Chapter 11

Managing Internal Operations—Actions that Promote Good Strategy Execution

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Chapter 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.

The Key Topics Covered in Chapter 11

- 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
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 enterprise'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 organizational resources and reduces financial performance.

Instituting Policies and Procedures that Facilitate Strategy Execution

- A company's policies and procedures can either assist the cause of good strategy execution or be a barrier.
- Any time a company moves to put new strategy elements in place or improve its strategy execution capabilities, some changes in work practices and the behavior of company personnel are usually called for.
- Prescribing new or different policies and operating procedures can aid better strategy execution in three ways:
  - Instituting new policies and procedures provides top-down guidance regarding how certain things now need to be done.
  - Policies and procedures help enforce needed consistency in how particular strategy-critical activities are performed in geographically scattered operating units.
  - Well-conceived policies and procedures promote the creation of a work climate that facilitates good strategy execution.

Figure 11.1 How Prescribed Policies and Procedures Facilitate Strategy Execution

- 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
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 is as bad or confusing as wrong policy or no policy.
- There is wisdom in a middle 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.
- 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

Adopting Best Practices and Striving for Continuous Improvement

- Managers can promote competent strategy execution by pushing organization units and company 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 company’s performance of particular activities and business processes against “best-in-industry” and “best-in-world” performers is a powerful and revealing gauge of how well a company 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.

The Importance of Adopting Best Practices

- A best practice is a technique for performing an activity or business process that at least one company has demonstrated works particularly well.

  - To qualify as a legitimate best practice, the technique must have a proven record in significantly lowering costs or improving quality or performance or shortening time requirements or enhancing safety or delivering some other highly positive outcome.

- Adoption of best practices is a path to operating excellence.
Benchmarking is the backbone of the process of identifying, studying, and implementing outstanding practices.

Benchmarking
- Looks outward to find best practices and then
- Proceeds to develop the data for measuring how well a company’s own performance of an activity stacks up against the best-practice standard.

In striving for operating excellence, many companies have also come to rely on three other potent management tools:
- Business process reengineering
- Total quality management (TQM) programs
- Six Sigma programs
**Chapter 11 PowerPoint Slides**

**Strategy: Core Concepts and Analytical Approaches**

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**Business Process Reengineering**
- Often the performance of strategically relevant activities is scattered across several functional departments
- Creates inefficiencies and often impedes performance
- Results in lack of accountability since no one functional manager is responsible for optimum performance of an entire activity
- **Solution**: Business process reengineering
  - Involves redesigning and streamlining the workflow and various work steps, with the goal of achieving quantum gains in performance of the activity
  - Often leads to establishment of process departments or cross-functional work groups
  - Unifies performance of the activity
  - Improves how well activity is performed and often lowers costs
  - Promotes operating excellence

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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 activities
  - 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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**Total Quality Management Programs (continued)**
- TQM involves reshaping the corporate culture to focus on a total quality/continuous improvement business philosophy that permeates every facet of the organization
  - The goal is to instill enthusiasm and commitment to doing things right from the top to the bottom of the organization.
- TQM doctrine *preaches that there’s no such thing as “good enough”* and that everyone has a responsibility to participate in continuous improvement.
  - TQM is thus 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 within the first six months.
- The difference between business process reengineering and continuous improvement programs:
  - Reengineering aims at quantum gains on the order of 30 to 50 percent or more
  - TQM programs stress ongoing incremental progress, striving for inch-by-inch gains in a never-ending stream.
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 the following three principles:
  1. All work is a process
  2. All processes have variability
  3. All processes create data that explains variability

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.

Six Sigma Programs (continued)

- Two 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 great 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

Six Sigma Programs (continued)

- There is evidence that Six Sigma techniques stifle innovation and creativity.
- While one of the big strengths of Six Sigma techniques is developing and improving how activities and processes are performed, such creative processes as R&D and new product development involve
  - Outside-the-box brainstorming
  - Trial-and-error experimentation
  - Exploration of countless 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 programs do not allow or accommodate such “uncontrolled” or free-wheeling actions
- 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.
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 company
  - 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 competitive advantage because the long-term benefits of such programs are hard for firms to imitate.

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 can’t match

Example of Execution-Critical Support Systems

- Online reservation system
- Accurate and expeditious baggage handling system
- Strict aircraft maintenance program
Example of Execution-Critical Support Systems

**Federal Express**
- Internal communication systems allowing it to coordinate 80,000 vehicles handling an average of 7.5 million packages per day
- Leading-edge flight operations systems allow a single controller to direct as many as 200 of 650-plus aircraft simultaneously, overriding their flight plans should weather or other unexpected conditions arise
- E-business tools for customers

Examples of Execution-Critical Support Systems

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

**eBay**
- Systems for real-time monitoring of new listings, bidding activity, Web site traffic, and page views

The Importance of Real-Time Information and Performance Tracking

- Accurate and timely information about daily operations is essential
- Real-time data/information systems
  - Permit timely tracking of key performance indicators across all aspects of the business
  - Allow managers to gather and review information rapidly, quickly identify and diagnose problems, and take corrective actions
  - Enable managers to gauge how well the strategy execution process is proceeding
  - Provide a means for managers to exercise adequate control over operations
  - Provide empowered company personnel with on-screen information essential to performing their jobs (respond to customer inquiries, provide personalized customer service)
- According to Amazon CEO Jeff Bezos, an ardent proponent of managing by the numbers: "The trouble with most corporations is that they make judgment-based decisions when data-based decisions could be made."
A work force that is enthusiastically committed to executing strategy and achieving performance targets is a potent competitive asset. 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 organization’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.

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

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
Examples of Motivational and Compensation Practices

**Google**
Employees are provided with free food, unlimited ice cream, pool and Ping-Pong tables, and complimentary massages. Employees are 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 to worker causing them). Highest rated workers receive bonuses of as much 110% of their piecework compensation.

Balancing Positive vs. Negative Rewards
- **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.

Linking Rewards to the Right Outcomes
- A company must emphasize rewarding people for achieving good results, not for dutifully performing assigned tasks
  - The focus must be on “what to achieve” not on “what to do”
  - Reward people for results, not for activity
  - It is flawed management to tie incentives and rewards to satisfactory performance of duties and activities in hopes that the by-products will be the desired business outcomes and company achievements

Every organization unit, every manager, every team or work group, and perhaps every employee should be held accountable for achieving outcomes that contribute to good strategy execution and business performance.
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 to people because they are “doing a good job” or “work hard”

Guidelines for Designing Effective Incentive Compensation Systems

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