the context within which change is taking place and (ii) a series of decisions around the way in which the change is to be managed. The model divides the context within which change is taking place into the following eight core segments (Balogun & Hope Hailey 2008):

Segments of Balogun and Hope-Hailey's change kaleidoscope:

- power
- time
- scope
- preservation
- diversity
- capability
- capacity
- readiness

Based on the analysis of the context of the organisational change, Balogun and Hope-Hailey argued that those leading the change need to make the following key decisions around the way in which the change process will be managed:

Balogun and Hope-Hailey's ways of managing the change process:

- change path
- change start point
- change style
- change target
- change levers
- change roles

The change kaleidoscope model recognises that it is virtually impossible to map all contextual variables with any one best-practice approach. It acknowledges the need to account for a wide range of organisational situations.

Activity

The change kaleidoscope model can be applied to any kind of change – not only in the context of organisational and strategic changes. Think of change you are either planning or have recently been through in your personal life, such as a moving house or changing your job.

(1) What were the contextual variables and how did you go about managing the change process?
(2) What does the application of the change kaleidoscope model tell you about how effectively you managed the change?

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Feedback

(1) Should you take changing your job as an example, contextual variables are crucial to consider. For example, the powerful stakeholders in relation to the change could be your family members, current employers and potential employers. You also need to consider the time that you have available to make the decision to change your job. The effect of the decision should be determined – financially, socially and so on. Critical things that you want/need to maintain should you change your job should be determined, for example should your family not want to move. Your capacity to make the change and your readiness should also be considered. Then, you also need to decide how you will manage the change in terms of where to start (change start point), the inputs that you will use (change style), the change target, the change levers and the change roles.
(2) The application of the change kaleidoscope model will tell you that you achieved the set outcomes/objectives of changing your job, taking into consideration all affected parties.

It is important to note that the pace of change in contemporary organisations is such that change is a constant state that requires managing, which leaves little or sometimes even no time for recovery (or freezing/sustaining) in between. Also, change often emerges in an unplanned and non-linear manner as a result of changes in the external environment. Change may also develop bottom-up, as people, sometimes unconsciously, change the way that they work over time, to become more effective and efficient. Change can therefore also be seen as an open-ended process of adaptation and organisational learning, which will be addressed in more detail in lesson 3.

Activity

Read "The Comair Story" of Comair Limited on its website http://www.comair.co.za/. Looking at the strategic changes that Comair underwent since 1946, would you regard these changes as planned or unplanned changes? Substantiate your answer.

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Feedback

Comair's first major strategic change was the launch of South Africa's first low-fare airline, kulula.com in 2001, which revolutionised air travel in the country by making flying easier and more affordable to customers. On its website (http://www.comair.co.za/about-us/the-comair-story) Comair describes this as an "adventurous brand" which was a planned strategic change that the company made under its licence agreement with British Airways Plc. Its second major strategic change, investing in Sabre Airline Solutions, was also a planned strategic change. After a strategic review of the business, the leadership team took the decision to implement an integrated system to replace the previous jumble of systems, specifically the kulula.com operations. This would allow for streamlined operations and best cost control, directly affecting the business's financial position. The decision to launch travel and holiday packages was also a planned strategic change.

Questions for discussion on the myUnisa Discussion Forums

Which of the following would you consider as an appropriate description of strategic change in the organisation that you are working for?

A Change is constant and leaves no time for recovery in between.

B Change occurs from time to time and leaves time for full recovery and sustaining in between.

A Change often emerges in an unplanned manner as a result of changes in the external environment.

B Change often emerges in a planned manner as a result of changes in the internal environment.

In your group, try to identify characteristics of organisations that mostly chose A as appropriate answers for their strategic change processes, and compare it with the characteristics of organisations that mostly chose B as appropriate answers for their strategic change processes.

The last section in this lesson will focus on barriers to successful strategic change. We will also address ways to overcome them.

2.8 BARRIERS TO SUCCESSFUL STRATEGIC CHANGE AND WAYS TO OVERCOME THEM

Despite all the research in the field of change management, evidence continues to suggest that most change efforts fail to meet their objectives (Bailey, Mankin, Kelliher & Garavan 2018). The prescribed book explains some of the reasons for the failure of change efforts and ways to overcome them, as summarised in figure 2.1 below.

Figure 2.1: Barriers to successful change management

Continuous Assessment

Go to the online Assessment tool on myUnisa, and complete the questions based on **Strategy Implementation as Change Management**, *before you continue with lesson 3.*

2.9 CONCLUSION

In this lesson, we addressed strategy implementation as change management. It should be evident from our discussions, that strategy implementation is a challenging task and that it should be approached with caution and care. Secondly, strategic change in inevitable and it should be managed in such a way that all the benefits thereof are reaped and that barriers are overcome. The next lesson addresses the learning organisation.

Lesson 3

THE LEARNING ORGANISATION

Lesson 3 is based on chapter 9 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of the learning organisation.

In lesson 2, we introduced you to strategy implementation as change management. We explored various planned strategic change models and made the important statement that strategic change does not always happen in a planned and managed way. One could argue that most change happens inorganically and unplanned as individuals and organisations learn and adapt to their environment. In this lesson, we explore the topic of organisational learning and the importance thereof in strategy implementation. Also, we explain the importance of organisational learning in innovation and change.

Learning Outcomes

After you have completed this lesson, you should be able to

- define a learning organisation
- critically evaluate whether an organisation is a learning organisation
- identify the implications of whether an organisation is a learning organisation or not for strategy implementation
- explain the barriers to organisational learning
- explain the individual learning process
- explain the transfer of knowledge to others
- make recommendations on how an organisation can become a learning organisation

3.1 DEFINING A LEARNING ORGANISATION

Take a moment and think about the following question – can organisations learn? Individuals learn, not organisations. Individuals in organisations need to learn before organisational learning can take place. Organisational learning is imperative for the long-term survival and success of the organisation. A learning organisation is defined as an organisation skilled in creating, acquiring and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights. The process of organisational learning, as depicted in figure 3.1 below, is an ongoing and continuous process.

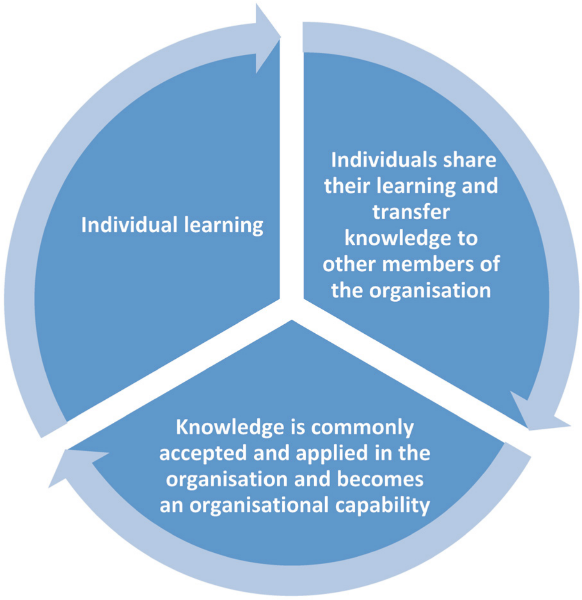

Figure 3.1: The organisational learning process

Key Concepts

A learning organisation is an organisation skilled in creating, acquiring and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights.

If you think about your present situation as a student, employee or even an employer, you will agree that individual learning is not always continuous, not always guaranteed and not always a natural process for all people. In the same way, not all organisations are learning organisations. In the next section, we address the various barriers to organisational learning.

3.2 BARRIERS TO ORGANISATIONAL LEARNING

Very few organisations are truly good at organisational learning. The following are barriers to organisational learning:

- **Dominant general management logic.** This stems from the way that managers conceptualise business and then make critical decisions about the strategy and allocation of resources based on this. The more dominant the logic, the more it acts as a barrier to learning and change. Unlearning needs to take place to pave the way for new learning and new models to be implemented and to allow for new dominant logics to be established.
- **Management ignorance**. It can also happen that managers assume that they know all there is to know about their business and the industry in which they operate and that there is no need to learn more, which present a barrier to learning.
- **Limits to absorptive capacity**. Absorptive capacity refers to the ability of an organisation to recognise the value of new, external information, to assimilate it and

to use it to address business problems. Absorptive capacity is a strategic capability, and as with all resources and capabilities, it differs from organisation to organisation, so that some have a higher absorptive capacity that others, and would accordingly be able to learn much faster and to adapt more quickly to their environments, or to innovate.

To critically evaluate whether an organisation is a learning organisation or not, one needs to address these three aspects (its dominant general management logic, management ignorance and the organisation's limits to absorptive capacity).

The following case study provides an example of two companies, one that proved to be good at organisational learning and one not that good.

Kodak is at death's door; Fujifilm, its old rival, is thriving. Why?

The Eastman Kodak Company (referred to simply as Kodak) is an American technology company founded in 1888 when it was known for its pioneering technology and innovative marketing. "You press the button, we do the rest," was its slogan in 1988. By 1976 Kodak accounted for 90% of film and 85% of camera sales in America. Until the 1990s it was regularly rated as one of the world's five most valuable brands. The company's ubiquity was such that its "Kodak moment" tagline entered the common lexicon to describe a personal event that demanded to be recorded for posterity. The company built one of the world's first digital cameras in 1975.

Then came digital photography to replace film, and smartphones to replace cameras. Kodak's revenues peaked at nearly US$16 billion in 1996, and its profits at US$2.5 billion in 1999. Then Kodak's financial struggle began as a result of the decline in sales of photographic film and its inability to adapt to a world in which digital photography had become pervasive and available in just about every cellular telephone.

Fujifilm Holdings Corporation, better known as Fujifilm, is a Japanese company and one of Kodak's competitors. Fujifilm is very similar to Kodak in many aspects, but has been faring much better in the age of pervasive digital photography. Both companies have seen their traditional business being rendered obsolete and both companies have been aware of the advent of digital photography. Whereas Kodak has been unable to adapt to this new environment, Fujifilm has successfully weathered the storm and is still today a profitable and sustainable company. Observers point to a number of key differences that led to Fujifilm adapting more successfully to its changing environment than Kodak.

The first difference can be found in corporate culture. Kodak had a culture of complacency, ironically cultivated by its massive success and near monopoly in instant film photography in the USA. Despite its strengths – hefty investment in research, a rigorous approach to manufacturing and good relations with its local community – Kodak has become a complacent monopolist. Fujifilm was also aware of the threat of digital photography surging towards it like a tsunami by the 1980s, but in response, it developed a three-pronged strategy. Firstly, Fujifilm squeezed as much money out of the film business for as long as possible. Secondly, Fuji prepared for the switch to digital photography. Lastly, Fuji diversified into new lines of business.

The second difference between Kodak and Fuji, can be found in the inconsistency in the Kodak leadership, which meant that Kodak's strategies changed with every new CEO. As a result, the company was never able to diversify successfully. For example, George Fisher, CEO from 1993 until 1999, focused on Kodak's expertise in digital imaging rather than in chemicals, and mass-produced digital cameras until camera phones destroyed that business. The latest CEO, Antonio Perez, who took charge in 2005, insisted that digital printing would save Kodak. At Fuji, technological change sparked an internal power struggle. At first, participants in the consumer film business, who refused to see the looming crises, prevailed. But the eventual winner was Shigetaka Komori, who chided them as "lazy" and "irresponsible" for not preparing better for the digital onslaught. Named boss incrementally between 2000 and 2003, he set about overhauling the company. He spent around US$9 billion on 40 companies since 2000. He slashed costs and jobs. In one 19-month period, he booked more than ¥250 billion in restructuring costs for depreciation and to shed superfluous distributors, development labs, managers and researchers. "It was a painful experience," says Mr Komori. "But to see the situation as it was, nobody could survive. So we had to reconstruct the business model".

The third difference between the Kodak and Fujifilm companies can be found in its ability to compete in a changing market environment. Kodak executives were not used to competing in a high-technology world in which speed-to-market is critical to success. Hence, they were more committed to making perfect products than to getting products into the market as quickly as possible and fixing the shortcomings in later models. Even when Kodak decided to diversify, it took years to make its first acquisition. It created a widely admired venture-capital arm, but never made big enough bets to create breakthroughs. By contrast, rather than simply trying to convert its film camera business to a digital camera business, Fujifilm tapped its chemical expertise for other uses. Film is a bit like skin – both contain collagen. Just as photos fade because of oxidation, cosmetic firms would like you to think that skin is preserved with antioxidants. In Fuji's library of 200 000 chemical compounds, 4 000 are related to antioxidants. Therefore, the company launched a line of cosmetics which is sold in Asia and Europe. Fuji also successfully branched out into other pharmaceuticals, liquid-crystal display (LCD) panels for television sets and other electronic devices. Today, Fujifilm makes only 1% of its revenue from photographic film.

