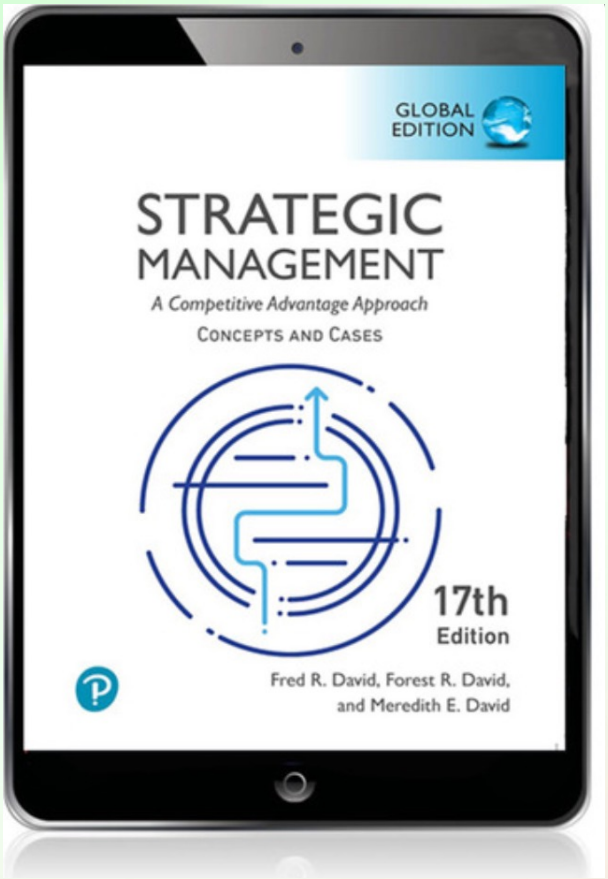

STRATEGY EXECUTION

Chapter Ten

CHAPTER OBJECTIVES

1. Construct effective organizational chart.
2. Explain why corporate wellness has become so important in strategic planning.
3. Explain why strategy implementation is more difficult than strategy formulation.
4. Discuss the importance of annual objectives and policies in achieving organizational commitment for strategies to be implemented.
5. Explain why organizational structure is so important in strategy implementation.

CHAPTER OBJECTIVES (CONT.)

6. Compare and contrast restructuring and reengineering.
7. Describe the relationships between production/ operations and strategy implementation.
8. Explain how a firm can effectively link performance and pay to strategies.
9. Discuss employee stock ownership plans (ESOPs) as strategic management concept.
10. Describe how to modify an organizational culture to support new strategies.

