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Strategy Implementation and Control

Learning Objectives
♦ Learn the concept of strategy implementation.
♦ Understand why strategy implementation is more difficult than strategy formulation.
♦ Understand the importance of organizational structure in strategy implementation.
♦ Understand how to establish strategic Business Units.
♦ Understand the role of leadership in the execution of strategy.
♦ Learn how to build a supportive corporate culture.

Winning companies know how to do their work better

– Michael Hammer and James Champy

A management truism says structure follows strategy. However, this truism is often ignored. Too many organizations attempt to carry out a new strategy with an old structure.

– Dale McConkey

1. Introduction

Strategic management process does not end when the firm decides what strategies to pursue. There must be a translation of strategic thought into strategic action. Translation requires support of all managers and employees of the business. Implementing strategy affects an organization from top to bottom; it affects all the functional and divisional areas of a business.

2. Interrelationships between Strategy Formulation and Implementation

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and

showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate system.

The basic elements of strategic management are summarized in the figure below:

Figure: A summary model of the elements of strategic management
Source: Johnson and Scholes (1988)

Many managers fail to distinguish between strategy formulation and strategy implementation. Yet, it is crucial to realize the difference between the two because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent. There is no such thing as successful strategic design per se. This sounds obvious, but in practice the distinction is not always made. Often people, blame the strategy model for the failure of a company while the main flaw might lie in failed implementation. Thus organizational success is a function of good strategy and proper implementation. The matrix in the figure below represent various combination of strategy formulation and implementation:

Figure: Strategy formulation and implementation matrix

The Figure shows the distinction between sound/flawed strategy formulation and excellent/ weak strategy implementation. Square B is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.

Square A is the situation where a company apparently has formulated a very competitive strategy, but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience (e.g. for startups), the lack of resources, missing leadership and so on. In such a situation the company will aim at moving from square A to square B, given they realize their implementation difficulties.

Square D is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills. When a company finds itself in square D the first thing they have to do is to redesign their strategy before readjusting their implementation/execution skills.

Square C is reserved for companies that haven't succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model. Their path to success also goes through business model redesign and implementation/execution readjustment.

Taken together all the elements of business strategy it is to be seen as a chosen set of actions by means of which a market position relative to other competing enterprises is sought and maintained. This gives us the notion of competitive position.

It needs to be emphasized that 'strategy' is not synonymous with 'long-term plan' but rather consists of an enterprise's attempts to reach some preferred future state by adapting its competitive position as circumstances change. While a series of strategic moves may be planned, competitors' actions will mean that the actual moves will have to be modified to take account of those actions.

In contrast to this view of strategy there is another approach to management practice, which has been common in many organizations. In organizations that lack strategic direction there has been a tendency to look inwards in times of stress, and for management to devote their attention to cost cutting and to shedding unprofitable divisions. In other words, the focus has

been on efficiency (i.e. the relationship between inputs and outputs, usually with a short time horizon) rather than on effectiveness (which is concerned with the organization's attainment of goals - including that of desired competitive position). While efficiency is essentially introspective, effectiveness highlights the links between the organization and its environment. The responsibility for efficiency lies with operational managers, with top management having the primary responsibility for the strategic orientation of the organization.

	Effective	inffective
Efficient	1 Thrive	2 Die Slowly
Inefficient	3 Survive	4 Die Quickly

Figure: Principal combinations of efficiency and effectiveness

An organization that finds itself in cell 1 is well placed and thrives, since it is achieving what it aspires to achieve with an efficient output/input ratio. In contrast, an organization in cell 2 or 4 is doomed, unless it can establish some strategic direction. The particular point to note is that cell 2 is a worse place to be than is cell 3 since, in the latter, the strategic direction is present to ensure effectiveness even if rather too much input is being used to generate outputs. To be effective is to survive whereas to be efficient is not in itself either necessary or sufficient for survival.

In crude terms, to be effective is to do the right thing, while to be efficient is to do the thing right. An emphasis on efficiency rather than on effectiveness is clearly wrong. But who determines effectiveness? Any organization can be portrayed as a coalition of diverse interest groups each of which participates in the coalition in order to secure some advantage. This advantage (or inducement) may be in the form of dividends to shareholders, wages to employees, continued business to suppliers of goods and services, satisfaction on the part of consumers, legal compliance from the viewpoint of government, responsible behaviour towards society and the environment from the perspective of pressure groups, and so on.

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.

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	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 non-profit 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.

It is to be noted that the division of strategic management into different phases is only for the purpose of orderly study. In real life, the formulation and implementation processes are intertwined. Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of the formulation on implementation while the backward linkages are concerned with the impact in the opposite direction.

Forward Linkages: The different elements in strategy formulation starting with objective setting through environmental and organizational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organization adopts for itself. With the formulation of new strategies, or reformulation of existing strategies, many changes have to be effected within the organization. For instance, the organizational structure has to undergo a change in the light of the requirements of the modified or new strategy. The style of leadership has to be adapted to the needs of the modified or new strategies. In this way, the formulation of strategies has forward linkages with their implementation.

Backward Linkages: Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation. While dealing with

strategic choice, remember that past strategic actions also determine the choice of strategy. Organizations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts. Such incremental changes, over a period of time, take the organization from where it is to where it wishes to be.

It is to be noted that while strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making. The next section focuses on the various issues involved in the implementation of strategies.

3.   Issues in Strategy Implementation

The different issues involved in strategy implementation cover practically everything that is included in the discipline of management studies. A strategist, therefore, has to bring to his or her task a wide range of knowledge, skills, attitudes, and abilities. The implementation tasks put to test the strategists' abilities to allocate resources, design structures, formulate functional policies, and take into account the leadership styles required, besides dealing with various other issues.

♦   The strategic plan devised by the organization proposes the manner in which the strategies could be put into action. Strategies, by themselves, do not lead to action. They are, in a sense, a statement of intent: implementation tasks are meant to realise the intent. Strategies, therefore, have to be activated through implementation.

♦   Strategies should lead to plans. For instance, if stability strategies have been formulated, they may lead to the formulation of various plans. One such plan could be a modernization plan. Plans result in different kinds of programmes. A programme is a broad term, which includes goals, policies, procedures, rules, and steps to be taken in putting a plan into action. Programmes are usually supported by funds allocated for plan implementation. An example of a programme is a research and development programme for the development of a new product.

♦   Programmes lead to the formulation of projects. 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. Thus, research and development programmes may consist of several projects, each of which is intended to achieve a specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.

♦   Projects create the needed infrastructure for the day-to-day operations in an organization. They may be used for setting up new or additional plants, modernising the existing facilities, installation of newer systems, and for several other activities that are needed for the implementation of strategies.

Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources. After that is provided, it would be essential to see that

a proper organizational structure is designed, systems are installed, functional policies are devised, and various behavioural inputs are provided so that plans may work.

Given below in sequential manner the issues in strategy implementation which are to be considered:

♦   Project implementation

♦   Procedural implementation

♦   Resource allocation

♦   Structural implementation

♦   Functional implementation

♦   Behavioural implementation

But it should be noted that the sequence does not mean that each of the following activities are necessarily performed one after another. Many activities can be performed simultaneously, certain other activities may be repeated over time; and there are activities, which are performed only once.

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 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 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 be 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 that they have and maintain the skills necessary to be world-class performers.

4.   Organization and Strategy Implementation

> The ideal organizational structure is a place where ideas filter up as well as down, where the merit of ideas carries more weight than their source, and where participation and shared objectives are valued more than executive order.
>
> *– Edson Spencer*

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.

