

Chapter Seven

Implementing Strategies: Management Issues

7.1 The Nature of Strategy Implementation

It is possible to turn strategies and plans into individual actions, necessary to produce a great business performance. But it's not easy. Many companies repeatedly fail to truly motivate their people to work with enthusiasm, all together, towards the corporate aims. Most companies and organizations know their businesses, and the strategies required for success. However many corporations - especially large ones - struggle to translate the theory into action plans that will enable the strategy to be successfully implemented and sustained.

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.
- ✓ 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.
- ✓ Strategy formulation requires coordination among a few individuals.
- ✓ Strategy implementation requires coordination among many persons.

Strategy-formulation concepts and tools do not differ greatly for small, large, for profit, or nonprofit organizations. However, strategy implementation varies substantially among different types and sizes of organizations. Implementing strategies requires such actions as altering sales territories, adding new departments, closing facilities, hiring new employees, changing an organization's pricing strategy, developing financial budgets, developing new employee benefits, establishing cost-control procedures, changing advertising strategies, building new facilities, training new employees, transferring managers among divisions, and building a better computer

information system. These types of activities obviously differ greatly between manufacturing, service, and governmental organizations.

7.2 Key Concepts in Strategy Implementation

Management Perspectives

In all but the smallest organizations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. Implementation problems can arise because of this shift in responsibility, especially if strategy-formulation decisions come as a surprise to middle- and lower-level managers. Managers and employees are motivated more by perceived self-interests than by organizational interests, unless the two coincide. Therefore, it is essential that divisional and functional managers be involved as much as possible in strategy-formulation activities. Of equal importance, strategists should be involved as much as possible in strategy-implementation activities.

Management issues central to strategy implementation include establishing annual objectives, devising policies, allocating resources, altering an existing organizational structure, restructuring and reengineering, revising reward and incentive plans, minimizing resistance to change, matching managers with strategy, developing a strategy-supportive culture, adapting production/operations processes, developing an effective human resource function and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in a major new direction.

Managers and employees throughout an organization should participate early and directly in strategy implementation decisions. Their role in strategy implementation should build upon prior involvement in strategy-formulation activities. Strategists' genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees. Too often, strategists are too busy to actively support strategy-implementation efforts, and their lack of interest can be detrimental to organizational success. The rationale for objectives and strategies should be understood and clearly communicated throughout an organization. Major competitors' accomplishments, products, plans, actions, and performance should be apparent to all organizational members. Major external opportunities and threats should be clear, and

managers' and employees' questions should be answered. Top-down flow of communication is essential for developing bottom-up support.

Firms need to develop a competitor focus at all hierarchical levels by gathering and widely distributing competitive intelligence; every employee should be able to benchmark her or his efforts against best-in class competitors so that the challenge becomes personal. This is a challenge for strategists of the firm. Firms should provide training for both managers and employees to ensure they have and maintain the skills necessary to be world-class performers.

Annual Objectives

Objectives set out what the business is trying to achieve.

Objectives can be set at two levels:

(1) Corporate level

These are objectives that concern the business or organization as a whole.

Examples of “corporate objectives might include:

- We aim for a return on investment of at least 15%
- We aim to achieve an operating profit of over £10 million on sales of at least £100 million
- We aim to increase earnings per share by at least 10% every year for the foreseeable future

(2) Functional level

E.g. specific objectives for marketing activities

Examples of functional marketing objectives” might include:

- We aim to build customer database of at least 250,000 households within the next 12 months
- We aim to achieve a market share of 10%
- We aim to achieve 75% customer awareness of our brand in our target markets

Both corporate and functional objectives need to conform to the commonly used **SMART** criteria. Annual objectives such as "to improve communication" or "to improve performance" are not clear, specific, or measurable. Objectives should state quantity, quality, cost, and time and also be verifiable. Terms such as "maximize," "minimize," "as soon as possible," and "adequate" should be avoided.

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. *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.

Policies

Changes in a firm's strategic direction do not occur automatically. On a day-to-day basis, policies are needed to make a strategy work. Policies facilitate solving recurring problems and guide the implementation of strategy. Broadly defined, *policy* refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation. Policies set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior; they clarify what can and cannot be done in pursuit of an organization's objectives.

Resource Allocation

In strategic planning, a resource-allocation decision is a plan for using available resources, especially human resources especially in the near term, to achieve goals for the future. It is the process of allocating resources among the various projects or business units.

