

CHAPTER SEVEN

IMPLEMENTING STRATEGIES: MANAGEMENT AND OPERATIONS ISSUES

The Nature of Strategy Implementation

- ❖ Successful strategy formulation does not guarantee successful strategy implementation.
- ❖ It is always more difficult to do something (**strategy implementation**) than to say you are going to do it (**strategy formulation**)! Although inextricably linked, strategy implementation is fundamentally different from strategy formulation.

Strategy formulation and implementation can be contrasted in the following ways:

- ❖ Strategy formulation is positioning forces before the action.
- ❖ Strategy implementation is managing forces during the action.
- ❖ Strategy formulation focuses on effectiveness.
- ❖ Strategy implementation focuses on efficiency.

Cont.....

- ❖ Strategy formulation is primarily an intellectual process.
- ❖ Strategy implementation is primarily an operational process.
- ❖ Strategy formulation requires good intuitive and analytical skills.
- ❖ Strategy implementation requires special motivation and leadership skills.

Cont....

☐ **Strategy-formulation concepts and tools do not differ greatly for small, large, for profit, or non-profit organizations. However, strategy implementation varies substantially among different types and sizes of organizations**

Problems of Implementation



**Problems in
Implementi
ng
Strategic
plans**

**More time than planned
Unanticipated problems
Activities ineffectively coordinated
Crises deferred attention away
Employees w/o capabilities
Inadequate employee training
Uncontrollable external factors
Inadequate leadership
Poorly defined tasks
Inadequate information systems**

Some Management Issues Central to Strategy Implementation

TABLE 7-1 **Some Management Issues Central to Strategy Implementation**

- Establish annual objectives
- Devise policies
- Allocate resources
- Alter an existing organizational structure
- Restructure and reengineer
- Revise reward and incentive plans
- Minimize resistance to change
- Match managers with strategy
- Develop a strategy-supportive culture
- Adapt production/operations processes
- Develop an effective human resources function
- Downsize and furlough as needed
- Link performance and pay to strategies

Annual Objectives

- ❖ *Establishing annual objectives* is a decentralized activity that directly involves all managers in an organization.
- ❖ Active participation in establishing annual objectives can lead to acceptance and commitment.

Cont....

❖ ***Annual objectives* are essential for strategy implementation because they:**

1. represent the basis for allocating resources
2. are a primary mechanism for evaluating managers
3. are the major instrument for monitoring progress toward achieving long-term objectives
4. establish organizational, divisional, and departmental priorities

Cont...

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

Policies

Policy

- specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals
- instruments for strategy implementation

Policies

Policies

- set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior
- clarify what can and cannot be done in pursuit of an organization's objectives

Resource Allocation

◆ Resource allocation

- central management activity that allows for strategy execution
- often based on political or personal factors

◆ Strategic management enables resources to be allocated according to priorities established by annual objectives

Types of Resources

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Financial

An orange rectangular box with a slight 3D effect and a shadow.

Physical

A yellow rectangular box with a slight 3D effect and a shadow.

Human

A green rectangular box with a slight 3D effect and a shadow.

Technological

Cont...

- ❖ Allocating resources to particular divisions and departments does not mean that strategies will be successfully implemented.
- ❖ A number of factors commonly prohibit effective resource allocation, including **an overprotection of resources, too great an emphasis on short-run financial criteria, organizational politics, vague strategy targets, a reluctance to take risks, and a lack of sufficient knowledge.**

Managing Conflict

◆ Conflict

□ disagreement between two or more parties on one or more issues

◆ Establishing annual objectives can lead to conflict because individuals have different expectations and perceptions, schedules create pressure, personalities are incompatible, and misunderstandings occur between line managers and staff managers

Managing Conflict

◆ Avoidance

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

◆ Defusion

- includes playing down differences between conflicting parties while accentuating similarities and common interests