COMPREHENSIVE STRATEGIC-MANAGEMENT MODEL

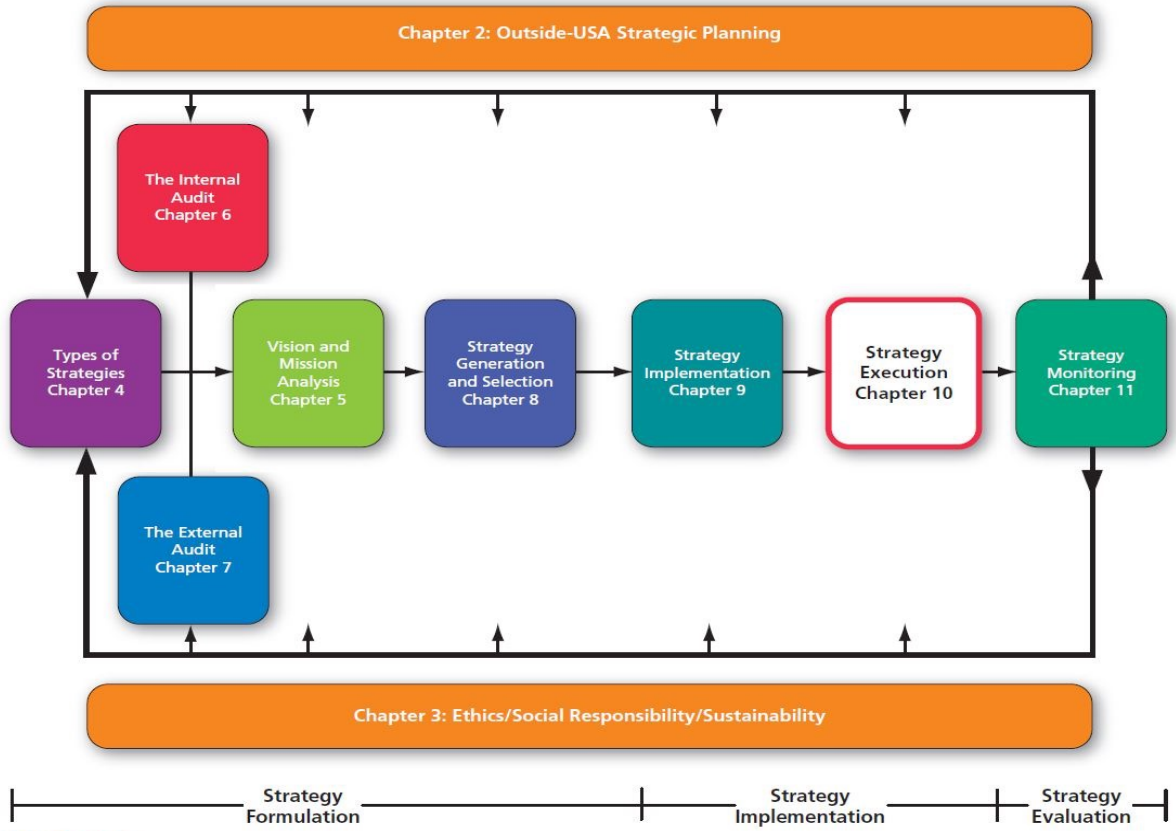

FIGURE 10-1
Comprehensive Strategic-Management Model

THE NATURE OF 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.

THE NATURE OF STRATEGY IMPLEMENTATION

- 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.

TABLE 10-1 Some Management Issues Central to Strategy Implementation

Establish annual objectives
Devise policies
Allocate resources
Alter an existing organizational structure
Restructure and reengineer
Revise reward and incentive plans
Minimize resistance to change
Match managers with strategy
Develop a strategy-supportive culture
Adapt production and operations processes
Develop an effective human resources function
Downsize and furlough as needed
Link performance and pay to strategies

ANNUAL OBJECTIVES

Annual objectives:

1. Represent the basis for allocating resources.
2. Are a primary mechanism for evaluating managers.
3. Are the major instrument for monitoring progress toward achieving long-term objectives.
4. Establish organizational, divisional, and departmental priorities.

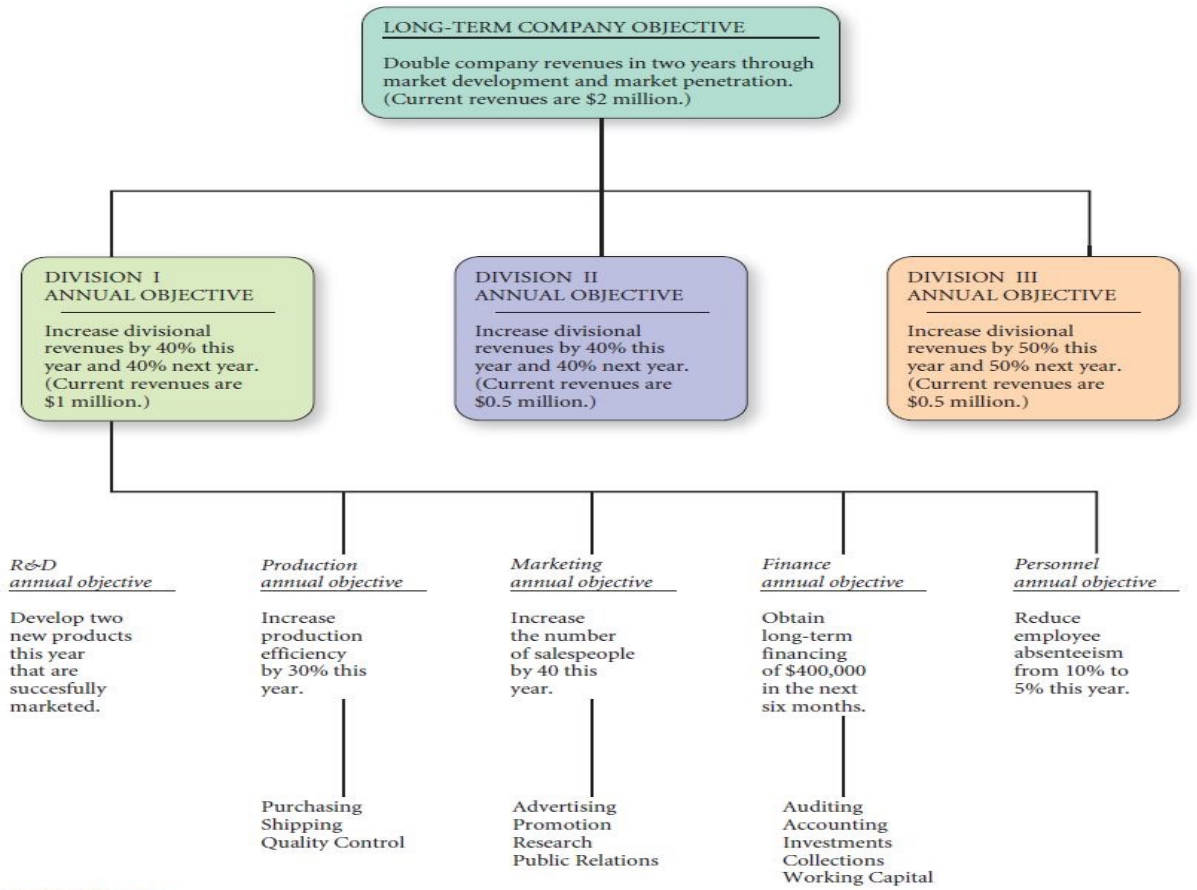

FIGURE 10-2
The Stamus Company's Hierarchy of Aims

POLICIES

- **Policy**
  - specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals
  - instruments for strategy implementation

POLICIES

- **Policies**
  - set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior
  - clarify what can and cannot be done in pursuit of an organization's objectives

TABLE 10-3 A Hierarchy of Policies

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." (This policy could increase retail sales if stores currently are open only 40 hours a week.)
2. "All stores must submit a Monthly Control Data Report." (This policy could reduce expense-to-sales ratios.)
3. "All stores must support company advertising by contributing 5 percent of their total monthly revenues for this purpose." (This policy could allow the company to establish a national reputation.)
4. "All stores must adhere to the uniform pricing guidelines set forth in the Company Handbook." (This policy could help assure customers that the company offers a consistent product in terms of price and quality in all its stores.)

Divisional Objective

Increase the division's revenues from $10 million in 2014 to $15 million in 2015.

Supporting Policies

1. "Beginning in January 2014, 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." (This policy could ensure that salespersons do not place too great an emphasis in certain areas.)
2. "Beginning in January 2014, this division will return to its employees 5 percent of its gross revenues in the form of a Christmas bonus." (This policy could increase employee productivity.)
3. "Beginning in January 2014, inventory levels carried in warehouses will be decreased by 30 percent in accordance with a just-in-time (JIT) manufacturing approach." (This policy could reduce production expenses and thus free funds for increased marketing efforts.)

Production Department Objective

Increase production from 20,000 units in 2014 to 30,000 units in 2015.

Supporting Policies

1. "Beginning in January 2014, employees will have the option of working up to 20 hours of overtime per week." (This policy could minimize the need to hire additional employees.)
2. "Beginning in January 2014, perfect attendance awards in the amount of $100 will be given to all employees who do not miss a workday in a given year." (This policy could decrease absenteeism and increase productivity.)
3. "Beginning in January 2014, new equipment must be leased rather than purchased." (This policy could reduce tax liabilities and thus allow more funds to be invested in modernizing production processes.)

TABLE 10-4 Some Issues That May Require a Management Policy

- To offer extensive or limited management development workshops and seminars
- To centralize or decentralize employee-training activities
- To recruit through employment agencies, college campuses, or newspapers
- To promote from within or to hire from the outside
- To promote on the basis of merit or on the basis of seniority
- To tie executive compensation to long-term or annual objectives
- To offer numerous or few employee benefits
- To negotiate directly or indirectly with labor unions
- To delegate authority for large expenditures or to centrally retain this authority
- To allow much, some, or no overtime work
- To establish a high- or low-safety stock of inventory
- To use one or more suppliers
- To buy, lease, or rent new production equipment
- To greatly or somewhat stress quality control
- To establish many or only a few production standards
- To operate one, two, or three shifts
- To discourage using insider information for personal gain
- To discourage sexual harassment
- To discourage smoking at work
- To discourage insider trading
- To discourage moonlighting

RESOURCE ALLOCATION

- **Resource allocation**
  - central management activity that allows for strategy execution
  - often based on political or personal factors
- Strategic management enables resources to be allocated according to priorities established by annual objectives

TYPES OF RESOURCES

- Financial
- Physical
- Human
- Technological

MANAGING CONFLICT

- **Conflict**
  - disagreement between two or more parties on one or more issues
- Establishing annual objectives can lead to conflict because individuals have different expectations and perceptions, schedules create pressure, personalities are incompatible, and misunderstandings occur between line managers and staff managers

MANAGING CONFLICT

- **Avoidance**
  - includes such actions as ignoring the problem in hopes that the conflict will resolve itself or physically separating the conflicting individuals
- **Defusion**
  - includes playing down differences between conflicting parties while accentuating similarities and common interests

MANAGING CONFLICT

- **Confrontation**
  - exemplified by exchanging members of conflicting parties so that each can gain an appreciation of the other's point of view or holding a meeting at which conflicting parties present their views and work through their differences

TABLE 10-5 Some Management Trade-Off Decisions Required in Strategy Implementation

To emphasize short-term profits or long-term growth
To emphasize profit margin or market share
To emphasize market development or market penetration
To lay off or furlough
To seek growth or stability
To take high risk or low risk
To be more socially responsible or more profitable
To outsource jobs or pay more to keep jobs at home
To acquire externally or to build internally
To restructure or reengineer
To use leverage or equity to raise funds
To use part-time or full-time employees

MATCHING STRUCTURE WITH STRATEGY

- Structure largely dictates how objectives and policies will be established
- Structure dictates how resources will be allocated

LINKING PERFORMANCE AND PAY TO STRATEGIES

1. Provide full transparency to all stakeholders

2. Reward long-term performance with long-term pay, rather than annual incentives

3. Base executive compensation on actual company performance, rather than on stock price

LINKING PERFORMANCE AND PAY TO STRATEGIES

4. Extend the time-horizon for bonuses. Replace short-term with long-term incentives
5. Increase equity between workers and executives; Delete many special perks and benefits for executives

LINKING PERFORMANCE AND PAY TO STRATEGIES

1. Does the plan capture attention?
2. Do employees understand the plan?
3. Is the plan improving communication?
4. Does the plan pay out when it should?
5. Is the company or unit performing better?

MANAGING RESISTANCE TO CHANGE

- **Force change strategy**
  - involves giving orders and enforcing those orders
- **Educative change strategy**
  - one that presents information to convince people of the need for change
- **Self-interest change strategy**
  - one that attempts to convince individuals that the change is to their personal advantage

CREATING A STRATEGY-SUPPORTIVE CULTURE

1. Formal statements of organizational philosophy, charters, creeds, materials used for recruitment and selection, and socialization
2. Designing of physical spaces, facades, buildings
3. Deliberate role modeling, teaching, and coaching by leaders
4. Explicit reward and status system, promotion criteria
5. Stories, legends, myths, and parables about key people and events

CREATING A STRATEGY-SUPPORTIVE CULTURE

6. What leaders pay attention to, measure, and control
7. Leader reactions to critical incidents and organizational crises
8. How the organization is designed and structured
9. Organizational systems and procedures
10. Criteria used for recruitment, selection, promotion, leveling off, retirement, and “excommunication” of people

TABLE 10-11 Ways and Means for Altering an Organization's Culture

1. Recruitment
2. Training
3. Transfer
4. Promotion
5. Restructuring
6. Reengineering
7. Role modeling
8. Positive reinforcement
9. Mentoring
10. Revising vision and/or mission
11. Redesigning physical spaces/facades
12. Altering reward system
13. Altering organizational policies, procedures, and practices

TABLE 10-12 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.

TABLE 10-13 Labor Cost-Saving Tactics

Salary freeze
Hiring freeze
Salary reductions
Reduce employee benefits
Raise employee contribution to health-care premiums
Reduce employee 401(k)/403(b) match
Reduce employee workweek
Mandatory furlough
Voluntary furlough
Hire temporary instead of full-time employees
Hire contract employees instead of full-time employees
Volunteer buyouts (Walt Disney is doing this)
Halt production for three days a week (Toyota Motor is doing this)
Layoffs
Early retirement
Reducing or eliminating bonuses

TABLE 10-17 The Key to Staying Healthy, Living to 100, and Being a "Well" Employee

1. Eat nutritiously—eat a variety of fruits and vegetables daily because they have ingredients that the body uses to repair and strengthen itself.
2. Stay hydrated—drink plenty of water to aid the body in eliminating toxins and to enable body organs to function efficiently; the body is mostly water.
3. Get plenty of rest—the body repairs itself during rest, so get at least seven hours of sleep nightly, preferably eight hours.
4. Get plenty of exercise—exercise vigorously at least 30 minutes daily so the body can release toxins and strengthen vital organs.
5. Reduce stress—the body's immune system is weakened when one is under stress, making the body vulnerable to many ailments, so keep stress to a minimum.
6. Do not smoke—smoking kills, no doubt about it anymore.
7. Take vitamin supplements—consult your physician, but because it is difficult for diet alone to supply all the nutrients and vitamins needed, supplements can be helpful in achieving good health and longevity.