

STRATEGY Core Concepts and Analytical Approaches
Arthur A. Thompson
The University of Alabama
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CHAPTER 11 Managing Internal Operations:
Actions That Promote Good
Strategy Execution

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“Winning companies know how to do their work better.”

— Michael Hammer and James Champy

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“Companies that make best practices a priority are thriving, thirsty, learning organizations. They believe that everyone should always be searching for a better way. Those kinds of companies are filled with energy and curiosity and a spirit of can-do.”

— Jack Welch,
former CEO,
General Electric

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“If you want people motivated to do a good job, give them a good job to do.”

— Frederick Herzberg

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“You ought to pay big bonuses for premiere performance . . . Be a top payer, not in the middle or low end of the pack.”

— Lawrence Bossidy,
former CEO,
Honeywell International

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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

- Steering Needed Resources to Execution-Critical Activities
- 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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Managers and Strategy Execution

- Managerial actions that support good strategy execution:
 - ▶ Steering the needed resources to execution-critical value chain activities.
 - ▶ Instituting policies and procedures that facilitate strategy execution.
 - ▶ Adopting best practices and pushing for continuous improvement in how value chain activities are performed.
 - ▶ Installing information and operating systems that enable personnel to carry out their strategic roles proficiently.
 - ▶ Using rewards and incentives to promote good strategy execution and the achievement of strategic and financial targets.

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Steering Needed Resources to Execution-Critical Activities

- Good strategy execution requires:
 - ▶ Top management involvement in directing the proper kinds and amounts of resources to various organizational units so that the units can effectively and efficiently execute their parts of the strategic plan.
 - ▶ Changes in strategy and execution efforts cause shifts in budget priorities and resource reallocations to occur as some units and value chain activities need more or less funding and resources
 - Too little funding slows progress and impedes good execution
 - Too much funding wastes resources and reduces financial performance

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Core Concept

Good strategy execution requires steering the proper kinds and amounts of resources to the enterprise's various organization units and strategy-critical value chain activities.

Underfunding organizational units and activities pivotal to strategic success impedes the process of implementing and executing strategy.

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Guidelines for Allocating Resources to Promote Good Strategy Execution

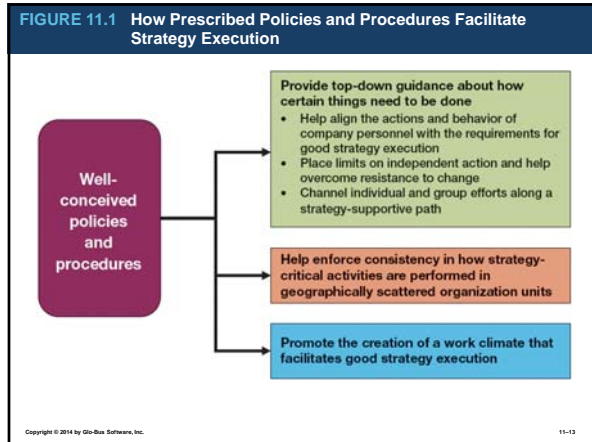
- The size of each unit's operating budget and how capital allocations are made are driven by the requirements of good strategy execution.
- A firm's operating budget must be:
 - ▶ Strategy-driven in order to amply fund competent performance of strategy-critical value chain activities
 - ▶ As lean as possible to operate cost-efficiently.

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Instituting Policies and Procedures That Facilitate Strategy Execution

- When a firm puts new strategy elements in place or improve its strategy execution capabilities, some changes in work practices and behavior of personnel are usually called for.
- Well-conceived policies and procedures facilitate good strategy execution by:
 - ▶ Providing top-down guidance in how things need to be done
 - ▶ Helping enforce needed consistency in how execution-critical activities are performed in geographically scattered operating units
 - ▶ Promoting the creation of a work climate that facilitates good strategy execution

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Core Concept

A company's policies and procedures can either support or hinder good strategy execution. Well-conceived policies and procedures aid strategy execution; out-of-sync ones are barriers.

Instituting strategy-facilitating policies can mean more policies, fewer policies, or different policies. It can mean policies that require things to be done a certain way or policies that give employees some leeway between the white lines.

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Rigid Policies or Room for Independent Action?

- One of the big policy-making issues concerns what activities need to be rigidly prescribed and what 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 desirable boundaries on their actions, then empower them to act within these boundaries however they think makes sense.

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 strict conformity.

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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

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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, it must be unusually effective in:

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

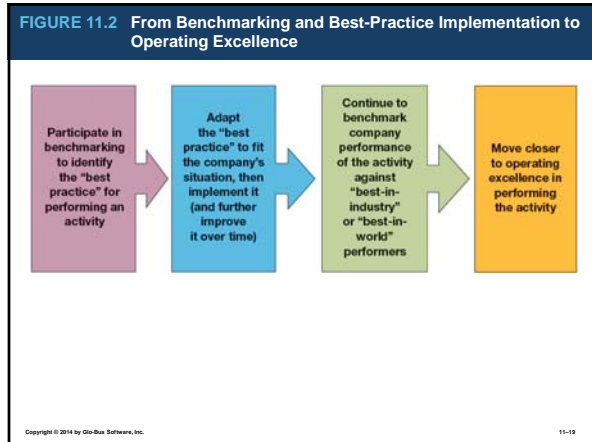
A best practice can evolve over time as improvements are discovered.