The plan has two parts: Firstly, there is the basic allocation decision and secondly there are contingency mechanisms. The basic allocation decision is the choice of which items to fund in the plan, and what level of funding it should receive, and which to leave unfunded: the resources are allocated to some items, not to others. There are two contingency mechanisms. There is a priority ranking of items excluded from the plan, showing which items to fund if more resources should become available; and there is a priority ranking of some items included in the plan, showing which items should be sacrificed if total funding must be reduced.

All organizations have at least four types of resources that can be used to achieve desired objectives: financial resources, physical resources, human resources, and technological resources. 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 is a state of opposition, disagreement or incompatibility between two or more people or groups of people, which is sometimes characterized by physical violence. In political terms, "conflict" refers to an ongoing state of hostility between two groups of people. Conflict as taught for graduate and professional work in conflict resolution commonly has the definition: "when two or more parties, with perceived incompatible goals, seek to undermine each other's goal seeking capability".

Matching Structure with strategy

There is no one optimal organizational design or structure for a given strategy or type of organization. What is appropriate for one organization may not be appropriate for a similar firm, although successful firms in a given industry do tend to organize themselves in a similar way. For example, consumer goods companies tend to emulate the divisional structure-by-product form of organization. Small firms tend to be functionally structured (centralized). Medium-size firms tend to be divisionally structured (decentralized). Large firms tend to use an SBU (strategic business unit) or matrix structure. As organizations grow, their structures generally change from simple to complex as a result of concatenation, or the linking together of several basic strategies.

- Functional Structure
- Divisional Structure: divisional structure by geographic area
 - divisional structure by product
 - divisional structure by customer
 - divisional structure by process
- The Strategic Business Unit (SBU) Structure
- The Matrix Structure

Restructuring and Reengineering

Restructuring—also called downsizing, rightsizing, or delayering—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. This reduction in size is intended to improve both efficiency and effectiveness. Restructuring is concerned primarily with shareholder well-being rather than employee well-being.

In contrast, reengineering is concerned more with employee and customer well-being than shareholder well-being. Reengineering—also called process management, process innovation, or

process redesign— involves reconfiguring or redesigning work, jobs, and processes for the purpose of improving cost, quality, service, and speed. Reengineering does not usually affect the organizational structure or chart, nor does it imply job loss or employee layoffs. Whereas restructuring is concerned with eliminating or establishing, shrinking or enlarging, and moving organizational departments and divisions, the focus of reengineering is changing the way work is actually carried out.

Reengineering is characterized by many tactical (short-term, business function-specific) decisions, whereas restructuring is characterized by strategic (long-term, affecting all business functions) decisions.

Linking Performance and Pay to Strategies

How can an organization's reward system be more closely linked to strategic performance? How can decisions on salary increases, promotions, merit pay, and bonuses be more closely aligned to support the long-term strategic objectives of the organization? There are no widely accepted answers to these questions, but a dual bonus system based on both annual objectives and long-term objectives is becoming common. The percentage of a manager's annual bonus attributable to short-term versus long-term results should vary by hierarchical level in the organization.

Profit sharing is another widely used form of incentive compensation. Still another criterion widely used to link performance and pay to strategies is gain sharing. **Gain sharing** requires employees or departments to establish performance targets; if actual results exceed objectives, all members get bonuses. Criteria such as sales, profit, production efficiency, quality, and safety could also serve as bases for an effective *bonus system*.

Managing Resistance to Change

No organization or individual can escape change. But the thought of change raises anxieties because people fear economic loss, inconvenience, uncertainty, and a break in normal social patterns. Almost any change in structure, technology, people, or strategies has the potential to disrupt comfortable interaction patterns. For this reason, people resist change. The strategic-management process itself can impose major changes on individuals and processes. Reorienting an organization to get people to think and act strategically is not an easy task. *Resistance to change* can be considered the single greatest threat to successful strategy implementation.

Resistance in the form of sabotaging production machines, absenteeism, filing unfounded grievances, and an unwillingness to cooperate regularly occurs in organizations. People often

resist strategy implementation because they do not understand what is happening or why changes are taking place. In that case, employees may simply need accurate information. Successful strategy implementation hinges upon managers' ability to develop an organizational climate conducive to change. Change must be viewed as an opportunity rather than as a threat by managers and employees.

Managing the Natural Environment

The natural environment comprises all living and non-living things that occur naturally on Earth. The ecological challenge facing all organizations requires managers to formulate strategies that preserve and conserve natural resources and control pollution. Special natural environmental issues include ozone depletion, global warming, depletion of rain forests, destruction of animal habitats, protecting endangered species, developing biodegradable products and packages, waste management, clean air, clean water, erosion, destruction of natural resources, and pollution control. Firms increasingly are developing green product lines that are biodegradable and/or are made from recycled products. Green products sell well.