The fourth difference between the companies can be found in its ability to identify target markets for the future. While many high-technology companies were achieving great success in emerging markets, Kodak's failure to read the emerging markets correctly cost the company dearly. Emerging markets generally switched early on from analogue to digital, many emerging markets leapfrogging from having no cameras straight to using digital on the back of the rapid adoption of cellular telephone technology.

Whereas Fujifilm has mastered new tactics and survived, Kodak, like so many great companies before it, seems to have run its course and is on the brink of simply fading away.

Source: http://www.economist.com/node/21542796

Activity

Read the **Kodak is at death's door; Fujifilm, its old rival, is thriving. Why?** case study at http://www.economist.com/node/21542796. What were the barriers to organisational learning that prevented Kodak from successfully adapting to a digital world? Provide specific examples from the case study.

Feedback

The main barriers were the following:

Constrained thinking. *The dominant logic of the Kodak management team was that they were a camera and digital imaging company. This clearly constrained their thinking, and their search for new opportunities was limited to opportunities related to the camera business. For example, when they entered the emerging Chinese market, it was with the intent of selling photographic film rather than digital imaging.*

Ignorance and lack of foresight on the part of management. *Management's ignorance was evident from the fact that Kodak executives were not sure how to compete in the fast-moving technology market. Rather than getting products to the market as quickly as possible and fixing them in due course, they wanted to launch perfect products, which meant that they always lagged behind their more technology-oriented competitors, such as Sony and Canon.*

A lack of absorptive capacity. Kodak *was also limited by its lack of absorptive capacity. Factors such as those mentioned above and its complacent mind set limited Kodak in identifying relevant information from the environment. Despite their specific efforts to identify diversification opportunities, they were not able to diversify significantly. Ironically, regardless of their early entry into the digital camera market, they were never able to combine this with new information to identify new opportunities.*

Barriers to organisational learning:

- dominant general management logic
- management ignorance
- limits to absorptive capacity

Just as individuals need to learn continuously, organisations need to learn and adapt continuously. The Kodak and Fujifilm case study provided us with an illustration of the implications of a learning organisation such as Fujifilm, namely a sustainable organisation that survives and achieves great success in an emerging market, as opposed to an organisation that lacks learning such as Kodak, which seems to have run its course and is on the brink of simply fading away.

Questions for discussion on myUnisa Discussion Forums

- Do you agree with the statement that not all organisations are learning organisations? Substantiate your answer.
- Who do you think plays a crucial role in creating a learning organisation – managers or subordinates? Substantiate your answer.

In the next section, we focus on individual learning which is an important part of organisational learning.

3.3 INDIVIDUAL LEARNING

Individual learning, as an important part of organisational learning, can be defined as a change in behaviour or performance as a result of experience. The individual learning process is regarded as a cycle, consisting of four activities as depicted in figure 3.2 below.

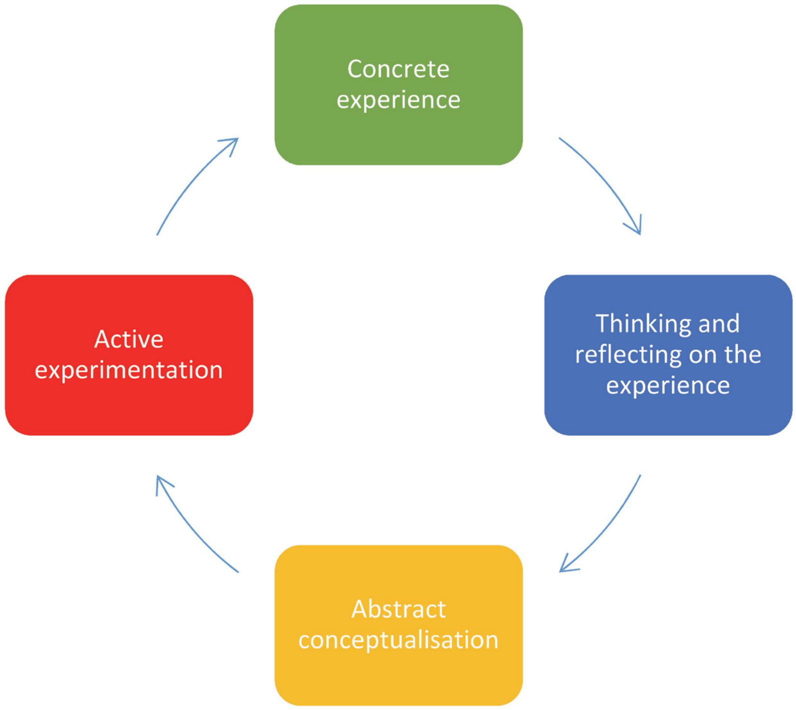

Figure 3.2: Individual learning process

Activity

Revisit the **Kodak is at death's door; Fujifilm, its old rival, is thriving. Why?** case study. Compare the organisational learning that took place at both Kodak and Fujifilm.

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Feedback

If we consider Fujifilm and Kodak, both companies had the foreknowledge that digital photography was coming, and both altered their behaviour in response. The key difference was the way in which the two companies interpreted (made sense of) the threat and accordingly altered their behaviour. While Kodak simply attempted to adapt to the new technology, Fujifilm fundamentally (and successfully) changed its business model – something that Kodak was never able to do. Fujifilm experimented successfully and tapped its chemical expertise for other uses, successfully branching out into pharmaceuticals, liquid-crystal display panels for television sets and other electronic devices.

Questions for discussion on myUnisa Discussion Forums

In his book 21 lessons for the 21st century, Professor Yuval Noah Harari states that none of the skills that we learn today will be applicable 20 years from now.

- Do you agree with this statement?
- What implications does this statement have for individual learning and organisational learning?

Individual learning becomes even more worthwhile when it is transferred to others. The next section focuses on transferring knowledge to others.

3.4 TRANSFERRING KNOWLEDGE TO OTHERS

Knowledge is broadly categorised as being explicit or tacit. Explicit knowledge is knowledge that can be written down or told to someone, whereas tacit knowledge consists of personal beliefs, values and perspectives that people take for granted and that may be much more difficult to communicate. We can differentiate between four basic types of knowledge transfer, namely socialisation (tacit $\rightarrow$ tacit), combination (explicit $\rightarrow$ explicit), internalisation (explicit $\rightarrow$ tacit) and articulation (tacit $\rightarrow$ explicit).

Types of knowledge transfer:

- socialisation
- combination
- internalisation
- articulation

In section 2, we indicated that learning organisations are characterised by success and that they will survive over the long term. They question that we now need to answer is how can an organisation become a learning organisation. We address this in the next section.

3.5 BECOMING A LEARNING ORGANISATION

Becoming a learning organisation requires a deep-seated change in the way that the organisation and its leaders view the world. Various mechanisms, to be used in combination, are proposed to assist an organisation to become a learning one. These mechanisms are as follows:

- **Leadership commitment to learning**. Leaders should demonstrate their own commitment by being models of learning, championing learning and using learning strategically for business results.
- **Building shared visions**. Leaders need to develop genuine visions that can inspire employees.
- **Encouraging diversity**. Top management should encourage diversity.
- **Encouraging double-loop learning**. Top management should encourage double-loop learning.
- **Developing systems thinking abilities**. The members of the organisation need to understand how they are connected to the world, how they fit into their environment, how they are influenced by it and how they can influence it in turn.
- **Encouraging individual and team learning**. Be committed to life-long learning.
- **Legitimising dissent**. Everybody should think and contribute ideas.
- **Encouraging experimentation**. See failure as learning opportunities.
- **Establishing communities of practice**. This refers to collaboration with suppliers, customers and even competitors.
- **Knowledge management**: Management should ensure that organisational knowledge is shared in order to support organisational learning.

Figure 3.3: Becoming a learning organisation

Activity

Revisit the **Kodak is at death's door; Fujifilm, its old rival, is thriving. Why?** case study. From an organisation learning perspective, what could Kodak have done differently that could have resulted in it adapting more successfully to its changing environment? Provide at least five specific actions.

Feedback

A single correct answer to this question is not possible, as it depends on your own insight and creativity. However, some possible practical steps Kodak could have taken to increase its organisational ability to learn are identified based on the concepts discussed in this section. Feel free to add your own examples.

The fact that every CEO had a different plan for Kodak, suggests that there was no shared vision. By contrast, Fujifilm executives collectively identified a plan of action very early on and were committed to their revised vision. Therefore, the first action should be to **build a strong shared vision** *for the company, after which clear objectives and strategies should be formulated.*

Although we do not know the exact composition of the Kodak management team, the case suggests that "group think" was a problem. Had Kodak been able to engender **more diversity in its management team***, especially by including executives from other industries, they may have approached their strategies differently. Kodak seemed to be stuck in single-loop learning, simply adjusting its strategies every time they failed until it ran out of options. Instead, executives should have fundamentally re-evaluated their business model and the way in which they did things to reinvent the organisation – in other words they should have* **encouraged double-loop learning***. Challenging the existing mental models (e.g. of being a digital imaging company) would have been an important starting point for this process.*

Collaboration with other industry players*, such as Sony, could have encouraged new thinking and opened up new ways of doing things.*

Kodak appeared to be very reluctant to experiment but, by delaying acquisitions and product launches, the management team denied itself the opportunity to learn, even if it meant learning by failing.

Continuous Assessment

Go to the online Assessment tool on myUnisa, and complete the questions based on **The learning organisation***, before you continue with lesson 4.*

3.6 CONCLUSION

In this lesson, organisational learning was discussed as an important capability of organisations to survive over the long term and to ensure their success. It is important to note that organisation learning is a vital element of strategy implementation – learning organisations are successful and are able to survive over the long term whereas organisations that are unable to learn and adapt have slim chances of survival and success. The next lesson, addresses another important element of strategy implementation, namely resource allocation.

Lesson 4

RESOURCE ALLOCATION FOR STRATEGY IMPLEMENTATION

Lesson 4 is based on chapter 10 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of resource allocation for strategy implementation.

Take a moment and think about the resources at the disposal of your household – they are scarce and expensive, are they not? Therefore, the use of resources, be it money, water or food, needs to be done with discretion and allocated in such a manner that the household functions well and that every member of the household gets what he or she needs. The same applies to an organisation – resources are scarce and need to be allocated in such a manner that they are aligned with the vision, mission, goals and strategies of the organisation. In this lesson, we address the complex matter of resource allocation for strategy implementation.

Learning Outcomes

After you have completed this lesson, you should be able to

- explain what resource allocation for strategy implementation entails
- explain what the strategy execution framework entails
- critically evaluate the application of the six domains of the strategy execution framework by an organisation
- explain the steps to be followed in the management of strategic initiatives and apply these steps in a given situation
- explain the creation of an environment for effective resource allocation

4.1 RESOURCE ALLOCATION FOR STRATEGY IMPLEMENTATION

Before we answer the question "what does resource allocation for strategy implementation entail?", let us first take a few steps backward and have a look at the organisation as a system that needs inputs (resources), and how these resources are transformed to produce outputs. The resources are human resources, capital, natural resources, entrepreneurship and information, while the outputs are the products and/or services, job creation, the wealth of the community, and so on. We can also list the strategic objectives of the organisation as an important output that the organisation wants to achieve by transforming the outputs to inputs. One important feature of the organisation as a system is that resources are scarce and very expensive. Think of high interest rates in terms of accessing capital, the scarcity of electricity, the scarcity of skilled labour and the cost of data to mention only a few examples. On the other hand, the need for products and services delivered by the organisation is unlimited and the organisation also wants to achieve its goals and strategic objectives as much as it possibly can. This emphasises the importance of allocating resources for strategy implementation – which is not only the responsibility of top managers. Each individual in an organisation should be aware of the long-term plan for the organisation and his or her contribution to that plan.

Resource allocation for strategy implementation consists of the following three key elements:

- successful implementation of strategic initiatives
- successful alignment of organisational units with the strategic direction of the organisation
- successful alignment of individual behaviour with strategic direction

Key Concepts

Elements of resource allocation:
- successful implementation of strategic initiatives
- successful alignment of organisational units with strategic direction
- successful alignment of individual behaviour with strategic direction

Allocating resources for strategy implementation, to ensure the attainment of strategic goals, entails the following:

4.1.1 Align organisational units with strategic direction

All the dimensions in the hierarchy of organisational strategy (i.e. the organisational, strategic business units and functional units) should be aligned and should support one another. Ultimately, the contributions of each functional unit and each strategic business unit should contribute to the strategic direction of the organisation and should lead to the attainment of the organisational goals, mission and vision.

4.1.2 Align individual behaviour with strategic direction

The behaviour and outputs of each individual employee should also be aligned with the strategic direction of the organisation. In other words, the contributions of each worker, each functional unit and each strategic business unit should contribute to the strategic direction of the organisation and should lead to the attainment of the organisational goals, mission and vision. Five tools that can be used to achieve this are recruiting the right people, implementing training and development programmes, implementing policies and procedures to guide the behaviours of individuals, cascading objectives lower down in the organisation, and using reward systems that are tailored to reward behaviours and achievements that are in line with the strategic direction of the organisation.