Managing Conflict

◆ Confrontation

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

Some Management Trade-Off Decisions Required in Strategy Implementation

TABLE 7-5 Some Management Trade-Off Decisions
Required in Strategy Implementation

To emphasize short-term profits or long-term growth
To emphasize profit margin or market share
To emphasize market development or market penetration
To lay off or furlough To seek growth or stability
To take high risk or low risk
To be more socially responsible or more profitable
To outsource jobs or pay more to keep jobs at home
To acquire externally or to build internally
To restructure or reengineer
To use leverage or equity to raise funds
To use part-time or full-time employees

Matching Structure With Strategy

- ❖ Structure largely dictates how objectives and policies will be established
- ❖ Structure dictates how resources will be allocated

Symptoms of an Ineffective Organizational Structure

TABLE 7-6 Symptoms of an Ineffective Organizational Structure

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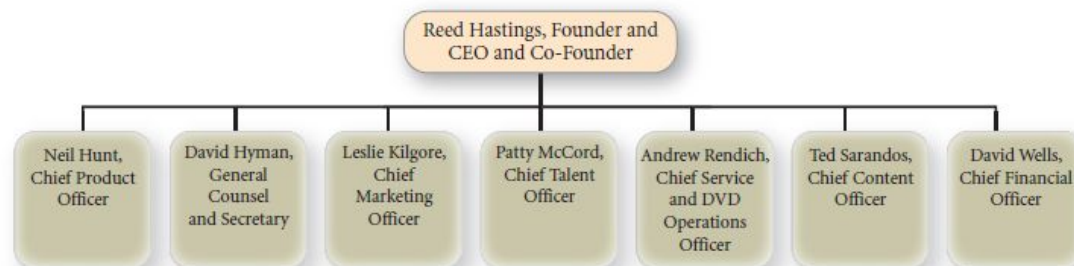
The Functional Structure

◆ Functional structure

- groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems

FIGURE 7-3

Netflix's Organizational Structure



Advantages and Disadvantages of a Functional Organizational Structure

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

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

The Divisional Structure



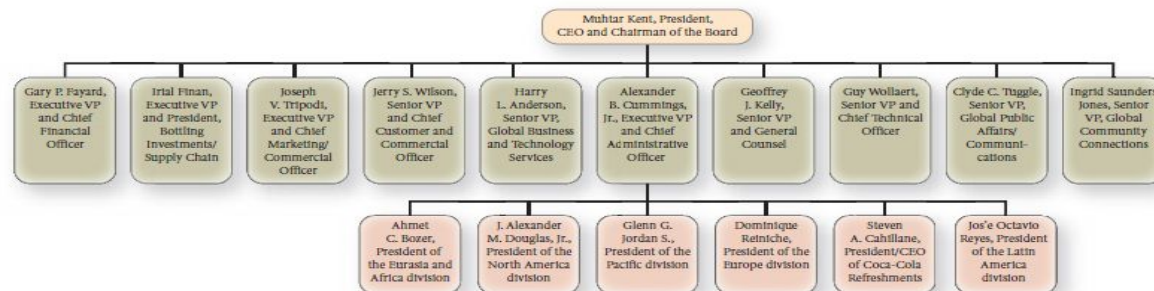
Divisional structure

- functional activities are performed both centrally and in each separate division
- Geographic area, product or service, customer, process

FIGURE 7-4

Coca-Cola Company Executive Officers

Source: Coke's 2010 Annual Report.