Creating a Strategy-Supportive Culture

Strategists should strive to preserve, emphasize, and build upon aspects of an existing *culture* that support proposed new strategies. Aspects of an existing culture that are antagonistic to a proposed strategy should be identified and changed. Substantial research indicates that new strategies are often market-driven and dictated by competitive forces. For this reason, changing a firm's culture to fit a new strategy is usually more effective than changing a strategy to fit an existing culture. Numerous techniques are available to alter an organization's culture, including recruitment, training, transfer and promotion, restructure of an organization's design, role modeling, and positive reinforcement.

Production/Operations Concerns When Implementing Strategies

Strategy in action means implementation requires complete transparent process. Production/operations department that mainly concern with the achievement of organization goals and targets. Production processes typically constitute more than 70 percent of a firm's total assets. Production department plays a crucial role for implementing organization strategy. Production-concerned decisions on plant location, plant size, , product design, choice of equipment, size of inventory, inventory control, quality control, cost control, use of standards, shipping and packaging, and technological innovation, job specialization, employee training, equipment and

resource utilization. All these factors place an important impact on success and failure of the strategy.

Human Resource Concerns When Implementing Strategies

Human resource is the backbone of any organization without efficient human resource organization cannot perform well and fail to achieve the organizational strategy. Staffing need of the organization and its cost is an important function of the human resource manager. The other main concerns include health, safety and security of the workers. The plan must also include how to motivate employees and managers during a time when layoffs are common and workloads are high.

The human resource department must develop **performance incentives** that clearly link performance and pay to strategies. The process of empowering managers and employees through involvement in strategic management activities yields the greatest benefits when all organizational members understand clearly how they will benefit personally if the firm does well. Linking company and personal benefits is a major new strategic responsibility of human resource managers. Other new responsibilities for human resource managers may include establishing and administering an *employee stock ownership plan (ESOP)*, are corporations owned in whole or in part by their employees.

Market segmentation

Market segmentation is the process in marketing of grouping a market (i.e. customers) into smaller subgroups.

Mass marketing refers to treatment of the market as a homogenous group and offering the same marketing mix to all customers. Mass marketing allows economies of scale to be realized through mass production, mass distribution, and mass communication. The drawback of mass marketing is that customer needs and preferences differ and the same offering is unlikely to be viewed as optimal by all customers. If firms ignored the differing customer needs, another firm likely would enter the market with a product that serves a specific group, and the incumbent firms would lose those customers.

Target marketing on the other hand recognizes the diversity of customers and does not try to please all of them with the same offering. The first step in target marketing is to identify different market segments and their needs.

The requirements for successful segmentation are: Homogeneity within the segment, Heterogeneity between segment, Segments are measurable and identifiable, Segments are accessible and actionable, and Segment is large enough to be profitable.....

Bases for Segmentation in Consumer Markets

Consumer markets can be segmented on the following customer characteristics: *Geographic*, *Demographic*, *Psychographic*-activities, interests, and opinions (AIO) surveys are one tool for measuring lifestyle and *Behavioralistic* -behavioral segmentation is based on actual customer behavior toward products.

Marketing Mix

Marketing decisions generally fall into the following four controllable categories:

- Product
- Price
- Place (distribution)
- Promotion

Finance/Accounting Issues

Several issue that concern with accounting and finance to strategy implementation: obtaining desired amount of needed capital, developing pro forma financial statements, preparing financial budgets, and evaluating the worth of a business. Some examples of decisions that may require finance/accounting policies are:

1. To raise the amount of capital by issuing shares or obtaining a debt from external parties.
2. To enhance the inventory turnover level
3. To make or buy fixed assets.
4. To extend the time of accounts receivable.
5. To establish a certain percentage discount on accounts within a specified period of time.
6. To determine the amount of cash that should be kept on hand
7. To determine an appropriate dividend payout ratio.
8. To use LIFO, FIFO

Research and Development (R&D) Issues

R&D employees and managers perform tasks that include:

1. Transferring complex technology,
2. Adjusting processes to local raw materials,
3. Adapting processes to local markets,
4. Altering products to particular tastes and specifications.

There are at least three major R&D approaches for implementing strategies:

1. To be the first firm to market new technological products. This is a glamorous and exciting strategy but also a dangerous one.
2. To be an innovative imitator of successful products, thus minimizing the risks and costs of start-up. This approach entails allowing a pioneer firm to develop the first version of the new product and to demonstrate that a market exists. Then, laggard firms develop a similar product. This strategy requires excellent R&D personnel and an excellent marketing department.
3. To be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced.