

GLOBAL
EDITION



Strategic Management

*A Competitive Advantage Approach,
Concepts and Cases*

SIXTEENTH EDITION

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Strategy Execution

Chapter Ten

Learning Objectives

1. Describe the transition from formulating to implementing strategies.
2. Discuss five reasons why annual objectives are essential for effective strategy implementation.
3. Identify and discuss six reasons why policies are essential for effective strategy implementation.
4. Explain the role of resource allocation and managing conflict in strategy implementation.
5. Discuss the need to match a firm's structure with its strategy.

Learning Objectives (cont.)

6. Identify, diagram, and discuss seven different types of organizational structure.
7. Identify and discuss fifteen dos and don'ts in constructing organizational charts.
8. Discuss four strategic production/operations issues vital for successful strategy implementation.
9. Discuss seven strategic human resource issues vital for successful strategy implementation.

Comprehensive Strategic-Management Model

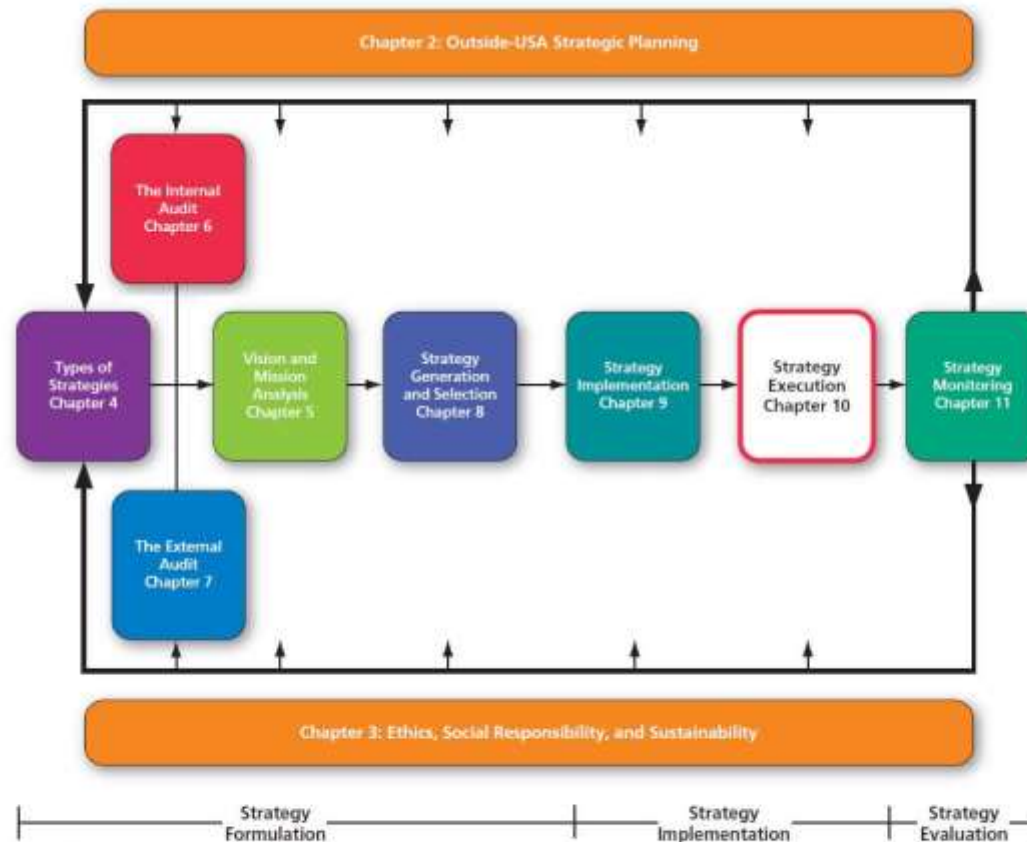


FIGURE 10-1

Comprehensive Strategic-Management Model

Source: Fred R. David, adapted from "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40, © Fred R. David.

The Nature of Strategy Implementation

Strategy Formulation

- ❖ Strategy formulation is positioning forces before the action.
- ❖ Strategy formulation focuses on effectiveness.
- ❖ Strategy formulation is primarily an intellectual process.
- ❖ Strategy formulation requires good intuitive and analytical skills.

