

CHAPTER THREE

STRATEGY IMPLEMENTATION

"It is human nature to make decisions based on emotion, rather than on fact.

But nothing could be more illogical."

(Toshiba Corporation)

3. INTRODUCTION:

Strategic management process does not end when firm decides what strategies pursue. There must be translation of strategic thought into strategic action. Translation requires support of managers and employees of the organization.

Strategy implementation is "the process of allocating resources to support the chosen strategies". This process includes the various management activities that are necessary to put strategy in motion, institute strategic controls that monitor progress. The implementation of organization strategy involves the application of the management process to obtain the desired results. Particularly, strategy implementation includes designing the organization's structure, allocating resources, developing strategic control systems.

To implement the strategic plan successfully, it is necessary for the organization to have a formal implementation plan with actions assigned to either teams or individuals who are responsible for their accomplishment.

This note deals with a couple of topics related to strategic implementation. First, a simple typology of how organizations are structured. Second, a "simple" model of management that encompasses several topics relating to management. Finally, issues surrounding strategic change

Implementation process can also be thought of as having several parts:

1. Resource planning and the logistics of implementation. The process will address the problems of tasks that need to be carried out and also the timing of them. There may need to be change in the mix of resources required to implement the strategy and decision will need to be taken about who is to be responsible for the change.
2. The organizational structure may need to be changed. E. g from hierarchical to matrix or from centralized to decentralize.
3. The systems employed to manage the organization may be changed or improved. The systems provide information and operational procedures needed in the organization. It may be that a new information management system is required to control the progress of the strategy. Staff may need to be retrained or new staff recruited.

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

STRATEGY FORMULATION	STRATEGY IMPLEMENTATION
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	Strategy implementation requires special

intuitive and analytical skills.	motivation and leadership skills
Strategy formulation requires coordination among a few individuals	Strategy implementation requires combination among many individuals.

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

3.1 Management Perspectives

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 resources function, and, if necessary, downsizing.

3.2 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.

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; and
- (4) establish organizational, divisional, and departmental priorities.

Considerable time and effort should be devoted to ensuring that annual objectives are well conceived, consistent with long-term objectives, and supportive of strategies to be implemented. Approving, revising, or rejecting annual objectives is much more than a rubber-stamp activity. The purpose of annual objectives can be summarized as follows:

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

Clearly stated and communicated objectives are critical to success in all types and sizes of firms. Annual objectives, stated in terms of profitability, growth, and market share by business segment, geographic area, customer

groups, and product, are common in organizations. Annual objectives should be measurable, consistent, reasonable, challenging, clear, communicated throughout the organization, characterized by an appropriate time dimension, and accompanied by commensurate rewards and sanctions. It is important to tie rewards and sanctions to annual objectives so that employees and managers understand that achieving objectives is critical to successful strategy implementation. Clear annual objectives do not guarantee successful strategy implementation, but they do increase the likelihood that personal and organizational aims can be accomplished.

3.3 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. Policies let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be implemented successfully. They provide a basis for management control, allow coordination across organizational units, and reduce the amount of time managers spend making decisions. Policies also clarify what work is to be done and by whom. They promote delegation of decision making to appropriate managerial levels where various problems usually arise. Many organizations have a policy manual that serves to guide and direct behavior. Policies can apply to all divisions and departments (for example, "We are an equal opportunity employer"). Some policies apply to a single department

("Employees in this department must take at least one training and development course each year"). Whatever their scope and form, policies serve as a mechanism for implementing strategies and obtaining objectives. Policies should be stated in writing whenever possible. They represent the means for carrying out strategic decisions.

Some Issues That May Require a Management Policy

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

- To establish many or only a few production standards
- To operate one, two, or three shifts
- To discourage using insider information for personal gain
- To discourage sexual harassment
- To discourage smoking at work
- To discourage insider trading
- To discourage moonlighting

3.4 PLANS, PROGRAMMES, AND PROJECTS

The **strategic plan** devised by the organization proposes the manner in which the strategies could be put into action.

Program is a broad term, which includes goals, policies, procedures, rules, and steps to be taken in putting a plan into action. Programs are usually supported by funds allocated for plan implementation.

A **project** is a highly specific programme for which the time schedule and costs are predetermined. It requires allocation of funds based on capital budgeting by organizations.