Changes in strategy lead to changes in organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reasons for being (mission), companies find it difficult to design an effective structure. Chandler found a particular structure sequence to be often repeated as organizations grow and change strategy over time. 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 linking together of several basic strategies.
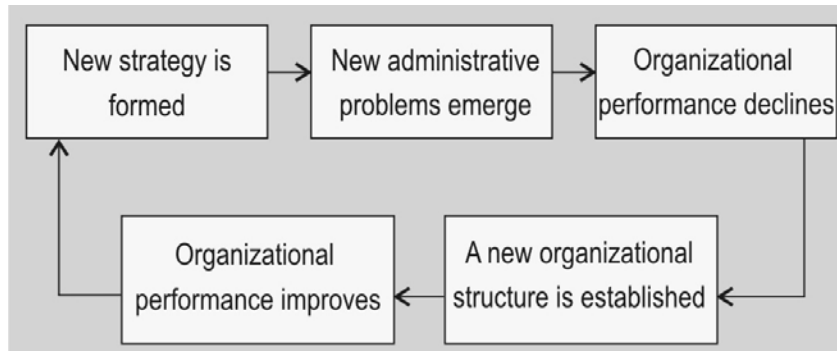
Figure: Chandler's Strategy-Structure Relationship

Numerous external and internal forces affect an organization; no firm could change its structure in response to every one of these forces, because to do so would lead to chaos. However, when a firm changes its strategy, the existing organizational structure may become ineffective. 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. Changes in structure can facilitate strategy-implementation efforts, but changes in structure should not be expected to make a bad strategy good, to make bad managers good, or to make bad products sell.

Structure undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes it would not be an attractive choice. In this way, structure can shape the choice of strategies. But a more important concern is determining what types of structural changes are needed to Implement new strategies and how these changes can best be accomplished. We examine this Issue by focusing on seven basic types of organizational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

4.1   The Functional Structure

A widely used structure in business organisations is functional type because of its simplicity and low cost. A functional structure groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems. Besides being simple and inexpensive, a functional structure also promotes specialization of labour, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making.

Some disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, and is sometimes times characterized by low employee morale, line/staff conflicts, poor delegation of authority, and inadequate planning for products and markets. Most large companies abandoned the functional structure in favour of decentralization and improved accountability.
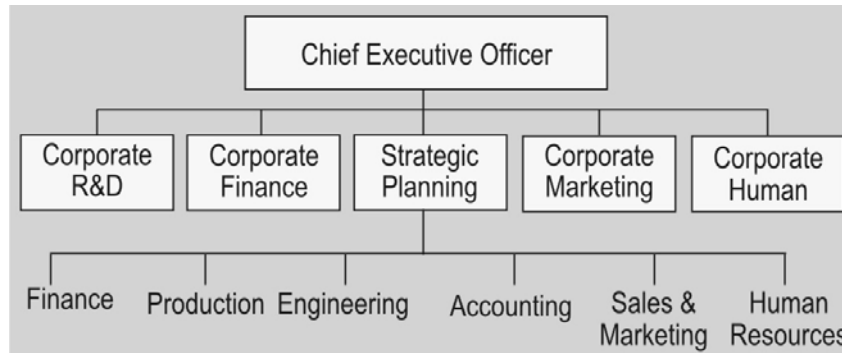
Figure: Functional Organization Structure

A competitive advantage is created when there is a proper match between strategy and structure. Ineffective strategy/structure matches may result in company rigidity and failure, given the complexity and need for rapid changes in today's competitive landscape. Thus, effective strategic leaders seek to develop an organizational structure and accompanying controls that are superior to those of their competitors.

Selecting the organizational structure and controls that result in effective implementation of chosen strategies is a fundamental challenge for managers, especially top-level managers. This is because companies must be flexible, innovative, and creative in the global economy if they are to exploit their core competencies in the pursuit of marketplace opportunities. Companies must also maintain a certain degree of stability in their structures so that day-to-day tasks can be completed efficiently.

Access to reliable information is imperative if executives are to reach decisions regarding the selection of a structure that is sufficiently flexible and stable. Useful information contributes to the formation and use of effective structures and controls, which yield improved decision making.

In order to implement and manage strategies that have been formulated, all companies-need some form of organizational structure. And, as companies formulate new strategies, increase in size, or change their level of diversification, new organizational structures may be required.

Organizational structure is the company's formal configuration of its intended roles, procedures, governance mechanisms, authority, and decision-making processes. Organizational structure, influenced by factors such as an organization's age and size, acts as a framework which reflects managers' determination of what a company does and how tasks are completed, given the chosen strategy. The most important issue is that the company's structure must be congruent with or fit with the company's strategy.

Simple organizational structure is most appropriate for companies that follow a single-business strategy and offer a line of products in a single geographic market. The simple structure also is appropriate for companies implementing focused cost leadership or focused differentiation strategies. A simple structure is an organizational form in which the owner-manager makes all major decisions directly and monitors all activities, while the company's

staff merely serves as an executor.

Little specialization of tasks, few rules, little formalization, unsophisticated information systems and direct involvement of owner-manager in all phases of day-to-day operations characterise the simple structure. In the simple structure, communication is frequent and direct, and new products tend to be introduced to the market quickly, which can result in a competitive advantage. Because of these characteristics, few of the coordination problems that are common in larger organizations exist.

A simple organizational structure may result in competitive advantages for some small companies relative to their larger counterparts. These potential competitive advantages include a broad-based openness to innovation, greater structural flexibility, and an ability to respond more rapidly to environmental changes. However, if they are successful, small companies grow larger. As a result of this growth, the company outgrows the simple structure. Generally, there are significant increases in the amount of competitively relevant information that requires processing. More extensive and complicated information-processing requirements place significant pressures on owner-managers (often due to a lack of organizational skills or experience or simply due to lack of time).

Thus, it is incumbent on the company's managers to recognise the inadequacies or inefficiencies of the simple structure and change it to one that is more consistent with company's strategy.

To coordinate more complex organizational functions, companies should abandon the simple structure in favour of the functional structure. The functional structure is used by larger companies and by companies with low levels of diversification.

The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources. The functional structure enables the company to overcome the growth-related constraints of the simple structure, enabling or facilitating communication and coordination.

However, compared to the simple structure, there also are some potential problems. Differences in functional specialization and orientation may impede communications and coordination. Thus, the chief executive officer must integrate functional decision-making and coordinate actions of the overall business across functions. Functional specialists often may develop a myopic (or narrow) perspective, losing sight of the company's strategic vision and mission. When this happens, this problem can be overcome by implementing the multidivisional structure.

The multidivisional (M-form) structure is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to division managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls.

The multidivisional or M-form structure was developed in the 1920s, in response to

coordination- and control-related problems in large firms. Functional departments often had difficulty dealing with distinct product lines and markets, especially in coordinating conflicting priorities among the products. Costs were not allocated to individual products, so it was not possible to assess an individual product's profit contribution. Loss of control meant that optimal allocation of firm resources between products was difficult (if not impossible). Top managers became over-involved in solving short-run problems (such as coordination, communications, conflict resolution) and neglected long-term strategic issues.

The new, innovative structure called for

♦ Creating separate divisions, each representing a distinct business

♦ Each division would house its functional hierarchy;

♦ Division managers would be given responsibility for managing day-to-day operations;

♦ A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions.

This would enable the firm to more accurately monitor the performance of individual businesses, simplifying control problems, facilitate comparisons between divisions, improving the allocation of resources and stimulate managers of poorly performing divisions to seek ways to improve performance.

When the firm is less diversified, strategic controls are used to manage divisions. Strategic control refers to the operational understanding by corporate officers of the strategies being implemented within the firm's separate business units.

An increase in diversification strains corporate officers' abilities to understand the operations of all of its business units and divisions are then managed by financial controls, which enable corporate officers to manage the cash flow of the divisions through budgets and an emphasis on profits from distinct businesses.

However, because financial controls are focused on financial outcomes, they require that each division's performance be largely independent of the performance of other divisions. So the Strategic Business Units come into picture.

4.2   The Divisional Structure

As a small organization grows, it has more difficulty in 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.

