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Strategy Implementation and Control

Basic Concepts

This chapter covers the concept of strategic implementation, establishing strategic business units (SBUs), strategic leadership and corporate culture.

1. Introduction

Strategic management process does not end when the firm decides what strategies to pursue. There must be a translation of strategic plans into strategic action. Implementing strategy affects an organization from top to bottom.

2. Interrelationships between Strategy Formulation and Implementation

Strategic implementation is concerned with translating a decision into action.

Strategy formulation	Strategy implementation
<ul style="list-style-type: none">• Strategy formulation is positioning forces before the action.	<ul style="list-style-type: none">• Strategy implementation is managing forces during the action.
<ul style="list-style-type: none">• Strategy formulation focuses on effectiveness.	<ul style="list-style-type: none">• Strategy implementation focuses on efficiency.
<ul style="list-style-type: none">• Strategy formulation is primarily an intellectual process.	<ul style="list-style-type: none">• Strategy implementation is primarily an operational process.
<ul style="list-style-type: none">• Strategy formulation requires good intuitive and analytical skills.	<ul style="list-style-type: none">• Strategy implementation requires special motivation and leadership skills
<ul style="list-style-type: none">• Strategy formulation requires coordination among a few individuals	<ul style="list-style-type: none">• Strategy implementation requires combination among many individuals.

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.

3. Issues in Strategy Implementation

The different issues involved in strategy implementation are:

- Strategies, by themselves, do not lead to action. Strategies, therefore, have to be activated through implementation.
- Strategies should lead to plans. Plans result in different kinds of programmes.
- Programmes lead to the formulation of projects. It 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.

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

4. Organization Structure and Strategy Implementation

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

1. Structure largely dictates how objectives and policies will be established.
2. Structure dictates how resources will be allocated.

Structure undeniably can and does influence strategy. A more important concern is determining what types of structural changes are needed to implement. Seven basic types of organizational structures: functional, divisional by geographic area, divisional by product, divisional by customer, divisional by process, strategic business unit (SBU), and matrix.

4.1 The Functional Structure

Functional structure is widely used because of its simplicity and low cost. A functional structure groups tasks and activities by business function. Disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, etc.

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. Most large companies abandoned the functional structure in favour of decentralization and improved accountability.

4.2 The Divisional Structure

The divisional structure can be organized in one of four ways: by geographic area, by product or service, by customer, or by process. With a divisional structure, functional activities are performed both centrally and in each separate division.

A divisional structure has some clear advantages. The accountability is clear. 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 could be added easily.

A divisional structure is costly. 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.

4.3 The Strategic Business Unit (SBU) Structure

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.

4.4 The Matrix Structure

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.

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.

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.

5. Strategic Business Units & Core Competence

In modern times, most corporations organise their businesses into appropriate SBUs. And in their internal appraisal they carry out an assessment of their SBUs. 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.

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

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.

The primary activities of the organization are grouped into five main areas:

- Inbound Logistics
- Operations
- Outbound Logistics
- Marketing and Sales
- Service

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

- Procurement
- Technology development
- Human resource management
- Infrastructure

Identifying Core Competences

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 how the company is positioned and the strategies it is pursuing.

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. 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.

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.

6. Leadership and Strategic Implementation

Strategic leadership entails the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. 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.

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.

Approaches to leadership

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.

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.

8. Strategic Control

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.

9. Building a Strategy-Supportive Corporate Culture

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

Very Short Answer Type Questions

Question 1

Explain the meaning of the following concepts:

- (a) Out bound Logistics*
- (b) Value Chain Analysis*
- (c) Strategic Business Unit*
- (d) Premise control*

Answer

- (a)** Outbound logistics relate to collection, storage and distribution of the product to customers. It includes all activities such as storage/warehousing of finished goods, order processing, scheduling deliveries, operation of delivery vehicles, etc.

