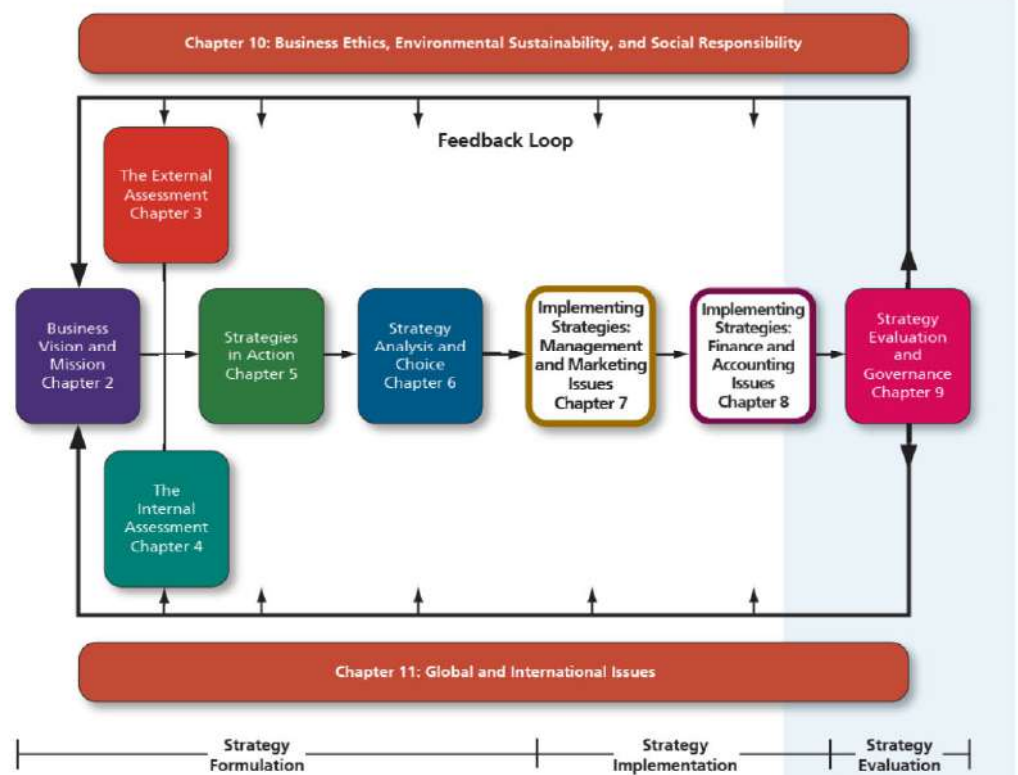


# Chapter 7

## Strategy Implementation

### *The Comprehensive, Integrative Strategic- Management Model*



## Learning Objectives

- *After studying this chapter, you should be able to do the following:*
  - *Describe the transition from formulating to implementing strategies.*
  - *Discuss reasons why annual objectives are essential for effective strategy implementation.*
  - *Identify and discuss the nature and role of policies in strategy implementation.*
  - *Explain the roles of resource allocation and managing conflict in strategy implementation.*
  - *Discuss the need to match a firm's structure with its strategy.*
  - *Identify, diagram, and discuss different types of organizational structure.*
  - *Identify and discuss 15 do's and don'ts in constructing organizational charts.*

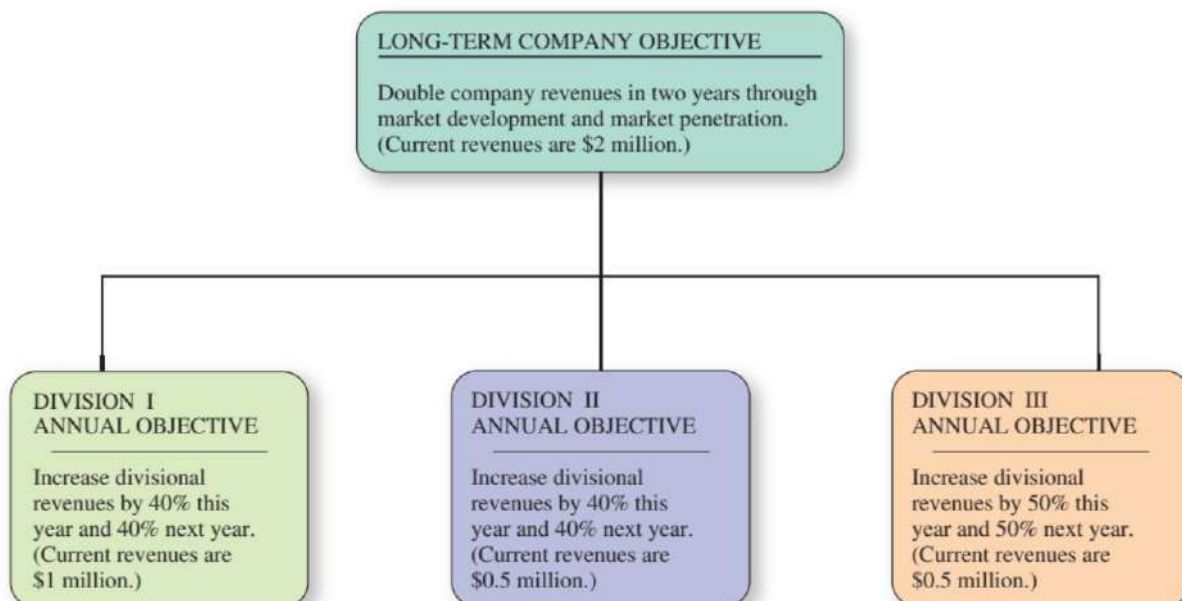
## Preface

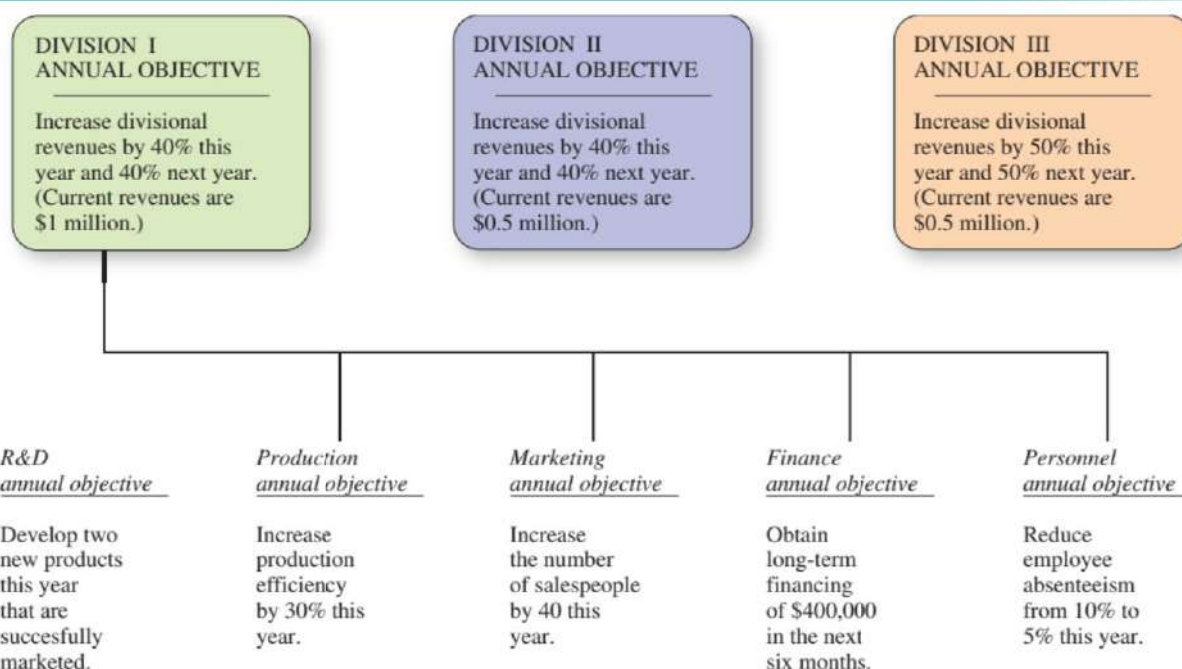
- *The strategic-management process does not end with deciding what strategy or strategies to pursue.*
- *There must be a translation of strategic thought into action.*
- *Without understanding and commitment, strategy-implementation efforts face major problems.*

# Strategy from Formulation to Implementation

- *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)!*

STRATEGY FORMULATION	STRATEGY IMPLEMENTATION
Position forces before the action	Manage forces during the action
Focus is on effectiveness	Focus is on efficiency
Primarily an intellectual process	Primarily an operational process
Requires good intuitive and analytical skills	Requires special motivation and leadership skills
Requires coordination among a few individuals	Requires coordination among many individuals
A science with tools and techniques	An art to energize people
Difficult to do well	Considerably more difficult to do well
Process-oriented	People-oriented
Primary responsibility of top managers	Primary responsibility of mid and lower-level managers





## The Need for Clear Annual Objectives

- *Annual objectives are desired milestones an organization should achieve to ensure successful strategy implementation.*
- *Annual objectives are essential for strategy implementation for five primary reasons:*
  - *They represent the basis for allocating resources.*
  - *They are a primary mechanism for evaluating managers.*
  - *They enable effective monitoring of progress toward achieving long-term objectives.*
  - *They establish organizational, divisional, and departmental priorities.*
  - *They are essential for keeping a strategic plan on track.*



## *The Need for Clear Annual Objectives*

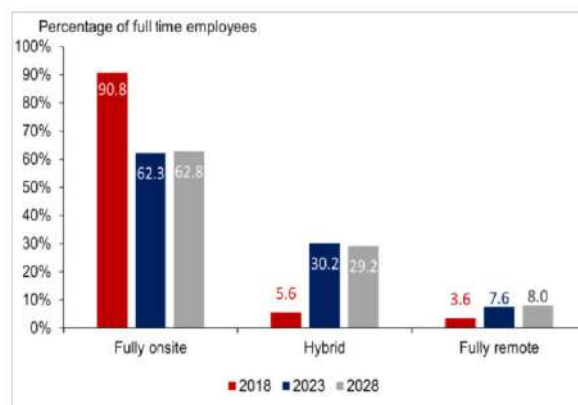
- *Annual objectives are desired milestones an organization should achieve to ensure successful strategy implementation.*
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  - *They enable effective monitoring of progress toward achieving long-term objectives.*
  - *They establish organizational, divisional, and departmental priorities.*
  - *They are essential for keeping a strategic plan on track.*
- *It is important to tie rewards and sanctions to annual objectives so that employees and managers understand that achieving objectives is critical to successful strategy implementation.*

## *Establish Policies*

- *Annual objectives should be supported by clearly stated policies.*
- *Policies refer to specific guidelines and methods established to support and encourage work toward stated goals.*
- *Policies are essential instruments for strategy implementation, for at least six reasons:*
  - *Policies set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior.*
  - *Policies let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be implemented successfully.*
  - *Policies provide a basis for management control and allow coordination across organizational units.*
  - *Policies reduce the amount of time managers spend making decisions. Policies also clarify what work is to be done and by whom.*
  - *Policies promote delegation of decision making to appropriate managerial levels where various problems usually arise.*
  - *Policies clarify what can and cannot be done in pursuit of an organization's objectives*

## Establish Policies

- As an example policy, more and more companies, including IBM, Aetna, Bank of America, Best Buy, and Reddit, are abandoning the idea of allowing employees to work from home.
- Businesses are finding there is need for more collaboration at the work site, closer contact with customers, and more control of the workday.
- Research reveals that the percentage of U.S. workers who performed all or some of their work at home fell to less than 20 percent in 2017, down from 24 percent the prior year.



### Company Strategy

Acquire a chain of retail stores to meet our sales growth and profitability objectives.

#### Supporting Policies

1. "All stores will be open from 8 A.M. to 8 P.M. Monday through Saturday."
2. "All stores must support company advertising by contributing 5 percent of their total monthly revenues for this purpose."

#### Divisional Objective

Increase the division's revenues from \$10 million in 2020 to \$15 million in 2021.

#### Supporting Policies

1. "Beginning in January 2021, each one of this division's salespersons must file a weekly activity report that includes the number of calls made, the number of miles traveled, the number of units sold, the dollar volume sold, and the number of new accounts opened."
2. "Beginning in January 2021, this division will return to its employees 5 percent of its gross revenues in the form of a Christmas bonus."

#### Production Department Objective

Increase production from 20,000 units in 2020 to 30,000 units in 2021.

#### Supporting Policies

1. "Beginning in January 2021, employees will have the option of working up to 20 hours of over-time per week."
2. "Beginning in January 2021, perfect attendance awards in the amount of \$100 will be given to all employees who do not miss a workday in a given year."



## Allocate Resources

- *All organizations have at least four types of resources (or assets) that can be used to achieve desired objectives:*
  - *financial resources,*
  - *physical resources,*
  - *human resources,*
  - *technological resources*
- *Resource allocation can be defined as distributing an organization's "assets" across products, regions, and segments according to priorities established by annual objectives.*
- *Strategic management itself is sometimes referred to as a resource-allocation process.*
- *☛ Allocating resources across business segments (divisions) is arguably the most important strategic decision facing large companies annually.*

## Match Structure with Strategy

- *Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follow strategy.*
- *Changes in strategy often require changes in structure for two major reasons.*
  - *Structure largely dictates how objectives and policies will be established.*
  - *Structure dictates how resources will be allocated.*
- *Symptoms of an Ineffective Organizational Structure*
  - *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*
  - *Too many unachieved objectives*
  - *Declining corporate or business performance*
  - *Losing ground to rival firms*

## *Strategic Production/Operations Issues*

- *Production processes typically constitute more than 70 percent of a firm's total assets.*
- *Thus, a major part of the strategy-implementation process takes place at the production site.*
- *Strategic production-related decisions on:*
  - plant size,*
  - plant location,*
  - product design,*
  - choice of equipment,*
  - kind of tooling,*
  - size of inventory,*
  - inventory control, quality control,*
  - cost control,*
  - use of standards,*
  - job specialization,*
  - employee training,*
  - equipment and resource utilization,*
  - shipping and packaging,*
  - technological innovation*

## *Strategic Production/Operations Issues*

- *Three production/operations issues are:*
  - restructuring/reengineering,*
  - managing resistance to change,*
  - deciding where/how to produce goods.*



## Strategic Production/Operations Issues

- *Restructuring*

- *Restructuring, sometimes called downsizing, involves reducing the size of the firm in terms of number of employees, number of divisions or units, and number of hierarchical levels in the firm's organizational structure.*
- *Intended to improve both efficiency and effectiveness*
- *The primary benefit sought from restructuring is cost reduction.*

## Strategic Production/Operations Issues

- *Reengineering*

- *In contrast to restructuring, reengineering is concerned more with employee and customer well-being than shareholder well-being.*
- *Reengineering involves reconfiguring or redesigning work, jobs, and processes for the purpose of improving cost, quality, service, and speed.*
- *Reengineering does not usually affect the organizational structure or chart, nor does it imply job loss or employee layoffs.*
- *Restructuring is concerned with eliminating or establishing, shrinking or enlarging, and moving organizational departments and divisions, the focus of reengineering is changing the way work is actually carried out. Reengineering is characterized by many tactical (short-term, business-function-specific) decisions, whereas restructuring is characterized by strategic (long-term, affecting all business functions) decisions.*

## Strategic Production/Operations Issues

- *Manage Resistance to Change*
  - *No organization or individual can escape change.*
  - *But the thought of change raises anxieties because people fear economic loss, inconvenience, uncertainty, and a break in normal social patterns.*
  - *Almost any change in structure, technology, people, or strategies has the potential to disrupt comfortable interaction patterns. For this reason, people resist change.*
  - *Resistance to change may be the single-greatest threat to successful strategy implementation.*
  - *Individuals who will be affected by a change should be involved in the decision to make the change and in decisions about how to implement the change.*
  - *Strategy implementation is basically a process of managing change.*

## Strategic Production/Operations Issues

- *Decide Where and How to Produce Goods*
  - *In China, about 700,000 assembly workers at manufacturing contractors such as Foxconn put together Apple products.*
  - *It would be virtually impossible to bring those jobs to the United States. (pays its assembly workers far less than U.S., house employees in dormitories and moment's notice, most of the component suppliers for are in China or other Asian countries)*

## Strategic Production/Operations Issues

- *Production Management and Strategy Implementation*

Type of Organization	Strategy Being Implemented	Production System Adjustments
Hospital	Adding a cancer center (Product Development)	Purchase specialized equipment and add specialized people.
Bank	Adding 10 new branches (Market Development)	Perform site location analysis.
Beer brewery	Purchasing a barley farm operation (Backward Integration)	Revise the inventory control system.
Steel manufacturer	Acquiring a fast-food chain (Unrelated Diversification)	Improve the quality control system.
Computer company	Purchasing a retail distribution chain (Forward Integration)	Alter the shipping, packaging, and transportation systems.

## Strategic Human Resource Issues

- *Any organization is only as good as its people!*
- *Human resource issues can make or break successful strategy implementation.*
- *Seven human resource issues are as follows:*
  - *linking performance and pay to strategy,*
  - *balancing work life with home life,*
  - *developing a diverse workforce,*
  - *using caution in hiring a rival's employees,*
  - *creating a strategy-supportive culture,*

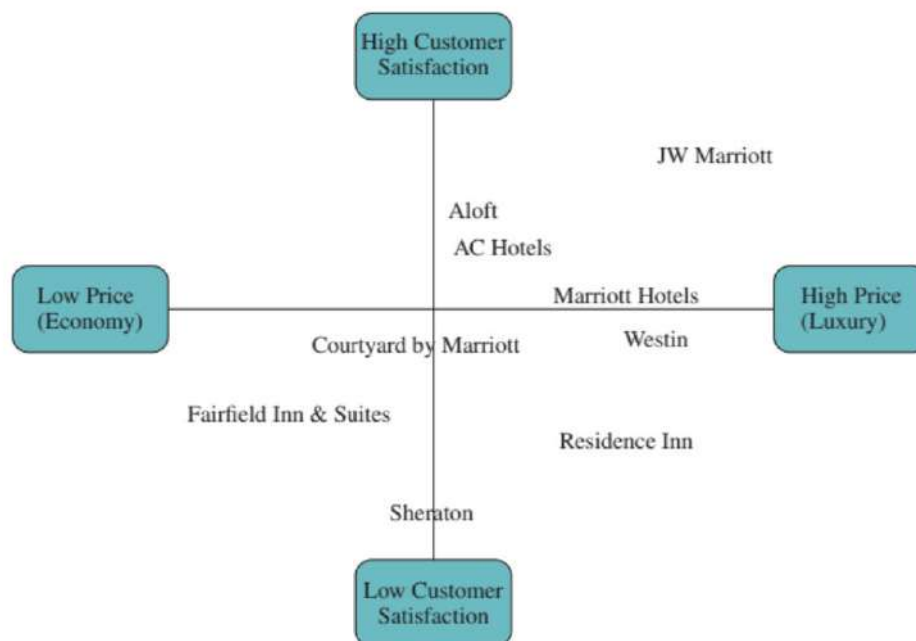


## Strategic Marketing Issues

- *Market segmentation, target marketing, and product positioning are marketing's most important contributions to strategic management. Strategies such as market development, product development, market penetration, and diversification require increased sales through new markets or products.*
- *To implement strategies successfully, following issues should be considered in marketing:*
  - *Segment and Target Markets Effectively*
  - *Product Positioning*
  - *Perceptual Mapping*



## Strategic Marketing Issues



## Strategic Finance and Accounting Issues

- *Five important finance and accounting activities central to strategy implementation are:*
  - *Capital Structure Decisions: Deciding the mix of debt and equity through tools like EPS/EBIT analysis.*
  - *Projected Financial Statements: These forecast the impact of strategy on financial performance, helping guide decisions.*
  - *Corporate Valuation: Valuing the firm (or units) is key during mergers, acquisitions, or divestitures.*
  - *Financial Ratios Analysis: Monitoring liquidity, profitability, and leverage helps keep strategy on track.*
  - *Managing IPOs, Bonds, and Cash Levels: Going public or issuing debt may be needed to fund strategic initiatives*

## Chapter Summary

- *Transition from Strategy Formulation to Implementation*
  - *Clear annual objectives are critical to implement strategies.*
  - *Policies guide decision-making and resource allocation.*
- *Resource Allocation*
  - *Allocation of financial and non-financial resources must support strategic priorities.*
  - *Strategy implementation often reveals weaknesses in resource planning.*
- *Organizational Structure and Strategy*
  - *Matching structure to strategy is essential.*
  - *Types of Structures:*
    - *Functional: Suitable for small firms or single-product lines.*
    - *Divisional: By geographic area, product, or customer; best for diversified firms.*
    - *Strategic Business Unit (SBU): Decentralized units managed independently.*
    - *Matrix: Combines functional and product lines; dual authority.*

## Chapter Summary

- *Strategic Production/Operations Issues*
  - *Restructuring: Cost-cutting (downsizing).*
  - *Reengineering: Redesigning processes for efficiency.*
  - *Decisions on:*
    - *Location of production facilities.*
    - *Managing resistance to change.*
    - *Outsourcing and reshoring.*
- *Strategic Human Resource Issues*
  - *Align compensation and performance with strategic goals.*
  - *Encourage diversity, work-life balance, and well-being programs.*
  - *Foster a strategy-supportive culture.*
  - *Be cautious with hiring from competitors and monitoring social media.*

## Chapter Summary

- *Strategic Marketing Issues*
  - *Market segmentation and targeting enhance focus.*
  - *Effective product positioning is vital.*
  - *Use perceptual mapping for competitive analysis.*
- *Capital Structure Decisions*
  - *Use EPS/EBIT analysis to evaluate debt vs. equity financing.*
- *Projected Financial Statements (Pro Formas)*
  - *Forecasted income statements and balance sheets.*
  - *Show expected financial outcomes of strategic plans.*
  - *Useful for budgeting, financing decisions, and performance tracking.*



## Chapter Summary

- *Corporate Valuation*
  - *Net worth method*
  - *Market value method*
  - *Price-earnings (P/E) ratio method*
- *Financial Ratios Management*
  - *Liquidity (e.g., current ratio)*
  - *Profitability (e.g., ROE, ROA)*
  - *Leverage (e.g., debt-to-equity)*
- *Initial Public Offering (IPO) Decisions*
  - *Going public can raise capital but includes costs and regulatory scrutiny.*

## Topics for Further Collaboration ...

- *Indra Nooyi, Former CEO of PepsiCo (Page 230 – David Book)*
- *Do Firms Need a Policy against Workplace Phubbing? (Page 235 – David Book)*
- *Four Guidelines to Follow in Global Marketing (Page 254 – David Book)*
- *Jamie Dimon, CEO JPMorgan Chase (Page 270 – David Book)*
- *Projected Financial Statement Manipulation (Page 277 – David Book)*
- *The Least (and Most) Corrupt Countries in the World for Doing Business (Page 277 – David Book)*