Strategy Implementation & Control

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Exam: only the slides that we have seen in class!

**What does Prof. dr. Sfirtsis find important?**

Tip: If you’ve attended the classes, you can predict where my focus will be.
- integrative holistic thinking!
- human beings that implement strategies not organizations
- change (management) and leadership as one of the most important aspects of strategy execution.
- Structure, culture, management, measures & control are all enablers.
- Strategy execution is for me a continuous daily process and not a periodical planning system like business planning or budget planning. These are just part of it. (it’s all about execution).

That doesn’t mean that it should be his vision/opinion on strategy execution. Challenge him!

- Content is important - so read the prescribed material and your notes of the classes together with your own notes. The last is very important because it’s all about your own interpretation.
- When you read the content, on the critical parts/models/definitions/a.s.o., try to question yourself what is your opinion on this/that. Actually you question the content. It’s just a perspective from a writer or even a professor who presents his vision.
- During the exam and your answering of the questions I want to see that a student can reflect on the content, can think integrative, can discuss the content but also challenge it.
- You have to be capable in linking different concepts with each other (e.g. the change-model of Kotter with the color theory of De Caluwe) or leadership styles with preferent change theories.
- There is no unique adequate answer. Since it’s all about reasoning and the used arguments.

**Possible questions: written exams**

→ Content questions requiring argumentation.
→ Application questions - based an small cases (1 or 2)

1. Reflecting on the change-process of John Kotter, what is the difference in the execution of this change process between blue-print thinking and white-print thinking?
2. Can leadership be taught? Give your argumentation.
3. If a lawyer firm wants to raise the productivity of his employees and position the firm at the high end of the market. Based on the balanced scorecard, what are according to you the most important performance indicators and measures in monitoring the successful strategy execution?
4. If a consulting firm has the ambition to become the firm with the highest added value to its customers. What are the 5 most important developmental lines in order to achieve this ambition?
5. Are you a manager or a leader? Why?
6. If you would become CEO at a company where the forthcoming 2 years, because of market trends, competition and eroding margin, 30% of the employees will be fired. What will be your first step?
7. What is the most adequate organization structure for a company that strives operational excellence?
8. Is it possible as a company with a functional structure, to be agile?
9. Looking at the 2 most profound barriers to strategy execution. Could you make some suggestions how to overcome these barriers?
10. Current organizations consist of highly skilled knowledge workers. Where the manager is functioning as ‘primus inter pares’ (first among equals - no hierarchy and no formal position). How could motivate these professionals towards realizing a common goal?
11. How should innovation as a discipline be best organized in an organization?
Class 1: Making strategy work (It’s all about execution!)

Social media:
- We share a lot
- This is our reality
- How do organizations have to deal with it?
  - An organization consists of human beings, not only the processes
  - How do they act and interacts → one of the most important part of looking at an organization
  - You can’t manage a human being individually, but you can try to manage the interaction between human begins
  - How does an organization look like? → People typically give an organigram → it is about influence, leaderships, culture

Strategy is about:
- Being better than the rest (competitor) - Effectiveness/efficiency
- Being different than the rest - Innovation
- Boing both all the time - Flexibility

Execution is about:
- Organizations don’t execute, people do!
- Why should people buy our strategy? → because of fear
- How should we support them to be successful?
- How do we monitor that we are on track?
- How to get the job done?
- Change is important in strategy execution
  - People are into change, but don’t want to be changed. Only if you make the decision then you’re willing to change.

There are more brains outside your company than in your company. The gap between the two is getting bigger and bigger.
- We can’t predict the future anymore
- Technology is rising exponentially
- You have to open up yourself

Accept that resources are global and everything is available, such as knowledge (sometimes free!). Capital is not scarce anymore, you don’t even need a bank (crowdfunding). There are more and more platforms (Facebook).

New Market Paradigm

New type of market, we talk more about:
= communities, connectivity, co-creation, customer-centric, competences, collaboration, experience-economy, value-innovation, multi-channeling, sustainability.

The customer is leading, especially now with all the transparency. Focus on them, because they are the start of everything!

We have a demand and offering side, they have been flipped around. Nowadays the customer fulfil the offering side and companies demand time of the customer.
→ Omni-channels → a lot of channels available to distribute products and services.
→ What is scarce? TIME! Not money.

Collapse of the middle!