Strategy Implementation

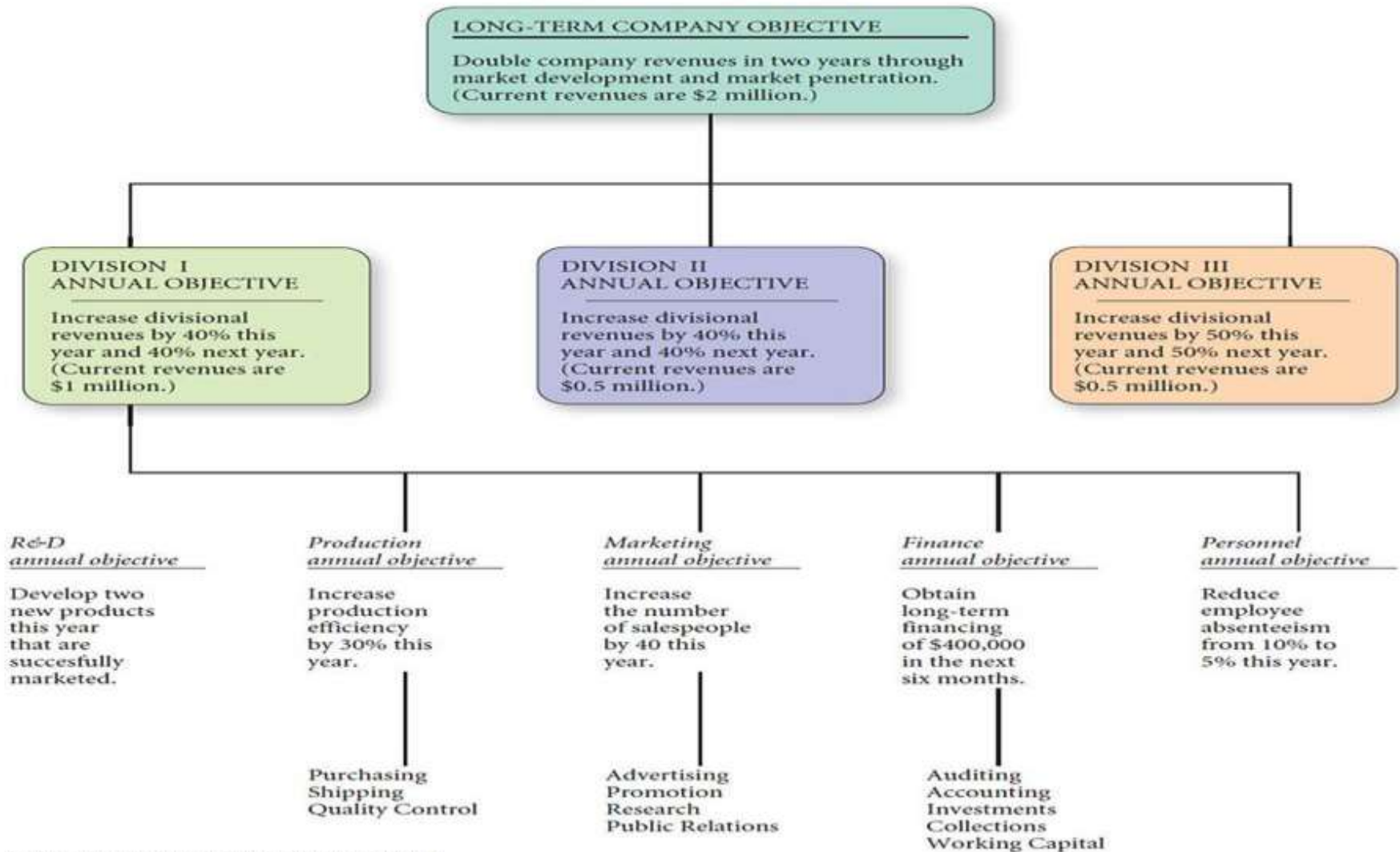
- ❖ Strategy implementation is managing forces during the action.
- ❖ Strategy implementation focuses on efficiency.
- ❖ Strategy implementation is primarily an operational process.
- ❖ Strategy implementation requires special motivation and leadership skills.

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
5. Are essential for keeping a strategic plan on track

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
- ❖ let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be implemented successfully
- ❖ provide a basis for management control and allow coordination across organizational units

Policies

❖ Policies (cont.)

- ❖ reduce the amount of time managers spend making decisions. Policies also clarify what work is to be done and by whom.
- ❖ promote delegation of decision making to appropriate managerial levels where various problems usually arise.
- ❖ clarify what can and cannot be done in pursuit of an organization's objectives.