- (b) Value chain analysis refers to separate activities which are necessary to underpin an organization's strategies and are linked together both within and around the organization. Organizations are much more than a random collection of machines, money and people. Value chain of a manufacturing organization comprises of primary and supportive activities.
- (c) A Strategic Business Unit (SBU) is a unit of the company that has a separate mission and objectives which can be planned independently from other company businesses. SBU can be a company division, a product line within a division or even a single product/brand, specific group of customers or geographical location. The SBU is given the authority to make its own strategic decisions within corporate guidelines as long as it meets corporate objectives.
- (d) Premise control: A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. 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.

Short Answer Type Questions

Question 2

State with reasons which of the following statements is correct / incorrect:

- (a) *"Efficiency and effectiveness mean the same in strategic management"*
- (b) *Primarily, strategy formulation is an operational process and strategy implementation is an intellectual process.*
- (c) *Strategy follows structure.*
- (d) *Strategies may require changes in organizational structure.*
- (e) *SBU concepts facilitate multi-business operations.*
- (f) *Culture promote better strategy execution*
- (g) *A core competence is a unique strength of an organization which may not be shared by others.*
- (h) *An organisation's culture is always an obstacle to successful strategy implementation.*

- (i) *A corporate culture is always identical in all the organisations.*
- (j) *"Resistance to change is an impediment in building of strategic supportive corporate culture".*

Answer

- (a) **Incorrect:** Efficiency pertains to designing and achieving suitable input output ratios of funds, resources, facilities and efforts whereas effectiveness 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. In general terms, to be effective is to do the right things while to be efficient is to do things rightly.
- (b) **Incorrect:** Strategy formulation is primarily an intellectual process and strategy implementation is primarily an operational process. Strategy formulation is based on strategic decision-making which requires analysis and thinking while strategy implementation is based on strategic as well as operational decision-making which requires action and doing.
- (c) **Incorrect:** Structures are designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reasons for being, it will be difficult to design an effective structure. Strategic developments may require allocation of resources and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate systems.
- (d) **Correct:** Strategies may require changes in structure as the structure dictates how resources will be allocated. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, should follow strategy. Without a strategy or reasons for being, companies find it difficult to design an effective structure.
- (e) **Correct:** Organizing business along SBU lines and creating strategic business units has become a common practice for multi-product/service and global organizations. It is a convenient and intelligent grouping of activities along distinct businesses and has replaced the conventional groupings. SBU facilitates strategic planning, gaining product-related/market-related specialization, gaining cost-economies and more rational organizational structure.
- (f) **Correct:** Strong cultures in an organisation 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 strategy execution.
- (g) **Correct:** A core competence is a unique strength of an organization which may not be shared by others. If business is organized on the basis of core competence, it is likely to generate competitive advantage. A core competence provides potential access to a wide

variety of markets. Core competencies should be such that it is difficult for competitors to imitate them.

- (h) **Incorrect:** A company's culture is manifested in the values and business principles that management preaches and practices. The beliefs, vision, objectives and business approaches and practices underpinning a company's strategy may be compatible with its culture or may not. When they are compatible the culture becomes a valuable ally in strategy implementation and execution.
- (i) **Incorrect:** Every company has its own organisational culture. Each has its own business philosophy and principles, its own ways of approaching to the problems and making decisions, its own work climate, work ethics, etc. Therefore, corporate culture need not be identical in all organisations. However, every organisation over a period of time inherits and percolates down its own specific work ethos and approaches.
- (j) **Correct:** Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment. In an organizational effort to build strategic supportive corporate culture resistance can impede its successful implementation and execution.

Question 2

Briefly answer the following questions:

- (a) *Difference between Strategy formulation and Strategy implementation.*
- (b) *Define competitive advantage.*
- (c) *Discuss network structure.*
- (d) *What do you mean by core competencies?*
- (e) *Components of a Value chain.*
- (f) *How a corporate culture can be both strength and weakness of an organisation?*
- (g) *Write a short note on advantages on SBU structure.*
- (h) *Write a short note on importance of corporate culture.*
- (i) *Specify the steps that is needed to initiate & bring changes in the strategic building of any organization.*
- (j) *Elaborate the interrelationship between strategy formulation and implementation.*
- (k) *What is strategic control? Briefly explain the different types of strategic control?*
- (l) *Explain briefly the role of culture in promoting better strategy execution.*
- (m) *'A network structure is suited to unstable environment.' Elaborate.*
- (n) *Write a short note on Steps for initiating a strategic change.*
- (o) *What are the differences between operational control and management control.*

- (p) *Briefly describe the impact of corporate culture on an organization.*
- (q) *Write short notes on the characteristics of strategic business unit (SBU)*
- (r) *What steps would you suggest to change a company's problem culture?*

Answer

- (a) **Distinction between strategy formulation and strategy implementation:** Although inextricably linked, strategy implementation is fundamentally different from strategy formulation in the following ways:
 - (i) Strategy formulation is positioning forces before the action. Strategy implementation is managing forces during the action.
 - (ii) Strategy formulation focuses on effectiveness whereas strategy implementation focuses on efficiency.
 - (iii) Strategy formulation is primarily an intellectual process whereas implementation of strategy is primarily an operational process.
 - (iv) Strategy formulation requires good intuitive and analytical skills while strategy implementation requires special motivation and leadership skills.
 - (v) Strategy formulation requires coordination among a few individuals while strategy implementation requires organization wide coordination.
- (b) Competitive advantage is the position of a firm to maintain and sustain a favorable market position when compared to the competitors. Competitive advantage is ability to offer buyers something different and thereby providing more value for the money. It is the result of a successful strategy. This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry. Competitive advantage may also be in the form of low cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large.
- (c) Network structure is a newer and somewhat more radical organizational design. The network structure could be termed as 'non-structure' as it virtually eliminates in-house business functions and outsource many of them. A corporation organized in this manner is a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.
- (d) A core competence is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses.
- (e) Value chain refers to separate activities which are necessary to underpin an organization's strategies and are linked together both inside and outside the organization. Organizations are much more than a random collection of machines, money

and people. Value chain of a manufacturing organization comprises of primary and supportive activities. The primary ones are inclusive of inbound logistics, operations, outbound logistics, marketing and sales, and services. The supportive activities relate to procurement, human resource management, technology development and infrastructure.

Value chain analysis helps in maintaining the long-term competitive position of an organization to sustain value for-money in its products or service. 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.

- (f) The most important phenomenon which often distinguishes one organisation with another is its corporate culture. Corporate culture refers to a company's values, beliefs, business principles, traditions, and ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers.
- (i) As a strength: Culture can facilitate communication, decision making and control and instil cooperation and commitment. An organization's culture could be strong and cohesive when it conducts its business according to clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organisation.
- (ii) As a weakness: Culture, as a weakness can obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture could be characterised as weak when many sub-cultures exists, few values and behavioural norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment, loyalty and sense of identity.
- (g) Advantage of SBU Structure: SBU is any part of a business organization which is treated separately for strategic management purposes. The concept of SBU is helpful in creating an SBU organizational structure. It is discrete element of the business serving product markets with readily identifiable competitors and for which strategic planning can be concluded. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Its advantages are:

- Establishing coordination between divisions having common strategic interests.
- Facilitates strategic management and control on large and diverse organizations.
- Fixes accountabilities at the level of distinct business units.
- Allows strategic planning to be done at the most relevant level within the total enterprise.
- Makes the task of strategic review by top executives more objective and more effective.

- Helps allocate corporate resources to areas with greatest growth opportunities.
- (h) 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 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 success.

- (i) The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. For initiating strategic change, three steps can be identified as under:
- (i) Recognize the need for change: The first step is to diagnose facets of the corporate culture that are strategy supportive or not. The idea is to 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. Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance.
 - (iii) Institutionalize the change: 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. All these changes should be set up as a practice to be followed by the organization and be able to transfer from one level to another as a well settled practice.
- (j) Strategy implementation is the managerial exercise of putting a chosen strategy into place. Strategy execution deals with 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.