Competitors start to copy each other. E.g. Banks: all the same because they copy each other. Customers are the ones who chooses, how can the company be relevant for the next few years? Irrelevant? The key is to compete on the prices when you have become irrelevant.

Changes

“Change is unfortunately always initiated by crisis, never by opportunities.” → Problem: crisis needed for a reconstruction, but actually it is too late already

Volatility in the life expectancy in today less than 6 years → different earning models than we used to have. In 1939 it was 90 years, so it is very hard to survive today.

Strategic paradoxes

What do you choose in a time of change, complexity:

- Growth vs. productivity
- Short term vs. long term
  - Mostly focused on short term
- Centralization vs. decentralization
  - If it goes well in the economy → decision making as low as it can (decentralization)
  - If it goes bad in the economy → centralize everything at the top
- Exploitation vs. exploration
  - Optimize ongoing business or explore the innovation options

Why paradox? We don’t have the luxury anymore to choose → It’s both now!

Management

“No company can deliver on its commitments or adapt well to change unless all leaders practice the discipline of execution at all levels. Execution has to be a part of a company’s strategy and its goals. It is the missing link between aspirations and results. As such, it is a major – indeed, the major – job of a business leader. If you don’t know how to execute, the whole of your effort as a leader will always be less than the sum of its parts.” (Bossidy, L. & Charan, R., Execution, 2002)
One problem: the way professionals look at management: “the person or persons directing the affairs of a business by planning, commanding, controlling, coordinating and organizing people and activities” (Henri Fayol, 1907)

90% agree with the definition, even though it’s from 1907. Everything has changed, but the view on management has stayed the same.

Performance Execution champions

Walmart, Nike, IBM, Google, Apple, Amazon, ...

Microsoft has changed the past 3 years, because of the new leader they have.

Performance Execution Losers

Nokia, BlackBerry, Microsoft, Texaco, Saab, ...

Who is the winner? Quantitative vs. Qualitative

Quantitative:
- Growth in net income
- ROI, ROCE, ROE, ROS
- EPS, company value growth
- Asset/equity growth
- Market value to book value
- Brand value

Qualitative:
- Iconic status
- Admired by industry
- Leading innovators
- Impact
- Survivors

The left column is important, because they indicate how you perform. For the long term, look at the right side.

Apple → presentations → audience: same reaction as when someone goes to church → brand loyalty

BOTH SIDES ARE IMPORTANT! To be successful what is useful? You need the quantitative, but on the long term you need to focus on qualitative.

Traits of execution excellence and non-excellence

How to move, influence and inspire people to get the job done?

Excellence:
- Values, culture, vision, mentality
- Change and alignment
- Leanness
- Customer orientation, market focus
- Autonomy and entrepreneurship
- Streamlined decision-making
- Selecting and motivating better people
- Exploiting the core capabilities → better practices
- Learning and developing new capabilities

Non-excellence:
- Poor leadership at the top
- Centralized bureaucracy
- Ineffective controls
- Lack of sharing
- Scattergun approach
- Lack of creativity
- Lack of concern for customers
- Lack of integrity
Consequence: Poor execution outcomes
- Employees don’t understand how their jobs contribute to important execution outcomes
  - 95% of the employees don’t understand the organizations strategy
- Time and money are wasted because of inefficiency or bureaucracy in the execution process
  - Administration takes so many time \( \rightarrow \) 37% of the time
    - Mailing each other
    - ...
- Execution decisions take too long to made
- The company reacts slowly or inappropriately to competitive pressures

The average manager doesn’t trust his employees. They want to be in control but that doesn’t facilitate the process to make your organization agile.

**Strategy done right (movie)**

- Clear purpose (why do you exist)
- Make the right decisions
  - When you understand the strategy, you make god decisions
- Accountability
  - Doing the right thing
  - Culture
- Cadence
  - Strategy is critical
    - Must be discussed, developed, ...

Some examples of measures:
- ICT-consultants want to re-position in the market towards more added value
- A bank wants more qualitative customers
- Facility Management company wants to be the most customer driven company

**What Does Strategy Implementation Involve?**
1. **Installing information, communication and operating systems**
   - How do employees share info and communicate?

2. **Establish strategy-supportive policies**
   - Make own choices, do I train them?

3. **Instituting best practices and programs for continuous improvement**
   - Who is responsible etc. install mechanisms to learn, like customer complaints.

