CHAPTER 7

IMPLEMENTING STRATEGIES: MANAGEMENT AND OPERATIONS ISSUES

CHAPTER OUTLINE

- The Nature of Strategy Implementation
- Annual Objectives
- Policies
- Resource Allocation
- Managing Conflict
- Matching Structure with Strategy
- Restructuring, Reengineering, and E-Engineering
- Linking Performance and Pay to Strategies
- Managing Resistance to Change
- Creating a Strategy-Supportive Culture
- Production/Operations Concerns When Implementing Strategies
- Human Resource Concerns When Implementing Strategies

CHAPTER OBJECTIVES

After studying this chapter, you should be able to do the following:

1. Explain why strategy implementation is more difficult than strategy formulation.
2. Discuss the importance of annual objectives and policies in achieving organizational commitment for strategies to be implemented.
3. Explain why organizational structure is so important in strategy implementation.
4. Compare and contrast restructuring and reengineering.
5. Describe the relationships between production/operations and strategy implementation.
6. Explain how a firm can effectively link performance and pay to strategies.
7. Discuss employee stock ownership plans (ESOPs) as a strategic-management concept.
8. Describe how to modify an organizational culture to support new strategies.
9. Discuss the culture in Mexico and Japan.
10. Describe the glass ceiling in the United States.

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CHAPTER OVERVIEW

The strategic-management process does not end when the firm decides which strategy or strategies to pursue. There must be a translation of strategic thought into strategic action. This translation is much easier if managers and employees of the firm understand the business, feel a part of the company, and, through involvement in strategy-formulation activities, have become committed to helping the organization succeed. Without understanding and commitment, strategy-implementation efforts face major problems. This chapter focuses on management issues most central to implementing strategies in 2010-2011.

Doing Great in a Weak Economy – Google
When most firms were struggling in 2008, Google increased its revenues and profits such that *Fortune* magazine in 2009 rated Google as its fourth "Most Admired Company in the World" in terms of its management and performance. In 2009, Google began selling books online. This related diversification strategy led Google to digitize close to 10 million books by year's end. Google's philosophy is that "low prices are good, but free is better." In a direct assault on Microsoft, Google is preparing to launch its own operating system for computers, Google Chrome. The Google strategy is a huge bet that online programs can eventually overtake and crush desktop software.

EXTENDED CHAPTER OUTLINE WITH TEACHING TIPS

I. THE NATURE OF STRATEGY IMPLEMENTATION

A. The Strategy-Implementation Stage of Strategic Management

1. The strategy-implementation stage of strategic management is revealed in Figure 7-1.

2. 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).

B. Management Perspectives

1. 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.

2. 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

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strategy-supportive culture, adapting production/operations processes, developing an effective human resource function, and, if necessary, downsizing.

3. Managers and employees throughout an organization should participate early and directly in strategy-implementation decisions.

Teaching Tip: The Center for Strategic Management (http://www.csmweb.com/) is an organization that provides strategic-management training, seminars, and facilitation services. This site also provides links to other strategy-implementation related sites.

VTN (Visit the Net): www.csuchico.edu/mgmt/strategy/module1/sld044.htm gives a good definition of strategy implementation.

II. ANNUAL OBJECTIVES

A. Establishing Annual Objectives

1. Establishing annual objectives is a decentralized activity that directly involves all managers in an organization.

2. Annual objectives are essential for strategy implementation because they:

   a. Represent the basis for allocating resources.
   b. Are a primary mechanism for evaluating managers.
   c. Are the major instrument for monitoring progress towards achieving long-term objectives.
   d. Establish organizational, divisional, and departmental priorities.

3. Clearly stated and communicated objectives are critical to success in all types and sizes of firms. Figure 7-2 illustrates how the Statmus Company could establish annual objectives based on long-term objectives. Table 7-1 reveals associated revenue figures that correspond to the objectives in Figure 7-2.

   a. Objectives should be consistent across hierarchical levels and form a network of supportive aims. Horizontal consistency of objectives is as important as vertical consistency of objectives.

   b. 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.

   c. Too often, objectives are stated in generalities, with little operational usefulness.