Advantages and Disadvantages of a Divisional Organizational Structure

TABLE 7-8 Advantages and Disadvantages of a Divisional Organizational Structure

Advantages	Disadvantages
<ol style="list-style-type: none">1. Accountability is clear2. Allows local control of local situations3. Creates career development chances4. Promotes delegation of authority5. Leads to competitive climate internally6. Allows easy adding of new products or regions7. Allows strict control and attention to products, customers, and/or regions	<ol style="list-style-type: none">1. Can be costly2. Duplication of functional activities3. Requires a skilled management force4. Requires an elaborate control system5. Competition among divisions can become so intense as to be dysfunctional6. Can lead to limited sharing of ideas and resources7. Some regions/products/customers may receive special treatment

The Strategic Business Unit (SBU) Structure

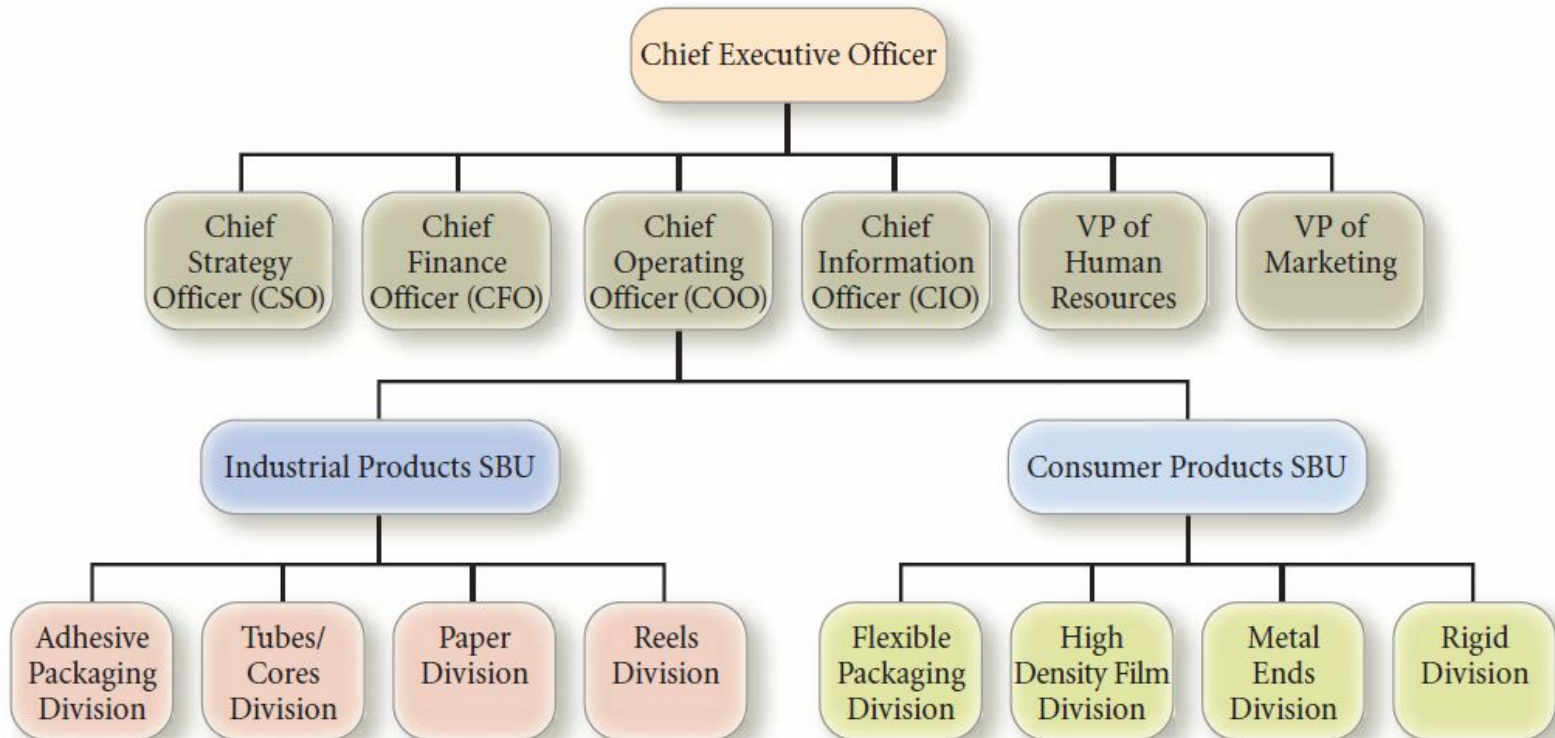
◆ SBU structure

- groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer
- can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units