4.1.3 Implement strategic initiatives

Implement key projects or programmes focused on achieving a specific objective or improving performance to achieve a performance target.

4.1.4 Implement enablers of resource allocation

This involves the implementation of three enablers, namely to communicate the strategy, to learn and adapt, and to allocate adequate resources.

4.1.5 Align strategy with the internal environment

This involves the alignment of all organisational units and employees with organisational strategies and its strategic direction.

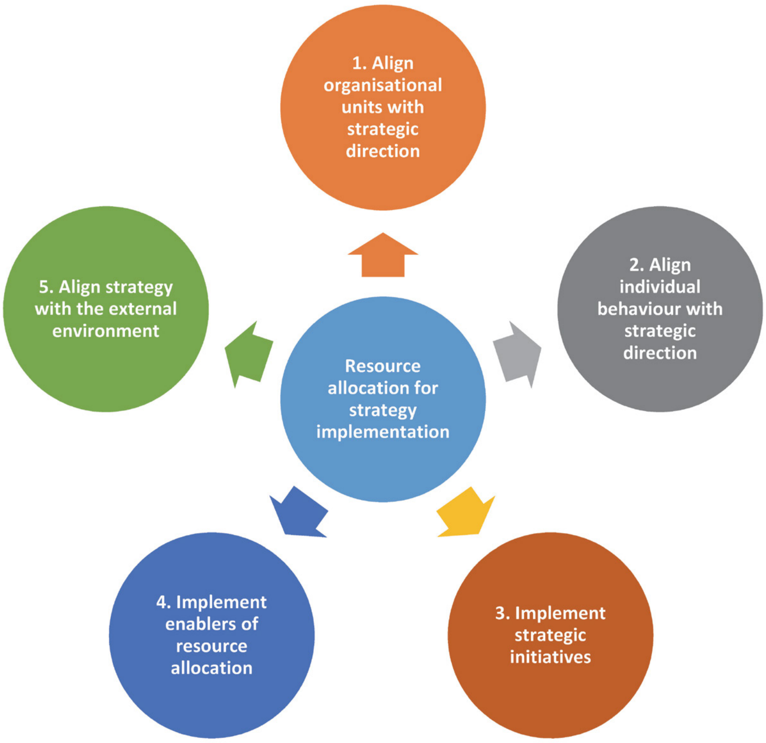

Figure 4.1: Resource allocation for strategy implementation

Activity

Shoprite is a household name in South Africa. Shoprite Holdings Ltd is the largest supermarket retailer on the African continent with the promise to "serve local communities with the lowest prices". Across Africa, the group has 16 brands in 15 countries, with 2 425 corporate outlets and 418 franchise outlets (https://www.shopriteholdings.co.za/). Illustrate how the cascading and alignment process may work for the Shoprite Group.

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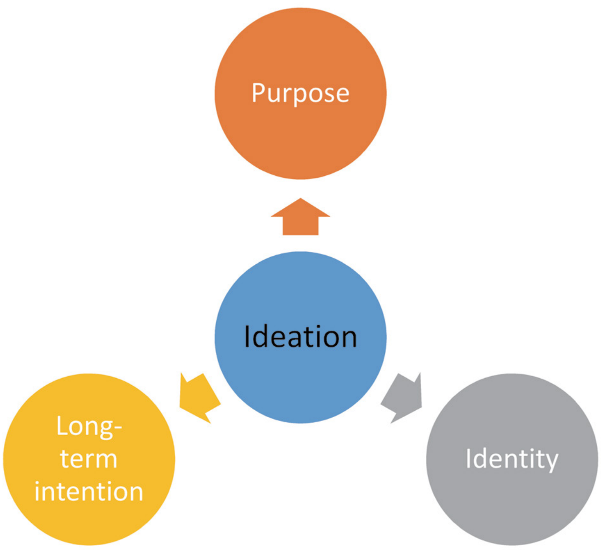
Feedback

For the Shoprite Group, providing its customers with the lowest possible prices is a key element of its success. At corporate level, the focus may be to grow by increasing corporate and franchise outlets. Since the group is listed on the JSE, the return on shareholders' equity may be an example of a metric related to this goal. As a strategy, the Group may be looking to expand its investment into e-commerce. At the business level, the focus may be on low-cost leadership. The objective may be to increase sales volume. An example of a metric may be the gross profit margin. (The gross profit margin is calculated by dividing the gross profit of an organisation by its sales. A declining gross profit will mean that mark-ups have been reduced in order to increase sales revenue). The Group may follow a strategy of a decline in its gross profit margin, which will lead to lower profits – lower profits will be offset by increasing sales volume. The strategy for achieving higher sales volumes may be through innovative advertising and the use of technology. At the functional level, the marketing department needs to play an active role in innovative advertising, especially using social media and other innovative ideas. On the operational and individual level, Shoprite could cultivate a culture of innovation and remunerate employees for new ideas and positive contributions to the strategic direction of the company.

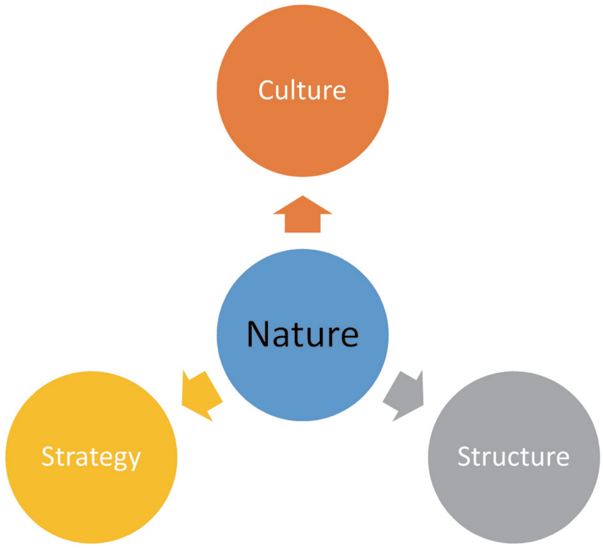
4.2 THE STRATEGY EXECUTION FRAMEWORK

The Strategic Execution Framework® (SEF) is a resource allocation framework that helps to align an organisation's projects and programmes with its strategies. The purpose of the SEF is to help organisations to better align activities and strategic direction. According to this framework, there are six key aspects or domains, each with a number of components, in an organisation that must harmonise in resource allocation. Each of the domains are unpacked below. You will notice that the components of the various domains overlap with one another.

1. **Ideation.** An organisation's identity and how it sees itself and how it wants to appear to the world.

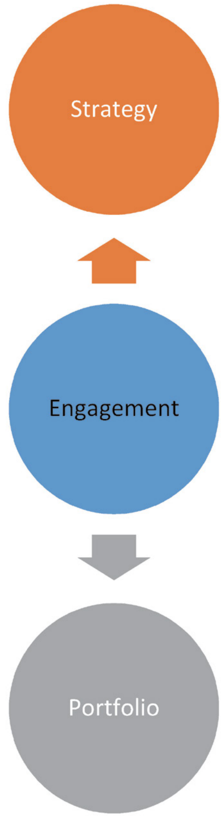


2. **Nature.** Creating the conditions for strategy execution, *nature* embodies the culture and structure, in other words, the environment and the context, within which the organisation operates.

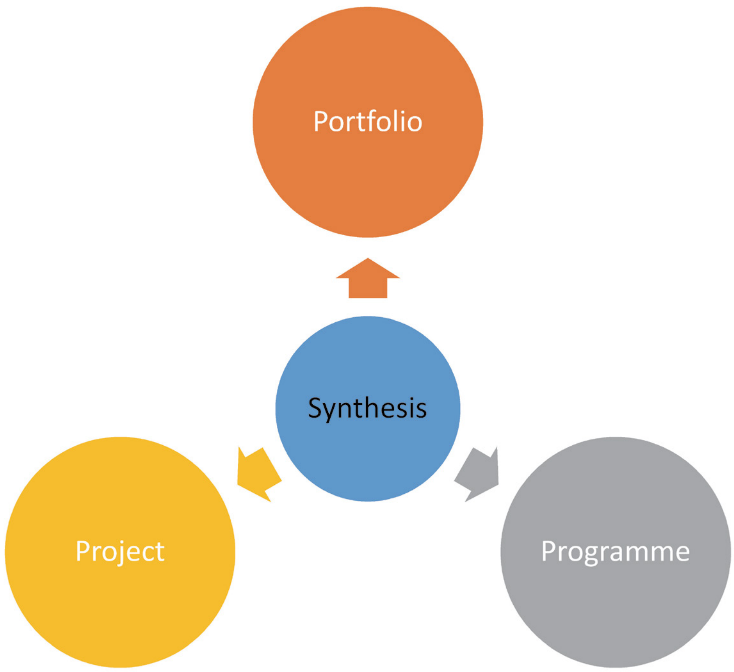


3. **Vision.** The vision provides the ultimate destination and route and includes the goals, metrics and strategy that form the foundation of business.

4. **Engagement.** This domain connects strategy to project portfolio investments. It is a clear demonstration that the organisation is funding the right projects that will support the strategy.



5. **Synthesis.** Synthesis is where engagement meets execution, ensuring that the organisation is successfully executing projects and programmes in alignment with the portfolio.



6. **Transition.** Turning outputs into operations, *transition* is the ultimate measure of success where you move the results of project-based work into the mainstream of the organisation's operations.

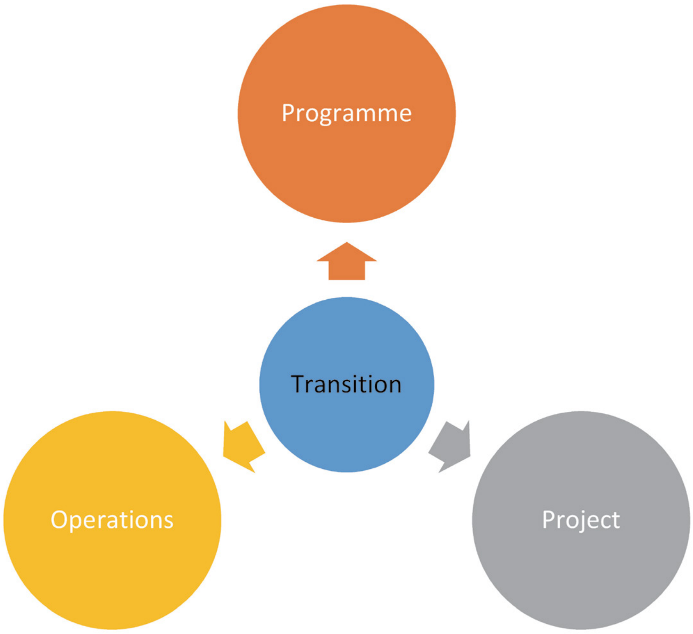


Figure 4.2 In the prescribed book incorporates all six domains and the 12 components thereof into the strategy execution framework.

Activity

Apply the six domains of the strategy execution framework, as explained in this section, to the organisation that you are working for or any other medium- to large-sized organisation. In your answer, you need to apply the components of each domain to the organisation of your choice. In other words, for each component, you need to provide an explanation thereof applied to the organisation of your choice.

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Feedback

You can use the following guidelines in your answer:

- **Purpose**. *The reason why the organisation exists*
- **Identity**. *The character, image, brand and values of the organisation*
- **Long-range intention**. *What the organisation is dedicated to in the long term*
- **Culture**. *The artefacts, core values and behaviour in the organisation*
- **Structure**. *How an organisation designs its relationships between areas or functions*
- **Strategy**. *The path that an organisation designs to achieve its purpose and goals*
- **Goals**. *The determination of specific desired results*
- **Metrics**. *The vehicle to evaluate progress to the achievement of strategic goals*

- **Portfolio**. *Strategy-based, prioritised set of projects and programmes, reconciled to the resources required to accomplish them*
- **Programme**. *Multiple interdependent projects managed as a single unit*
- **Project**. *Unique, temporary efforts defined by deliverables, schedules and resources*
- **Operations**. *The ongoing processes of the organisation that deliver value to the customer*

4.3 MANAGING STRATEGIC INITIATIVES

In this module, we make a clear distinction between the concepts *leadership* and *management*, which we will address in detail in chapter 12 of the prescribed book and in lesson 6. For now, it will suffice if we state that managers deal with complexity in organisations and perform the planning, organising, leading and control functions to attain organisational goals in an environmental characterised by change. Leaders, on the other hand, need to deal with change, stemming from business environments characterised by major, ongoing changing factors and variables.

In the context of resource allocation, both leaders and managers are required. The strategy execution framework can be used again to make the distinction between the roles of leaders and managers in resource allocation. Leaders play a more strategic role in resource allocation – they have a strategic view and focus on the first three domains of the strategy execution framework in terms of resource allocation, namely the nature, vision and engagement of the organisation. Managers, on the other hand, have a more operational view and focus on the engagement, synthesis and transition domains of the strategy execution framework. In this section, we focus on the role of managers and more specifically operational management and the management of strategic initiatives and the process of making strategy part of everyone's job.