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4. Annual objectives should be compatible with employees' and managers' values and should be supported by clearly stated policies.

III. POLICIES

A. 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.

B. Broadly defined, policy refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals.

C. Policies let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be implemented successfully.

D. Examples of policies that support a company strategy, a divisional objective, and a departmental objective are given in Table 7-3.

E. Some example issues that may require a management policy are provided in Table 7-4.

IV. RESOURCE ALLOCATION

A. Resource allocation is a central management activity that allows for strategy execution.

1. In organizations that do not use a strategic-management approach to decision making, resource allocation is often based on political or personal factors.

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

B. All organizations have at least four types of resources that can be used to achieve desired objectives:

1. Financial resources
2. Physical resources
3. Human resources
4. Technological resources

V. MANAGING CONFLICT

A. Resource-Specific Conflict

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1. Interdependency of objectives and competition for limited resources often leads to conflict.

2. Conflict can be defined as a disagreement between two or more parties on one or more issues.

3. Establishing objectives can lead to conflict because managers and strategists must make trade-offs. Table 7-5 reveals some important management trade-off decisions required in strategy implementation.

4. Conflict is unavoidable in organizations, and is not always bad. An absence of conflict can signal indifference and apathy.

B. Approaches for Managing and Resolving Conflict

Various approaches for managing and resolving conflict can be classified into three categories: avoidance, defusion, and confrontation.

1. Avoidance includes such actions as ignoring the problem in hopes that the conflict will resolve itself or physically separating the conflicting individuals (or groups).

2. Defusion 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.

3. 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.

Teaching Tip: In the United States, there are a number of nonprofit organizations that are dedicated to helping businesses, communities, families, schools, and any other conflicting parties resolve their disputes in a fair, sensible manner.

Teaching Tip: Unfortunately, workplace conflict spills over into workplace violence on occasion. As a result, it is important that managers be familiar with how to deal with workplace violence if it occurs. The U.S. Department of Labor provides several resources for managing situations involving workplace violence, see http://www.osha.gov/SLTC/workplaceviolence/. The Division of Human Resources at the University of California-Davis has an excellent online brochure on dealing with workplace violence. It is available at http://www.hr.ucdavis.edu/Elr/Er/Violence/Brochure.

VI. MATCHING STRATEGY WITH STRUCTURE

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A. Changes in Strategy Often Require Changes in Structure

1. Changes in strategy often require changes in the way an organization is structured for two major reasons.

   a. 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 formula for developing objectives and policies can significantly impact all other strategy-implementation issues.

   b. The second major reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated.

2. 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. Figure 7-3 illustrates a structure sequence repeated as organizations grow and change over time.

3. There is not just one optimal organizational design or structure for a given strategy or type of organization.

4. As illustrated in Table 7-6, symptoms of an ineffective organizational structure include too many levels of management, too many meetings attended by too many people, too much attention being directed toward solving interdepartmental conflicts, too large a span of control, and too many unachieved objectives.

VTN (Visit the Net): www.smartdraw.com offers software for drawing organizational charts. It offers a free thirty-day trial.

B. The Functional Structure

1. The most widely used structure is the functional or centralized type because this structure is the simplest and least expensive of the seven alternatives.

2. A functional structure groups tasks and activities by business function such as product/operations, marketing, finance/accounting, R&D, and computer information systems.

   a. Advantages: Besides being simple and inexpensive, a functional structure also promotes specialization of labor, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision-making.

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b. Disadvantages: Some disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, and is sometimes characterized by low employee morale. Line/staff conflicts, poor delegation of authority, and inadequate planning for products and markets are other potential disadvantages.

3. Most large companies have abandoned the functional structure in favor of decentralization and improved accountability. Table 7-7 summarizes the advantages and disadvantages of a functional organizational structure.

C. The Divisional Structure

1. The divisional or decentralized structure is the second most common type used by U.S. businesses.

2. 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.

a. Advantages: A divisional structure has some clear advantages. First, and perhaps foremost, accountability is clear. Other advantages of the divisional structure are that it creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products to be added easily.

b. Disadvantages: Perhaps the most important limitation is that a divisional structure is costly.

c. Table 7-8 summarizes the advantages and disadvantages of divisional organizational structure.