Sonoco Products' SBU Organizational Chart

FIGURE 7-6

Sonoco Products' SBU Organizational Chart



The Matrix Structure

- ◆ **Matrix structure**
 - most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication

The Matrix Structure

- ❖ For a **matrix structure** to be effective, organizations need participative planning, training, clear **mutual understanding** of roles and responsibilities, excellent internal communication, and **mutual trust** and confidence

Advantages and Disadvantages of a Matrix Structure

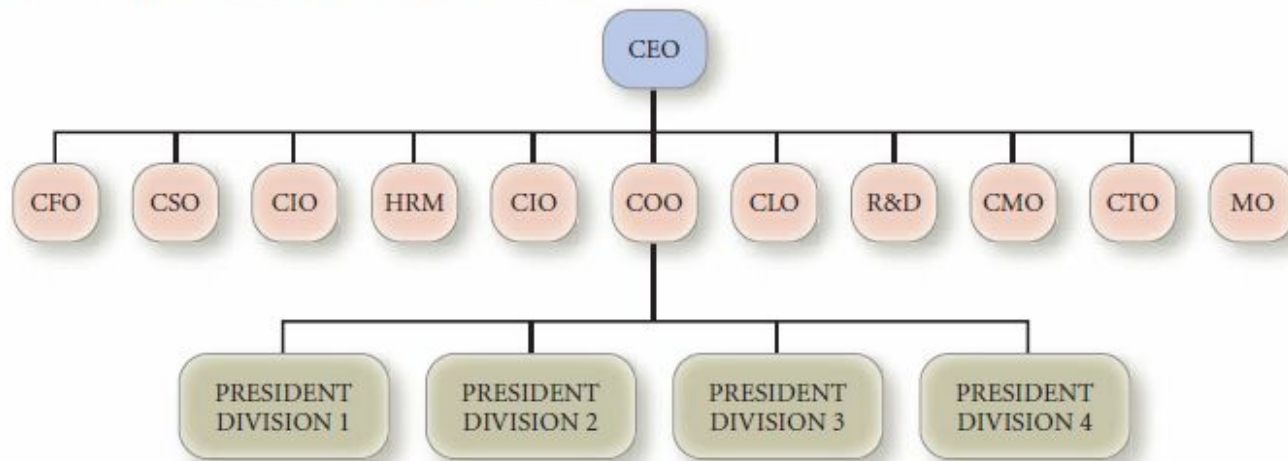
TABLE 7-9 Advantages and Disadvantages of a Matrix Structure

Advantages	Disadvantages
<ol style="list-style-type: none">1. Project objectives are clear2. Employees can clearly see results of their work3. Shutting down a project is easily accomplished4. Facilitates uses of special equipment/personnel/facilities5. Functional resources are shared instead of duplicated as in a divisional structure	<ol style="list-style-type: none">1. Requires excellent vertical and horizontal flows of communication2. Costly because creates more manager positions3. Violates unity of command principle4. Creates dual lines of budget authority5. Creates dual sources of reward/punishment6. Creates shared authority and reporting7. Requires mutual trust and understanding

Typical Top Managers of a Large Firm

FIGURE 7-8

Typical Top Managers of a Large Firm



Notes: Titles spelled out as follows.