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How the Process of Identifying and Incorporating Best Practices Works

- The role of benchmarking is to:
 - Look outward to find best practices of other firms
 - Develop measures of how well the firm's performance of the activity compares to the best-practice standard
- Then the firm must
 - Adapt** the best practices 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

- Successfully adapting a best practice methodology improves a firm's performance of that activity, perhaps dramatically—an outcome that promotes better strategy execution
- Benefits of best practices and benchmarking
 - ▶ Using best practices extensively in value chain activities increases both the effectiveness and the efficiencies of those activities
 - ▶ Benchmarking data confirms the achievement of superior outcomes in the performance of value chain activities

Wide-scale use of best practices across a company's entire value chain promotes operating excellence and good strategy execution.

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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 **strategically relevant activities** are distributed piecemeal across 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 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 in turn **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 focused 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 focusing 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
 - ▶ Involves an ongoing search for ways to improve
- **TQM doctrine**
 - ▶ There is no such thing as "good enough" and everyone has a responsibility to participate in continuous improvement
 - ▶ TQM is a race without a finish—success comes from making small 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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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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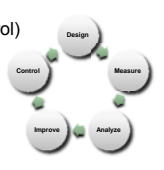

Core Concept

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

- **DMACI 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

- Six Sigma techniques can stifle innovation and creativity
- The strength of Six Sigma techniques is developing and improving how activities and processes are performed, but creative processes such 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
- Six Sigma users have backed off using strict Six Sigma procedures for activities where personnel need free rein to discover new and better ways of doing things

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The Difference between Business Process Reengineering and Continuous Improvement Programs

- Business process reengineering aims at one-time quantum improvement whereas 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 is then used as a follow-on to achieve gradual improvements beyond the one-time quantum gain

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Capturing the Benefits of Initiatives to Improve Operations

- Benchmarking, adoption of best practices, business process reengineering, TQM, and Six Sigma techniques all help a firm:
 - ▶ Execute its strategy proficiently
 - ▶ Improve the performance of value chain activities
 - ▶ Strengthen organizational capabilities
 - ▶ Build a culture of operating excellence
 - ▶ Use the long-term benefits of such programs to create a sustainable competitive advantage that is hard for competitors to imitate.

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Core Concept

The purpose of using benchmarking, best practices, business process reengineering, TQM, and Six Sigma programs is **to improve how value chain activities are performed and thereby execute the strategy more proficiently**, possibly even winning an operations-based competitive advantage.

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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
 - ▶ Provide a competitive advantage by giving a firm capabilities that rivals cannot match



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Core Concept

State-of-the-art operating systems and real-time data are integral to competent strategy execution and operating excellence. They can also be a basis for competitive advantage if they give a firm capabilities that rivals can't match.

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Example: Execution-Critical Support Systems at FedEx

- Internal communication systems that coordinate 90,000 vehicles handling an average of 10 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 allow customers to ship and track their packages online



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Example: Execution-Critical Support Systems at Airline Companies

- On-line reservation system
- Accurate and expeditious baggage handling system
- Strict aircraft maintenance program
- System for tracking and reporting flight arrivals and departures








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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
- Otis Elevator
 - Sophisticated support systems for monitoring, maintaining, and repairing 2.5 million elevators and escalators

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The Importance of Real-Time Information and Performance Tracking

- 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 Benefits 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 managers to gauge how well the 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

An effectively designed system of incentives and rewards is a very powerful management tool for winning employee commitment to diligent, competent strategy execution and operating excellence.

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Core Concept

A well 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
- Relying on promotion from within whenever possible.
- Inviting and acting on ideas and suggestions from employees.
- Giving awards and public recognition to high performers and showcasing company successes.
- Creating a work atmosphere in which there is genuine sincerity, caring, and mutual respect among workers and between management and employees.
- Stating the strategic vision in inspirational terms that make employees feel they are doing something worthwhile in a larger social sense.
- Having knockout facilities

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Components of an Effective Reward System

<ul style="list-style-type: none"> ▪ Monetary Incentives <ul style="list-style-type: none"> ▶ Base pay increases ▶ Performance bonuses ▶ Profit sharing plans ▶ Stock options ▶ Retirement packages ▶ Piecework incentives 	<ul style="list-style-type: none"> ▪ Non-Monetary Incentives <ul style="list-style-type: none"> ▶ Praise/constructive criticism ▶ Special recognition ▶ More/less job security ▶ Stimulating or dead-end job assignments 
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Striking the Right Balance between Rewards and Punishment

- There is scant evidence that a no-pressure/no-adverse-consequences work environment leads to superior strategy execution or operating excellence. Hence, it is unwise to:
 - ▶ Take off the pressure for good individual and group performance
 - ▶ Play down the adverse consequences of shortfalls in performance
- Nonetheless, it is usually best to emphasize positive rather than negative approaches
 - ▶ *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


- 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**
 - ▶ Performing assigned tasks is **not** equivalent to achieving intended outcomes

Every organization unit, manager, team or work group, and 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 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 must never be given rewards just because they are “doing a good job” or “work hard.”

Incentive compensation must 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 so as to promote good strategy execution and operating excellence?
- What evidence 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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