To make strategy part of everyone's job requires a process that consists of a number of steps as indicated in figure 4.2.

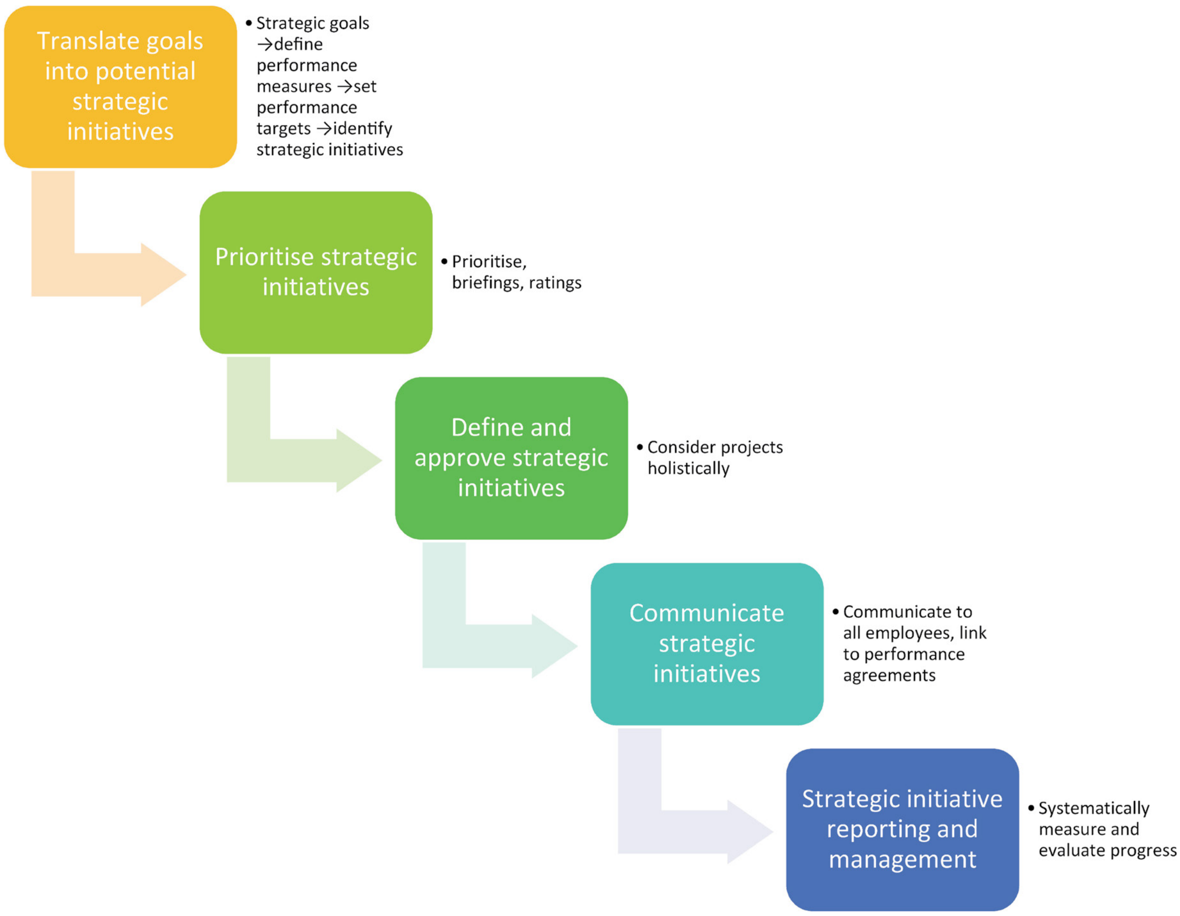

Figure 4.3: Steps in managing strategic initiatives

Activity

Suppose you are a marketing manager of a large retailer with a footprint in South Africa and other African countries. The company aims to revamp its stores and service, improve products and the assortment thereof, leverage on its loyalty programme, grow its existing format footprint and expand into the rest of Africa. Explain how you, as the marketing manager, will develop a road map that aligns the day-to-day activities of the individuals in the marketing department with the strategic direction of the organisation.

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Feedback

To ensure that the day-to-day activities of each individual in the marketing department (and every other department in the organisation) are aligned with the strategic direction of the organisation, you need to follow certain guidelines:

- **Translate goals into potential strategic initiatives**. *Firstly, you need to decide what the few essential goals are that the marketing department needs to meet to achieve the organisational strategies. Secondly, you need to decide how to define success in the refinement of your goals – these are the measures of your success. Then, you need to decide how far and how fast you need to go in attaining your goals – these are improvement targets that need to adhere to dates as well as specific measureable outputs. Lastly, you need to decide what the few critical things are that you need to do to realise your targets.*
- **Prioritise strategic initiatives**. *Strategic initiatives then need to be placed in order of priority and aligned with the strategic direction of the organisation.*
- **Define and approve strategic initiatives**. *Once placed in order of priority, strategic initiatives should be defined clearly and approved.*
- **Align individual behaviour**. *Lastly, individual behaviour should be aligned with the approved strategic initiatives.*
- *Report on strategic initiatives and take corrective actions where required.*

4.4 CREATING AN ENVIRONMENT FOR EFFECTIVE RESOURCE ALLOCATION

While strategy implementation will always be a complex process fraught with difficulties, there are some steps that an organisation can take to improve strategy implementation. Some initiatives may involve management development, a participative process for strategy development and developing a clear process for resource allocation.

Continuous Assessment

Go to the online Assessment tool on myUnisa, and complete the questions based on **Resource allocation for strategy implementation**, *before you continue with lesson 5.*

4.5 CONCLUSION

The allocation of resources in a responsible manner is vital for the success of any organisation. Resource allocation is a complex and unpredictable process, especially in a country with limited resources, high rates of poverty and unemployment, and low levels of skilled labour. In this lesson, we considered the requirements for successful resource allocation in organisations.

If we look at the big picture of strategic management and the contemporary strategic management framework that we provided you with in lesson 1, we have now concluded our discussion of strategy formation, change management, the learning organisation and resource allocation.

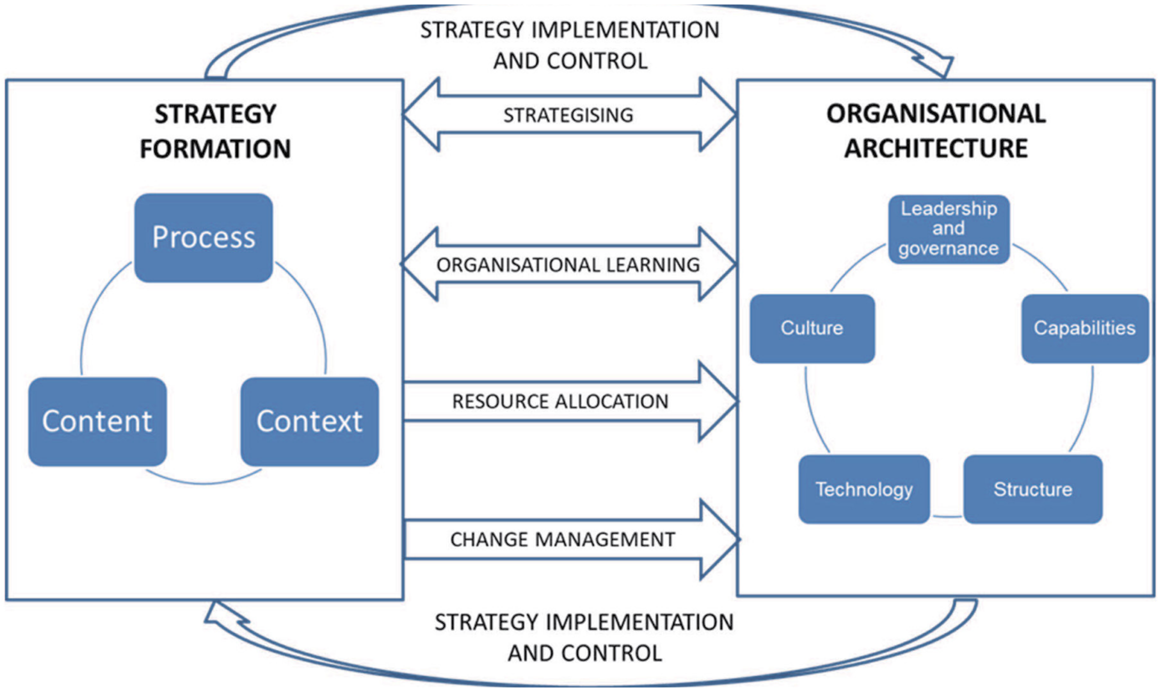

Figure 4.4: Strategy implementation and control

The next lesson focuses on the first element of organisational architecture, namely organisational culture and the importance of the alignment between culture and strategy.

Lesson 5

ORGANISATIONAL CULTURE AND STRATEGY

Lesson 5 is based on chapter 11 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of organisational culture and strategy.

In lesson 4, we explained resource allocation in the context of strategy implementation. We indicated that the allocation of organisational resources is a complex and unpredictable process that occurs in a complex and dynamic environment. In this lesson, our focus turns to one of the elements of organisational architecture, namely organisational culture and the important role that it plays in strategy implementation.

Learning Outcomes

After you have completed this lesson, you should be able to

- define organisational culture
- use the cultural web to assess an organisation's culture
- identify the cornerstones of a solid organisational culture in an organisation
- identify the warning signs of a toxic organisational culture in an organisation
- use various indicators to determine the health of an organisation's culture
- discuss key considerations in organisational culture and strategy

5.1 ORGANISATIONAL CULTURE

Organisational culture is defined as the accumulated shared learning of a group as it solves its problems of external adaption and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, feel and behave in relation to those problems. An organisation's culture is not something that will develop overnight – culture evolves over time and it is the end result of accumulated and shared organisational learning (which we discussed in lesson 3).

Key Concepts

Organisational culture is the accumulated shared learning of a group as it solves its problems of external adaption and internal integration; which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, feel and behave in relation to those problems.

5.2 THE LAYERS OF ORGANISATIONAL CULTURE

Edward Hall developed the iceberg analogy of organisational culture in 1976. He reasoned that if culture is an iceberg, there are some aspects which are visible and can be seen (above the water), and a larger aspect which is hidden beneath the surface (below the water) (Hall 1976). The tip of the iceberg typically consists of tangible manifestations that you can see and feel. The layers below the water, however, become more intangible and less visible. These aspects include espoused values and norms and taken-for-granted assumptions. The various layers are briefly explained below:

- Visible artefacts. Artefacts are everywhere and are visible throughout the organisation. Artefacts have three important dimensions, namely instrumentality, aesthetics and symbolism.
- Espoused values and norms. This refers to a collection of values and norms shared by people and groups who work together. This also includes beliefs and behaviours in the organisation.
- Taken-for-granted assumptions. Organisational artefacts, values and norms give rise to assumptions that determine how employees operates within an organisation. When a solution to a problem works repeatedly, it gets taken for granted.

Layers of organisational culture:

- visible artefacts
- espoused values and norms
- taken-for-granted assumptions

Activity

Study the four layers of organisational culture that we have discussed in this section. Identify elements of these layers in the following information pertaining to Ernest & Young (EY).

EY is a multinational professional services organisation with headquarters in London, England. EY is one of the largest professional services and accounting organisations in the world. It aspires to have a leading people culture everywhere in the world. It further aims to create a culture that attracts and retains outstanding people.

Globalisation and underlying demographic trends mean that competition to employ outstanding people is evolving rapidly. Successful companies are adapting to this by building internationally experienced leadership and equipping their people with the skills to lead in the diverse 21st-century workforce.

EY is already proud of its people culture, and is committed to doing even more. Its people tell it that the culture of global teaming focuses on building a better working world; it aspires to have a leading people culture everywhere in the world. Creating a culture that attracts and retains outstanding people and helps them thrive leads to better service for its clients.

EY is investing in three key elements of its culture that enhance what is important to its clients and its people:

- **Inclusiveness.** Recruiting outstanding people is just the start. Inclusiveness means making sure all its people's voices are heard and valued. This not only helps attract and retain the best people, but it also helps get better answers for its clients and its organisation.
- **Development.** Its approach to development involves offering the learning, experiences and coaching all its people need to enrich their careers and deliver the best results for clients, as well as offering additional programmes for current and future leaders of its organisation.
- **Engagement.** EY wants all its people to feel enthused by their work and their colleagues and to be comfortable in an organisation that gives them the flexibility to achieve their professional and personal aspirations. It engages its people in countless ways, from selecting the right people to lead major change, to taking an interest in its people as individuals, to being sure to say thank you for a job well done.

Who EY is:

People who demonstrate integrity, respect and teaming.

People with energy, enthusiasm and the courage to lead.

People who build relationships based on doing the right thing.

