


## Strategy implementation and control



Organising for action;  
 Developing programs, budgets and procedures; How strategy to be implemented?  
 Strategy implementation through structure, values, and ideology McKinsey's 7s framework;  
 Centralization vs decentralization  
 Acquisition of resources and competence; Organization life cycle;  
 Balanced Scorecard  
 Management & Control,  
 Activity-based costing; Strategic Information Systems

- ❑ Managing Strategic Change: Diagnosing the change situation; change management styles & roles; levers for managing strategic change; strategic leadership; power and politics

References:

1. Concepts in Strategic Management & Business Policy, Thomas L. Wheelen, J David Hunger & Krish Rangarajan, 9<sup>th</sup> Ed, Pearson – Education.
2. Strategic Management – Concepts & Cases, Fred R David, 12<sup>th</sup> Ed, PHI
3. Strategic Management, Colin White, Palgrave Macmillan, 2007
4. Strategic Management – Formulation, Implementation & Control, John A Pearce, Richard B Robinson, Anita Mital, TMH, 10<sup>th</sup> Edition.

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## Why strategies fail?




- ❑ Local optimization not global
- ❑ Divisions, sbu's working at cross purposes
- ❑ Horizontal fracturing within organization
- ❑ Conflict between organization and outside stakeholders
- ❑ Tokenism
  - Having strategy ('we too do strategy') is fashionable
  - Not enough buy-in by people
  - Fear of losing discretionary power, maneuverability
  - Advancement of rival group
- ❑ Bureaucratization
  - Believing earnestly that strategy is a cure all panacea
  - Too many reports, too many meetings ('where minutes are kept and hours are lost'), too many statistics
  - Believing strategy is substitute for action
- ❑ Strategy as risk control
  - Minimizing risk, playing safe is sub optimization
  - Continuous innovation (but payoffs are also less unlike in disruptive / radical
- ❑ Strategy as short term profit maximization

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## Why strategies fail?



- ❑ Half of all acquisitions fail (separate research studies in 1993/94 by Gadella & Voss)
- ❑ 83 % of largest mergers (N=700) failed between 1996-98 to increase acquirer's shareholder value (KPMG Study)
- ❑ Post merger of Air India with Indian Airlines losses in 2008-09 are Rs 5548 Crores, post merger Kingfisher's (merged with Air Deccan) losses are Rs 1602 Crores (4 times that of before merger).\*

To avoid the above one should carefully consider and decide the following:

- Who will carry out strategic plan
- What must be done to align the company's operation in the new direction?
- How to generate people synergy?

Acknowledgement: Merger pushed AI, Kingfisher into red?, HT Business, 08/03/2010

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## Typical problems in Strategy implementation from Fortune 500 companies




- ❑ Time overrun
- ❑ Cost overrun
- ❑ Unanticipated major problems (unrest due to land acquisitions, change in the government and change in the policy for example)
- ❑ Lack of coordination
- ❑ Competing activities and crises management made the focus on implementation blur
- ❑ Incompetent implementation personnel
- ❑ Inadequately trained lower level employees
- ❑ Uncontrollable external factors
- ❑ Inadequate leadership and direction
- ❑ Poorly defined key implementation tasks and activities
- ❑ Inadequate monitoring by information system

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## Developing programs, budgets and procedures




- ❑ Programs make strategy action oriented
- ❑ Pepsi's Selective Market Domination of Supermarket
  - Instead of fighting it out with Coke in all market places Pepsi chose the super market as the war zone (this experiment was done in Mexico and after being successful, expanded all over, including China & India)
  - This strategy was win-win for Pepsi as well Supermarkets as Frito Lay Snacks and Pepsi served good combo for customers and for supermarkets this product group accounted for 3 % of total market sales, 29 % supermarket cash flow, with 9 % operating margin compared to 2 % for other goods.
- ❑ Comparing proposed program with the existing ones and finding the likely impact this is shown in the 'Matrix of Change'

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## Program - The Matrix of change



- Feasibility
- Sequence of Execution
- Location
- Pace of Nature of Change
- Stakeholder Evaluation

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### Budget

- ❑ The most intricate and sophisticated implementation programs can be found to be impractical when costing details are worked out

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### Procedures

- ❑ Procedures or Standard Operating Procedures (SOP's) – developing, implementing and updating them with policing & monitoring.
- ❑ Consistency over time and locations
- ❑ McDonalds, Wal-Mart, Pepsi are few examples of such successful companies

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### Implementation through structure, values and ideology

- ❑ Organizing for action
  - Staffing
  - Directing
  - Control
- ❑ Issues to be decided
  - Activity grouping
  - Centralization vs decentralization
  - Span of control – tall or flat
  - Discipline (that too with 'Iron fist' otherwise known as top management's approach such as 'My way or highway' or 'Iron fist with velvete gloves') or laid back open culture (executives attending meeting not in a suit but in a T shirt and shorts, Steve Jobs is one such example)
- ❑ Structure follows strategy & strategy follows structure! Some of the prominent structures are - divisional strategy for automobiles, brand management (matrix structure) for FMCG companies like P&G, decentralized structure for industrialized and specialty chemicals like DuPont etc

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### Structure & Strategy \*

Function	Stage I	Stage II	Stage III
Strategy	Implicit & personal, exploitation of immediate opportunities as seen by promoter	Functionally oriented moves, I product company	Growth & product diversification, exploitation of general business opportunities
Example	Cavin Care (early days of Ranganathan), Karsan Bhai on bicycle promoting Nirma, Bill Gates in his garage days,	Oracle, Intel, Infosys,	ITC, DuPont, Tata, GE, GM
Demerit	Crisis of Leadership	Crisis of Autonomy	Crisis of Control, Regional Satraps (J J Irani of Tisco, Ravi Kant of Tata Motors, F C Kohli of TCS in Tata)

\* Also refer to next slide for Stage IV

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### Organization Life Cycle

- ❑ Birth (Stage I)
- ❑ Growth (Stage II)
- ❑ Maturity (Stage III)
- ❑ Decline (Stage IV) or Revival – Beyond SBU, Pressure Cooker Crisis, Godrej branched out to get into office automation (Fax, Photocopiers, Presentation equipments after manual typewriter saw a decline, though Godrej had 70 % market share)

Assignment: Read the following cases:

1. Hayes Corporation (Modem), Wheelan Hunger Rangarajan, Pearson Education, 9<sup>th</sup> Ed, page 184,
2. Arvind Mills, Business World, 13/5/2002

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### McKinsey's 7s framework

- ❑ Developed in the early 1980's
- ❑ Tom Peters and Robert Waterman in *In Search Of Excellence* and *The art of Japanese management* popularised this concept. *In Search Of Excellence* identified seven independent variables which interact with each other in an organization
  - Strategy
  - Structure
  - System
  - Skills
  - Staff
  - Style
  - Shared values

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## Performance Metrics

'What you measure is what you get'

Traditional performance measures:  
 Bottomline (Net profit)  
 Market share or volume (a lot of dot coms chased only growth and got bust)

The first balanced scorecard was created by Art Schneiderman in 1987 at Analog Devices, a mid-sized semiconductor company. Harvard professor Dr. Robert S. Kaplan and David P. Norton developed this in 1992

Reading: Putting the Balanced Scorecard to work, HBR, Sep-Oct 1993, pp 134-147

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## Balanced Scorecard

The Balanced Scorecard attempts to measure performance on:

Customer Perspective		Internal Business Perspective		Innovation and Learning perspective		Financial Perspective			
Goals	Measures	Goals	Measures	Goals	Measures	Goals	Measures		
<b>Customer Perspective</b> Customer lifetime value Customer loyalty •Time •Quality •Cost •Service				<b>Innovation and Learning perspective</b> •Number of new products & sales thereof •Penetration of new market •Improvement in CRM & SCM				<b>Financial Perspective</b> Shareholder value (based on stockholder prices) ROI = Net profit / Total assets Total assets = Fixed + current assets + Intangibles (IPR, Goodwill, Brand Equity)	
<b>Internal Business Perspective</b> •Cycle time •Manufacturing quality •Employee skills •Productivity									

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## Management & Control – Activity based costing (ABC)

- ❑ Rationalizing overheads and apportioning or allocating indirect and fixed costs to individual product or product lines based on the value adding activities going into that product
- ❑ Traditional cost accounting values a companies inventory for financial reporting, unit cost = (direct labor + cost of material + overhead) / Total number of items made during the period
- ❑ Traditional accounting identifies costs according to broad categories of expenses – wages & salaries, employee benefits, supplies maintenance, utilities, travel, depreciation, R & D, interest, general administration and so on
- ❑ ABC involves establishing expense categories for specific value chain activities and assigning costs to the activity responsible for creating the cost. It pinpoints the cost disadvantage of a company compared to its rival, if any.

