STRATEGY: Core Concepts and Analytical Approaches
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2nd Edition

CHAPTER
11 Managing Internal Operations: Actions That Promote Good Strategy Execution

PowerPoint Presentation by Charlie Cook
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Chapter 11 Learning Objectives

1. Learn why resource allocation should always be based on strategic priorities.
2. Understand why policies and procedures should be designed to facilitate good strategy execution.
3. Understand why and how benchmarking, best-practices adoption, and tools for continuously improving the performance of value chain activities help an organization achieve operating excellence and superior strategy execution.
4. Understand the role of information and operating systems in enabling company personnel to carry out their strategic roles proficiently.
5. Learn how and why the use of well-designed incentives and rewards can be management's single most powerful tool for promoting proficient strategy execution and operating excellence.

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Chapter 11 Roadmap

- Marshaling Resources Behind the Drive for Good Strategy Execution
- Instituting Policies and Procedures that Facilitate Strategy Execution
- Adopting Best Practices and Striving for Continuous Improvement
- Installing Information and Operating Systems
- Using Rewards and Incentives to Promote Better Strategy Execution

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Marshaling Resources Behind the Drive for Good Strategy Execution

- Good strategy execution requires that top management be deeply involved in directing the proper kinds and amounts of resources to the firm's various organization units
  - ► Both strategy changes and efforts to improve execution of an existing strategy typically entail *shifts in budget priorities* and *reallocation of company resources*
    - Some units/activities may need more funding/resources
    - Other units/activities may need less funding/resources
- It is management's job to see that organizational units have the operating budgets and resources to effectively and efficiently execute their respective parts of the strategic plan
  - ► Too little funding slows progress and impedes good execution
  - ► Too much funding of particular organizational units and value chain activities wastes resources and reduces financial performance

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Guidelines for Allocating Resources to Promote Good Strategy Execution

The funding requirements of good strategy execution must drive the size of each unit's operating budget and how capital allocations are made.

A company's operating budget must be both *strategy-driven* (in order to amply fund competent performance of strategy-critical value chain activities) and *lean* (in order to operate as cost-efficiently as possible).

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Instituting Policies and Procedures that Facilitate Strategy Execution

- A firm's policies and procedures can either support or hinder good strategy execution.
- Any time a firm moves to put new strategy elements in place or improve its strategy execution capabilities, changes in work practices and the behavior of personnel are called for.
- Prescribing new or updated policies and operating procedures facilitates strategy execution in three ways:
  - ► By providing top-down guidance regarding how certain things need to be done.
  - ► By helping enforce needed consistency in how execution-critical activities are performed in geographically scattered operating units.
  - ► By promoting the creation of a work climate that facilitates good strategy execution.

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Core Concept

Well-conceived policies and procedures aid strategy execution; out-of-sync ones are barriers.

New strategy elements often call for new or different policies and procedures to help promote desired changes in work practices and/or the behavior of company personnel.

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Figure 11.1 How Prescribed Policies and Procedures Facilitate Strategy Execution

Prescribing policies and procedures

- Provides top-down guidance about how certain things need to be done
  - Helps align the actions and behavior of company personnel with the requirements for good strategy execution
  - Places limits on independent action and helps overcome resistance to change
  - Channels individual and group efforts along a strategy-supportive path
- Helps enforce consistency in how strategy-critical activities are performed in geographically scattered organization units
- Promotes the creation of a work climate that facilitates good strategy execution

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Rigid Policies or Room for Independent Action?

- An important policy-making issue concerns which activities need to be rigidly prescribed and which activities ought to allow room for independent action on the part of empowered personnel
- Too much policy can erect as many obstacles as wrong policy or be as confusing as no policy. There is wisdom in a middle-ground approach:
  - *Prescribe enough policies to give organization members clear direction and to place necessary boundaries on their actions yet empower them to act sensibly within the set boundaries*
  - Allowing company personnel to act anywhere between the "white lines" is especially appropriate when individual creativity and initiative are more essential to good strategy execution than standardization and conformity
- Instituting strategy-facilitating policies can therefore mean
  - More policies, fewer policies, or different policies
  - Policies that require things to be done a certain way or policies that give employees leeway to do activities the way they think best

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Core Concept

A best practice is a means of performing an activity or process that yields results consistently superior to those realized via alternative methods.

For a method of performing an activity or business process to qualify as a legitimate *best practice*, the method must be *unusually effective* in:

- Significantly lowering costs
- Improving quality or performance
- Shortening time requirements or enhancing safety
- Delivering other highly positive outcomes

A best practice can evolve over time as improvements are discovered.

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Adopting Best Practices and Striving for Continuous Improvement

- Managers can promote competent strategy execution *by pushing organization units and personnel to identify and adopt the best practices for performing value chain activities* and, further, insisting on *continuous improvement in how internal operations are conducted*
- **Benchmarking** a firm's performance of particular activities and business processes *against "best-in-industry" and "best-in-world" performers* is a powerful tool for gauging *how well a firm is executing pieces of its strategy*
- Benchmarking provides yardsticks for
  - Judging the effectiveness and efficiency of internal operations
  - Setting performance standards for organization units to meet or beat
  Wide-scale use of best practices across a company's entire value chain promotes operating excellence and good strategy execution.

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How the Process of Identifying and Incorporating Best Practices Works

- Because using best practice methodology to perform an activity produces superior outcomes, those outcomes serve as a benchmark or standard for determining how well a particular organization performs that activity
- The role of benchmarking is to:
  - Look outward to find best practices of other firms
  - Develop the data for measuring how well a company's own performance of the activity compares to the best-practice standard.
- Then the company must
  - Adapt the best practice used by others to fit its own circumstances,
  - Implement its customized version of the best practice
  - Continue to track how well its performance outcomes compare to those achieved elsewhere

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**Best Practice Adoption + Benchmarking =
Powerful Tools for Achieving Operating Excellence**

- To the extent that a company is able to successfully adapt a best practice methodology pioneered elsewhere to fit its circumstances, it is likely to improve its performance of the activity, perhaps dramatically—an outcome that promotes better strategy execution.
- As a company *implements the use of best practices across more and more of its value chain activities* and *as benchmarking data confirms that superior outcomes are being achieved, it moves* toward performing its value chain activities *more effectively and efficiently*.

  This is what good strategy execution and operating excellence are all about.

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Figure 11.2   From Benchmarking and Best-Practice Implementation to Operating Excellence

Participate in benchmarking to identify the "best practice" for performing an activity → Adapt the "best practice" to fit the company's situation, then implement it → Continue to benchmark company performance of the activity against "best-in-industry" or "best-in-world" performers → Move closer to operating excellence in performing the activity

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Business Process Reengineering, Six Sigma Quality Programs, and TQM: Tools for Promoting Operating Excellence

- *Three other potent management tools* for promoting operating excellence and better strategy execution are:
  - ► Business process reengineering
  - ► Total quality management (TQM) programs
  - ► Six Sigma programs

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Business Process Reengineering

- When the *strategically relevant activities* are distributed piecemeal across several functional departments:
  - ► *Inefficiencies are created and optimal performance is impeded*
  - ► *Accountability is lacking* since no one functional manager is responsible for optimum performance of an entire activity
- *Solution ➡ Business Process Reengineering*
  - ► Involves *redesigning* and *streamlining* workflows and various work process steps, with the *goal of achieving quantum gains in performance* of the activity
  - ► Often leads to the establishment of *process departments* and/or *cross-functional work groups that unify performance of activities,* improving overall performance and lowering costs which *promotes operating excellence*

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Core Concept

Business process reengineering involves radically redesigning and streamlining how an activity is performed, with the intent of achieving *quantum improvements* in performance.

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Total Quality Management Programs

- A *philosophy of managing* a set of business practices that emphasizes:
  - ► Continuous improvement in all phases of operations
  - ► 100 percent accuracy in performing tasks
  - ► Involvement and empowerment of employees at all levels
  - ► Team-based work design
  - ► Benchmarking
  - ► Total customer satisfaction

  TQM entails creating a total quality culture bent on continuously improving the performance of every task and value chain activity.

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Core Concept

TQM entails creating a total quality culture bent on continuously improving the performance of every task and value chain activity.

TQM stresses *ongoing incremental progress,* striving for inch-by-inch gains again and again in a never-ending stream.

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How TQM Works

- Implementing and executing a TQM program involves reforming the firm's culture and shifting to focus on a total quality/continuous improvement philosophy
  - ► Aims to instill enthusiasm and commitment to doing things right from the top to the bottom of the organization
  - ► Management's job is to kindle an ongoing search for ways to improve
  - ► TQM doctrine proclaims **there's no such thing as "good enough"** and that **everyone** has a responsibility to participate in **continuous improvement**
  - ► TQM is a **race without a finish**—success comes from making little steps forward each day
- TQM **takes a fairly long time to show significant results**—very little benefit emerges in the first six months

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Business Process Reengineering versus TQM

- Business process reengineering aims at one-time quantum improvement

- TQM aims at ongoing incremental improvements

- Reengineering can be used first to produce a good basic design that yields quick dramatic improvements in performing a business process

- TQM can then be used as a follow-on to achieve gradual improvements beyond the one-time quantum gain

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Six Sigma Programs

- Six Sigma techniques entail the use of **advanced statistical methods** to identify and remove the causes of defects (errors) and undesirable variations in performing an activity or business process