4. **Exerting necessary leadership to drive process forward and keep improving**
   - Managers = get the job done
   - Leaders = who inspire, motivate
   - Managers have workers. Leaders have followers. You need to have both.

5. **Motivating people to pursue the target objectives**
   - When they can contribute to the execution of the strategy. Autonomy: make own choices in the way they organize their own work. Personal and professional growth. Purpose: why do we do things in a certain way.

6. **Tying rewards to achievements of results**
   - Financial rewards can be counterproductive. Not only about bonuses and salaries.

7. **Creating a strategy-supportive corporate culture**
   - Strategy implies change. Key barriers to change = culture. How they look at everything. Culture is very hard to change!

8. **Allocating resources to strategy-critical activities**
   - Allocate to create strategy and deploy resources. See slide 27 and 28

**A company’s strategy-making hierarchy**

This doesn’t work!
Characteristics of the Strategy Implementation Process (the classical way)

Classical way $\rightarrow$ doesn’t work

Cyclical view (double loop)

Double loop is what works $\rightarrow$ negotiation process
Objectives should be based on the input of the manager...

Example:
Manager of a department: you have to raise your turnover by 20%

You did an analysis: You need 6 sales people extra, but your boss don’t want to hire new people?

How can the manager succeed in his task? Can he get his 20%? You need to negotiate with each other about the objectives.

They give you hard tasks but negotiate, it’s all about how you deal with it

From Pizza-restaurant to Greek restaurant

A Greek guy buys an Italian restaurant, how can he make an Italian restaurant a Greek one?

- Not allowed to fire the employees.
- Barriers? Resistance?
  - Old people: will resists, it’s in their mind-set $\rightarrow$ the ways everything has been for years, a habit.
  - Chef (high skilled labor): try to stimulate him to learn new techniques
    - Probably will resist the most $\rightarrow$ how motivate and inspire? Focus on the global goal: make good food and have happy customers $\rightarrow$ focus on his purpose. Professional growth: new types of cooking, techniques etc. Give enough autonomy.
6. **Deploy a balanced portfolio of metrics**

The performance measures the enterprise decides to focus on should have a balance, in areas such as:

- Short-term versus long-term (many firms focus to heavily on short-term results, which can jeopardize the enterprise in the long run through a lack of long-range planning)
- Internal versus external (the portfolio is often overpopulated with internal performance metrics that fail to account for what happens outside the firm, and managers lose their connection to the marketplace or the behavior of competitors)

7. **Align metrics with strategy**

Give importance to short-term and long-term!

Good metrics facilitate implementation of strategy; poor or misaligned ones impede implementation. Once strategy has been developed, high-performing firms recalibrate their performance management systems to track and reward strategic behavior.

**First generation BSC**

The items for each area of the scorecard can be written into their own tables, to allow for more details to be added. The following is an example for the “Financial” area:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Static Measure</th>
<th>Value</th>
<th>Target</th>
<th>Performance comments for objective</th>
<th>Objective Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F1.1</td>
<td>-30%</td>
<td>150%</td>
<td>Dividends expected kept at 26% for whole year, but share price still around 1,000, pence leading to low P/E compared with sector results from previous years</td>
<td>NG</td>
</tr>
<tr>
<td></td>
<td>F1.2</td>
<td>8</td>
<td>18</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>F2.1</td>
<td>200</td>
<td>185</td>
<td>Increasing cash inflow from divisions A and D; first levels of investments in B, D and E make the group cash negative for at least another 12 months</td>
<td>NG</td>
</tr>
<tr>
<td></td>
<td>F2.2</td>
<td>-6</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>F3.1</td>
<td>1,050</td>
<td>1,442</td>
<td>Division B still behind budgets, C positive, but below budget, A on budget (full budget), B: sales positive in Q4 driven by brands. C: index 150% on LFL</td>
<td>NG</td>
</tr>
<tr>
<td></td>
<td>F3.2</td>
<td>492</td>
<td>490</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>F3.3</td>
<td>90%</td>
<td>90%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**New perspective on performance management - Cause & effect relations**

- **ROCE** – financial measure
- Driver for ROCE – **expanded sales**
- Driver for expanded sales – **customer loyalty**
- Driver for customer loyalty – **process efficiency**
- Process efficiency – speed, scale & time
- Driver for process efficiency – **shorter cycle time**, i.e. efficient **internal processes**
- Driver for efficient internal processes – **workforce**
- Driver for workforce – **continuous learning**
Strategy maps

Successful balanced scorecards start with a strategy map! → A strategy map is always about productivity and growth.

