Chapter 7
Implementing Strategies: Management & Operations Issues

Strategic Management: Concepts & Cases
12th Edition
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FIGURE 7-1

Comprehensive Strategic-Management Model

Perform External Audit
Chapter 3

Develop Vision and Mission Statements
Chapter 2

Establish Long-Term Objectives
Chapter 5

Generate, Evaluate, and Select Strategies
Chapter 6

Implement Strategies—Management Issues
Chapter 7

Implement Strategies—Marketing, Finance, Accounting, R&D, and MIS Issues
Chapter 8

Measure and Evaluate Performance
Chapter 9

Perform Internal Audit
Chapter 6

Strategy Formulation | Strategy Implementation | Strategy Evaluation

Nature of Strategy Implementation

Formulation vs. Implementation

- Formulation focuses on effectiveness
- Implementation focuses on efficiency
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).
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.
Management Issues

- Annual Objectives
- Policies
- Resources
- Organizational Structure
- Restructuring
- Rewards/Incentives
Management Issues (cont’d)

- Resistance to Change
- Natural Environment
- Supportive Culture
- Production/Operations
- Human Resources
Management issues central to strategy implementation include:

1. establishing annual objectives,
2. devising policies,
3. allocating resources,
4. altering an existing organizational structure,
5. revising reward and incentive plans,
6. minimizing resistance to change,
7. matching managers with strategy,
8. developing a strategy-supportive culture,
9. adapting production/operations processes
Managers and employees throughout an organization should participate early and directly in strategy-implementation decisions.
Nature of Strategy Implementation

Management Perspectives

- Shift in responsibility

Strategists

Divisional or Functional Managers
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.
Management Issues

Purpose of Annual Objectives –

- Basis for resource allocation
- Mechanism for management evaluation
- Metric for gauging progress on long-term objectives
- Establish priorities (organizational, divisional, and departmental)
Annual objectives

- Annual objectives should be:
  1. measurable,
  2. consistent,
  3. reasonable,
  4. challenging,
  5. clear,
  6. communicated throughout the organization, characterized by an appropriate time dimension,
  7. and accompanied by commensurate\appropriate rewards and sanctions.
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.

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

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

Four Types of Resources

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

A. Resource-Specific 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.
Approaches for Managing and Resolving Conflict

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).
Approaches for Managing and Resolving Conflict

1. Diffusion can include playing down differences between conflicting parties while emphasis 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.
Approaches for Managing and Resolving Conflict

1. 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.
Management Issues

Managing Conflict

- Conflict not always “bad”
- No conflict may signal apathy/indifference
- Can energize opposing groups to action
- May help managers identify problems
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.
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.

3. There is not just one optimal organizational design or structure for a given strategy or type of organization.
FIGURE 7-3

Chandler’s Strategy-Structure Relationship

- New strategy is formulated.
- New administrative problems emerge.
- Organizational performance declines.
- Organizational performance improves.
- A new organizational structure is established.

Management Issues

Basic Forms of Structure

- Functional Structure
- Divisional Structure
- Strategic Business Unit Structure (SBU)
- Matrix Structure
Profit sharing is a widely used form of incentive compensation.

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.
Tests for Performance-Pay Plans

- Does the plan capture attention?
- Do employees understand the plan?
- Is the plan improving communication?
- Does the plan pay out when it should?
- Is the company or unit performing better?
MANAGING RESISTANCE TO CHANGE

A. Resistance to Change

- It may take on such forms as sabotaging production machines, absenteeism, filing unfounded grievances/criticisms, and an unwillingness to cooperate.
- Resistance to change can emerge at any stage or level of the strategy-implementation process.
- There are three commonly used strategies for implementing change:
  1. Force change strategy
  2. Educative change strategy: present information to convince people of the need for change.
  3. Self-interest change strategy. Convince people than change for their personal advantage.
Management Issues

Production/Operations Concerns

- Production/operations capabilities, limitations, and policies can significantly enhance or inhibit attainment of objectives.