- When performance of an activity or process reaches "Six Sigma quality," there are not more than **3.4 defects/errors per million iterations** (equal to **99.9997% accuracy**)

- The statistical thinking underlying Six Sigma is based on three principles:
  1. **All work is a process**
  2. **All processes have variability**
  3. **All processes create data that explains variability**
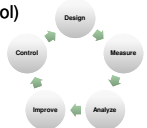
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Core Concept

Six Sigma programs utilize advanced statistical methods to enable an activity or process to be performed with 99.9997 percent accuracy—*fewer than 3.4 million defects per million iterations*

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Two Main Types of Six Sigma Programs

- **DMAIC process**
  (Design, Measure, Analyze, Improve, Control)
  - ► An improvement system for **existing processes** falling below specification and needing incremental improvement
  - ► A tool **for improving performance** when there are **wide variations** in how well an activity is performed
- **DMADV process**
  (Define, Measure, Analyze, Design, Verify)
  - ► An improvement system used to develop **new processes** or **products** at Six Sigma quality levels

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The Challenges of Successfully Employing Six Sigma Programs

- An enterprise that systematically applies Six Sigma methods to its value chain, activity by activity, can make major strides in improving the proficiency with which its strategy is executed *provided:*
  - ► Top management is genuinely committed to employing Six Sigma programs and methods of operating
  - ► Senior management spends the time it takes to establish and nurture a Six Sigma-style quality culture
  - ► Management is able to fully involve employees and train adequate numbers of Six Sigma green belt, black belt, and master black belt personnel to conduct the Six Sigma programs competently

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A Drawback of Six Sigma Programs

- There is evidence that Six Sigma techniques stifle innovation and creativity
- A big strength of Six Sigma techniques is developing and improving how activities and processes are performed, but such creative processes as R&D and new product development involve (or require):
  - ► Outside-the-box brainstorming
  - ► Trial-and-error experimentation
  - ► Innovative exploration of ideas and approaches, with many being discarded and those that appear promising going through multiple testing, revisions, and prototyping to identify what works best
- Thus, many Six Sigma users have backed off using strict Six Sigma procedures for activities where company personnel need free rein to discover new and better ways of doing things

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Capturing the Benefits of Initiatives to Improve Operations

- Benchmarking, the adoption of best practices, business process reengineering, TQM, and Six Sigma techniques all are capable of helping a firm:
  - ► Execute its strategy proficiently
  - ► Improve the performance of value chain activities.
- Not only do improvements from such initiatives add up over time and strengthen organizational capabilities, they also *help build a culture of operating excellence*

  All this lays the groundwork for gaining a sustainable competitive advantage because the long-term benefits of such programs are hard for competitors to imitate.

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Installing Information and Operating Systems

- State-of-the-art operating systems and real time data
  - ► Help strengthen operating capabilities and improve the performance of value chain activities
  - ► Are integral to competent strategy execution and operating excellence
- May provide a competitive advantage if they give a firm capabilities that rivals cannot match

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Example: Execution-Critical Support Systems at Airline Companies

- On-line reservation system
- Accurate and expeditious baggage handling system
- Strict maintenance program aircraft

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Example: Execution-Critical Support Systems at FedEx

- Internal communication systems allowing it to coordinate 90,000 vehicles handling an average of 8.5 million packages per day
- Leading-edge flight operations systems allow a single controller to redirect many FedEx aircraft at once, overriding their flight plans should weather or other contingencies arise
- E-business logistics management tools that allow for customers to ship and track their packages online

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Other Examples of Execution-Critical Support Systems

- Amazon.com
  - ► Global network of warehouses where computers control order-picking by sending signals to wireless receivers
- eBay
  - ► Systems for real-time monitoring of new listings, bidding activity, Web site traffic, and page views
- Otis Elevator
  - ► Sophisticated support systems for monitoring, maintaining, and repairing elevators and escalators

amazon.com

eBaY

OTIS
THE WAY TO GREEN™

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The Importance of Real-Time Information and Performance Tracking

- Accurate and timely information about daily operations is essential if managers are to gauge how well the strategy execution process is proceeding. Information systems need to cover five broad areas:
  - ► Customer data
  - ► Operations data
  - ► Employee data
  - ► Supplier/partner/collaborative ally data
  - ► Financial performance data
- All key strategic performance indicators must be tracked and reported in real time where possible

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The Importance of Real-Time Information and Performance Tracking

- Real-time Information Systems
  - ► Permit timely tracking of key performance indicators across all aspects of the business
  - ► Allow managers to gather and review information rapidly, to quickly identify and diagnose problems, and to take corrective actions
  - ► Enable gauging of how well the strategy execution process is proceeding
  - ► Provide a means for managers to exercise control over operations
  - ► Provide empowered personnel with information essential to performing their jobs (responding to customer inquiries, providing personalized customer service)
  - *Amazon CEO Jeff Bezos, a proponent of managing by the numbers, says: "The trouble with most corporations is that they make judgment-based decisions when data-based decisions could be made."*