Chief Executive Officer (CEO)
Chief Finance Officer (CFO)
Chief Strategy Officer (CSO)
Chief Information Officer (CIO)
Human Resources Manager (HRM)
Chief Operating Officer (COO)
Chief Legal Officer (CLO)
Research & Development Officer (R&D)
Chief Marketing Officer (CMO)
Chief Technology Officer (CTO)
Competitive Intelligence Officer (CIO)
Maintenance Officer (MO)

Restructuring

Restructuring

- involves reducing the size of the firm in terms of number of employees, number of divisions or units, and number of hierarchical levels in the firm's organizational structure
- also called downsizing, rightsizing, or delayering

Reengineering

- ◆ **Reengineering**
 - involves reconfiguring or redesigning work, jobs, and processes for the purpose of improving cost, quality, service, and speed
 - also called process management, process innovation, or process redesign

Linking Performance and Pay to Strategies

1. Provide full transparency to all stakeholders
2. Reward long-term performance with long-term pay, rather than annual incentives
3. Base executive compensation on actual company performance, rather than on stock price

Linking Performance and Pay to Strategies

4. Extend the time-horizon for bonuses. Replace short-term with long-term incentives
5. Increase equity between workers and executives. Delete many special perks and benefits for executives

Linking Performance and Pay to Strategies

1. Does the plan capture attention?
2. Do employees understand the plan?
3. Is the plan improving communication?
4. Does the plan pay out when it should?
5. Is the company or unit performing better?

Managing Resistance to Change

◆ **Force change strategy**

- involves giving orders and enforcing those orders

◆ **Educative change strategy**

- one that presents information to convince people of the need for change

◆ **Self-interest change strategy**

- one that attempts to convince individuals that the change is to their personal advantage

Creating a Strategy-Supportive Culture

1. Formal statements of organizational philosophy, charters, creeds, materials used for recruitment and selection, and socialization
2. Designing of physical spaces, facades, buildings
3. Deliberate role modeling, teaching, and coaching by leaders
4. Explicit reward and status system, promotion criteria
5. Stories, legends, myths, and parables about key people and events

Creating a Strategy-Supportive Culture

6. What leaders pay attention to, measure, and control
7. Leader reactions to critical incidents and organizational crises
8. How the organization is designed and structured
9. Organizational systems and procedures
10. Criteria used for recruitment, selection, promotion, leveling off, retirement, and “excommunication” of people

Ways and Means for Altering an Organization's Culture

TABLE 7-10 Ways and Means for Altering an Organization's Culture

1. Recruitment
 2. Training
 3. Transfer
 4. Promotion
 5. Restructuring
 6. Reengineering
 7. Role modeling
 8. Positive reinforcement
 9. Mentoring
 10. Revising vision and/or mission
 11. Redesigning physical spaces/facades
 12. Altering reward system
 13. Altering organizational policies/procedures/practices
-

Production Management and Strategy Implementation

TABLE 7-11 Production Management and Strategy Implementation

Type of Organization	Strategy Being Implemented	Production System Adjustments
Hospital	Adding a cancer center (Product Development)	Purchase specialized equipment and add specialized people.
Bank	Adding 10 new branches (Market Development)	Perform site location analysis.
Beer brewery	Purchasing a barley farm operation (Backward Integration)	Revise the inventory control system.
Steel manufacturer	Acquiring a fast-food chain (Unrelated Diversification)	Improve the quality control system.
Computer company	Purchasing a retail distribution chain (Forward Integration)	Alter the shipping, packaging, and transportation systems.

Labor Cost-Saving Tactics

TABLE 7-12 Labor Cost-Saving Tactics

Salary freeze
Hiring freeze
Salary reductions
Reduce employee benefits
Raise employee contribution to health-care premiums
Reduce employee 401(k)/403(b) match
Reduce employee workweek
Mandatory furlough
Voluntary furlough
Hire temporary instead of full-time employees
Hire contract employees instead of full-time employees
Volunteer buyouts (Walt Disney is doing this)
Halt production for 3 days a week (Toyota Motor is doing this)
Layoffs
Early retirement
Reducing/eliminating bonuses

MARKETING, FINANCE/ACCOUNTING, R&D, AND MIS ISSUES

Current Marketing Issues

1. How to make advertisements more interactive to be more effective
2. How to best take advantage of Facebook and Twitter conversations about the company and industry
3. To use exclusive dealerships or multiple channels of distribution
4. To use heavy, light, or no TV advertising versus online advertising

Cont...