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## ABC contd...

Traditional cost accounting in Procurement		ABC cost accounting in Procurement	
Wages & salaries	175,000	Evaluate supplier capabilities	67,875
Employee benefits	57,500	Process PO	41,050
Supplies	3,250	Expedite supplier deliveries	11,750
Travel	1,200	Expedite internal processing	7,920
Depreciation	8,500	Incoming matl QC	47,150
Other fixed charges	62,000	Check incoming deliveries against po's	24,225
Misc operating expenses	12,625	Resolve problems, disputes	55,000
Σ	320,075	Internal admin	65,105
		Σ	320,075

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## Customer-Product Profitability Analysis

		Customers			
		C <sub>1</sub>	C <sub>2</sub>	C <sub>3</sub>	
Products	P <sub>1</sub>	+	+	+	Highly profitable product
	P <sub>2</sub>	+			Profitable product
	P <sub>3</sub>		-	-	Losing product
	P <sub>4</sub>	+		-	Mixed-bag product
		High-profit customer	Mixed-bag customer	Losing customer	

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## Strategic Information Systems

- ❑ Information is power, software and automation and in some cases simplicity offers strategic advantage
- ❑ ERP
  - SAP AG
  - Oracle
  - J D Edwards
  - Peoplesoft
  - Baan
  - SSA

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## Quotable quotes

'The only one thing that is constant is change'

'Only paranoid will survive' – Andrew Grove

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## Diagnosing the change situation: The change agents – some positive and some otherwise

- Adoption of areas or practices in which the business unit has little or no experience
  - SME's in India had to acquire ISO certification if they wanted to export
  - Adoption of Bar code if one wants to supply to organized retail
  - Free market economy, LPG (liberalization, privatization and globalization) practices
  - Garment exporters had to furnish certification declaring non use of azo dyes
  - Y2K problem and its resolution
  - Adoption of LOHAS (Lifestyle, Health and Sustainability)
  - Adoption of SHE (Safety, health and environment)
  - Adoption of Carbon Neutral Practices
  - Militant trade unionism
  - Trade blocks, embargo, GI's (geographical indicators)
  - Use and abuse of IPR's (Intellectual Property Rights), Biodiversity issues, gene modified foods
  - Stem Cell Research and allied ethical issues

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## The change agents – some positive and some otherwise

- 4 P's are passe, hail 3 P's (People, Profit and Planet) also known as Triple bottomline (performance as measured by profit, plus some measure(s) of environmental impact and some measure(s) of social impact)
- Climate change
- WTO issues, anti dumping, level playing field,
- Outsourcing
- Increase in Consumer Activism, Regulation, Compliance (SOX – Sorbane-Oxley Act, MRTP Act Monopoly and Restricted Trade Practices Act, Anti-Trust Law, Censor Laws, FDI laws, FIPB laws, Company law boards, income tax foreign remittance, royalty, Corporate governance, fair play and myriad other laws and regulations)
- Technological convergence, shortening of PLC, no PLC at all (as per some school of thought, albeit a radical thought), 'Time to market', 'launch first, fix the bugs later' philosophy
- E-commerce, m-commerce (mobile commerce), internet are game changers
- Merger Mania

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## The change agents – some positive and some otherwise contd...

- Boundary less world, the world is a global village, global outlook, global strategy, local implementation a so called 'glocal' approach ('The Geography is History Now')

Things to do: visit & surf

[www.csuchico.edu/mgmt/strategy/module1/sld032.htm](http://www.csuchico.edu/mgmt/strategy/module1/sld032.htm)

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## Change and strategy

- Broadly there are four types of change
  1. Stability, no change, status quo
    - Population size steady (developed economy), economic growth zero (stagnant economies or poor economies would see invariably explosive population growth)
    - Closed market, less or no competition, much regulation, control (e.g., the license (license, permit, quota) raj of India before 1990's), import restriction
    - Some of the companies encountering business environments with accelerating change but still failing to adapt or change like an ostrich are GM, Sears, Eastman Kodak, IBM, HMT, national Textile Corporation NTC, Hindustan Motors HM (GM kept betting on gas guzzling monsters like Hummer and other SUV's despite Oil Shocks and consumer taste change towards small, fuel efficient and smart cars instead of big and carbon emitting vehicles, they failed to take note of 'Think Small' campaign by Beetle of Volkswagen.

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## Change and strategy (contd...)

### 2. Alteration

Oscillating between stability and change, brief periods of rapid growth interrupted by crises (financial, political, assassinations, power vacuum, power struggle) and periods of contraction

Lat-Am (Latin American) countries

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### Change and strategy (contd...)

3. Continuous change

Rate of change is relatively steady and manageable so that political and social systems can keep pace with the change

The philosophy of Buddha's 'Madhyam Pantha' (The Middle path) not doing something too much, too fast, too radical

Developed world in 1950's, 60's, 90's, India in 1990's when the so called Asian tigers had financial crises we were relatively spared unscathed due to our 'go slow' approach

The GOI's policy in controlling FDI in retail is another such approach, instead of making it a free for all and allowing a bloodbath to decimate all mom and pop store (kirana stores in every nook and corner) the big boys like Wal-Mart, Tesco and Carrefour are forced to come in via JV route or in a B2B format of Cash and Carry like Metro AG of Germany

4. Discontinuous change

Uneven, violent, radical and dramatic like a tsunami, inferno or volcanic eruption takes everybody in surprise; most painful

China in its socialist but still market economy era (recall Deng Xiaoping's famous quote 'we don't care whether the cat is red or not as long as it catches the mice')

US in recession (erstwhile mighty automakers, banks and insurers are getting bankrupt in dozen and their hallowed empires are falling apart like house of cards), Russia in post USSR era

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### Change and strategy - Discontinuous change (contd...)

As far as organizations and businesses are concerned there are some better ways to cope with and anticipate Discontinuous change

- Encouraging entrepreneurship
- Acquiring smaller entrepreneurial companies
- Spreading one's bets on different technologies and remembering 'Success breeds complacency and complacency breeds failure'

In good times there is no need to innovate, 'why bother', 'don't fix it, if it ain't broke' syndrome and in bad times there is no resources to do so, however the difference between a progressive organization and a reactive organization is that the progressive ones try to 'anticipate change' and create a 'warroom' before there is a fire in the backyard, a so called 'creative destruction' as coined by Schumpeter, Intel phases out their hot selling processors before AMD forces them to do it, Gillet develops a Mach Three after Sensor Excel (Twin blades) and even if Schick launches a Quattro (a four blades cartridge) consumers see it redundant and purely a marketing gimmick rather than being a true blue innovation

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### The patching approach

- ❑ The strategy and more so, strategic implementation, is a moving target in a dynamic equilibrium, therefore it needs constant up-dation, review, mid way correction or overhaul lock stock and barrel changes, if necessary.
- ❑ Patching, apparently a pejorative term, is one such approach for keeping strategic implementation in constant mode of flux particularly in an emerging, turbulent market and all growing markets are turbulent!
- ❑ The process by which corporate executives routinely 'remap' their business to match rapidly changing market opportunities – adding, splitting, transferring, exiting or combining chunks of businesses is called patching

Additional reading: "Patching: Restitching Business Portfolios in Dynamic Markets", Kathleen M Eisenhardt & Shona L. Brown, HBR, May-June, 1999, p 77-82

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### The patching approach (contd...)

	Strategic Position	Resources	Patching (Simple Rules)
<b>Strategic Logic</b>	Establish Position	Leverage resources	Pursue opportunities
<b>Strategic Steps</b>	Identify an attractive market, locate a defensible position – competitive advantage, fortify n defend	Establish a vision, build resources, leverage across market	Jump into the confusion, keep moving, wait n watch, seize opportunities and finish strong
<b>Strategic Question</b>	Where should we be?	What should we be?	How should we be?
<b>Source of Advantage</b>	Unique, valuable position with tightly integrated activity system	Unique, valuable inimitable resources	Key processes and unique simple rules
<b>Works best in</b>	Slowly changing, well structured markets	Moderately changing, well structured markets	Rapidly changing, ambiguous market (BRIC, Latin America, East Europe)
<b>Duration of Advantage</b>	Sustained	Sustained	Unpredictable
<b>Risk</b>	Too difficult to alter position as condition change	Too slow to build new resources as conditions change	Too tentative in executing promising opportunities
<b>Performance goal</b>	Profitability	Long term dominance	Growth

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### Managing resistance to change

- ❑ Resistance to change, stated and more damagingly unstated, is the greatest threat to successful strategy implementation, some of them are manifested in the form of
  - Sabotaging production machines
  - Deliberate manufacturing defects
  - Project delay
  - Delivery delay
  - Deliberate documentation error
  - Withholding information, or planting wrong or incomplete information, Absenteeism
  - Filing unfounded grievances and
  - Various forms of non-cooperation

How to implement the changes?

- Forced change strategy
  - Fast but no or low buy-in, back stabbing or silent non co-operation quite possible, low commitment, high resistance
- Educative change strategy
  - Slow but steady, high commitment, low resistance
- Rational or self interest strategy
  - Convincing personnel that the change is in their personal interest

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### Strategic leadership – some typical roles

- ❑ Take charge, torch bearer leadership
  - Alexander, Subhash Bose, Rani Laxmibai of Jhansi
- ❑ Being a spark plug or catalyst, Hands on
  - Thomas Alva Edison, Amar Bose, Kiran Mazumdar, Karshan Bhai Patel
- ❑ Ramrodding things through, Dictator
  - Jack Welch, Idi Amin, Hitler (Shoot first, ask question later style), Richard Nixon
- ❑ Cheerleader, flamboyant showmanship
  - Roman Abramovich (for Chelsea), Shah Rukh Khan & Preity Zinta for their respective IPL teams
  - Richard Branson launching Virgin brand in Mumbai riding an elephant
- ❑ Crisis manager, fire fighter
  - Winston Churchill in WWII, Indira Gandhi in 1971 war
- ❑ Participative, listener, silent interventionist
  - Jeff Immelt

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## Strategic leadership – some typical roles



- Indifferent, Incapable
  - Nero of Rome playing fiddle while the city was burning
  - Mary Antoinette of France (let 'em have cake if they don't have bread)
  - Robert Mugabe of Zimbabwe manufacturing 15000 % inflation!
  - The typical Nawab in Satyajit Ray's Shatranj Ke Khiladi mulling a move to capture opponent's King in Chess where his own children and the whole kingdom was getting captured in real life
- Mentor, Guru, advisor, chairman emeritus
  - Machiavelli, Chanakya, Sun Tzu, Narayan murthy & Bill Gates in their later part of career

Except that of Indifferent and Incapable style all other roles are par the course, any one can be adopted depending on the situation and context, different strokes for different folks, time and market

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## Strategic leadership (contd...)



- Strategic Intent or Vision
  - Leaders' clear sense of where they want to lead their company and what results they expect to achieve, in a beautifully short and simple way
  - The then IBM CEO Lou Gerstner transformed the company from a computer company to business solution management company a paradigm shift from hardware to software, a change from product approach (a black box) to a solution approach
  - Sam Walton's (Wal Mart) simple vision was to provide 'value to the customer' (EDLP – every day low pricing is a mean to that end)
  - Meg Whitman's (eBay) aim is 'to help you buy or sell anything, anywhere, anytime'

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## Strategic leadership (contd...)



- Earlier people thought R & D, innovation is so high tech, sacrosanct, holy cow that you can't touch it, can't question it for ROI, time to market what to talk of outsource, Alan Lafley of P & G blew that myth and made the focus outward for innovative ideas and not inward ('invent it here')
- Coke's Robert Gouzieta said 'our company is a global business system for which we raise capital to make concentrate and sell it at an operating profit. Then we pay the cost of that capital. Shareholders pocket the difference.' Coke averaged 27 % annual return on stockholder equity for 18 years under his leadership. Also he urged his employees / associates to consider tea / coffee / *nariyal paani* to be competitor too other than traditional rivals Pepsi, Cadbury Schweppes, RC Cola and Zamzam Cola (Mecca Cola)

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## Strategic leadership (contd...)



- 'Leaders do not do different things, they do it differently' - Shiv Khera
- In literature also the leaders tried to be different.....
- “Waise to zamane mein hain sukhawar bahut acche lekin Kehte hain ke Ghalib ka hain انداز- e-bayan kuch aur”
- Durk Jager, Alan Lafley's predecessor in P&G started a big bang change process but failed (P&G under his leadership missed earning forecasts, employees bucked under his leadership). Lafley, in one assessment dissected it; "I did not attack...I enrolled them in change"
- Additional reading: Top strategist: Alan G Lafley @ P & G, Strategic Management – Formulation, Implementation & Control, John A Pearce, Richard B Robinson, Amita Mital, pg 396-397, TMH, 10<sup>th</sup> Edition
- Building organization &
    - Education & leadership development
    - Principle ('Do as I do, and as I say' and NOT 'do as I say not do as I do')
    - Perseverance

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## Strategic leadership (contd...)



- Shaping organizational culture
  - Passion
  - Kennedy's ambition to put a man on the moon and bringing him safely back to earth
  - Ratan Tata's dream to make one lac Rs car that rivals ridiculed to be a lemon
  - When Jamshedji Tata started Tisco plant Churchill said '...if Indians can make steel I'll chew it
  - Another case was when Jamesdesji was denied entry into a British owned Hotel in the then Bombay, he started Taj, the epitome of Indian Hospitality, other than fixed assets and working capital one vital ingredient is passion, everything else falls in place, if one works hard and these days works smart
- Recruiting and developing talented leadership with following attributes:
  - Masculine (Strong decision making – 'Hands in the pocket manager' as per Peter Drucker, leading the troops, driving strategy, waging competitive battle, having the killer instinct or getting the killer apps)

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## Strategic leadership (contd...)



- Feminine (Listening, relationship building, nurturing, participative, 'Dirt in the nail' manager as per Drucker with hands-on philosophy)
- David Goleman referred to these characteristics under Emotional Intelligence (Additional readings)
  1. "What makes a leader", D Goleman, HBR, Nov Dec, 1998, pg 93-102
  2. The work of leadership, Ronald A. Heifetz & Donald L Laurie, HBR, 75, no 1, Jan - Feb, 1997, pg 124-134
  3. The ways Chief Executive Officers lead, Charles M Farkas & Suzy Wetlaufer, HBR, 74, no 3, May - Jun, 1996, pg 110-122
  - Self awareness
    - An unprejudiced estimation of own strength & weakness
  - Self management
    - Control, integrity, initiative, tenacity, achievement orientation
  - Social awareness
    - Sensing others' emotion (empathy)
    - Reading the organization (Organization Awareness)
    - Recognizing customers' needs (service orientation)

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## Strategic leadership (contd...)



- Social skills
  - Influencing & inspiring others
  - Communicating
  - Collaborating
  - Building relationship
  - Managing Change & conflict

Conflict of opinion rather than conflict of personality is a healthy sign as long as 'everybody agrees to disagree agreeably', consensus is welcome but in real world if consensus and more importantly real consensus can not be built, a forced consensus or even an imposed decision is better than no decision or procrastination (a la Narasimha Rao approach wherein a problem is allowed to linger on so on that it ceases to be there or it resolves itself!)

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## Strategic leadership (contd...)



Many leaders and organizations are doing more than offering lip services towards the importance of their Human Capital.

Treating employees (knowledge workers as well as blue collar white collar and no collar those with contractors, DSA's etc. ) with respect and dignity is not symbolic in these companies. Employees are:

Cast Members – Disney

Crew members – Mc Donalds

Co workers – Kinko's and CDW Computer Centres

Jobowners – Graniterock

Partners – Starbucks

Associates – Wal-Mart, Lenscrafters, W L Gore, Edward Jones, Publix Supermarkets, Marriott International

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## Power and politics



- Organizational power
  - Position power (coming from hierarchy or special delegation or being in the coterie or inner circle, )
  - Reward power (carrot policy, Vitamin M, money is the best motivator or some other inducements including kind, 'if you can't beat them buy them')
  - Information power or Expert power
    - Info and expertise are not necessarily same, info is your hold on some development and one just guards it from being distributed expertise is more than information only may be the information is created by one's own knowledge or research
  - Punitive or coercive (stick policy or Kita (kick in the ass) theory, fear is the best motivator in this school of thought)

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## Case Study



Strategic Management – Formulation, Implementation & Control,  
John A – Pearce, Richard B Robinson, Amita Mital, pg 418 - 424, TMH, 10<sup>th</sup>  
Edition

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