3.5 Strategic Implementation Process

There are five-stage model of the strategy implementation process:

1. Determining how much the organization will have to change in order to implement the strategy under consideration.
2. Analyzing the formal and informal structures of the organization.
3. Analyzing the "culture" of the organization.
4. Selecting an appropriate approach to implementing the strategy.
5. Implementing the strategy and evaluating the results.

3.6 RESOURCE ALLOCATION

Resource allocation is a central management activity that allows for strategy execution. In organizations that do not use a strategic-management approach to decision making, resource allocation is often based on political or personal factors. Strategic management enables resources to be allocated according to priorities established by annual objectives. Nothing could be more detrimental to strategic management and to organizational success than for resources to be allocated in ways not consistent with priorities indicated by approved annual objectives. 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. Below the corporate level, there often exists an absence of systematic thinking about resources allocated and strategies of the firm. Strategy formulation and implementation activities often get deferred. Today's problems soak up available energies and resources. Scrambled accounts and budgets fail to reveal the shift in allocation away from strategic needs to currently squeaking wheels. The real value of any resource allocation program lies in the resulting accomplishment of an organization's objectives. Effective resource allocation does not guarantee successful strategy implementation because programs, personnel, controls, and commitment must breathe life into the resources provided. Strategic management itself is sometimes referred to as a "resource allocation process."

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

3.7 Managing Conflict

Interdependency of objectives and competition for limited resources often leads to conflict. Conflict can be defined as a disagreement between two or more parties on one or more issues. Establishing annual objectives can lead to conflict because individuals have different expectations and perceptions, schedules create pressure, personalities are incompatible, and misunderstandings between line managers (such as production supervisors) and staff managers (such as human resource specialists) occur. Establishing objectives can lead to conflict because managers and strategists must make trade-offs, such as whether to emphasize short-term profits or long-term growth, profit margin or market share, market penetration or market development, growth or stability, high risk or low risk, and social responsiveness or profit maximization. Trade-offs are necessary because no firm has sufficient resources pursue all strategies to would benefit the firm. Conflict is unavoidable in organizations, so it is important that conflict be managed and resolved before dysfunctional consequences affect organizational performance. Conflict is not always bad. An absence of conflict can signal indifference and apathy. Conflict can serve to energize

opposing groups into action and may help managers identify problems. Various approaches for managing and resolving conflict can be classified into three categories: avoidance, diffusion, and confrontation. Avoidance includes such actions as ignoring the problem in hopes that the conflict will resolve itself or physically separating the conflicting individuals (or groups). Diffusion can include playing down differences between conflicting parties while accentuating similarities and common interests, compromising so that there is neither a clear winner nor loser, resorting to majority rule, appealing to a higher authority, or redesigning present positions. Confrontation is exemplified by exchanging members of conflicting parties so that each can gain an appreciation of the other's point of view or holding a meeting at which conflicting parties present their views and work through their differences.

3.8 Matching Structure with Strategy

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

organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follow strategy. Without a strategy or reasons for being (mission), companies find it difficult to design an effective structure.

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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

3.9 DESIGNING ORGANIZATION STRUCTURE

An organizational structure is the pattern or arrangement of jobs and groups of jobs within an organization. Organizational Design is the process of creating or reshaping an organizational structure optimized to support strategic decisions.

The elements of organization structure and design are:

- ▶ Division of labor
- ▶ Departmentalization-
- ▶ Delegation of authority
- ▶ Span of control

3.9.1 The Functional Structure

The most widely used structure is the functional or centralized type because this structure is the simplest and least expensive of the seven alternatives. A functional structure groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems. A university may structure its activities by major functions that include academic affairs, student services, alumni relations, athletics, maintenance, and accounting.

Advantages and Disadvantages of a Functional Organizational Structure

Advantages

1. Simple and inexpensive
2. Capitalizes on specialization of business activities such as marketing and finance
3. Minimizes need for elaborate control system
4. Allows for rapid decision making

Disadvantages

1. Accountability forced to the top
2. Delegation of authority and responsibility not encouraged
3. Minimizes career development
4. Low employee/manager morale
5. Inadequate planning for products and markets
6. Leads to short-term, narrow thinking
7. Leads to communication problems

3.9.2 The Divisional Structure

The divisional or decentralized structure is the second most common type used by U.S. businesses. As a small organization grows, it has more difficulty managing different products and services in different markets. Some form of divisional structure generally becomes necessary to motivate employees, control operations, and compete successfully in diverse locations. The divisional structure can be organized in one of four ways: by

geographic area, by product or service, by customer, or by process. With a divisional structure, functional activities are performed both centrally and in each separate division.