Cisco Systems discarded its divisional structure by customer and reorganized into a functional structure. CEO John Chambers replaced the three-customer structure based on big businesses, small business, and telecoms, and now the company has centralized its engineering and marketing

units so that they focus on technologies such as wireless networks. Chambers says the goal was to eliminate duplication, but the change should not be viewed as a shift in strategy. Chambers' span of control in the new structure is reduced to 12 managers reporting directly to him from 15.

Kodak reduced its number of business units from seven by-customer divisions to five by-product divisions. As consumption patterns become increasingly similar worldwide, a by-product structure is becoming more effective than a by-customer or a by geographic type divisional structure. In the restructuring, Kodak eliminated its global operations division and distributed those responsibilities across the new by-product divisions.
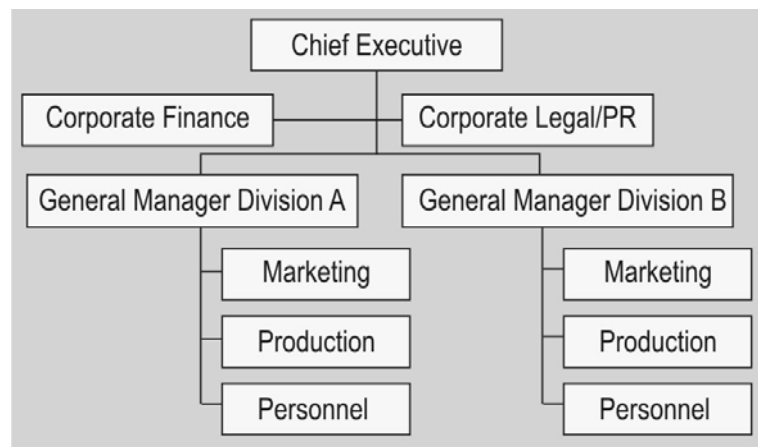

Figure: Divisional Structure

A divisional structure has some clear advantages. First and perhaps foremost accountability is clear. That is, divisional managers can be held responsible for sales and profit levels. Because a divisional structure is based on extensive delegation of authority, managers and employees can easily see the results of their good or bad performances. As a result, employee morale is generally higher in a divisional structure than it is in centralized structure. Other advantages of the divisional design 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 In be added easily.

The divisional design is not without some limitations. Perhaps the most important limitation is that a divisional structure is costly, for a number of reasons. First, each division requires functional specialists who must be paid. Second, there exists some duplication of staff services, facilities, and personnel; for instance, functional specialists are also needed centrally (at headquarters) to coordinate divisional activities. Third, managers must be well qualified because the divisional design forces delegation of authority better-qualified individuals requires higher salaries. A divisional structure can also be costly because it requires an elaborate, headquarters-driven control system. Finally, certain regions, products, or customers may sometimes receive special treatment, and It may be difficult to maintain consistent,

company wide practices. Nonetheless, for most large organizations and many small firms, the advantages of a divisional structure more than offset the potential limitations.

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 indifferent geographic areas. This type of structure can be most appropriate for organizations that have similar branch facilities located in widely dispersed areas. A divisional structure by geographic area allows local participation in decision making and improved coordination within a region.

The divisional structure by product (or services) is most effective for implementing strategies when specific products or services need special emphasis. Also, this type of structure is widely used when an organization offers only a few products or services, when an organization's products or services differ substantially. The divisional structure allows strict control over and attention to product lines, but it may also require a more skilled management force and reduced top management control. General Motors, DuPont, and Procter & Gamble use a divisional structure by product to implement strategies.

When a few major customers are of paramount importance and many different services are provided to these customers, then a divisional structure by customer can be the most effective way to implement strategies. This structure allows an organization to cater effectively to the requirements of clearly defined customer groups. For example, book-publishing companies often organize their activities around customer groups such as colleges, secondary schools, and private commercial schools. Some airline companies have two major customer divisions: passengers and freight or cargo services. Merrill Lynch is organized into separate divisions that cater to different groups of customers, including wealthy individuals, institutional investors, and small corporations.

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

4.3   The Strategic Business Unit (SBU) Structure

As the number, size, and diversity of divisions in an organization increase, controlling and evaluating divisional operations become increasingly difficult for strategists. Increases in sales often are not accompanied by similar increases in profitability. The span of control becomes too large at top levels of the firm. Because of limits to an individual chief executive officer's ability to process complex strategic information, problems related to isolation of functional area managers, and increasing diversification, the structure of the company needs to change. In these instances, the SBU structure is most appropriate. Also in multidivisional organizations, an SBU structure can greatly facilitate strategy implementation efforts.

The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages SBUs through strategic and financial controls. Hence, 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 chief executive officer. This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channelling accountability to distinct business units. In the ninety-division conglomerate just mentioned, the ninety divisions could perhaps be regrouped into ten SBUs according to certain common characteristics, such as competing in the same industry, being located in the same area, or having the same customers.
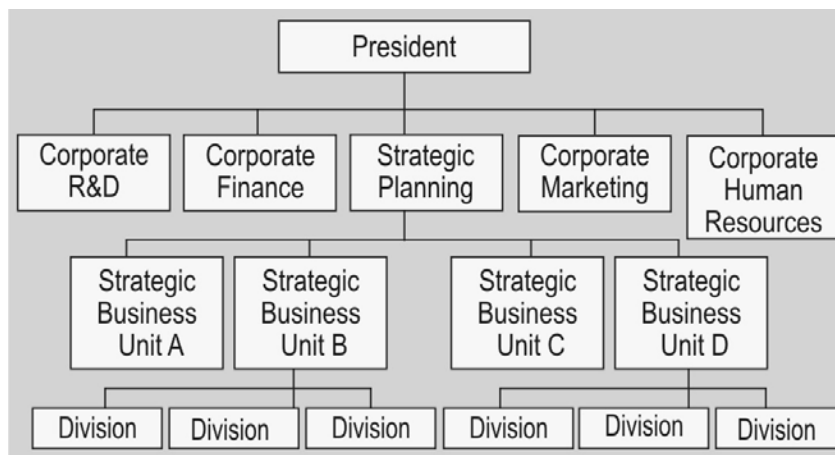

Figure: SBU Structure

Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses, and the role of the group vice president is often ambiguous. However, these limitations often do not outweigh the advantages of unproved coordination and accountability.

This enables the company to more accurately monitor the performance of individual businesses, simplifying control problems. It also facilitates comparisons between divisions, improving the allocation of resources and can be used to stimulate managers of poorly performing divisions to seek ways to improve performance.

A strategic business unit (SBU) structure consists of at least three levels, with a corporate headquarters at the top, SBU groups at the second level, and divisions grouped by relatedness within each SBU at the third level.

This means that, within each SBU, divisions are related to each other, as also that SBU

groups are unrelated to each other. Within each SBU, divisions producing similar products and/or using similar technologies can be organised to achieve synergy. Individual SBUs are treated as profit centres and controlled by corporate headquarters that can concentrate on strategic planning rather than operational control so that individual divisions can react more quickly to environmental changes.

For example, Sony has been restructuring to match the SBU structure with its ten internal companies as organised into four strategic business units. Because it has been pushing the company to make better use of software products and content (e.g., Sony's music, films and games) in its televisions and audio gear to increase Sony's profitability. By its strategy, Sony is one of the few companies that have the opportunity to integrate software and content across a broad range of consumer electronics products. It will implement this strategy through the SBU structure.

For General Electric, this structure will enable the company to "walk, talk and think" like smaller companies by making decisions and introducing innovative products more rapidly. GE's SBU form is made up of 10 strategic business units which should enable it to act quickly and more effectively. Structural flexibility is perceived to be of equal importance with strategic flexibility and both of them would enable the company to respond more rapidly to emerging opportunities.