→ Example Mobil (US Marketing & Refining):

Strategy maps are simple models of the value creation process.

Source: The Balanced Scorecard
D. Norton & R. Kaplan

95
**Financial perspective:** The financial perspective provides the tangible definition of value

**EXAM:** Building up with the different perspectives of balanced scorecard and then mapping in one figure = overall strategy map

**Customer perspective:** Creating a sustainable differentiated value proposition is the heart of strategy
**Internal process perspective:** Are key business processes aligned with each customer value proposition and financial objective?

**Learning and growth perspective:** How do we create value from intangible assets?
Balanced scorecard terminology

How can we reach profitability? - fewer planes
- more customers

How more customers? - ...
- ...

Balanced scorecard example

<table>
<thead>
<tr>
<th>Strategic Theme: Operating Efficiency</th>
<th>Objectives</th>
<th>Measurement</th>
<th>Target</th>
<th>Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Profitability</td>
<td>Market Value</td>
<td>30% CAGR</td>
<td>Cycle time optimization</td>
</tr>
<tr>
<td>More Customers</td>
<td>More Customers</td>
<td>Seat Revenue</td>
<td>20% CAGR</td>
<td></td>
</tr>
<tr>
<td>Fewer planes</td>
<td>Fewer planes</td>
<td>Plane Lease Cost</td>
<td>5% CAGR</td>
<td></td>
</tr>
<tr>
<td>Customer</td>
<td>Flight is on-time</td>
<td>FAA On Time Arrival Rating</td>
<td>#1</td>
<td></td>
</tr>
<tr>
<td>Lowest prices</td>
<td>Lowest prices</td>
<td>Customer Ranking (Market Survey)</td>
<td>#1</td>
<td></td>
</tr>
<tr>
<td>Learning</td>
<td>Fast ground turnaround</td>
<td>On Ground Time</td>
<td>30 Minutes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>On-Time Departure</td>
<td>90%</td>
<td>Cycle time optimization program</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ground crew alignment</td>
<td>% Ground crew trained</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ground crew stockholders</td>
<td>yr. 1</td>
<td>90%</td>
<td></td>
</tr>
</tbody>
</table>

EXAM: Give output measures and not lagging measures = what we measure in between during ‘the path’ to reach the objectives.
Outcome measures vs. driver measures

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Strategic Objectives</th>
<th>Outcome Measures</th>
<th>Driver Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>• Increase Revenue</td>
<td>• Revenue growth</td>
<td>• Number of customer complain</td>
</tr>
<tr>
<td></td>
<td>• Increase Product Quality</td>
<td>• Profit margin</td>
<td></td>
</tr>
<tr>
<td>Customer</td>
<td>• Conformance to product specification</td>
<td>• Customer satisfaction index</td>
<td>• Number of rejects/rework</td>
</tr>
<tr>
<td></td>
<td>• Technical Support</td>
<td>• Number of warranty complaints</td>
<td>• ISO 9001 certification</td>
</tr>
<tr>
<td>Internal Business Process</td>
<td>• Employee Satisfaction</td>
<td>• Number of work done on the same visit</td>
<td>• Availability of spare parts</td>
</tr>
<tr>
<td></td>
<td>• Employee skill</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>• Information availability</td>
<td>• Employee productivity</td>
<td>• Employee satisfaction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Job skills coverage ratio</td>
<td>• Training plan vs. actual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Information availability vs. need</td>
<td></td>
</tr>
</tbody>
</table>

Common measures

Financial measures

- ROI Return on Investment
- Sales growth by segment
- % of revenue from new products, services, and customers
- Dividends
- Net Profit Margin
- Debt to equity
- Inventory turnover ratio
- Revenue per employee
- Share Price

Customer measures

Product Leadership:
- Brand awareness
- Help line calls per product
- Customer acquisition rates / number
- Percentage sales from new products

Operational Excellence:
- Average price vs. competitor’s
- Product availability / stock outs
- Customer complaints relating service
- Service errors

Customer Intimacy:
- Customer financial loss
- Rate of customer spending
- Customer lost
- Number of referrals from existing customers
- Complaints resolved at first contact
- Return rates

Business process measures

Operational:
- Quality (rework, reject)
- Cycle time
- Cost

After sales:
- Response time for resolution (waiting time)
- Training hours on client products
- Hours spent with customer
Innovation:
- New product introduction versus competitor
- New product introduction versus plan
- Time to develop next generation of products
- Time spent with lead user

Time says something about the process: does it happen in an efficient way?