Advantages and Disadvantages of a Divisional Organizational Structure

Advantages

1. Accountability is clear
2. Allows local control of local situations
3. Creates career development chances
4. Promotes delegation of authority
5. Leads to competitive climate internally
6. Allows easy adding of new products or regions. Allows strict control and attention to products, customers, and/or regions

Disadvantages

1. Can be costly
2. Duplication of functional activities
3. Requires a skilled management force
4. Requires an elaborate control system
5. Competition among divisions can become so intense as to be dysfunctional
6. Can lead to limited sharing of ideas and resources
7. Some regions/products/customers may receive special treatment

3.9.3 The Matrix Structure

A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix). In contrast, functional and divisional structures depend primarily on vertical flows of authority and communication. A matrix structure can result in higher overhead because it creates more management positions. Other disadvantages of a matrix structure that contribute to overall complexity include dual lines of budget authority (a violation of the unity-of-command principle), dual sources of reward and punishment, shared authority, dual reporting channels, and a need for an extensive and effective communication system. Despite its complexity, the matrix structure is widely used in many industries, including construction, health care, research, and defense.

Some advantages of a matrix structure are that project objectives are clear, there are many channels of communication, workers can see the visible results of their work, and shutting down a project can be accomplished relatively easily. Another advantage of a matrix structure is that it facilitates the use of specialized personnel, equipment, and facilities. Functional resources are shared in a matrix structure, rather than duplicated as in a divisional structure. Individuals with a high degree of expertise can divide their time as needed among projects, and they in turn develop their own skills and competencies more than in other structures.

Advantages and Disadvantages of a Matrix Structure

Advantages

1. Project objectives are clear
2. Employees can clearly see results of their work
3. Shutting down a project is easily accomplished
4. Facilitates uses of special equipment/ personnel/facilities

5. Functional resources are shared instead of duplicated as in a divisional structure

Disadvantages

1. Requires excellent vertical and horizontal flows of communication
2. Costly because creates more manager positions
3. Violates unity of command principle
4. Creates dual lines of budget authority
5. Creates dual sources of reward/punishment
6. Creates shared authority and reporting
7. Requires mutual trust and understanding

3.10 IMPLEMENTING STRATEGIC CHANGE

Change occurs at three levels:

- i) Individual level
- ii) Group level and
- iii) Organization level

The major types of strategic change are: re-engineering, restructuring, and innovation.

1. Re-engineering:

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.

2. Restructuring:

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.

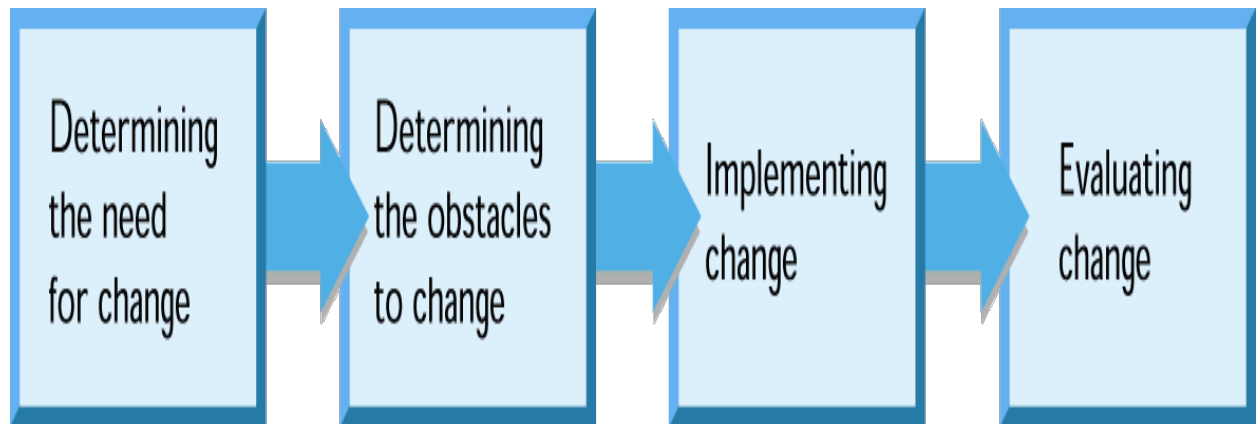
The primary benefit sought from restructuring is cost reduction. For some highly bureaucratic firms, restructuring can actually rescue the firm from global competition and demise. But the downside of restructuring can be reduced employee commitment, creativity, and innovation that accompanies the uncertainty and trauma associated with pending and actual employee layoffs.