Newer Forms of Organization Structures: As companies successfully implement business-level strategies and achieve above average returns, they may diversify their operations by offering different products or following a product diversification strategy or offering the same or additional products in new markets or by following a market diversification strategy. Following such diversification, companies generally formulate and implement a corporate-level strategy and business-level strategies for individual units.

However, the structural and control characteristics of the functional structure do not adequately support the successful implementation of corporate-level strategies that call for diversification beyond the single or dominant-business level. Increased levels of diversification call for newer structures that enable fast decision making and where other structures do not seem to be working properly.

4.4   The Matrix Structure

Most organizations find that organising around either functions (in the functional structure) or around products and geography (in the divisional structure) provides an appropriate organizational structure. The matrix structure, in contrast, may be very appropriate when organizations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms like strategic business units, are right for their situations. In matrix structures, functional and product forms are combined simultaneously at the same level of the organization. Employees have two superiors, a product or project manager and a functional manager. The "home" department – that is, engineering, manufacturing, or sales – is usually functional and is reasonably permanent. People from these functional units are often assigned

temporarily to one or more product units or projects. The product units or projects are usually temporary and act like divisions in that they are differentiated on a product-market basis.

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 more management positions. Other characteristics of a matrix structure that contribute to overall complexity include dual lines of budget authority (a violation of the unity 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, healthcare, research and defence. 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 is accomplished relatively easily.

In order for a matrix structure to be effective, organizations need planning, training, clear mutual understanding of roles and responsibilities, excellent internal communication, and mutual trust and confidence. The matrix structures used more frequently by American businesses because firms are pursuing strategies add new products, customer groups, and technology to their range of activities. Out of these changes are coming product managers, functional managers, and geographic managers, all of whom have important strategic responsibilities. When several variables such as product, customer, technology, geography, functional area, and line of bus II have roughly equal strategic priorities, a matrix organization can be an effective structural form.

The matrix structure was developed to combine the stability of the functional structure with the flexibility of the product form. The matrix structure is very useful when the external environment (especially its technological and market aspects) is very complex and changeable. It does, however, produce conflicts revolving around duties, authority, and resource allocation. To the extent that the goals to be achieved are vague and the technology used is poorly understood, a continuous battle for power between product and functional mangers is likely. The matrix structure is often found in an organization or within an SBU when the following three conditions exists: 1) Ideas need to be cross-fertilised across projects or products, 2) Resources are scarce and 3) Abilities to process information and to make decisions need to be improved.
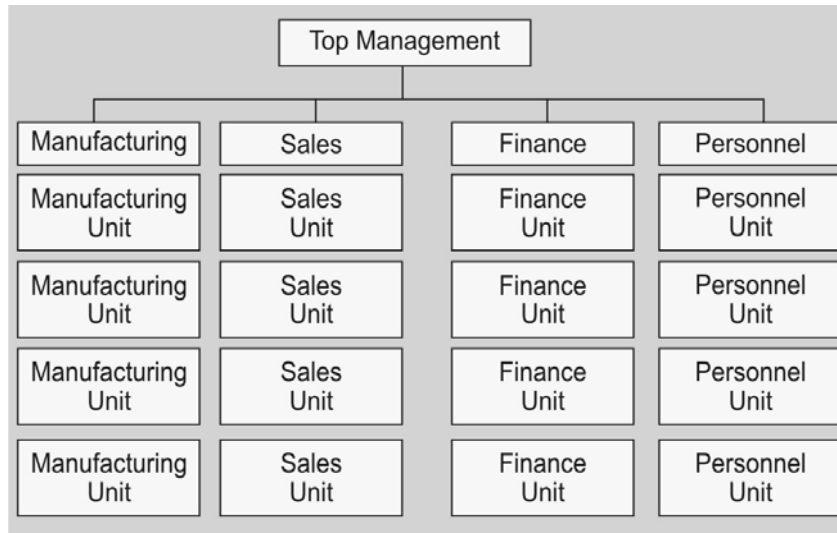
Figure: Matrix Organization Structure

Changing organizational design

Old Organizational Design	New Organizational Design
♦ One large corporation	♦ Mini-business units & cooperative relationships
♦ Vertical communication	♦ Horizontal communication
♦ Centralised top-down decision making	♦ Decentralised participative decision making
♦ Vertical integration	♦ Outsourcing & virtual organizations
♦ Work/quality teams	♦ Autonomous work teams
♦ Functional work teams	♦ Cross-functional work teams
♦ Minimal training	♦ Extensive training
♦ Specialised job design focused on individual	♦ Value-chain team-focused job design

For development of matrix structure Davis and Lawrence, have proposed three distinct phases:

1. *Cross-functional task forces*: Temporary cross-functional task forces are initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link.

2. *Product/brand management*: If the cross-functional task forces become more permanent, the project manager becomes a product or brand manager and a second

phase begins. In this arrangement, function is still the primary organizational structure, but product or brand managers act as the integrators of semi permanent products or brands.

3. *Mature matrix*: The third and final phase of matrix development involves a true dual-authority structure. Both the functional and product structures are permanent. All employees are connected to both a vertical functional superior and a horizontal product manager. Functional and product managers have equal authority and must work well together to resolve disagreements over resources and priorities.

    However, the matrix structure is not very popular because of difficulties in implementation and trouble in managing.

4.5   Network Structure

A newer and somewhat more radical organizational design, the network structure is an example of what could be termed a "non-structure" by its virtual elimination of in house business functions. Many activities are outsourced. A corporation organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration. Electronic markets and sophisticated information systems reduce the transaction costs of the marketplace, thus justifying a "buy" over a "make" decision. Rather than being located in a single building or area, an organization's business functions are scattered worldwide. The organization is, in effect, only a shell, with a small headquarters acting as a "broker", electronically connected to some completely owned divisions, partially owned subsidiaries, and other independent companies. In its ultimate form, the network organization is a series of independent firms or business units linked together by computers in an information system that designs, produces, and markets a product or service.

Companies like Nike, Reebok and Benetton use the network structure in their operations function by subcontracting manufacturing to other companies in low-cost

The network organization structure provides an organization with increased flexibility and adaptability to cope with rapid technological change and shifting patterns of international trade and competition. It allows a company to concentrate on its distinctive competencies, while gathering efficiencies from other firms who are concentrating their efforts in their areas of expertise. The network does, however, have disadvantages. The availability of numerous potential partners can be a source of trouble. Contracting out functions to separate suppliers/distributors may keep the firm from discovering any synergies by combining activities. If a particular firm overspecialises on only a few functions, it runs the risk of choosing the wrong functions and thus becoming non-competitive.

The new structural arrangements that are evolving typically are in response to social and technological advances. While they may enable the effective management of dispersed organizations, there are some serious implications, such as those faced by DuPont, the world's largest chemical company. With new organizational forms, many workers become deskilled-that is, they cannot perform well in a new structure that often demands constant innovation and adaptation. The learning organization that is a part of new organizational forms requires that each worker become a self motivated, continuous learner. Employees may lack the level of confidence necessary to participate actively in organization-sponsored learning experiences. The flatter organizational structures that accompany contemporary structures can seem intrusive as a result of their demand for more intense and personal interactions with internal and external stakeholders. Combined, the conditions above may create stress for many employees.