3. A divisional structure by geographic area is appropriate for organizations whose strategies need to be tailored to fit the particular needs and characteristics of customers in different geographic areas.

4. A division structure by product is most effective for implementing strategies when specific products or services need special emphasis.

5. A divisional structure by customer can be the most effective way to implement strategies when a few major customers are of paramount importance and many different services are provided to these customers.

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6. A division structure by process is similar to a functional structure, because activities are organized according to the way work is actually performed. A key difference is that functional departments are not accountable for profits or revenues, whereas divisional process departments are evaluated on these criteria.

D. The Strategic Business Unit (SBU) Structure

1. The 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 CEO.

2. Advantages: This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units. Another advantage of the SBU structure is that it makes the tasks of planning and control by the corporate office more manageable.

3. Disadvantages: Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses. Also, the role of the group vice president is often ambiguous.

4. Figure 7-4 illustrates the SBU Structure used by Sonoco Products Corporation.

E. The Matrix Structure

1. It is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication.

2. It can result in higher overhead because it creates more managerial positions.

3. It also creates dual lines of budget authority, dual sources of reward and punishment, shared authority, and dual reporting channels.

4. As indicated in Table 7-9, some advantages of a matrix structure are that project objectives are clear, there are many channels of communication, workers can see visible results of work, and projects can be shut down easily. This structure also facilitates the use of specialized personnel, equipment, and facilities.

5. Figure 7-5 illustrates a typical matrix structure.

6. 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.

F. Some Do's and Don'ts in Developing Organizational Charts

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1. Reserve the title of CEO for the top person in the organization and use the term President for division top managers, if there are divisions in the firm.

2. Functional business executives should have titles like Chief, Vice President, Manager, or Officer.

3. It is best to have a COO reporting to the CEO and all divisional presidents will report to the COO.

4. Figure 7-6 illustrates an organizational chart for top managers of a large firm.

VII. RESTRUCTURING, REENGINEERING, AND E-ENGINEERING

A. Reshaping Corporate Landscape

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

    a. Recessionary economic conditions have forced many European companies to downsize, laying off managers and employees. Job security in European companies is slowly moving toward a U.S. scenario, in which firms lay off almost at will.

2. Reengineering is concerned more with employee and customer well-being than with shareholder well-being.

    a. 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.

3. Reengineering is characterized by many tactical decisions, whereas restructuring is characterized by strategic decisions.

B. Restructuring

1. Firms often employ restructuring when various ratios appear out of line with competitors, as determined through benchmarking exercises.

2. The primary benefit sought from restructuring is cost reduction. 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.

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3. Another downside of restructuring is that many people today do not aspire to become managers, and many present-day managers are trying to get off the management track.

C. Reengineering

1. In reengineering, a firm uses information technology to break down functional barriers and create a work system based on business processes, products, or outputs rather than on functions or inputs.

2. A benefit of reengineering is that it offers employees the opportunity to see more clearly how their particular jobs affect the final product or service being marketed by the firm.

VIII. LINKING PERFORMANCE AND PAY TO STRATEGIES

A. Pay-for-Performance

1. How can an organization's reward system be more closely linked to strategic performance?

   a. One aspect of the deepening global recession is that companies are instituting policies to allow their shareholders to vote on executive compensation policies.
   b. These new policies underscore how the financial crisis and shareholder outrage about top executive pay has affected compensation practice.

2. Profit sharing is another widely used form of incentive compensation.

3. Gain sharing requires employees or departments to establish performance targets; if actual results exceed objectives, all members get bonuses.

4. Criteria such as sales, profit, production efficiency, quality, and safety could also serve as bases for an effective bonus system.

B. Five tests are often used to determine whether a performance-pay plan will benefit an organization:

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?

C. In addition to a dual bonus system, a combination of reward strategy incentives, such as salary raises, stock options, fringe benefits, promotions, praise, recognition, criticism, fear,

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