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Using Rewards and Incentives to Promote Better Strategy Execution

- It is essential that personnel be enthusiastically committed to executing strategy and achieving performance targets
- Enlisting such organization commitment requires an assortment of motivational techniques and rewards
  - ► *Just talking* about how important new operating practices and the achievement of performance targets are to the firm's well-being *seldom commands people's best efforts* for very long
  - *The use of incentives and rewards is the single most powerful tool management has to win strong employee commitment to diligent, competent strategy execution and operating excellence*

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Core Concept

A properly designed reward structure is management's *single most powerful tool* for mobilizing organizational commitment to successful strategy execution.

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Incentives and Motivational Practices that Facilitate Good Strategy Execution

- Providing attractive financial compensation
- Providing attractive perks and fringe benefits
- Making liberal use of non-monetary carrot-and-stick incentives
- Relying on promotion from within whenever possible
- Stating the strategic vision in inspirational terms that make employees feel they are a part of doing something very worthwhile in a larger social sense
- Having knockout facilities

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Components of an Effective Reward System

Monetary Incentives
- ► Base pay increases
- ► Performance bonuses
- ► Profit sharing plans
- ► Stock options
- ► Retirement packages
- ► Piecework incentives

Non-Monetary Incentives
- ► Praise/constructive criticism
- ► Special recognition
- ► More/less job security
- ► Stimulating or dead-end job assignments
- ► More/less autonomy
- ► Rapid/slow promotion

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Examples of Motivational and Compensation Practices

Google
- Free food
- Unlimited ice cream
- Pool/Ping-Pong tables
- Free massages
- Allowed to spend 20% of their work time on any outside activity

LINCOLN ELECTRIC®
- Rewards productivity by paying for each piece produced (defects can be traced back to worker).
- Highest rated workers receive piecework bonuses of as much110% of their base pay.

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Striking the Right Balance between Rewards and Punishment

- Elements of both are necessary
  - ► It is unwise to:
    - • Take off the pressure for good individual and group performance
    - • Play down the adverse consequences of shortfalls in performance.
  - ► *There is no evidence that a no-pressure/no-adverse-consequences work environment leads to superior strategy execution or operating excellence*
- But positive approaches should be the main focus
  - ► *Too much stress, internal competitiveness, job insecurity, and unpleasant consequences can have a counterproductive impact on workforce morale and strategy execution*

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Linking Rewards to Achieving the Right Outcomes

- A firm must emphasize rewarding people for achieving good results, not for dutifully performing assigned tasks
  - ► Focus must be on *"what to achieve"*, *NOT ON "what to do"*
  - ► *Reward* people *for results*, not *for activity*
  - ► Which *performance measures* to base incentive compensation on depends on *the situation*—the priority placed on various financial and strategic objectives, requirements for strategic and competitive success, and how to keep strategy execution on track

  Every organization unit, every manager, every team or work group, and perhaps every employee must be held accountable for achieving outcomes that contribute to good strategy execution and business performance

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Linking the Reward System to Performance Outcomes

- *Tying rewards to the achievement of strategic and financial performance targets is management's single most powerful tool to win the commitment of company personnel to effective strategy execution*
- *Generously reward* people who meet or beat performance targets
- *Deny rewards* to those who don't
  - ► Incentives should never be paid for "making the effort", "doing a good job" or "working hard"

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Core Concept

Incentives must be based on accomplishing the right results, not on dutifully performing assigned tasks.

People should never be given extra compensation or special rewards just because they are "doing a good job" or "work hard."

Incentive compensation should always be tied to achieving performance outcomes directly linked to good strategy execution and good financial performance.

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Guidelines for Designing Effective Incentive Compensation Systems

- Make the performance payoff a major, not minor, piece of the total compensation package
- Have incentives that extend to all managers and all workers, not just top management
- Administer the reward system with scrupulous objectivity and fairness
- Make sure that the performance targets each individual or team is expected to achieve involve outcomes that the individual or team can personally affect
- Keep the time between achieving the target performance outcome and the payment of the reward as short as possible
- Absolutely avoid skirting the system to find ways to reward effort rather than results

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Core Concept

The unwavering standard for judging whether individuals, teams, and organizational units have done a good job must be *whether they meet or beat performance targets that reflect good strategy execution.*

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Questions for Company Co-Managers

- What specific actions has your company taken to manage internal operations in ways that promote good strategy execution and operating excellence?
- What evidence can you cite that indicates your company is making reasonable progress toward achieving *operating excellence*?
- Is there hard evidence (from the industry-wide benchmarking data and other operating statistics) that your company is *not* as close to achieving operating excellence as are certain rival companies?

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