4.6: Hourglass Structure

In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers with constricted middle layer. The structure has a short and narrow middle-management level. Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities. Contrary to traditional middle level managers who are often specialist, the managers in the hourglass structure are generalists and perform wide variety of tasks. They would be handling cross-functional issues emanating such as those from marketing, finance or production.
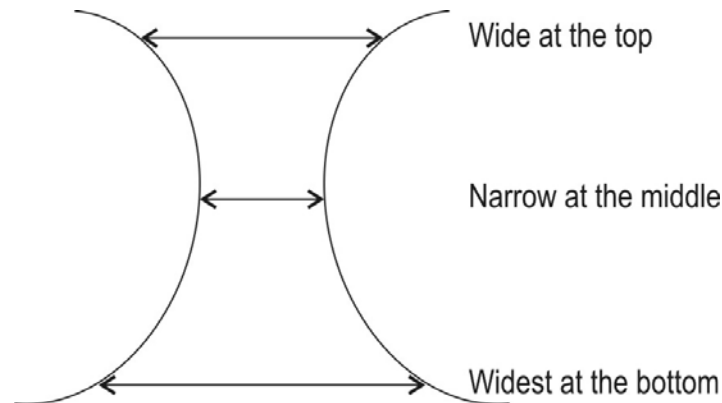

Figure: Hourglass Organisation Structure

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management the promotion opportunities for the lower levels diminish significantly.

Continuity at same level may bring monotony and lack of interest and it becomes difficult to keep the motivation levels high. Organisations try to overcome these problems by assigning challenging tasks, transferring laterally and having a system of proper rewards for performance.

5.   Strategic Business Units & Core Competence

At this juncture, it is pertinent to introduce the concept of Strategic Business Unit (SBU). In modern times, most corporations organise their businesses into appropriate SBUs. And in their internal appraisal they carry out an assessment of their SBUs. The student must have a good grasp of this concept, since it is a vital idea in the strategic planning and strategic management endeavour. In fact, reference to this idea will keep recurring in our subsequent discussions in this text.

The concept is relevant to multi-product, multi-business enterprises. It is impractical for an enterprise with a multitude of businesses to provide separate strategic planning treatment to each one of its products/businesses; it has to necessarily group the products/businesses into a manageable number of strategically related business units and then take them up for strategic planning. The question is: what is the best way of grouping the products/businesses of such large enterprises?

An SBU is a grouping of related businesses, which is amenable to composite planning treatment. As per this concept, a multi-business enterprise groups its multitude of businesses into a few distinct business units in a scientific way. The purpose is to provide effective strategic planning treatment to each one of its products/businesses.

Historically, large, multi-business firms were handling business planning on a territorial basis since their structure was territorial. And in many cases, such a structure was the outcome of a manufacturing or distribution logistics. Often, the territorial structure did not suit the purpose of strategic planning.

When strategic planning was carried out treating territories as the units for planning, it gave rise to two kinds of difficulties: (i) since a number of territorial units handled the same product, the same product was getting varied strategic planning treatments; and (ii) since a given territorial planning unit carried different and unrelated products, products with dissimilar characteristics were getting identical strategic planning treatment.

The concept of strategic business units (SBU) breaks away from this practice. It recognises that just because a firm is structured into a number of territorial units, say six units, it is not necessarily in six different businesses. It may be engaged in only three distinct businesses. It is also possible that it is engaged in more than six businesses. The endeavour should be to group the businesses into an appropriate number of strategic business units before the firm takes up the strategy formulation task.

The principle underlying the grouping is that all related products-related from the standpoint of "function"-should fall under one SBU. In other words, the SBU concept helps a multi-business

corporation in scientifically grouping its businesses into a few distinct business units. Such a grouping would in its turn, help the corporation carry out its strategic management endeavour better. The concept provides the right direction to strategic planning by removing the vagueness and confusion often experienced in such multi-business enterprises in the matter of grouping of the businesses.

The attributes of an SBU and the benefits a firm may derive by using the SBU idea.

♦ A scientific method of grouping the businesses of a multi-business corporation which helps the firm in strategic planning.

♦ An improvement over the territorial grouping of businesses and strategic planning based on territorial units.

♦ An SBU is a grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses. Products/businesses within an SBU receive same strategic planning treatment and priorities.

♦ The task consists of analysing and segregating the assortment of businesses/portfolios and regrouping them into a few, well defined, distinct, scientifically demarcated business units. Products/businesses that are related from the standpoint of "function" are assembled together as a distinct SBU.

♦ Unrelated products/businesses in any group are separated. If they could be assigned to any other SBU applying the criterion of functional relation, they are assigned accordingly; otherwise they are made into separate SBUs.

♦ Grouping the businesses on SBU lines helps the firm in strategic planning by removing the vagueness and confusion generally seen in grouping businesses; it also facilitates the right setting for correct strategic planning and facilitates correct relative priorities and resources to the various businesses.

♦ Each SBU is a separate business from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition and strategy-one SBU will be distinct from another.

♦ Each SBU will have its own distinct set of competitors and its own distinct strategy.

♦ Each SBU will have a CEO. He will be responsible for strategic planning for the SBU and its profit performance; he will also have control over most of the factors affecting the profit of the SBU.

The questions posed at the corporate level are, first, whether the corporate body wishes to have a related set of SBUs or not; and if so, on what basis. This issue of relatedness in turn has direct implications on decisions about diversification relatedness might exist in different ways:

♦ SBUs might build on similar technologies or all provide similar sorts of products or services.

♦ SBUs might be serving similar or different markets. Even if technology or products differ, it may be that the customers are similar. For example, the technologies underpinning

frozen food, washing powders and margarine production may be very different; but all are sold through retail operations, and U nil ever operates in all these product fields.

♦ Or it may be that other competences on which the competitive advantage of different SBUs are built have similarities. Unilever would argue that the marketing skills associated with the three product markets are similar, for example.

The three most important Characteristics of SBU are:

♦ It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly stand alone from the rest of the organization.

♦ Has its own set of competitors.

♦ Has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

The identification of SBUs is a convenient starting point for planning since once the company's strategic business units have been identified, the responsibilities for strategic planning can be more clearly assigned.

The Value Chain Analysis: Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). Value chain analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. These two basic steps of identifying separate activities and assessing the value added from each were linked to an analysis of an organization's competitive advantage by Michael Porter.
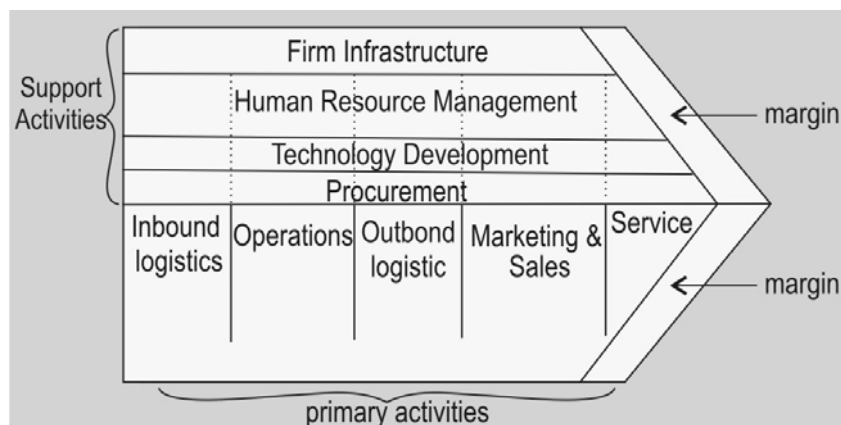

Figure: Value Chain (Michael Porter)

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no

value unless deployed into activities and organised into routines and systems which ensure that products or services are produced which are valued by the final consumer/user. In other words, it is these competences to perform particular activities and the ability to manage linkages between activities which are the source of competitive advantage for organizations. Porter argued that an understanding of strategic capability must start with an identification of these separate value activities.

The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

♦ Inbound logistics are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc.

♦ Operations transform these various inputs into the final product or service: machining, packaging, assembly, testing etc.

♦ Outbound logistics collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with arrangements for bringing customers to the service if it is a fixed location (e.g. sports events).

♦ Marketing and sales provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.

♦ Service are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

Each of these groups of primary activities are linked to support activities. These can be divided into four areas

♦ *Procurement*: This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.

♦ *Technology development*: All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).

♦ *Human resource management*: This is a particularly important area which transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.

♦ *Infrastructure*: The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the structures and routines of the organization which sustain its culture.

