**CHAPTER SIX: Strategy Implementation**

6.1 The nature of strategy implementation

*Strategy implementation* requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance.

Strategy implementation often is called the “action stage” of strategic management, means mobilizing employees and managers to put formulated strategies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice. Successful strategy implementation hinges upon managers’ ability to motivate employees, which is more an art than a science. Strategies formulated but not implemented serve no useful purpose.

Interpersonal skills are especially critical for successful strategy implementation.

Strategy-implementation activities affect all employees and managers in an organization.

Every division and department must decide on answers to questions, such as “What must we do to implement our part of the organization’s strategy?” and “How best can we get the job done?” The challenge of implementation is to stimulate managers and employees throughout an organization to work with pride and enthusiasm toward achieving stated objectives.

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)!

Even the most technically perfect strategic plan will serve little purpose if it is not implemented. Many organizations tend to spend an inordinate amount of time, money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as afterthoughts! Change comes through implementation and evaluation, not through the plan. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

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

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| **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 intuitive and analytical skills.  | ♦ Strategy implementation requires special 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.

## 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

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. A company will be successful only when the strategy formulation is sound and implementation is excellent. Thus organizational success is a function of good strategy and proper implementation.

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 information and decision process, and managing human resources, including such areas as the reward system (motivating), approaches to leadership, and creating strong fits between strategy and how organization does things. Implementing strategy is tougher and more time-consuming challenge than formulating strategy

**6.2 Key concepts in strategy implementation**

**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.

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/appropriate rewards and sanctions. Too often, objectives are stated in **generalities**, with little operational usefulness. Annual objectives, such as “to improve communication” or “to improve performance,” are not clear, specific, or measurable.

Objectives should state quantity, quality, cost, and time—and also be verifiable.

Terms and phrases such as *maximize, minimize, as soon as possible*, and *adequate* should be avoided.

Clear annual objectives do not guarantee successful strategy implementation, but they do increase the likelihood that personal and organizational aims can be accomplished.

Overemphasis on achieving objectives can result in undesirable conduct, such as **faking the numbers, distorting the records,** and **letting objectives become ends in themselves**.

Managers must be alert to these potential problems.

**Policies**

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. e.g. see page 218-19

**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.

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.”**

**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. For example, a collection manager’s objective of reducing bad debts by 50 percent in a given year may conflict with a divisional objective to increase sales by 20 percent.

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 is necessary because no firm has sufficient resources pursue all strategies to would benefit the firm.

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/highlighting 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.

**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. The structural format for developing objectives and policies can significantly impact all other strategy-implementation activities.

# 7.3 General Framework for Strategy Implementation

The first step in implementation is identifying the activities, decisions, and relationships critical to accomplishing the activities. There are six principal administrative tasks that shape a manager's action agenda for implementing strategy. The specific components of each of the six strategy-implementation tasks:

**1. Building an Organization Capable of Executing the Strategy**. The organization must have the **structure** necessary to turn the strategy into reality. Furthermore, the firm's **personnel** must possess the skill needed to execute the strategy successfully. Related to this is the need to assign the **responsibility** for accomplishing key implementation tasks to the right individuals or groups.

**2. Establishing a Strategy-Supportive Budget**. If the firm is to accomplish strategic objectives, top management must provide the **people**, **equipment**, **facilities**, and other **resources** to carry out its part of the strategic plan. Further, once the strategy has been decided on, the key tasks to perform and kinds of decision required must be identified, formal plans must also be developed. The tasks should be arranged in a sequence comprising a plan of action within targets to be achieved at specific dates.

**3. Installing Internal Administrative Support Systems.** Internal systems are **policies** and **procedures** to establish desired types of behavior, information systems to provide strategy-critical information on a timely basis, and whatever inventory, materials management, customer service, cost accounting, and other administrative systems are needed to give the organization important strategy-executing capability. These internal systems must support the management process, the way the managers in an organization work together, as well as monitor strategic progress.

**4. Devising Rewards and Incentives that are tightly linked to Objectives and Strategy**. People and departments of the firm must be influenced, through **incentives**, **constraints**, **control**, **standards**, and **rewards**, to accomplish the strategy.