It is the second form of change to improve the firm's performance. There are two basic steps to restructuring. First, an organization reduces its level of differentiation and integration by eliminating divisions, departments or levels in the hierarchy. Second, an organization downsizes by reducing the number of its employees to reduce operating cost.

3. Innovation:

It is the process by which organizations use their skills and resources to create new technologies or goods and services so they can change and better respond to the needs of their customer. Innovation can be done with the help of research and development department.

Stages in the strategic Change Process



Determine the need for change:

In this step the strategic managers must recognize a gap between actual performance and desired performance, use a SWOT analysis to define the company's present state and then determine its desired future state.

Determine the obstacles to change:

Obstacles may prevent a company from reaching its desired future state. Conflict is also major setback to change and managers must seek ways to resolve the conflict to implement strategic change successfully.

Implement change:

Strategic managers play organizational politics to overcome obstacles to change, resolve conflicts and bring about strategic change. To play politics, managers must have power.

Evaluate change:

Strategic managers need to evaluate the results of each change process and use this analysis to define the organization's present condition so that they can start the next change process.

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

Resistance to change can emerge at any stage or level of the strategy-implementation process. Although there are various approaches for implementing changes, three commonly used strategies are a force change strategy, an educative change strategy, and a rational or self-interest change strategy. A force change strategy involves giving orders and enforcing those orders; this strategy has the advantage of being fast, but it is plagued by low commitment and high resistance. The educative change strategy is one that presents information to convince people of the need for

change; the disadvantage of an educative change strategy is that implementation becomes slow and difficult. However, this type of strategy evokes greater commitment and less resistance than does the force change strategy. Finally, a rational or self-interest change strategy is one that attempts to convince individuals that the change is to their personal advantage. When this appeal is successful, strategy implementation can be relatively easy. However, implementation changes are seldom to everyone's advantage. The rational change strategy is the most desirable, so this approach is examined a bit further. Managers can improve the likelihood of successfully implementing change by carefully designing change efforts. Jack Duncan described a rational or self-interest change strategy as consisting of four steps. First, employees are invited to participate in the process of change and in the details of transition; participation allows everyone to give opinions, to feel a part of the change process, and to identify their own self-interests regarding the recommended change. Second, some motivation or incentive to change is required; self-interest can be the most important motivator. Third, communication is needed so that people can understand the purpose for the changes. Giving and receiving feedback is the fourth step: everyone enjoys knowing how things are going and how much progress is being made. Because of diverse external and internal forces, change is a fact of life in organizations. The rate, speed, magnitude, and direction of changes vary over time by industry and organization. Strategists should strive to create a work environment in which change is recognized as necessary and beneficial so that individuals can more easily adapt to change. Adopting a strategic-management approach to decision making can itself require major changes in the philosophy and operations of a firm. Strategists can take a number of positive actions to minimize managers' and employees' resistance to change. For example, individuals who will be affected by a change should be involved in the decision to make the change and in

decisions about how to implement the change. Strategists should anticipate changes and develop and offer training and development workshops so that managers and employees can adapt to those changes. They also need to effectively communicate the need for changes. The strategic-management process can be described as a process of managing change. Organizational change should be viewed today as a continuous process rather than as a project or event. The most successful organizations today continuously adapt to changes in the competitive environment, which themselves continue to change at an accelerating rate. It is not sufficient today to simply react to change. Managers need to anticipate change and ideally be the creator of change. Viewing change as a continuous process is in stark contrast to an old management doctrine regarding change, which was to unfreeze behavior, change the behavior, and then refreeze the new behavior. The new “continuous organizational change” philosophy should mirror the popular “continuous quality improvement philosophy.”

3.12 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, promotion, restructure of an organization’s design, role modeling, positive reinforcement, and mentoring.

Schein indicated that the following elements are most useful in linking culture to strategy:

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
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