Types of Resources

Financial

Physical

Human

Technological

Resource Allocation

❖ Resource Allocation

- ❖ central management activity that allows for strategy execution
- ❖ Strategic management enables resources to be allocated according to priorities established by annual objectives

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

Some Management Trade-Off Decisions Required in Strategy Implementation

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

Symptoms of an Ineffective Organizational Structure

TABLE 10-6 Symptoms of an Ineffective Organizational Structure

1. Too many levels of management
 2. Too many meetings attended by too many people
 3. Too much attention being directed toward solving interdepartmental conflicts
 4. Too large a span of control
 5. Too many unachieved objectives
 6. Declining corporate or business performance
 7. Losing ground to rival firms
 8. Revenue and/or earnings divided by number of employees and/or number of managers is low compared to rival firms
-

The Functional Structure

❖ **Functional Structure**

- ❖ groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems

Advantages and Disadvantages of a Functional Organizational Structure

TABLE 10-7 Advantages and Disadvantages of a Functional Organizational Structure

Advantages	Disadvantages
1. Simple and inexpensive	1. Accountability forced to the top
2. Capitalizes on specialization of business activities such as marketing and finance	2. Delegation of authority and responsibility not encouraged
3. Minimizes need for elaborate control system	3. Minimizes career development
4. Allows for rapid decision making	4. Low employee/manager morale
	5. Inadequate planning for products and markets
	6. Leads to short-term, narrow thinking
	7. Leads to communication problems

Divisional Structure

- ❖ Functional activities are performed both centrally and in each separate division
- ❖ Organized by geographic area, product or service, customer, or process

Advantages and Disadvantages of a Divisional Organizational Structure

TABLE 10-8 Advantages and Disadvantages of a Divisional Organizational Structure

Advantages	Disadvantages
<ol style="list-style-type: none">1. Clear accountability2. Allows local control of local situations3. Creates career development chances4. Promotes delegation of authority5. Leads to competitive climate internally6. Allows easy adding of new products or regions7. Allows strict control and attention to products, customers, or regions	<ol style="list-style-type: none">1. Can be costly2. Duplication of functional activities3. Requires a skilled management force4. Requires an elaborate control system5. Competition among divisions can become so intense as to be dysfunctional6. Can lead to limited sharing of ideas and resources7. Some regions, products, or customers may receive special treatment

The Strategic Business Unit (SBU) Structure

❖ 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
- ❖ can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units

The Matrix Structure

❖ **Matrix Structure**

- ❖ most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication

The Matrix Structure

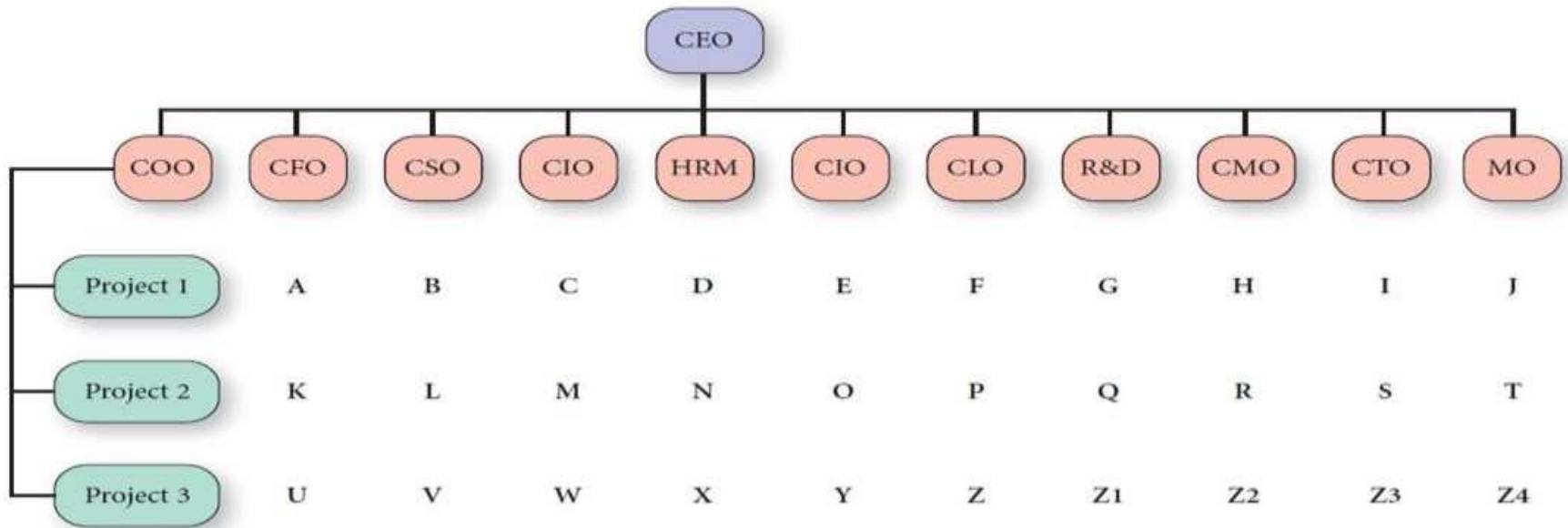
- ❖ For a matrix structure to be effective, organizations need participative planning, training, clear mutual understanding of roles and responsibilities, excellent internal communication, and mutual trust and confidence