- Production processes typically constitute more than 70% of firm’s total assets.
Management Issues

Examples on adjustment of Production/Operations Decisions

- Plant size
- Inventory/Inventory control
- Quality control
- Cost control
- Technological innovation
Management Issues

Human Resource Strategic Responsibilities

- Assessing staffing needs/costs
- Developing performance incentives
- Employee Stock Ownership Plans (ESOPs).
- Child-care policies
- Work–life balance issues
Human Resource problems that arise when businesses implement strategies:

1. Disruption of social and political structures
2. Failure to match individuals’ aptitudes\abilities with implementation tasks
3. Inadequate top management support for implementation activities
Employee Stock Ownership Plans (ESOPs)

1. An ESOP is a tax-qualified, defined-contribution, employee benefit plan whereby employees purchase stock of the company through borrowed money or cash contributions.

2. ESOPs reduce worker alienation/estrangement, stimulate productivity, and allow substantial tax savings for the firm.
Balancing Work Life and Home Life

- Work/family strategies have become so popular among companies that the strategies now represent a competitive advantage for those firms that offer such benefits as elder care assistance, flexible scheduling, job sharing, and so on.
Allocating resources can be a political and an ad hoc activity in firms that do not use strategic management. Why is this true? Does adopting strategic management ensure easy resource allocation? Why?

Allocating resources can be ad hoc and political in the absence of strategic management because no good substitute approach for making major decisions exists. Intuition, subjectivity, and emotions are not adequate for making resource allocation decisions that have strategic ramification for an entire organization.

Strategic management does not assure easy resource allocation, but it generally results in more effective resource allocation.
Review

- **Compare strategy formulation with strategy implementation in terms of each being an art or a science.**

- The strategy-formulation process is more of a science, whereas strategy implementation is more of an art. Strategy implementation involves motivating employees. However, neither strategy formulation nor strategy implementation is a pure science or art because, for example, intuition and good subjective judgment are always essential in strategy formulation.
Review

- **Identify and discuss three policies that apply to your present business policy class.**

- **Answers to this question will vary for each class.** Policies that may be discussed include grading policies, attendance policies, and honor code policies.
Explain the following statement: Horizontal consistency of goals is as important as vertical consistency.

This is a true statement. Horizontal consistency of objectives is as important as vertical consistency. An example of horizontal consistency could be that “there is no need for the marketing department to plan on doubling sales if the production department cannot produce the additional units.”
In your opinion, what approaches to conflict resolution would be best for resolving a disagreement between a personnel manager and a sales manager over the firing of a particular salesperson? Why?

Various approaches for minimizing and resolving conflict can be classified in three ways: avoidance, defusion, and confrontation. Depending on the situation, any of these three alternative approaches could justifiably be most effective in solving a dispute between a personnel manager and sales manager.
As production manager of a local newspaper, what problems would you anticipate in implementing a strategy to increase the average number of pages in the paper by 40 percent?

Problems that could be encountered include the need to obtain additional advertising to cover the cost of additional pages, as well as needing additional employees. A problem could arise in deciding whether to raise the price of the paper. There may need to be an increase in the market area coverage of the paper.
Review

- Explain why successful strategy implementation often hinges on whether the strategy-formulation process empowers managers and employees.

- Managers and employees make or break a firm. More and more, firms are empowering managers and employees through involvement in the strategic-management process. Lack of involvement or “empowering” often results in a lack of commitment to see the firm do well.
Discuss three ways the book discusses linking performance and pay to strategies.

Some methods of linking performance to pay include profit sharing, gain sharing, and bonus systems. Profit sharing is widely used but can be a less than desirable criterion since individuals may not be clearly able to affect profits. Gain sharing requires employees or departments to establish performance targets. If actual results exceed objectives, all members get bonuses. In a bonus system, if an organization meets certain agreed-upon objectives, every member of the enterprise shares in the benefits. Criteria for bonus systems include sales, profit, production efficiency, quality, and safety.