Its values define who it is. Its values are the fundamental beliefs of its global organisation. Its values guide its actions and behaviour. They influence the way that its people work with each other – and the way that it serves its clients and engages with its communities.

Every day, each one of its people makes choices and decisions that directly affect the way they experience each other and the way their clients and wider communities experience them. Their values give them confidence that they are using the same principles to help them make these decisions throughout their global organisation.

Its global awards programme, Better begins with you, enables its people to recognise and celebrate individuals and teams within the organisation who consistently live their values and bring their purpose of building a better working world to life through their everyday behaviour, which in turn makes an impact on its clients, people and communities.

This programme is an important way in which it is building a shared culture, founded on its strong commitment to its values.

Source: Adapted from https://www.ey.com/us/en/about-us/our-people-and-culture/2020-vision_our-people-21st-century-workforce

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Feedback

For each of the four layers, the following examples are applicable to EY:

Values.

Who EY is:

- *People who demonstrate integrity, respect and teaming.*
- *People with energy, enthusiasm and the courage to lead.*
- *People who build relationships based on doing the right thing.*

Beliefs. *The company believes that success is based on people, they treat one another with respect and dignity and expect everyone to promote a sense of personal responsibility.*

Behaviours. *The company recruits competent and motivated people and respects their values, provides equal opportunities for their development and advancement, protects their privacy and does not tolerate any form of harassment or discrimination.*

Taken-for-granted assumptions. *EY is a global leader in its industry.*

In the next section, we will explore the culture web as a tool to assess the culture of an organisation. However, before we turn our focus to the assessment of an organisation's culture, have a look at the following activity for discussion on myUnisa.

Questions for discussion on myUnisa Discussion Forums

- Within one organisation, do you think that you can identify one prevailing organisational culture? Substantiate your answer.
- Do you think that organisational culture is static or does it evolve over time? Substantiate your answer.
- In a diverse workforce, who do you think will play a decisive role in determining the organisational culture?

5.3 CULTURAL ASSESSMENT

A well-accepted approach to analyse or access an organisation's culture is the cultural web. The cultural web shows the behavioural, physical and symbolic manifestations of a culture that inform and are informed by taken-for-granted assumptions, or paradigm, of an organisation.

The **cultural web** shows the behavioural, physical and symbolic manifestations of a culture that inform and are informed by taken-for-granted assumptions, or paradigm, of an organisation.

The cultural web consists of the following elements:

- **Paradigm**. Forms the core of the cultural web as it represents all the assumptions taken for granted in the organisation.
- **Routines.** The ways things are done on a day-to-day basis within an organisation.
- **Stories**. Centre on important events and personalities.
- **Symbols**. Refer to objects, metaphors, events, acts or people that convey a meaning over and above their functional purpose.
- **Power.** The ability of individuals or groups to persuade, induce or coerce others into following certain courses of action.
- **Structure**. The formal configuration between individuals and groups regarding the allocation of tasks, responsibilities and the authority within an organisation.

- **Control systems.** The formal and informal ways of monitoring and supporting people within an organisation.

The question that we can now ask ourselves is the following – "how do we make sure that an organisation's culture is aligned with its vision, strategic direction, goals and strategy?" Remember that during the strategy formation process, the organisation's vision, direction, goals and strategy were determined. During strategy implementation, we need to ensure that there is proper alignment between all these processes – a principle that has been highlighted throughout this module. The next section addresses this issue, namely how to instil an organisational culture that supports good strategy implementation. In other words, an organisational structure aligned with the vision, goals and strategy of the organisation.

5.4 INSTILLING AN ORGANISATIONAL CULTURE THAT SUPPORTS GOOD STRATEGY IMPLEMENTATION

A culture that supports good strategy implementation is a culture that

- recognises and embraces shared values, attitudes, standards and beliefs that characterise the goals of the organisation
- recognises that it is people who make a business successful and not only its business operations
- weaves its values into the DNA of its teams and informs the recruitment of new employees

Business managers should pay attention to the cornerstones of a solid business culture. These are the following:

- transparency
- time to connect
- empowerment and a sense of freedom
- physical space
- talking to customers and employees
- organisational design

Warning signs of a toxic organisational culture are the following:

- Performance measures are becoming the primary business purpose.
- Unethical business practices occur.
- Leaders fail to uphold organisational values.
- Performance and talent systems that reinforce desired behaviours are misaligned.

Activity

Consider the organisation that you are working for. Would your regard this organisation as

- an organisation with a culture that supports good strategy implementation
- or an organisation with a toxic organisational culture?

Substantiate your answer.

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Feedback

For an organisation to be regarded as an organisation with a culture that supports good strategy implementation, it should recognise and embrace shared values, attitudes, standards and beliefs that characterise the goals of the organisation. There should also be evidence that the organisation recognises that it is people who make it a successful business and not only its business operations. Its values should be weaved into the DNA of its teams and inform the recruitment of all new employees. The organisation should be transparent when conducting its business, it should recognise work-life integration and the significance to allow employees a balanced lifestyle, and employees should be empowered and given a sense of freedom, attention should be given to their physical space and the design of offices. Lastly, time should be spent talking to customers and employees.

Signs of a toxic organisational culture are performance measures that are becoming the primary business purpose, unethical business practices that occur, leaders failing to uphold organisational values, and performance and talent systems that reinforce desired behaviours are misaligned. There may be other signs as well.

Various indicators can be used to address the health of an organisation's culture. These are addressed in the next section.

5.5 CULTURE INDICATORS

The following indicators should be tracked over time and alarm mechanisms should be put in place to identify unacceptable variances to determine the health or a change in the health of an organisation's culture:

- performance statistics
- human-resource-related statistics
- feedback from other internal and external parties
- customer surveys
- a whistle-blower programme

In the last section in this lesson, we focus on three key considerations in terms of organisational culture and strategy.

5.6 KEY CONSIDERATIONS IN ORGANISATIONAL CULTURE AND STRATEGY

The following are the three key considerations in terms of organisational culture and strategy:

- Matching the organisational culture with the requirements of the strategy execution effort. This action can focus the attention of employees on what is most important to successfully implement the strategy.
- Using strong group norms to create culture-induced peer pressure which can shape employee behaviour to do things in a manner that aids the cause of good strategy implementation.
- Accepting that an organisational culture that is consistent with the requirements for good strategy execution can energise employees, deepen their commitment and enhance worker productivity

Continuous Assessment

Go to the online Assessment tool on myUnisa, and complete the questions based on **Organisational culture and strategy***, before you continue with lesson 6.*

5.7 CONCLUSION

Every individual has his or her own personality, shaping his or her behaviour, way of living, sensing and sense making of the world. In the same way, every organisation has a "personality" which explains the taken-for-granted assumptions (or paradigm) that shape the acting, sensing and sense making done by organisational members within the internal environmental context. Each organisation builds its own culture by adopting unique values, beliefs, principles and behavioural norms. This lesson highlighted the importance of the alignment between organisational culture and strategy and provided guidelines for instilling a culture that supports good strategy implementation. In lesson 6, our focus shifts to responsible strategic leadership.

Lesson 6

RESPONSIBLE STRATEGIC LEADERSHIP

Lesson 6 is based on chapter 12 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms responsible strategic leadership.

In lesson 5, organisational culture as one of the components of organisational architecture was discussed. In this lesson, we continue our discussion of the components of organisational architecture and the important role that they play in strategy implementation and their contribution to a cohesive strategy, and we focus on responsible strategic leadership.

Learning Outcomes

After you have completed this lesson, you should be able to

- define leadership and differentiate between leadership and management in an organisation
- define strategic leadership and explain the role of strategic leaders in strategy implementation
- define responsible strategic leadership
- critically evaluate an organisation's fulfilment of its leadership responsibilities with respect to key stakeholders
- explain the roles that leaders need to play when practising responsible strategic leadership and assess a leader's ability to play these roles in an organisation
- define corporate sustainability
- define sustainable development and explain the three core elements thereof
- explain the six levels of commitment that an organisation can take, or move through, as it responds to the challenges of responsibility and sustainability
- assess the level of commitment that an organisation is taking, or is moving through, in its response to the challenges of responsibility and sustainability

6.1 LEADERSHIP VERSUS MANAGEMENT

We find leaders in all spheres of life – the average five year old will have some concept of what it is. As children in school we have all had the experience of lining up for class, in the playground or on a school trip, and so recognise "the leader" as "the one in front". Our concept of leadership develops along with our own development and experience of the world: we begin by following the guidance of our parents, taking the lead from them in many important aspects of our lives. As we move out into the world, we become subject to the attempts of others – politicians, social and religious leaders, and peers – to turn us into followers, or perhaps we become leaders ourselves. The media bombards us with images of leadership, from the public speech-making of our politicians, to the high-profile activities of the CEOs of our favourite brand name companies. We are witness, too, to quieter leadership – leaders in schools working to deliver high-quality education to our children, or community activists fighting for better healthcare, less corruption or the rights of the disadvantaged.

Leadership is a topic that has fascinated many researchers for a long time. Consequently, various definitions of leadership are found in literature. For our purposes, we will define leadership as a process by which an individual influences his or her follower or followers to achieve a common goal. In this definition, we find a wide range of implications of what makes a person a leader, the nature of leadership, and also the difference between leadership and management:

- Firstly, to be a leader, there needs to be followers. Without followers, the term "leader" is just an empty title. Being a leader does not depend on a formal appointment in a formal hierarchy or structure. This characteristic of a leader brings us to the first difference between a leader and a manager. A manager is someone appointed in a formal position in the organisational structure or hierarchy – a leader does not have to be appointed in a formal position of authority to be regarded as a leader. Also, being a leader does not mean that one needs to have subordinates like a manager. A leader needs followers that follow him or her because of free will. Subordinates do not have a choice to follow their managers.
- The second implication of this definition of leadership, is that a leader is out front, setting the pace, determining the standard and the direction of movement.
- Thirdly, the leader strives to build authentic relationships between people.
- Fourthly, the definition also implies that a leader is not necessarily an individual – it can be a group, a corporate body, an industry or even a country.
- Lastly, the definition implies that the leader and the followers have a common goal.

Key Concepts

Leadership is a process by which an individual influences his or her follower or followers to achieve a common goal.

Management and leadership share many similar characteristics and outcomes. Yet, the two terms also differ in many ways.

Managers

- cope with complexity in the organisations that employ them
- plan and draw up budgets
- organise and staff the organisation
- control and solve problems
- maintain business processes and procedures
- accept the status quo in the organisation

- minimise risk
- focus on organisational goals and objectives

Leaders, on the other hand,

- cope with change
- set a directive
- align people with the organisation's vision and strategic direction
- motivate and inspire people (their followers)
- develop new direction in the organisation
- challenge the status quo and take calculated risks
- focus on a clear vision for the organisation

In essence, leadership is strategic, focused on the vision of the organisation and involves a strong element of building trust and emotional engagement with followers. Management, on the other hand, is operational, focused on goal achievement, and more directive of those that are managed. Organisations need both leaders and managers to be successful. In the next section, we will have a look at the role of strategic leadership in strategy implementation.

Activity

Leaders come in all types, shapes and sizes. Looking through history there appears to be common themes. These gifted people have to be able to think clearly and wisely, make things happen, communicate well and engage other people to follow their lead. Leaders have the gift to inspire people to perform beyond what they previously considered to be their best and achieve outstanding results. In your opinion, who exemplified this type of leadership in the past? Provide reasons for your answer.

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Feedback

The individuals that you identify as an exemplification of this type of leadership can come from various countries and from various industries, politics, and academia or even from religious sources. For example, President Nelson Mandela, Archbishop Desmond Tutu, Henry Ford, Anton Rupert, President Cyril Ramaphosa, President Barack Obama, Whitey Basson, Thuli Madonsela, to mention only a few.

6.2 THE ROLE OF STRATEGIC LEADERSHIP IN STRATEGY IMPLEMENTATION

Before we investigate the role of strategic leadership in strategy implementation, it is important to understand what strategic leadership entails. Strategic leadership is a process by which a strategic leader influences a follower or followers to achieve the strategic vision of the organisation.

Strategic leadership is a process by which a strategic leader influences a follower or followers to achieve the strategic vision of the organisation.

Most successful strategic leaders perform two key roles in organisations namely:

- **Charismatic leadership role**. This involves setting up and gaining support for a vision and direction for the organisation.
- **Architectural role**. This concerns building an organisation and an appropriate organisational structure system, controlling and rewarding system.

For a leader to be considered as operating on a strategic level, the following six requirements need to be met:

- The leader needs to have the ability to build knowledge of the environment in which the organisation operates.
- The leader needs to portray personal leadership.
- The leader needs to have an understanding of the organisation and its processes.
- The leader needs to have the ability to create shared understanding and build learning and high-performance teams in the organisation.
- The leader needs to feel comfortable with change and enjoy the paradoxes that change entails.
- The leader needs to have a rooting in functional skills.