It involves allocation of resources to new courses of action that need to be undertaken. There may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate system.

It is crucial to realize the difference between the formulation and implementation because both require very different skills. A business organization will be successful only when the strategy formulation is sound and implementation is excellent.

- (k) 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.

There are four types of strategic control:

- ◆ Premise control: A strategy is formed on the basis of certain assumptions or premises about the environment. 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.
- ◆ Strategic surveillance: Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.
- ◆ Special alert control: At times unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.
- ◆ 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.

- (l) 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 behavioral norms that match what is needed for good strategy execution helps energize people throughout the organization to do their jobs in a strategy-supportive manner. 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. This is very conducive to successful execution of a strategy of delivering superior customer service.

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.

A strong strategy-supportive culture 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 organizational vision, do their jobs competently and with enthusiasm, and collaborate with others.

- (m) Network structure is a newer and somewhat more radical organizational design. The network structure could be termed a "non-structure" as it virtually eliminates in-house business functions and outsource many of them. An organisation 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.

- (n) For initiating strategic change, three steps can be identified as under:
- (i) Recognize the need for change: The first step is to diagnose which parts 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 and then identify the problems/improvement areas and determine scope for change.
 - (ii) Create a shared vision to manage change: Objectives and vision of individuals and organization should coincide. 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 fully 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. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be appropriately addressed.
- (o) Differences between Operational Control and Management Control are as under:
- (i) The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. 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 of mere narrowly circumscribed activities of sub-units. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.
 - (ii) Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand the basic purpose of management control is the achievement of enterprise goals – short range and long range – in an effective and efficient manner.
- (p) Corporate culture refers to values, beliefs, business principles, traditions, ways of operating, and internal work environment. An organization's culture is either an important contributor or an obstacle to successful strategy execution. The beliefs, vision, objectives, business approaches and practices underpinning a company's strategy may

be compatible with its culture or 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 strategy implementation and execution.

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 strategy execution.

(q) **Strategic Business Unit (SBU)** is a unit of the company that has a separate mission and objectives and which can be planned independently from other businesses of the organisation. 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. He has control of profit-influencing factors.

(r) Changing problem cultures is very difficult because of deeply held values and habits. 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, altering incentive compensation, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

Questions with Descriptive Answers

Question 3

"Management of internal linkages in the value chain could create competitive advantage in a number of ways". Briefly explain.

Answer

The 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, an assessment needs to be made 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 of production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So competence in separate activities need to be compatible.
- 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.
- 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.

Question 4

What do you mean by strategic leadership? What are two approaches to leadership style?

Answer

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.

Question 5

Discuss the leadership role played by the managers in pushing for good strategy execution.

Answer

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. Managers have five leadership roles to play in pushing for good strategy execution:

1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.
4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.
5. Pushing corrective actions to improve strategy execution and overall strategic performance.

Question 5

What is strategic change? Explain the change process proposed by Kurt Lewin that can be useful in implementing strategies?

OR

ABC Ltd. plans to introduce changes in its structure, technology and people. Explain how Kurt Lewin's change process can help this firm.

Answer

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.

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 newly 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.

Question 6

Define corporate culture. Also elucidate the statement "Culture is a strength that can also be a weakness".

Answer

The phenomenon which often distinguishes good organizations from bad ones could be summed up as 'corporate culture'. Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers. Culture affects not only the way managers behave within an organization but also the decisions they make about the organization's relationships with its environment and its strategy.

"Culture is a strength that can also be a weakness". This statement can be explained by splitting it in to two parts.

Culture as a strength: As a strength, culture can facilitate communication, decision-making & control and create cooperation & commitment. An organization's culture could be strong and cohesive when it conducts its business according to a clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organization.

Culture as a weakness: As a weakness, culture may obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture could be characterized as weak when many subcultures exist, few values and behavioral norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment, loyalty and sense of identity.

Question 7

What are the different responsibilities of a strategic leader? Distinguish between transformational leadership style and traditional leadership style.