Advantages and Disadvantages of a Matrix Structure

TABLE 10-9 Advantages and Disadvantages of a Matrix Structure

Advantages	Disadvantages
<ol style="list-style-type: none">1. Clear project objectives2. Results of their work clearly seen by employees3. Easy to shut down a project4. Facilitates uses of special equipment, personnel, and facilities5. Shared functional resources instead of duplicated resources, as in a divisional structure	<ol style="list-style-type: none">1. Requires excellent vertical and horizontal flows of communication2. Costly because creates more manager positions3. Violates unity of command principle4. Creates dual lines of budget authority5. Creates dual sources of reward and punishment6. Creates shared authority and reporting7. Requires mutual trust and understanding

Typical Top Managers of a Large Firm



Note: Titles spelled out as follows.

Chief Executive Officer (CEO)

Chief Finance Officer (CFO)

Chief Strategy Officer (CSO)

Chief Information Officer (CIO)

Human Resources Manager (HRM)

Chief Operating Officer (COO)

Chief Legal Officer (CLO)

Research & Development Officer (R&D)

Chief Marketing Officer (CMO)

Chief Technology Officer (CTO)

Competitive Intelligence Officer (CIO)

Maintenance Officer (MO)

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Restructuring

❖ Restructuring

- ❖ 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
- ❖ primary benefit sought from restructuring is cost reduction

Reengineering

❖ Reengineering

- ❖ involves reconfiguring or redesigning work, jobs, and processes for the purpose of improving cost, quality, service, and speed
- ❖ does not usually affect the organizational structure or chart, nor does it imply job loss or employee layoffs

Managing Resistance to Change

❖ **Force Change Strategy**

- ❖ involves giving orders and enforcing those orders

❖ **Educative Change Strategy**

- ❖ presents information to convince people of the need for change

❖ **Self-interest Change Strategy**

- ❖ attempts to convince individuals that the change is to their personal advantage

Strategic Human Resource Issues

❖ Seven human resource issues:

1. linking performance and pay to strategy
2. balancing work life with home life
3. developing a diverse work force
4. using caution in hiring a rival's employees
5. creating a strategy-supportive culture
6. using caution in monitoring employees' social media
7. developing a corporate wellness program

Linking Performance and Pay to Strategies

- ❖ Decisions on salary increases, promotions, merit pay, and bonuses need to support the long-term and annual objectives of the firm
- ❖ Gain sharing and bonus systems can be used

Balance Work and Home Life

- ❖ Work and family strategies now represent a competitive advantage for those firms that offer such benefits as:
 - ❖ elder care assistance
 - ❖ flexible scheduling
 - ❖ job sharing
 - ❖ adoption benefits
 - ❖ onsite summer camp
 - ❖ employee help line
 - ❖ pet care
 - ❖ lawn service referrals

Develop a Diverse Workforce

Six benefits of having a diverse workforce are:

1. Women and minorities have different insights, opinions, and perspectives that should be considered.
2. A diverse workforce portrays a firm committed to nondiscrimination.
3. A workforce that mirrors a customer base can help attract customers, build customer loyalty, and design/offer products/services that meet customer needs/wants.
4. A diverse workforce helps protect the firm against discrimination lawsuits.
5. Women and minorities represent a huge additional pool of qualified applicants.
6. A diverse workforce strengthens a firm's social responsibility and ethical position

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

Monitoring Social Media

- ❖ Proponents of companies monitoring employees' social-media activities emphasize that
 - ❖ (1) a company's reputation in the marketplace can easily be damaged by disgruntled employees venting on social media sites
 - ❖ (2) social-media records can be subpoenaed, like email, and used as evidence against the company.

Corporate Wellness Program

- ❖ The Affordable Care Act increased the maximum incentives and penalties employers may use to encourage employee well-being
- ❖ Most companies have both
 - ❖ “carrots,” such as giving employee discounts on insurance premiums or even extra cash,
 - ❖ “sticks,” such as imposing surcharges on premiums for those who do not make progress toward getting healthy.