Various researchers have different viewpoints in terms of the essence of strategic leadership. Boal and Hooiberg (2001) see the essence of strategic leadership as being the creation and maintenance of absorptive capacity, adaptive capacity and managerial wisdom:

- **Absorptive capacity**. In the context of strategic leadership, absorptive ability refers to the ability of a leader to learn – to absorb and understand new developments, and to be able to see how they can be used in the organisation.
- **Adaptive capacity**. This refers to the leader's ability to change in response to some change in the environment.
- **Managerial wisdom**. Managerial wisdom combines properties of understanding what is changing in the environment and the significance that it holds for the organisation.

The term "responsible leadership" is becoming more and more common across the global corporate community. In the following section, we address responsible strategic leadership. However, before you study the next section, do the following activity.

Activity

Increasingly, society expects businesses to be able to play a part in solving big global issues. In South Africa, water scarcity is an important issue, whereas climate change, inequality and poverty are issues that countries around the globe are confronted with.

Questions:

(1) What do you think is the main purpose of a business?
(2) Is it the responsibility of private sector companies to reduce climate change, alleviate poverty and offer solutions to inequalities?
(3) How would you make the case to shareholders that your business should be taking responsibility in these areas?

Feedback

(1) Traditionally, it was said that businesses exist to make a profit, and produce products and services that meet the needs of customers. We have come a long way since this narrow view of the purpose of a business. Businesses rely on the environment in which they operate, to supply the resources/inputs needed to transform these into need-satisfying products and/or services. The important aspect is that resources are scarce and limited, whereas people have unlimited needs and wants for the products and services which businesses provide. Businesses are responsible for transforming resources into products and/or services, and they need to do this is a responsible manner. The fact is – businesses take what they need from the environment, but they also need to "give back" to the environment – which leads to the current view of the purpose of businesses, namely that they have to satisfy the needs of all their stakeholders (not only shareholders).

(2) The private sector can (and should) play a role in addressing these issues. We will discuss the reasoning behind this statement in more detail later on in this lesson.

(3) Businesses can no longer afford to only focus on profitability and the return on investment for shareholders/owners. Businesses, together with government, the community and also the individual, face real challenges in terms of climate change, poverty and inequality, and so on. Therefore they also need to be part of the solution to these problems.

6.3 RESPONSIBLE STRATEGIC LEADERSHIP

In our discussion of strategic leadership thus far, our focus was on the relationships between strategic leaders and their followers in the organisation, where followers are mostly the subordinates in the organisation. Responsible strategic leadership, however, goes beyond this notion, and takes place in interaction with a multitude of followers as stakeholders inside and outside the organisation. Responsible strategic leaders deliver value for all stakeholders by delivering on the "triple bottom-line" – an accounting framework with three parts – social, environmental and financial dimensions. Such a view on the responsibility of strategic leaders, which is often referred to as "stakeholder theory", starts with the assumption that values are necessary and explicitly a part of doing business. In this module, we define responsible strategic leadership as the art of building and sustaining morally sound relationships with all relevant stakeholders of an organisation.

Responsible strategic leadership is the art of building and sustaining morally sound relationships with all relevant stakeholders of an organisation.

Responsible strategic leaders play a vital role in establishing the organisational values, and in ensuring that the organisation meets its responsibilities with respect to its key stakeholders, namely employees, clients and customers, business partners, the social environment, the natural environment, shareholders and government. Each of these key stakeholders will be briefly explained below:

- **Employees**. Responsible strategic leaders mobilise people and lead teams across business, countries and cultures to achieve performance objectives that are derived from the strategic objectives of the organisation. In doing so, they coach and mentor employees to achieve objectives in an ethical manner. They ensure the implementation of employment regulations and standards; that working conditions are humane, save, healthy and non-discriminatory; and that the needs of employees for recreation, work-life balance and meaningful work are addressed.
- **Clients and customers**. Responsible strategic leaders ensure that the products and services meet the needs of their customers that they are safe and that real and potential risks are openly and transparently communicated.
- **Business partners**. In their day-to-day activities, strategic leaders are in contact with various business partners. A business partner is any individual or organisation who has some degree of involvement with the organisation's (or leader's) business dealings, such as the organisation's suppliers. Responsible strategic leaders ensure that their business partners adhere to ethical, environmental and labour standards. Moreover, responsible strategic leaders ensure that their business partners are treated fairly and ethically.
- **Social environment**. Responsible leaders foster contributions to society. This can be in the form of passive actions (e.g. charity and corporate donations), and active engagement for the wellbeing of communities. Responsible leaders should also endeavour to train and develop their staff in their understanding of the responsibilities of their organisations in society.
- **Natural environment**. Responsible strategic leaders are sensitive to the world in which they operate and assess the impact their organisation's decision and actions will have in the natural environment. They ensure that production processes are environmentally friendly, they use "green" technology wherever it is possible, they recycle material and save energy.
- **Shareholders**. Since shareholders own shares in a company, responsible strategic leaders protect the investment capital of their shareholders and ensure an adequate return on their investment. They respect the rights of shareholders, provide them

with timely information on the performance of the company. Furthermore, they show due diligence with respect to their own and others' insider knowledge. They prevent any moral wrong-doing and act responsibly with regard to their own compensation packages.

- **Government**. The responsible strategic leader will obey laws as determined by government, pay taxes, provide inputs to government in terms of technical economic financial or political importance for framing appropriate policies, take up governmental projects and contracts, offer its leaders to assist government and work on different governmental committees. Responsible strategic leaders can also participate in politics.

At this point, we can ask ourselves the question "How do we practice responsible strategic leadership?" The next section addresses this question.

6.4 PRACTISING RESPONSIBLE STRATEGIC LEADERSHIP

When practising responsible strategic leadership, leaders need to play the following roles:

- **The responsible leader as steward**. Contemporary organisations need to perform and survive in a more complex and fast-changing environment than ever, and need the stewardship of responsible leaders to look after them. These leaders need to have a global perspective on managerial challenges, a social and moral radar to assess the social, ecological and cultural environment to steer the organisation through challenging waters. They also need to cope with conflicting stakeholder expectations and ethical dilemmas.
- **The responsible leader as citizen**. Organisations are expected to use the minimum inputs to create maximum outputs, to be effective and efficient and perform financially well. At the same time, organisations are expected to contribute to a thriving community and a good society. Therefore, organisations need leaders as active citizens that recognise that both these goals are connected to each other.
- **The responsible leader as visionary**. Leaders play an indispensable role in formulating the vision, or desired future, of their organisations. There is nothing as powerful as a shared vision that appeals to followers and all stakeholders in the success of an organisation. A responsible leader will ensure a responsible vision and build on an ethically sound notion of balanced values that will lead to a sustainable business, ensuring financial success and the wellbeing of nature and society.
- **The responsible leader as servant**. A servant leader is one that shares their power with their followers, puts the needs of others first and helps followers to develop and perform as highly as possible. Servant leadership has profound implications for the responsible leader. A responsible leader should serve others, which requires attentiveness, humility and modesty on the one hand, and on the other, it requires a willingness and desire to support others and to care for their interests and their needs.
- **The responsible leader as coach**. In times of ongoing change, the responsible leader needs to facilitate the development of their followers, enable them to learn and support them in achieving their objectives. The responsible leader needs to integrate and motivate followers from various backgrounds to work together and to share and realise a common vision.

- **The responsible leader as architect**. The responsible leader needs to plan, design and construct organisational structures that support the ethical and effective achievement and monitoring of the triple-bottom-line and the realisation of the organisation's shared vision.
- **The responsible leader as storyteller and meaning enabler**. An effective tool to support the creation of meaning and sense making in organisations, is storytelling. Leaders can use storytelling widely to spread the organisation's vision of a socially, culturally and environmentally friendly business that aims to make a difference in the world.
- **The responsible leader as change agent**. Leaders have the enormous responsibility to act as change agents, by initiating and supporting change in their organisations towards a value-conscious and sustainable business in a stakeholder society.

Being a responsible strategic leader, also means ensuring the sustainability and sustainable development. These two concepts will be addressed in the next section.

6.5 SUSTAINABILITY AND SUSTAINABLE DEVELOPMENT

Sustainability is a broad discipline that gives us insights into most aspects of the human world from business, to technology to the environment and the social sciences. Environmental sustainability can be described as the avoidance of the depletion of natural resources in order to maintain an ecological balance. In a business context, corporate or organisational sustainability is the ability of an organisation to continue to do business over the long term – and possibly indefinitely. But, most importantly, sustainable business is tied up with the impact that the business has on the environmental resources of the world that it consumes in the process. Sustainability suggests that business leaders need to critically consider how their organisations can reduce and minimise their impact on the natural resources they utilise. By doing this well, business leaders can help to ensure that their businesses will be around in the future, and that future generations will continue to have the ability to support themselves and to flourish, thanks to the impact of current business strategies and practices.

Corporate sustainability is the ability of an organisation to continue to do business over the long term – and possibly indefinitely.

When businesses reduce and minimise their impact on the natural resources that they utilise, are sustainable and future generations have the ability to support themselves and to flourish, it will all contribute to sustainable development – economic development that is conducted without depletion of natural resources.

Sustainable development is economic development that is conducted without depletion of natural resources.

Sustainable development has three core elements, namely society, the environment and the economy (also known as people, planet and profit or the three P's) which are all interconnected . Organisations respond to the challenges of responsibility and sustainability either by taking a position on, or by moving through, six levels or phases of commitment (Dunphy, Griffiths & Benn 2003):

- **Phase 1: Rejection.** A focus on exploiting all resources (human and ecological) for the sake of maximising profit. Strategic leaders here would not accept responsibility or listen to sustainability arguments, and would actively work against possible regulation or activism.
- **Phase 2: Non-responsiveness.** Characterised by a lack of awareness or ignorance of sustainable or social issues, rather than active opposition to these issues.
- **Phase 3: Compliance.** Complying with laws and regulations to avoid risk, or complying with self-regulatory measures to avoid legislation which may limit the activities of the organisation.
- **Phase 4: Efficiency.** Sustainability is seen as a cost reduction and efficiency strategy. Principles of sustainability are incorporated into everyday business practice.
- **Phase 5: Strategic pro-activity.** Sustainability is viewed as potentially giving competitive advantage as well as ensuring cost efficiencies. Leaders here see sustainability as a strategic route to taking a position of leadership in an industry, and thus maximising returns.
- **Phase 6: The sustaining organisation.** One that is committed to the principles of social and ecological sustainability, that is maintaining returns, but is focused on meeting the needs of the present without compromising the opportunities of future generations.

The level that an organisation achieves in its commitment to sustainability reflects the manner in which it treats the human and ecological resources it utilises in the process of doing business. An organisation does not necessarily progress through this continuum in a linear way, but may jump from one phase to another, and regress depending on internal and external pressures. Obviously, the ideal for any organisation is to stay at phase 6, and to remain committed to the principles of social and ecological sustainability, to maintain financial performance while staying focused on meeting the needs of the present without compromising the opportunities of future generations.

Activity

This activity requires you to do research on Woolworths Holdings, a large retail chain that originated in South Africa and now operates in Africa, the Middle East and Australia. Visit the Woolworths website to answer the questions that follow.

Questions:

(1) Would you consider Woolworths to be a good example of a company which is committed to sustainability? Substantiate your answer.

(2) Looking at the levels of commitment to responsibility and sustainability that an organisation can follow, where would you place Woolworths on this ladder?

Feedback

(1) Woolworths is an excellent example of a company which is committed to sustainability. Through the "Good Business Journey", Woolworths is committed to caring for the environment, people and communities. The "Good Business Journey" has the following five goals for 2020:

- *contribute R3.5 billion to communities*
- *save 500 billion litres of water*
- *halve the company's energy impact*
- *responsibly source all key commodities*
- *have at least one sustainable attribute for all directly sourced products*

(2) Woolworths can be placed at phase 6 on the ladder, namely the sustaining corporation – one that is committed to the principles of social and ecological sustainability, that maintains returns but is focused on meeting the needs of the present without compromising the opportunities of future generations.

Being a responsible strategic leader means accepting that you have obligations to the health of the business, to your workers, customers, the community and nature. Furthermore, a responsible strategic leader also recognises the challenges in terms of sustainability and sustainable development.

Continuous Assessment

Go to the online Assessment tool on myUnisa, and complete the questions based on ***Responsible strategic leadership****, before you continue with lesson 7.*

6.6 CONCLUSION

In this lesson, we addressed one of the crucial elements of organisational architecture, namely responsible strategic leadership. On a daily basis, the media bombards us with examples of misconduct of leaders – leaders in business, politics, churches, schools – in all spheres of life. Fortunately, we also hear success stories that are shared, the new school principal who arrives with a parachute on the first school day of the new year, praying for the Grade 12s of the year, the politician who uses her own money to buy school books for underprivileged primary school children or the business executive who flies economy class even though she is entitled to fly business class on business trips. In this lesson, we focused on the responsibilities of strategic leaders – not only in terms of the bottom line of their businesses, but also in terms of their responsibility towards all other stakeholders as well. The next lesson focuses on the last element of organisational architecture, namely structure and strategy.