5. To limit (or not) the share of business done with a single customer
6. To be a price leader or a price follower
7. To offer a complete or limited warranty
8. To reward salespeople based on straight salary, straight commission, or a combination salary/commission

Cont...

- ❖ Firms should provide **incentives** to consumers to share their thoughts, **opinions**, and experiences on the company website
- ❖ The company website must not be all about the company—it must be all about the **customer** too

The New Principles of Marketing

TABLE 8-1 The New Principles of Marketing

1. Don't just talk at consumers—work with them throughout the marketing process.
 2. Give consumers a reason to participate.
 3. Listen to—and join—the conversation outside your company's website.
 4. Resist the temptation to sell, sell, sell. Instead attract, attract, attract.
 5. Don't control online conversations; let it flow freely.
 6. Find a “marketing technologist,” a person who has three excellent skill sets (marketing, technology, and social interaction).
 7. Embrace instant messaging and chatting.
-

Purpose-Based Marketing

- best way to sell in a weak economy is to “show customers how they can improve their lives” with your product or service
- need to build trust and an emotional connection to the customer in order to differentiate your product or service

Market Segmentation

- subdividing of a market into distinct subsets of customers according to needs and buying habits
- widely used in implementing strategies

Market Segmentation

❖ Strategies such as market development, product development, market penetration, and diversification require **increased sales** through new markets and products

❖ Market segmentation allows a firm to operate with **limited resources** because mass production, mass distribution, and mass advertising are not required

Market Segmentation

- ❖ Market segmentation decisions directly affect *marketing mix variables*: product, place, promotion, and price

The Marketing Mix Component Variables

TABLE 8-2 The Marketing Mix Component Variables

Product	Place	Promotion	Price
Quality	Distribution channels	Advertising	Level
Features and options	Distribution coverage	Personal selling	Discounts and allowances
Style	Outlet location	Sales promotion	Payment terms
Brand name	Sales territories	Publicity	
Packaging	Inventory levels and locations		
Product line	Transportation carriers		
Warranty			
Service level			
Other services			

Product Positioning

◆ **Product positioning**

- entails developing schematic representations that reflect how your products or services compare to competitors' on dimensions most important to success in the industry

Product Positioning Steps

1. Select key criteria that effectively differentiate products or services in the industry.
2. Diagram a two-dimensional product-positioning map with specified criteria on each axis.
3. Plot major competitors' products or services in the resultant four-quadrant matrix.

Product Positioning Steps

4. Identify areas in the positioning map where the company's products or services could be most competitive in the given target market. Look for vacant areas (niches).
5. Develop a marketing plan to position the company's products or services appropriately.

Rules for Using Product Positioning as a Strategy-Implementation Tool

1. Look for the hole or *vacant niche*.
2. Don't serve two segments with the same strategy.
3. Don't position yourself in the middle of the map.

Product Positioning

An effective **product positioning** strategy meets two criteria:

- ❖ it uniquely distinguishes a company from the competition
- ❖ it leads customers to expect slightly less service than a company can deliver

Finance/Accounting Issues

1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock
2. To lease or buy fixed assets
3. To determine an appropriate dividend payout ratio
4. To use LIFO (Last-in, First-out), FIFO (First-in, First-out), or a market-value accounting approach

Finance/Accounting Issues

5. To extend the time of accounts receivable
6. To establish a certain percentage discount on accounts within a specified period of time
7. To determine the amount of cash that should be kept on hand

Acquiring Capital to Implement Strategies

- ❖ Successful strategy implementation often requires **additional capital**
- ❖ Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are **debt** and **equity**

Acquiring Capital to Implement Strategies

- ❖ EPS = Earnings Per Share, which is Net Income divided by # of Shares Outstanding.
- ❖ Another term for Shares Outstanding is Shares Issued
- ❖ EBIT = Earnings Before Interest and Taxes (also called operating income)
- ❖ EBT = Earnings Before Tax
- ❖ EAT = Earnings After Tax

Acquiring Capital to Implement Strategies

- ❖ When using **EPS/EBIT analysis**, timing in relation to movements of stock prices, interest rates, and bond prices becomes important
- ❖ In times of depressed stock prices, debt may prove to be the most suitable alternative
- ❖ However, when **cost of capital** (interest rates) is high, stock issuances become more attractive

Projected Financial Statements



Projected Financial Statements

- allows an organization to examine the expected results of various actions and approaches
- allows an organization to compute projected financial ratios under various strategy-implementation scenarios

Performing Projected Financial Analysis

1. Prepare the projected income statement before the balance sheet
2. Use the percentage-of-sales method to project cost of goods sold (CGS) and the expense items in the income statement
3. Calculate the projected net income
4. Subtract from the net income any dividends to be paid for that year

Performing Projected Financial Analysis

5. Project the balance sheet items, beginning with retained earnings and then forecasting stockholders' equity, long-term liabilities, current liabilities, total liabilities, total assets, fixed assets, and current assets (in that order)
6. List comments (remarks) on the projected statements

Financial Budgets

◆ Financial budget

- a document that details how funds will be obtained and spent for a specified period of time
- include cash budgets, operating budgets, sales budgets, profit budgets, factory budgets, capital budgets, expense budgets, divisional budgets, variable budgets, flexible budgets, and fixed budgets

Limitations of Financial Budgets

❖ Budgetary programs can become so detailed that they are **cumbersome** and overly **expensive**

❖ Financial budgets can become a **substitute** for objectives

Limitations of Financial Budgets

❖ Budgets can hide **inefficiencies** if based solely on precedent rather than on **periodic** evaluation of circumstances and standards

❖ Budgets are sometimes used as instruments of **tyranny** that result in frustration, resentment, absenteeism, and high turnover

Evaluating the Worth of a Business

Three main approaches:

- ❖ What a firm owns
- ❖ What a firm earns
- ❖ What a firm will bring in the market

Evaluating the Worth of a Business

- ❖ The **first** approach is determining a firm's net worth or stockholders' equity
- ❖ The **second** approach is based on the future benefits a firm's owners may derive through net profits

Evaluating the Worth of a Business

- ❖ The **third** approach is to divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years
- ❖ Also called the **price-earnings ratio method**

Evaluating the Worth of a Business

- ❖ The **fourth** method is to simply multiply the number of shares outstanding by the market price per share
- ❖ Also called the **outstanding shares method**

Research and Development (R&D) Issues

1. Emphasize product or process improvements
2. Stress basic or applied research
3. Be leaders or followers in R&D
4. Develop robotics or manual-type processes
5. Spend a high, average, or low amount of money on R&D
6. Perform R&D within the firm or contract R&D to outside firms
7. Use university researchers or private-sector researchers

R&D Approaches for Implementing Strategies

- ❖ Be the first firm to market **new** technological products
- ❖ Be an innovative **imitator** of successful products, thus minimizing the risks and costs of start-up
- ❖ Be a **low-cost producer** by mass-producing products similar to but less expensive than products recently introduced

Management Information Systems (MIS) Issues

- ❖ Having an effective *management information system (MIS)* may be the most important factor in differentiating successful from unsuccessful firms
- ❖ The process of *strategic management* is facilitated immensely in firms that have an effective information system

Business Analytics

◆ **Business analytics**

- a management information system technique that involves using software to mine huge volumes of data to help executives make decisions
- also called predictive analytics, machine learning, or data mining

Business Analytics

- ❖ A key distinguishing feature of **business analytics** is that it is **predictive** rather than **retrospective**, in that it enables a firm to learn from experience and make current and future decisions based on prior information

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