**5. Building a Strategy-Supportive Corporate Culture**

Corporate culture refers to a company’s values, beliefs, business principles, traditions, ways of operating, and internal work environment. The bedrock of Wal-Mart's culture, for example, is dedication to customer satisfaction, zealous pursuit of low costs, and a strong work ethic. Every company has a unique organizational culture. Each has its own business philosophy and principles, its own ways of approaching problems and making decisions, its own work climate, its own embedded patterns of "how we do things around here," *its* own lore (stories told over and over to illustrate company values and what they mean to stakeholders), its own taboos and political don'ts-in other words, its own ingrained beliefs, behavior and thought patterns, business practices, and personality that define its **corporate culture.**

**Where Does Corporate Culture Come From?**

An organization’s culture is bred from a complex combination **of socio-logical forces** operating within its boundaries. A company's culture is manifested in the values and business principles that **management preaches** and **practices**, in its **ethical standards** and **official policies**, in its stakeholder relationships (especially its dealings with employees, unions, stockholders, vendors, and the communities in which it operates), in the traditions the organization maintains, in its supervisory practices, in employees' attitudes and behavior, in the legends people repeat about happenings in the organization, in the peer pressures that exist, in the organization's politics. Company’s culture can originate anywhere: from one influential individual, work group, department, or division, from the bottom of the organizational hierarchy or the top

**How culture can promote better strategy execution**

Strong cultures promote good strategy execution when there’s fit and hurt execution when there’s little fit. A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution **helps energize people** throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strat*egy* execution. For example, a culture where frugality/economy/stinginess and thrift/saving/caution are values strongly shared by organizational members is very conducive to successful execution of a **low cost leadership strategy**. A culture where **creativity**, **embracing** **change**, and **challenging** the **status** **quo** are pervasive themes is very conducive to successful execution of a **product innovation** and **technological** **leadership** strategy. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility is very conducive to successful execution of a strategy of delivering superior customer service.

A tight culture-strategy alignment acts in two ways to channel behaviour and influence employees to do their jobs in a strategy-supportive fashion.

A work environment where the **culture matches** the conditions for good strategy execution provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one’s job. Strategy-supportive cultures shape the mood, temperament, and motivation the workforce, positively affecting organizational energy, work habits and operating practices, the degree to which organizational units cooperate, and how customers are treated.

A **strong strategy-supportive** **culture** nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy. All this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to fruition.

**The risks of Strategy-Culture Conflict**

When a company's culture is out of sync with what is needed for strategic success, the culture has to be changed as rapidly as can be managed – this, of course, presumes that it is one or more aspects of the culture that are out of whack rather than the strategy. While correcting a strategy-culture conflict can occasionally mean revamping strategy to produce cultural fit, more usually it means revamping the mismatched cultural features to produce strategy fit. The more entrenched the mismatched aspects of the culture, the greater the difficulty of implementing new or different strategies until better strategy-culture alignment emerges. A sizable and prolonged strategy-culture conflict weakens and may even defeat managerial efforts to make the strategy work.

**Changing a Problem Culture**

Changing a company's culture to align it with strategy is among the **toughest** management tasks--easier to talk about than do. Changing problem cultures is very difficult because of the heavy anchor of deeply held values and habits-people cling emotionally to the old and familiar. It takes concerted ma**nagement action over a period of time to replace an unhealthy culture with a healthy culture** or to root out certain unwanted cultural obstacles and instill ones that are more strategy-supportive.

The **first step** is to diagnose which facets of the present culture are strategy supportive and which are not. **Then,** managers have to **talk openly** and **forthrightly/directly** to all concerned about those aspects of the culture that have to be changed. The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy. The menu of culture-changing actions includes **revising policies** and **procedures** in ways that will help drive cultural change, **altering** **incentive compensation** (to reward the desired cultural behaviour), visibly praising and recognizing people who display the new cultural traits, **recruiting** and **hiring** new managers and employees who have the desired cultural values and can serve as role models for the desired cultural behaviour, **replacing key executives** who are strongly associated with the old culture, and taking **every opportunity to communicate** to employees the basis for cultural change and its benefits to all concerned.

**6. Leadership and Strategic Implementation**

A strategy manager has many different leadership roles to play: **visionary**, **chief** **entrepreneur** and **strategist**, chief **administrator**, **culture** **builder**, **resource** **acquirer** and **allocator**, **capabilities** **builder**, **process** **integrator**, **crisis** **solver**, **spokesperson**, **negotiator**, **motivator**, **arbitrator**, **policy** maker, policy enforcer, and head cheerleader. Sometimes it is useful to be **authoritarian** and hardnosed/rigid; sometimes it is best to be a perceptive **listener** and a **compromising** decision maker; sometimes a strongly **participative**, **collegial** approach works best; and sometimes being a coach and adviser is the proper role. Many occasions call for a highly visible role and extensive time commitments, while others entail a brief ceremonial performance with the details delegated to subordinates.

**Developing appropriate leadership is one of the most important elements in the implementation of a strategy.** This is important b/c leaders are key organic elements who help an organization cope with changes. Appropriate leadership is necessary, though not a sufficient condition, for **mobilizing** **people**, and for developing **effective** **structure** and systems for the success of strategy.

Failure of leadership may lead to difficulties in achieving **goal congruence**, **communication** breakdown, **ambiguity** with regard to roles of sub-units, and difficulty in obtaining commitment to a plan, e.g., staff conflicts and lack of strategic thinking. Leadership is the key factor for developing and maintaining the right culture and climate.