Lesson 7

ORGANISATIONAL STRUCTURE AND STRATEGY

Lesson 7 is based on chapter 13 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of organisational structure and strategy.

In lesson 6, responsible leadership was highlighted as one of the important elements of organisational architecture. In this lesson, we focus on another element of organisational architecture, namely organisational structure.

Learning Outcomes

After you have completed this lesson, you should be able to

- define organisational structure
- explain the role of top management in organisational design
- explain the various organisational structure alternatives with reference to the advantages and disadvantages of each alternative
- explain the various applications of organisational structure
- identify the symptoms of structural deficiency in an organisation

7.1 ORGANISATIONAL STRUCTURE AND THE ROLE OF TOP MANAGEMENT IN ORGANISATIONAL DESIGN

Organisations exist to achieve their strategic goals. These goals can be broken down into goals for various business units. Then it can be further broken down into goals for the functional departments/areas/units of the organisation. Within each department, distinctions can be found between the jobs that people perform. Departments are linked to form the organisational structure of an organisation. The organisation's structure gives it the form to fulfil its function in the environment. The term *organisational structure* refers to the formal configuration between individuals and groups regarding the allocation of tasks, responsibilities and the authority within an organisation.

Key Concepts

The term **organisational structure** refers to the formal configuration between individuals and groups regarding the allocation of tasks, responsibilities and the authority within an organisation.

The role of top management in organisation design can be summarised as follows:

- **Firstly,** top management is responsible for analysing the external and internal environment.
- **Secondly,** top management determines the strategic direction of the organisation.
- **Thirdly,** based on the analysis of the internal and external environment and the desired strategic direction of the organisation, top management is responsible for creating the organisational structure
- **Lastly,** top management also needs to determine the effectiveness and efficiency of the organisational efforts in terms of the realisation of its goals.

One should treat with caution the tendency to represent the design of an organisation as a highly rational process which proceeds smoothly through a series of steps such as those indicated above. In practice, the design of an organisational structure is a messy, political process in which established routines and stakes are challenged and often defended. Uneasy compromises are often found. Also, there may be considerable discrepancies between how the design of an organisation is presented by its top management, for example as a neat organisational chart, and how organisations operate on a day-to-day basis.

Questions for discussion on the myUnisa Discussion Forums

"The organisational chart is the (usually top-down) visual representation of the organisational structure, showing what positions exist, how they are grouped and who reports to whom".

- Do you agree with the statement that "an organisational chart indicates the structure of control but its enactment and realisation depends on the employees who provide the behaviour"? Substantiate your answer.
- Do you think that organisational structures are politically imposed? Substantiate your answer.

7.2 ORGANISATIONAL STRUCTURE ALTERNATIVES

Organisational structures evolve and change over time – they are not static. A number of basic structural types can be adapted by an organisation in order to satisfy its particular needs. The following basic structural forms are commonly found in organisations:

- entrepreneurial structure
- functional structure
- divisional structure
- holding company structure
- matrix structure
- global structure
- network structure
- new venture units
- virtual network structure
- horizontal structure
- hybrid structures

Questions for discussion on the myUnisa Discussion Forums

Read the "Practising strategy" box in section 13.2 of the prescribed book to answer the following questions:

- Microsoft has restructured a number of times since it was founded in 1975. Despite its restructuring, it was still losing ground to Apple and Google. Was Microsoft's organisational structure the only determinant of its success/battle with competitors? Substantiate your answer.
- Why was Apply so successful in implementing a centralised organisational structure while Google operated successfully with a "loose" structure?

Activity

Look on the internet at the website of a large company and find its "corporate history" pages. Identify the structural changes that the company has gone through since its founding.

Feedback

The opening case study of chapter 13 in the prescribed book provides an example of the many structural changes that South African Airways has undergone since 1934. You can also access Edcon's home page at http://www.edcon.co.za/about-history.php to see the various changes in the company since 1929. Another example is Steinhoff International that you can access at http://www.steinhoffinternational.com/overview-video.php.

7.3 APPLICATIONS OF ORGANISATIONAL STRUCTURE

Each of the various organisational structure alternatives highlighted in the previous section, is applied in different situations and is intended to address different organisational demands. Each type of structure can be viewed as a tool that can make an organisation more or less effective, depending on the exigencies of the situation and the capacity of the structure to respond effectively to the demands. Two aspects are important in this regard, namely structural alignment and symptoms of structural deficiency.

Structural alignment. One of the most important roles of top management in the design of an organisational structure is finding the right balance between vertical control and horizontal coordination, depending on the changing needs of the organisation. Vertical control is associated with goals of efficiency and stability. Horizontal coordination is associated with learning, innovation and flexibility.

Symptoms of structural deficiency. Periodically, top management needs to evaluate organisational structure in order to determine whether it is still appropriate to a changing environment and its strategic direction. The following can be used as symptoms of structural deficiency: decision making is delayed or lacking in quality, the organisation does not respond quickly and innovatively to a changing environment and strategic goals are not being met, employee performance declines and goals are not being met, and there are conflicting departmental goals.

Questions for discussion on the myUnisa Discussion Forums

In contemporary organisations, which of the following would you consider more important in the context of organisational structure:

- vertical control, associated with goals of efficiency and stability
- or horizontal coordination, associated with learning, innovation and flexibility?

Substantiate your answer.

Continuous Assessment

Go to the online Assessment tool on myUnisa, and complete the questions based on **Organisational structure and strategy**, *before you continue with lesson 8.*

7.4 CONCLUSION

In this lesson, we focused on the importance of the alignment between organisational structure and strategy. Developing an organisational structure is a complex matter. In fact, there are very few organisations that would claim that they have an ideal structure. Structure is always a work in progress, and is, therefore, always evolving. The last lesson in this module, lesson 8, focuses on strategic control and risk management.

Lesson 8

STRATEGIC CONTROL AND RISK MANAGEMENT

Lesson 8 is based on chapter 14 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of organisational structure and strategy.

In the previous lessons, we covered strategy formation and implementation. In this lesson, we focus on the last phase of the strategic management process, namely strategic control. As an integral part of strategic control, we also address risk management and corporate governance.

Learning Outcomes

After you have completed this lesson, you should be able to

- define strategic control
- explain the steps in the strategic control process
- critically evaluate the application of the strategic control process by an organisation
- explain the four types of strategic control
- identify and critically evaluate the four types of strategic control in an organisation
- explain the use of the balanced scorecard as a strategic control tool
- critically evaluate an organisation's use of the balanced scorecard as a strategic control tool
- differentiate between risk and strategic risk
- discuss the integrated strategic risk management framework
- define corporate governance
- critically evaluate the corporate governance framework of an organisation in terms of the value dimensions of the King IV Report on Corporate Governance

8.1 DEFINING STRATEGIC CONTROL

Strategic control is a process used by organisations to control the formation and implementation of their strategies. It is a specialised form of management control and it differs from other forms of management control. Strategic control focuses on the achievement of future goals. It involves tracking a strategy as it is being implemented. It is also concerned with detecting problems or changes in the strategy and making the necessary adjustments in the strategy.

Key Concepts

Strategic control is a process used by organisations to control the formation and implementation of its strategies.

The strategic control process differs from any other control processes in the organisation. In the next section, we investigate the process involved in strategic control.

8.2 THE STRATEGIC CONTROL PROCESS

The strategic control process is depicted in figure 8.1:

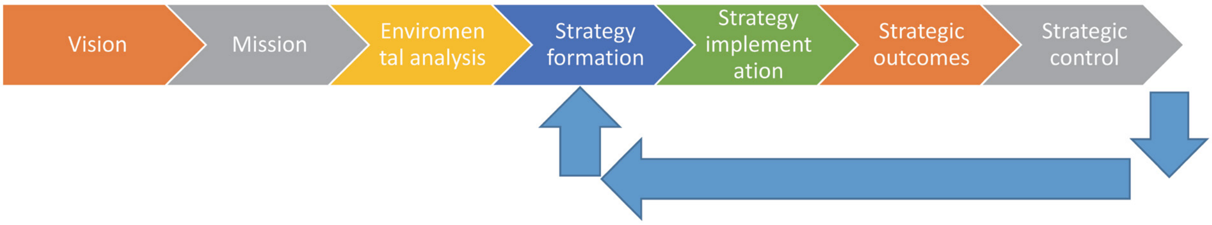

Figure 8.1 The strategic control process

Strategic control enables corporate management to monitor strategic outcomes (or its corporate, overall performance) against planned or intended strategic goals to ensure that corporate activities remain on track and correspond to the set course without major discrepancies, while adapting to the changing environmental conditions. Should there be deviations between planned and actual strategic outcomes, corrective action should be taken, which means that strategies could be redefined and strategic goals and objectives could be changed. If there are no deviation between the planned and actual strategic outcomes, there is no need to change strategic goals and objectives and the organisation can continue with its present strategy or strategies.

Various types of strategic control can be implemented. These are discussed in the next section.

8.3 TYPES OF STRATEGIC CONTROL

The four types of strategic control that organisations can use are premise control, strategic surveillance, special alert control and implementation control. Premise control, strategic surveillance and special alert control are mainly used to review the content of a strategy. Each of these are briefly explained below:

- **Premise control.** Every strategy is based on certain planning premises and predictions about environmental changes and conditions. Premise control is designed to check methodically and constantly whether these premises on which a strategy is grounded, are still valid. Should a planning premise be no longer valid, the strategy may have to change or needs to be adjusted to reflect a changing reality.

- **Strategic surveillance.** This type of strategic control is designed to observe a wide range of events within and outside an organisation that are likely to affect the track of the organisation's current strategy. Various sources may be consulted, for example trade magazines, journals, conferences, conversations with experts, observations and the internet which may provide important information that may influence the chosen strategy of the organisation.
- **Special alert control.** The management environment is often characterised by unforeseen events. Thus, the rigorous and rapid reassessment of the organisation's strategy because of the occurrence of an immediate, unforeseen event may be necessary.
- **Implementation control.** This type of strategic control is exercised as various activities, initiatives and programmes occur over a period when a chosen strategy is implemented. In other words, the chosen strategy is first monitored and, secondly, various milestones are reviewed.

Types of strategic control:

- premise control
- strategic surveillance
- special alert control
- implementation control

The balanced scorecard (BSC) is a tool that we have discussed numerous times in Strategic Management. In chapter 3 of the prescribed book entitled "A process perspective of strategic management" (Venter & Botha 2019), it was explained as a tool to set strategic goals, metrics, targets and initiatives. In chapter 8 (entitled "Strategy implementation as change management") the BSC was explained as a tool that enables organisations to clarify their vision and strategy, thus making it possible to translate it into action. In the next section, we argue that the BSC should also be used as a strategic control tool.

8.4 THE BALANCED SCORECARD AS STRATEGIC CONTROL TOOL

The BSC enables management to monitor and evaluate organisational performance from the following four different perspectives in order to see whether strategic goals are being achieved in a balanced way:

- financial perspective: linked to the expectations and needs of the shareholders as well as the financial performance or stewardship of the organisation
- internal business perspective: linked to satisfying customer needs and a consideration of how customers see the organisation
- learning and growth perspective: linked to the employees (human capital) and the capacity to achieve its goals
- customer perspective: linked to quality and efficiency in all that the organisation does

The ultimate goal of any organisation is long-term survival and growth, which is expressed as *sustainability* (we covered this in lesson 6). As such, decisions by the organisation's management impact sustainability directly. Examples of decisions impacting sustainability range from the kind of strategy that the organisation should employ like mergers and/or acquisitions; to diversification and/or alliances; to the market(s) where the organisation should operate; to options to protect the organisation from currency fluctuations and/or market volatility; to setting performance targets to mention a few. Moreover, decisions and ultimately the sustainability of the organisation are influenced by the strategic leadership of the organisation. Strategic leadership can be a person or small group of persons whose personality, position or reputation give them dominance, especially over the strategy development process. All of the above decisions point in some way or another to strategic risk management and the sustainability of the organisation. This alludes to the integrated and complex nature of strategic risk management, which is the focus of the next section.

8.5 RISK AND STRATEGIC RISK

The term *risk* has different meanings for different people in different contexts. In the context of strategic management, we can define a strategic risk as an uncertain event or set of events which, should it occur, will have an effect on the achievement of strategic objectives.

A **strategic risk** is an uncertain event or set of events which, should it occur, will have an effect on the achievement of strategic objectives.

There are numerous examples of strategic risks that can have an influence on the strategic objectives and performance of organisations. For example, competitors may make "moves" – they may introduce new products, enter new markets, use new technologies or use new marketing strategies. New regulations may have an impact on the organisation, forcing it to revisit or change its strategies. Various political events may also force an organisation to adapt or change it strategies. Social changes, changes in the tastes or buying patterns of customers and new technologies are all examples of risk factors having an impact on corporate performance and strategy.