Identifying Core Competences: Value chain analysis is useful in describing the separate activities which are necessary to underpin an organization's strategies and how they link together both inside and outside the organization.

Although a threshold competence in all of these activities is necessary to the organization's successful operation, it is important to identify those competences which critically underpin the organization's competitive advantage. These are known as the core competences and will differ from one organization to another depending on bow the company is positioned and the strategies it is pursuing. For example, consider how small shops compete with supermarkets in grocery retailing. All shops need to have a threshold competence in the basic activities of purchasing, stocking, display, etc. However, the major supermarkets are pursuing strategies which provide lower prices to consumers through their core competences in merchandising, securing lower cost supplies and managing in-store activities more efficiently. This gives a supermarket competitive advantage over smaller shops: it is difficult for smaller shops to imitate these competences, since they are underpinned by key resources such as computerised stock/ordering systems and own brand labels. So the typical 'corner shop' grocery store gains competitive advantage over supermarkets by concentrating more on convenience and service through different core competences - the personal service to customers, extended opening hours, informal credit, home deliveries, etc. The key resources for the successful corner shop are the style of the owner and the choice of location. These aspects of service are valued by some consumers and are difficult for the supermarkets to imitate without substantially increasing their costs.

It is also important to understand that those unique resources and core competences which allow supermarkets to gain competitive advantage over corner shops are not unique resources or core competences in the competitive rivalry between supermarkets. They are necessary resources and threshold competences to survive as a supermarket. The competitive rivalry between supermarkets is therefore achieved through other unique resources (perhaps a key site) or core competences (perhaps in the management of 'own brand' supply). In this industry, experience shows that these tend to be easily imitated. So long-term competitive advantage needs to be secured by continually shifting the ground of competition.

The development of global competition in the automobile industry over recent decades also illustrates this issue well. During the 1950s and 1960s, the US giants such as Ford and GM dominated the global market through their market access core competences of establishing dealer networks and later overseas production plants. Meanwhile, Japanese manufacturers were developing competences in defect-free manufacture. By the mid-1970s they were significantly outperforming Ford on quality and reliability - which became critical success factors in allowing them to achieve global sales. By the mid-1980s, both Ford and the major Japanese companies had achieved similar competence in these two areas of global networks and quality. Although maintaining a global network was a critical success factor which continued to distinguish Ford and the Japanese from many European companies such as Peugeot, the production and supplier management activities underpinning quality (reliability) were becoming threshold competences. The competitive arena then switched to competences

which would create some uniqueness of product in an increasingly 'commodity-like' industry. The new core competences became the ability to provide unique product designs/features at low volumes of manufacture - the so-called 'lifestyle niche' was produced by companies like Mazda. This agility in design and manufacturing techniques became a new and important core competence in the global competition.

It is important to identify an organization's core competences not only for reasons of ensuring or continuing good 'fit' between these core competences and the changing nature of the markets or environment, as illustrated in this example. Core competences may also be the basis on which the organization stretches into new opportunities. So, in deciding which competences are core, this is another criterion which should be used - the ability to exploit the competence in more than one market or arena. The development of 'added value' services and/or geographical spread of markets are two typical ways in which core competences can be exploited to maintain progress once traditional markets are mature or saturated.

Value chain analysis is a reminder that the long-term competitive position of an organization is concerned with its ability to sustain value for-money products or services, and it can be helpful in identifying those activities which the organization must undertake at a threshold level of competence and those which represent the core competences of the organization. However, in order to do this, it is necessary to identify the basis on which an organization has gained competitive advantage and hence which are the core competences in sustaining this advantage. The subsections which follow look at how different bases of organizational competences can be analysed and understood.

Managing linkages: Core competences in separate activities may provide competitive advantage for an organization, but nevertheless over time may be imitated by competitors. Core competences are likely to be more robust and difficult to imitate if they relate to the management of linkages within the organization's value chain and linkages into the supply and distribution chains. It is the management of these linkages which provides 'leverage' and levels of performance which are difficult to match.

The ability to co-ordinate the activities of specialist teams or departments may create competitive advantage through improving value for money in the product or service. Specialization of roles and responsibilities is common in most organizations and is one way in which high levels of competence in separate activities is achieved. However, it often results in a set of activities which are incompatible – different departments pulling in different directions - adding overall cost and/or diminishing value in the product or service.

This management of internal linkages in the value chain could create competitive advantage in a number of ways:

♦   There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, it will probably add to the overall cost of operations. An assessment needs to be made of whether the value added to the customer by this faster response through holding stocks is greater than the added cost.

♦ It is easy to miss this issue of managing linkages between primary activities in an analysis if, for example, the organization's competences in marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So high levels of competence in separate activities are not enough if, as here, the competences are incompatible: that is, they are not related to the same view of what value for money means to the customer.

♦ The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructure which provides the basis on which the company outperforms competition. Computer-based systems have been exploited in many different types of service organization and have fundamentally transformed the customer experience. Travel bookings and hotel reservation systems are examples which other services would do well to emulate. They have created within these organizations the competence to provide both a better service and a service at reduced cost. They have allowed the organizations to create genuinely new services from these core competences or to expand rapidly into new markets.

♦ Linkages between different support activities may also be the basis of core competences. For example, the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies. Many companies have failed to become competent in managing this linkage properly and have lost out competitively.

In addition to the management of internal linkage, competitive advantage may also be gained by the ability to complement/co-ordinate the organization's own activities with those of suppliers, channels or customers. Again, this could occur in a number of different ways:

♦ Vertical integration attempts to improve performance through ownership of more parts of the value system, making more linkages internal to the organization. However, the practical difficulties and costs of co-ordinating a wider range of internal activities can outweigh the theoretical benefits.

♦ Within manufacturing industry the competence in closely specifying requirements and controlling the performance of suppliers (sometimes linked to quality checking and/or penalties for poor performance) can be critical to both quality enhancement and cost reduction.

♦ A more recent philosophy has been total quality management, which seeks to improve performance through closer working relationships between the specialists within the value system. For example, many manufacturers will now involve their suppliers and distributors at the design stage of a product or project.

♦ The merchandising activities which manufacturers undertake with their distributors are now much improved and are an important

6.   Leadership and Strategic Implementation

Weak leadership can wreck the soundest strategy; forceful execution of even a poor plan can often bring victory.

– Sun Zi

A leader lives in the field with his troops.

– H. Ross Perot

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; 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.

For the most part, major change efforts have to be top-down and vision-driven. Leading change has to start with diagnosing the situation and then deciding which of several ways to handle it. Managers have five leadership roles to play in pushing for good strategy execution:

1.   Staying on top of what is happening, closely monitoring progress, ferreting out issues, and learning what obstacles lie in the path of good execution.

2.   Promoting a culture and esprit de corps that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.

3.   Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.

4.   Exercising ethics leadership and insisting that the company conduct its affairs like a model corporate citizen.

5.   Pushing corrective actions to improve strategy execution and overall strategic performance.

For example: N. R. Narayan Murthy, Infosys, is a celebrated leader because of the value he has added over his tenure at the company. One of the great legacies he will leave with Infosys is a strong management development program that builds management talent that other companies want and that will fill in managerial gaps after his retirement. Mr. Murthy whom some consider the master strategic leader, truly focuses on developing human capital.

Mr. Dhirubhai Ambani, Reliance Group, was an icon in himself because of his ability to conceptualise and communicate sweeping strategies, knowledge of operations to reach

financial goals, and proficiency in implementing a new vision for the company. Mr. Ambani was an excellent strategic leader because he was able to provide clear direction for the company and his strong interpersonal skills that inspire loyalty among employees.