Answer

A strategic leader has several responsibilities, including the following:

- ◆ Environment Scanning.

- ◆ Dealing with the diverse and cognitively competitive situations.
- ◆ Managing human capital.
- ◆ Effectively managing the company's operations.
- ◆ Sustaining high performance over time.
- ◆ Willing to make candid, courageous, and yet pragmatic decisions.
- ◆ Decision-making responsibilities that cannot be delegated.
- ◆ Seeking feedback through face-to-face communications.
- ◆ Being spokesman of the organisation.

Difference between Transformational and Traditional leadership style:

1. Traditional leadership borrowed its concept from formal Top-down type of leadership such as in the military. The style is based on the belief that power is bestowed on the leader, in keeping with the traditions of the past. This type of leadership places managers at the top and workers at the bottom of rung of power.

In transformational leadership, leader motivates and empowers employees to achieve company's objectives by appealing to higher ideas and values. They use charisma and enthusiasm to inspire people to exert them for the good of the organization.

2. Traditional leadership emphasizes characteristics or behaviours of only one leader within a particular group whereas transformational leadership provides a space to have more than one leader in the same group at the same time. According to the transformational leadership style, a leader at one instance can also be a follower in another instance. Thus there is element of flexibility in the relationships.
3. Traditional leadership is more focused in getting the work done in routine environment. Traditional leaders are effective in achieving the set objectives and goals whereas transformational leaders have behavioural capacity to recognize and react to paradoxes, contradictions and complexities in the environment. Transformational leadership style has more focus on the special skills or talents that the leaders must have to practice to face challenging situations. Transformational leaders work to change the organisational culture by implementing new ideas.
4. In traditional leadership, followers are loyal to the position and what it represents rather than who happens to be holding that position whereas in transformational leadership followers dedicate and admire the quality of the leader not of its position.

Questions with Hints

Question 8

Explain the concept of value chain analysis.

Answer

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 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.

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.

Question 9

Discuss the importance of proper implementation of strategy in strategic management.

Answer

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution deals with 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.

There are situations where an organisation formulates 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, the lack of necessary resources, missing leadership and so on. Unless corrective actions are taken the strategy will fail.

Question 10

An important part of strategic management process is implementation of strategy. Discuss the relationship of soundness of strategy with the quality of implementation.

Answer

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 was made with some thought being given to feasibility and acceptability.

It is crucial to realize the difference between strategy formulation and strategy implementation 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. This sounds obvious, but in practice the distinction is not always made. The matrix in the figure below represents various combinations of strategy formulation and implementation:

Strategy formulation	Sound	<i>A</i>	<i>B</i> (Success)
	Flawed	<i>C</i>	<i>D</i>
		Weak	Excellent
		Strategy implementation	

Questions for Practice

1. Define forward and backward linkages.
2. Explain both primary and supportive activities in value chain analysis.
3. What are the major issues while implementing a strategy?
4. How culture can promote better strategy execution?

Activity

- Identify three SBUs of MNCs that are functioning in India and discuss their position vis-à-vis their parent company. Refer to their annual reports.

7

Reaching Strategic Edge

Basic Concepts

1. Introduction

The basic ideology of businesses shifted from diversification to core-competencies. There are several such changes in strategic ideology. The chapter on reaching strategic edge covers some of the recent and evolving issues like Business Process Reengineering (BPR), Total Quality Management (TQM), Six Sigma and overview on a few other contemporary issues in strategic management.

2. Business Process Reengineering

Business Process Reengineering (BPR) is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers.

The orientation of redesigning efforts is basically radical. In other words, it is a total deconstruction and rethinking of business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum jump in process performance in terms of time, cost, output, quality, and responsiveness to customers.

Implementing BPR in organizations

BPR involves the following steps:

2.1 Determining objectives and framework

Objectives are the desired end results of the redesign process which the management and organization attempts to achieve. This will provide the required focus, direction, and motivation for the redesign process.

2.2 Identify customers and determine their needs

The designers have to understand customers - their profile, their steps in acquiring, using and Act disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.