The question that we need to ask ourselves at this point is "how do we manage these risks?" In the next section, we answer this question.

8.6 THE STRATEGIC RISK MANAGEMENT PROCESS

The following figure depicts an integrated strategic risk management framework. According to this figure, the strategic risk management process involves the identification, analysis, evaluation of risk and the response to risk. However, the strategic risk management process is encapsulated by responsible leadership and governance, technology, capabilities, systems and structures.

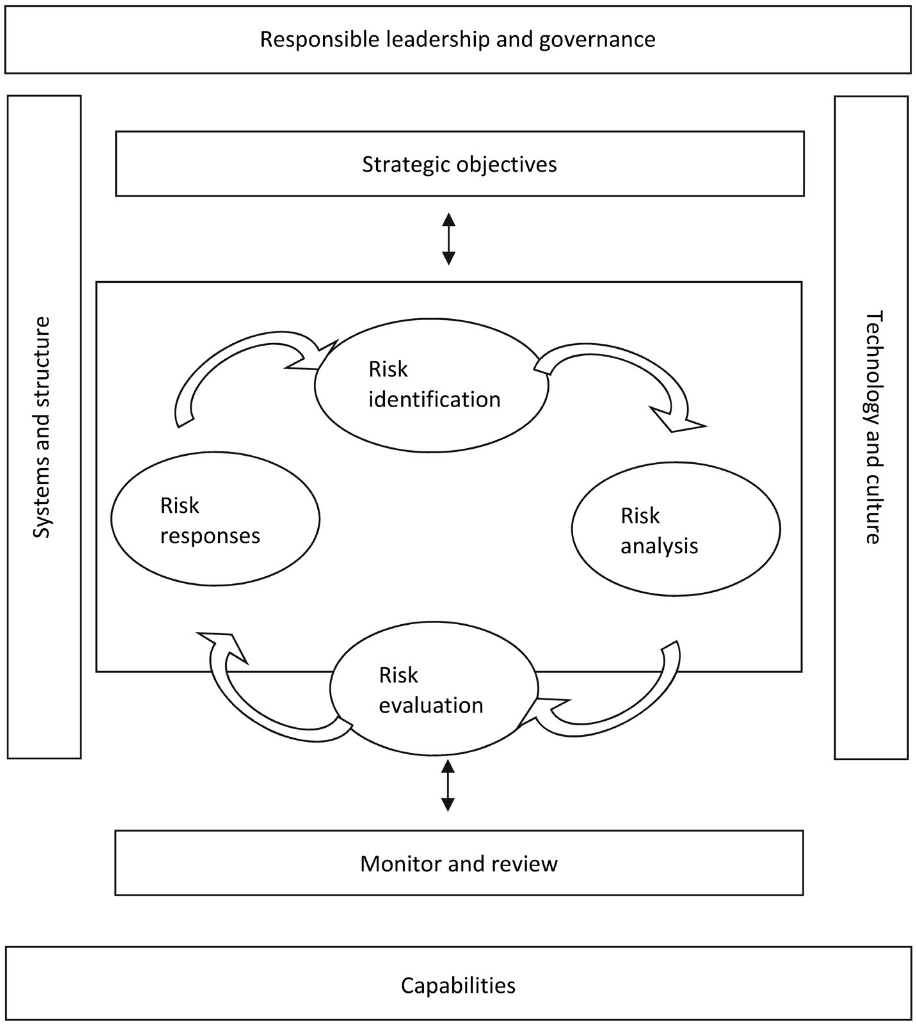

Figure 8.2: An integrated strategic risk management framework

- ***The internal environment***

An effective strategic risk management approach requires an appropriate organisational structure comprising responsible leadership and governance, systems, structure, technology, capabilities and culture. We have dealt with all these issues (except for corporate governance) in previous lessons as elements or components of organisational architecture. The last section of this lesson will focus on corporate governance.

- ***Risk management process***

The risk management process comprises the following steps:

Step 1: Risk identification

Corporate risks are identified in terms of the potential losses or gains (opportunities or threats). A focus on significant risk factors combined with insight about the corporate activities should provide an understanding of how different events may affect the ability to achieve longer-term objectives in view of identified opportunities and threats. It is possible that the different organisational actors may view these events and their impact differently. Hence, it is imperative to develop a shared understanding of major corporate risk exposures and the interrelatedness in a way that is adapted to the specific environmental conditions. Adopting a common risk management framework can underpin a consistent examination of corporate exposures and allow for cross-functional comparisons when assessing the aggregate corporate exposures. Business disruptions can typically arise along the corporate value chain and particularly in the interfaces between different functional units within a larger operational system. These internal processing conditions can affect the generation of cash flows both in terms of operating expenses and sales revenue and may provide a good basis for understanding vulnerable business activities and identifying opportunities for improvement. The identification of corporate risks may be supported by a common classification scheme that makes it easier to compare and communicate information about insights in terms of major exposures.

Step 2: Risk analyses

The adoption of structured measurement methodologies can support managers in their formal decisions about the severity of identified risks by establishing common risk parameters, enabling aggregation of exposure and setting targeted risk limits. This is a challenging task given that data may not be available or risk measures may rely on restrictive assumptions. In these exercises judgement should not be foregone in favour of numbers. The insights of experienced experts, in particular, should be sought in assumptions that go into models that are developed and outputs that are interpreted. Scenario analysis and computer simulations can be useful as these techniques raise awareness of different risk factors and their interactions based on objective measures of uncertainty in the analysis.

Step 3: Risk evaluation and responses

After the risks have been identified and analysed they should be evaluated in terms of the likelihood that the event will occur and the potential economic impact needs to be established. This approach must be supported by objective assessment criteria. The likely outcome must be compared with corporate objectives. In so doing the organisation can determine which of the potential outcomes are mission critical and whether the excess exposure should be modified. This should assist the organisation to focus on the priority risks that need to be managed. Consequently, corporate management can decide to avoid, retain, reduce, transfer or exploit risks at the corporate level, rather than to make these decisions on a narrow or standalone basis.

- **Risk avoidance** refers to the decision not to become involved in, or action to withdraw from, a risk situation.
- **Risk transfer** refers to sharing with another party the burden of loss or benefit of gain for a particular risk. Risk transfer can be carried out through insurance of other agreements.
- **Risk acceptance** refers to the decision to accept the risk.
- **Risk exploitation** refers to a situation where a particular event or risk has a positive consequence on the organisation and relevant stakeholders and should then be exploited.
- **Risk mitigation** refers to the limitation of any negative consequence of a particular event.

In conclusion, one must bear in mind that the integrated strategic risk management framework is designed as a control framework, which should comply with regulatory requirements. Although compliance is important, the integrated risk management framework advocates that risk be dealt with in the context of the organisation's strategy to accomplish the organisation's strategic objectives, priority is given to controls. As indicated in the integrated strategic risk management framework, corporate governance is an essential component thereof. The last section in this lesson addresses corporate governance.

8.7 CORPORATE GOVERNANCE

Major risk events have made news headlines in recent years, with a consequent increased focus on corporate and strategic risk. One can only think of the Steinhoff International scandal towards the end of 2017, when the company's share price plummeted by 61% in the first three hours of trading on the Johannesburg Stock Exchange (JSE), making it biggest collapse in the history of the JSE. More than 13 billion US dollars were wiped out, and its share prices also plummeted in Frankfurt where it is also listed. This followed the revelation that Steinhoff was being investigated by German regulators about 'irregularities and non-disclosures relating to its acquisitions" (https://www.marxist.com/turmoil-in-steinhof-and-naspers-exposes-crisis-of-the-big-capitalists.htm). The underlying causes of these events are frequently related to internal controls, including integrity and personal accountability of corporate executives.

In a response to these risk events, worldwide new regulatory frameworks have appeared to scrutinise business practices intended to strengthen internal controls (e.g. the King reports in South Africa, and Sarbanes Oxley in the USA). Hence a renewed focus was placed on risk management with routine systems errors, operational malfunctions, uncontrollable employees and personal accountability at the centre of attention. These compliance measures are not intended to serve as a mere checklist, containing ticks to show that executives are responsible and ethical, but to empower organisations to introduce formal practices of effective and efficient internal controls and personal accountability that allow for greater scrutiny of internal processes and reporting systems. As such, organisations can pro-actively respond in innovative ways to changes in the dynamic environment in which they operate, to ensure their sustained long-term survival and growth.

Corporate governance can be defined as a framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in a company's relationship with all its stakeholders. The corporate governance framework consists of (1) explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights and rewards; (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges and roles; and (3) procedures for proper supervision, control and information-flows to serve as a system of checks-and-balances (http://www.businessdictionary.com/definition/corporate-governance.html).

Corporate governance is a framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in a company's relationship with its all stakeholders.

Good corporate governance increases the integrity and effectiveness of the private sector. Good corporate governance assists to avoid business scandals which damage trust in business. It places value on good corporate governance by institutional investors. Good corporate governance also fosters a growing involvement of the private sector in service delivery and it enhances the development of systems to prevent and deter corruption in developing countries. It assists in the deregulation and integration of capital markets and recognises the importance of harnessing domestic savings for domestic growth.

The King IV Report on Corporate Governance for South Africa was published on 1 November 2016 and became effective in April 2017. It applies to entities incorporated in and resident in South Africa. The Report spells out the framework for governance compliance. The philosophy of the Report revolves around three issues, namely ethical leadership, sustainability and corporate citizenship, which is referred to as the "value dimensions of the Report".

- **Corporate citizenship.** Corporate citizenship involves a concern for people, planet and profit issues. Defined formally, corporate citizenship entails a concern for the social, environmental and economic performance of the organisation and a concern for the role, scope and purpose of the organisation.
- **Ethical leadership.** Ethical leadership refers to directing and controlling an organisation in such a way that it promotes good corporate governance.
- **Sustainability.** Sustainability is the long-term maintenance of systems according to environmental, economic and social considerations.

Value dimensions of the King IV report on Corporate Governance:

- corporate citizenship
- ethical leadership
- sustainability

Activity

To complete this activity, you need to consult the King IV Report on Corporate Governance. What does the King IV Report state in terms of strategic review and control in organisations?

....

....

....

Feedback

The Report is very clear in terms of strategy review and control and states that the board of directors of an organisation should perform strategy reviews at least annually, that it should be as objective as possible and that it must be based on facts rather than on opinions. The board of directors may also consider using external consultants with the review process and to gather relevant data. The following questions needs to be answered: (i) is the organisation adequately organised to execute strategy?; (ii) is the organisation's strategic direction still viable and does it consistently correspond with the strategic vision and the expectations of all stakeholders?; (iii) is the implementation of strategy still proceeding in a satisfactory manner?; and (iv) are there any strategic options that must be explored at this moment?

Questions for discussion on the myUnisa Discussion Forums

The **King Report on Corporate Governance** is a ground-breaking booklet of guidelines for the governance structures and operation of companies in South Africa. It is issued by the King Committee on Corporate Governance. Four reports have been issued, starting in 1994 (King I), in 2002 (King II), in 2009 (King III) and a fourth revision (King IV) in 2016. The Institute of Directors in Southern Africa (IoDSA) owns the copyright of the King Report on Corporate Governance and the King Code of Corporate Governance. Compliance with the King Reports is a requirement for companies listed on the Johannesburg Stock Exchange. The King Report on Corporate Governance has been cited as "the most effective summary of the best international practices in corporate governance".

Discuss the essence of these reports.

Continuous Assessment

Go to the online Assessment tool on myUnisa, and complete the questions based on ***Strategic control and risk management****.*

8.8 CONCLUSION

Strategies are long term and resource intensive, and can affect the fortunes of the whole organisation. For these reasons, strategic control is important to ensure that the chosen strategies are still valid, and that the implementation of the chosen strategies is on track. Strategic control cannot be backward looking, given the long-term focus of strategies. Therefore, the focus must be on being proactive and identifying strategic issues (those issues inside or outside the organisation that may affect the achievement of strategic objectives negatively). In addition, strategic planning and implementation processes have to be integrated with organisational performance management systems to ensure that the work of every individual in the organisation is aligned with the strategy of the organisation. This is where tools like the balanced scorecard is particularly important. All organisations are exposed to risk and need to manage risk and strategic risks effectively.

Corporate governance is an essential component of strategic risk management. This lesson concludes the module Strategy Implementation and Control. In this lesson we emphasised the importance of strategic control, the management of strategic risk and corporate governance.

We sincerely hope that this module has provided you with the opportunity to identify, analyse, interpret and critically evaluate the choices that business managers make in implementing and controlling business-level strategies. Although the focus of this module is on business-level strategies, the principles that we have covered will also apply to the implementation and control of strategies on lower levels of management. For example, the implementation of functional strtaegies will also require change management, organisational learning, resource allocation, responsible leadership and so on. We hope that you have found the course content interesting and that you will be able to apply the theory provided in practical situations and that it will enhance your further studies and career.

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