Leadership role in implementation: The changes confronting strategic leaders above provide obvious examples of the importance of strategic leadership, their effects on organizational outcomes, and the great challenges faced by strategic leaders. This indicates that effective strategic leaders must be able to use the strategic management process effectively by guiding the company in ways that result in the formation of strategic intent and strategic mission, facilitating the development of appropriate strategic actions and providing guidance that results in strategic competitiveness and earning above-average returns.
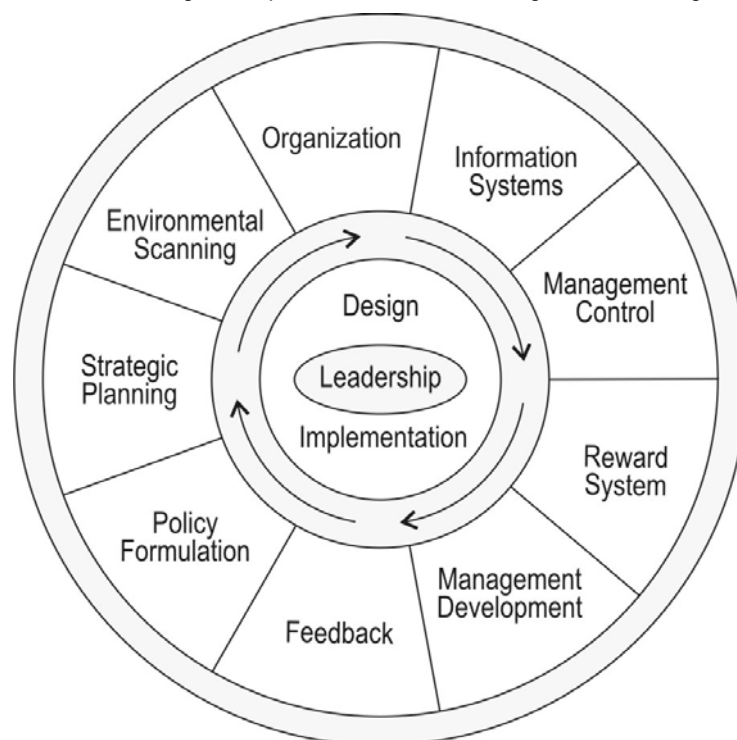

Figure: Strategy Design and Implementation: Interrelationship of Elements

Strategic leadership entails the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. In other words, strategic leadership represents a complex form of leadership in companies. A manager with strategic leadership skills exhibits the ability to guide the company through the new competitive landscape by influencing the behaviour, thoughts, and feelings of co-workers, managing through others and successfully processing or making sense of complex, ambiguous information by successfully dealing with change and uncertainty.

Figure: Effective Strategic Leadership

Strategic leaders are those at the top of the company (in particular, the CEO), but other commonly recognised strategic leaders include members of the board of directors, the top management team, and division general managers. The ability to manage human capital may be the most critical skill that a strategic leader possesses.

In the today's competitive landscape, strategic leaders are challenged to adapt their frames of reference so that they can deal with rapid, complex changes. A managerial frame of reference is the set of assumptions, premises, and accepted wisdom that bounds a manager's understanding of the company, the industry in which it competes, and the core competencies that it exploits in the pursuit of strategic competitiveness (and above-average returns). In other words, a manager's frame of reference is the foundation on which a manager's mindset is built.

The importance of a manager's frame of reference can be seen if we perceive that competitive battles are not between companies or products but between mindsets or managerial frames. This implies that effective strategic leaders must be able to deal with the diverse and cognitively complex competitive situations that are characteristic of today's competitive landscape.

The strategic leader has several responsibilities, including the following:

♦   Managing human capital (perhaps the most critical of the strategic leader's skills). Effectively managing the company's operations.

♦   Sustaining high performance over time.

♦   Being willing to make candid, courageous, yet pragmatic, decisions.

♦   Seeking feedback through face-to-face communications.

♦   Having decision-making responsibilities that cannot be delegated.

Thus, the strategic leadership skills of a company's managers represent resources that affect company performance. And these resources must be developed for the company's future benefit.

Approaches to leadership style: Strategic leadership is the ability of influencing others to voluntarily make decisions that enhance prospects for the organisation's long-term success while maintaining short-term financial stability. It includes determining the firm's strategic direction, aligning the firm's strategy with its culture, modelling and communicating high ethical standards, and initiating changes in the firm's strategy, when necessary. Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspire organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities. Two basic approaches to leadership can be transformational leadership style and transactional leadership style.

Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Whereas, *transactional leadership style* focus more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leaders try to build on the existing culture and enhance current practices. Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

Transactional leadership style may be appropriate in settled environment, in growing or mature industries, and in organizations that are performing well. The style is better suited in persuading people to work efficiently and run operations smoothly.

7.   Strategic Change

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services and new ways of doing business.

Steps to initiate strategic change: For initiating strategic change, three steps can be identified as under:

(i) *Recognize the need for change*: The first step is to diagnose which facets of the present corporate culture are strategy supportive and which are not. This basically means going for environmental scanning involving appraisal of both internal and external capabilities may it be through SWOT analysis and then determine where the lacuna lies and scope for change exists.

(ii) *Create a shared vision to manage change*: Objectives and vision of both individuals and organization should coincide. There should be no conflict between them. Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance through proper communication. Strategy implementers have to convince all those concerned that the change in business culture is not superficial or cosmetic. The actions taken have to be credible, highly visible and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.

(iii) *Institutionalise the change*: This is basically an action stage which requires implementation of changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. Capacity for self-renewal should be a fundamental anchor of the new culture of the firm. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be brought to the notice of persons concerned so that the necessary corrective actions are taken. It takes time for the changed culture to prevail.

Kurt Lewin Change Process: To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.

(a) **Unfreezing the situation:** The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change.

Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization.

(b) **Changing to New situation:** Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C.

Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

Compliance: It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.

Identification: Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.

Internalization: Internalization involves some internal changing of the individual's thought processes in order to adjust to a new environment. They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.

(c) **Refreezing:** Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this new acquired behaviour does not diminish or extinguish.

Change process is not a one time application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

8.   Strategic Control

Control is one of the important functions of management, though it is often regarded as the core of the management process. It is a function intended to ensure and make possible the performance of planned activities and to achieve the pre-determined goals and results. Control is intended to regulate and check, *i.e.,* to structure and condition the behaviour of events and people, to place restraints and curbs on undesirable tendencies, to make people conform to certain norms and standards, to measure progress to keep the system on track. It is also to ensure that what is planned is translated into results, to keep a watch on proper use of resources, on safeguarding of assets and so on.

The control function involves monitoring the activity and measuring results against pre-established standards, analysing and correcting deviations as necessary and maintaining/adapting the system. The task of control is intended to enable the organisation to continuously learn from its experience and to improve its capability to cope with the demands of organisational growth and development.

Control is process within the broader management process. Within any control system, the following elements are identifiable:

(a) Objectives and characteristics of the system which could be operationalized into measurable and controllable standards.

(b) A mechanism for monitoring and measuring the characteristics of the system.

(c) A mechanism (*i*) for comparing the actual results with reference to the standards (*ii*) for detecting deviations from standards and (*iii*) for learning new insights on standards themselves.

(d) A mechanism for feeding back corrective and adaptive information and instruction to the system, for effecting the desired changes to set right the system to keep it on course.

Primarily there are three types of organizational control, viz., operational control, management control and strategic control.

Operational Control: The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole. One of the tests that can be applied to identify operational control areas is that there should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty.

Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. The control activity consists of regulating the processes within certain 'tolerances', irrespective of the effects of external conditions on the formulated standards, plans and instructions. Some of the examples of operational controls can be stock control (maintaining stocks between set limits), production control (manufacturing to set programmes), quality control (keeping product quality between agreed limits), cost control (maintaining expenditure as per standards), budgetary control (keeping performance to budget).

Management Control: When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units.

The basic purpose of management control is the achievement of enterprise goals – short range and long range – in a most effective and efficient manner. The term is defined by Robert Anthony as 'the process by which managers assure the resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives. Controls are necessary to influence the behaviour of events and ensure that they conform to plans.