Learning-growth measures

Information systems:
- Duration of systems breakdown
- Current availability of information relative to anticipated needs

Motivation, empowerment, and alignment:
- Measures of suggestion made and implemented
- Turnover rates/average years of service

Human capital:
- Employee satisfaction
- Employee participation in professional associations
- Employee productivity
- Training hours

Case study: Balanced Scorecard Philippines Airlines

Company background:
- Founded in February 1941
- In 1946, The First Asia Airlines across the Pacific
- In 1947 started Europe route service
- On 1995 suffered and suspends operations as the Asian financial crisis in 1998
- In March 2000, PAL reported a net income of Php44.2 million for its first year under rehabilitation
- In 2004, Embracing electronic commerce with the introduction of its Online Booking service
- In 2010, Most trusted airline brand for Filipino consumers
- April 2012, under new management after being acquired by the San Miguel Group

Vision:
- To maintain aircraft with the highest degree of airworthiness, reliability, and present ability in the most cost-effective manner
- To conduct and maintain safe, reliable, and cost-effective flight operations
- To achieve On-Time Performance on all flights operated
- To provide safe, on time, quality, and cost-effective inflight service for total passenger satisfaction
- To maximize revenue generation in passenger and cargo sales through increased yields by diversifying market segments and efficient management of seat inventory and cargo space

→ It all start with a vision: what do we want to achieve in the end?

Mission:
- To become the dominant carrier in the Asian region
**Balanced scorecard**

- The balanced scorecard is a management system that enables organizations to clarify their vision and strategy and translate them into action.
- Balanced scorecard also provides an organization with feedback of both the internal business processes and external outcomes, which allows for continuous improvement of strategic performance and results.

→ Objective - what the strategy is to achieve in that perspective
→ Measures - how progress for that particular objective will be measured
→ Targets - refer to the target value that the company seeks to obtain for each measure
→ Initiatives - what will be done to facilitate the reaching of the target

**Financial perspective:**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Performance Measure</th>
<th>Targets</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth</td>
<td>Ticket revenue</td>
<td>Increase sales by %</td>
<td>Opening new international routes</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>Lesser cost expense</td>
<td>% Decrease in cost</td>
<td>Maximizes lower company partnership</td>
</tr>
<tr>
<td>Asset utilization</td>
<td>Higher tangible asset</td>
<td>Increase in service capacity</td>
<td>Purchase of new modern aircraft</td>
</tr>
</tbody>
</table>

**Customer perspective:**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Performance Measure</th>
<th>Targets</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>High customer satisfaction</td>
<td>Customer ranking</td>
<td>% satisfaction</td>
<td>Mabuhay Miles program</td>
</tr>
<tr>
<td>Reinforce brand image</td>
<td>Customer ranking</td>
<td>Ranking change</td>
<td>Media marketing</td>
</tr>
</tbody>
</table>

→ Customer ranking: How do they rank us in comparison to our other competitors?

**Internal business perspective:**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Performance Measure</th>
<th>Targets</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment convenience</td>
<td>Payment methods</td>
<td>Increase in sales %</td>
<td>Payment kiosk</td>
</tr>
<tr>
<td>Flight meal</td>
<td>Customization of food menu</td>
<td>Increase % of food choices</td>
<td>Food choices varieties</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>Operation cost</td>
<td>Decrease in oil consumption cost</td>
<td>Monitoring of international oil price change</td>
</tr>
</tbody>
</table>

**Exam:** objective, target and measure need to be consistent. You will not be evaluated on the height/value of the target (which percentage you choose).
Innovation and learning perspective:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Performance Measure</th>
<th>Targets</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee retention and productivity</td>
<td>Employee satisfaction</td>
<td>Increase in work efficiency and satisfaction in both employees and customers</td>
<td>Increase in salary and retirement plan</td>
</tr>
<tr>
<td>Improvement in relationship with labor union</td>
<td>Decrease in attrition rate</td>
<td></td>
<td>Dropping the criminal charges against labor union members</td>
</tr>
</tbody>
</table>