> "Strategic control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended."
>
> *– Schendel and Hofer:*

Strategies once formulated are not immediately implemented. There is time gap between the stages of strategy formulation and their implementation. Strategies are often affected on account of changes in internal and external environments of organisations. There is need for

warning systems to track a strategy as it is being implemented. Strategic control is the process of evaluating strategy as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments.

Types of Strategic Control: There are four types of strategic control as follows:

♦ **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:

(i) Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and regulatory.

(ii) Industry factors such as competitors, suppliers, substitutes.

It is neither feasible nor desirable to control all types of premises in the same manner. Different premises may require different amount of control. Thus, managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy.

♦ **Strategic surveillance:** Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Reading financial and other newspapers, business magazines, meetings, conferences, discussions at clubs or parties and so on can help in strategic surveillance.

Strategic surveillance may be loose form of strategic control, but is capable of uncovering information relevant to the strategy.

♦ **Special alert control:** At times unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy. Organizations to cope up with these eventualities, form crisis management teams to handle the situation.

♦ **Implementation control:** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.

Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basis forms of implementation control are:

(i) Monitoring strategic thrusts: Monitoring strategic thrusts help managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

(ii) Milestone Reviews. All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.
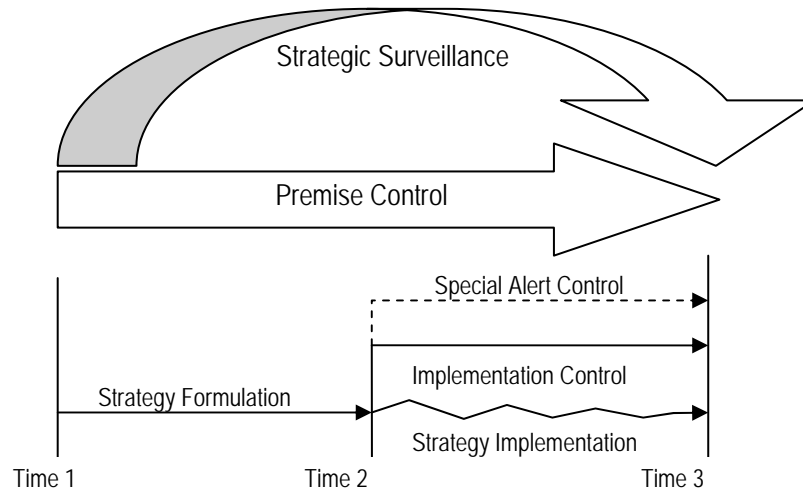
Source: From book "Strategic management-formulation, Implementation and control" by John A Pearce II, Richard B Robinson, Jr. and Amita Mital.

These four strategic controls steer the organisation and its different sub-systems to the right track. They help the organisation to negotiate through the turbulent and complex environment.

9.   Building a Strategy-Supportive Corporate Culture

Every business organisation has a unique organizational culture. Each business has its own philosophy and principles, its own ways of approaching problems and making decisions, its own work climate. A organisation has its own embedded patterns of how to do things. its own ingrained beliefs, behaviour and thought patterns, and practices that define its **corporate culture.**

> **Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment.**

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 behaviour, in the legends people repeat about happenings in the organization, in the peer pressures that exist, in the organization's politics, and in the "chemistry" and the "vibrations" that permeate the work environment. All these sociological forces, some of which operate quite subtly, combine to define an organization's culture, beliefs and practices that become embedded in a 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

The role of stories: Frequently, a significant part of a company's culture emerges from the stories that get told over and over again to illustrate to newcomers the importance of certain values and beliefs and ways of operating.

Culture: ally or obstacle to strategy execution?

An organization's culture is either an important contributor or an obstacle to successful strategy execution. The beliefs, vision, objectives, and business approaches and practices underpinning a company's strategy may be compatible with its culture or they may not. When they are, the culture becomes a valuable ally in strategy implementation and execution. When the culture is in conflict with some aspect of the company's direction, performance targets or strategy, the culture becomes a stumbling block that impedes successful strat*egy* implementation and execution.

How culture can promote better strategy execution?

Strong cultures promote good strategy execution when there's fit and hurt execution when there's negligible 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 and thrift 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 Perils 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.

Creating a strong fit between strategy and culture: It is the strategy maker's responsibility to select a strategy compatible with the "sacred" or unchangeable parts of prevailing corporate culture. It is the strategy implementer's task, once strategy is chosen, to change whatever facets of the corporate culture hinder effective execution. Once a culture is executed, it is difficult to change.

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 management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instil 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 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.

Culture-changing actions: While being out front personally and symbolically leading the push for new behaviours and communicating the reasons for new approaches is crucial, strategy implementers have to convince all those concerned that the culture-changing effort is more than cosmetic. Talk and symbolism have to be complemented by substantive actions and real movement. The actions taken have to be credible, highly visible, and unmistakably indicative of the seriousness of management's commitment to new strategic initiatives and the associated cultural changes. There are several ways to accomplish this. One is to engineer some quick successes that highlight the benefits of strategy-culture changes, thus making enthusiasm for the changes contagious. However, instant results are usually not as important as having the will and patience to create a solid, competent team psychologically committed to pursuing the strategy in a superior fashion. The strongest signs that management is truly committed to creating a new culture include replacing old-culture traditionalist managers with "new-breed" managers, changing long-standing policies and operating practices that are dysfunctional or that impede new initiatives, undertaking major reorganization moves that bring structure into better alignment with strategy, tying compensation incentives directly to the new measures of strategic predominance, and making major budgetary reallocations that shift substantial resources from old-strategy projects and programs to new-strategy projects and programs.

Implanting the needed culture-building values and behaviour depends on a sincere, sustained commitment by the chief executive coupled with extraordinary persistence in reinforcing the culture at every opportunity through both word and deed. Neither charisma nor personal magnetism is essential. However, personally talking to many departmental groups about the reasons for change *is* essential; organizational changes are seldom accomplished successfully from an office. Moreover, creating and sustaining a strategy-supportive culture is a job for the whole management team. Major cultural change requires many initiatives from many people. Senior officers, department heads, and middle managers have to reiterate values, "walk the talk," and translate the organization's philosophy into everyday practice. In addition, for the culture-building effort to be successful, strategy implementers must enlist the support of first line supervisors and employee opinion leaders, convincing them of the merits of practicing and enforcing cultural norms at the lowest levels in the organization. Until a big majority of employees join the new culture and share an emotional commitment to its basic values and behavioural norms, there's considerably more work to be done in both instilling the culture and tightening the culture strategy fit.

The task of making culture supportive of strategy is not a short-term exercise. It takes time for a new culture to emerge and prevail; it's unrealistic to expect an overnight transformation. The bigger the organization and the greater the cultural shift needed to produce a culture-strategy fit, the longer it takes. In large companies, changing the corporate culture in significant ways can take two to five years. In fact, it is usually tougher to reshape a deeply ingrained culture that is not strategy-supportive than it is to instill a strategy-supportive culture from scratch in a brand-new organization.

Summary

Strategic management process does not end with the decision on what strategies to pursue. In the sixth chapter, the issues and interrelationships between strategy formulation and implementation are discussed. The chapter considers organization structure for strategy implementation and covers functional structure, divisional structure, strategic business units (SBUs), matrix structure and network structure. We have discussed SBUs as grouping of related businesses, which is amenable to separate and composite strategic treatment.

Later, strategic leadership is discussed. Strategic leadership is the ability of influencing others to voluntarily make decisions that enhance prospects for the organization's long-term success while maintaining short-term financial stability. The chapter reveals the leadership role in strategic implementation and also explains the two basic approaches of leadership styles, viz., transformational leadership and transactional leadership style.

It also introduces the steps to initiate strategic change along with Kurt Lewin change process. Control function of strategic management is also introduced.