Harvest strategies

Different organizations operate in different strategic contexts. Different strategies require different: Task priorities Key success factors Skills Perspectives Behavior patterns Control systems are measurement systems that influence people being measured The design of the control system should be monitored for behavior induced by system is consistent with corporate strategy. Implications for Organization Structure Corporate strategy is a continuum line from a single industry strategy to an unrelated diversification strategy on the other pole.

Various corporate strategies imply different organization structures and different control systems. Review (Exhibit 13. 1) At the single industry pole companies tend to be functionally organized. Not all single industry firm are organized as such - for instance: Fast foodchains Hotels Supermarkets Drugstores They are organized by business units with both production and marketing functions at many facilities. However, every unrelated, diversified company or conglomerate is organized by autonomous business units. Senior managers in these firms focus on portfolio management and delegate the development of product/market to the BIG managers.

Single industry managers are very familiar with their industry and have expertise in many operating facets. On the other hand, conglomerate managers tend to be experts mainly infinance. As a firm moves from a single industry firm to the unrelated diversified firm finds the autonomy of the BIG manager tends to increase. Implications for Organization Structure - Continued There are two reasons for this: Unlike in a single industry firm senior managers in unrelated diversified firms do not possess expertise to make strategic and operating decisions for disparate Bus's. There s virtually no interdependence across Bus's in a conglomerate.

The unrelated nature of conglomerates varied Bus's does not effectively allow transferring executives. Implications for Management Control Organizations no matter how well aligned they are to their strategy, cannot effectively implement it without a consistent management control system. Different corporate strategies imply differences in context for control systems: As firms diversify, managers lack expertise so performance valuation tends to be at arm's length. Single industry and related diversified firms possess corporate-wide core impenitence which define BIG strategies - Communicationchannels are key to success.

Low levels of interdependence among Bus's in conglomerates means it is desirable to adjust balance in control systems from cooperation to entrepreneurial. Strategic Planning in conglomerates tend to be vertical. Strategic planning in single industry and related diversified firms can be both horizontal and vertical. Horizontal portion comes form: Group of executives develop group strategies to take advantage of synergies. Individual Bus's have an interdependence and managers identify linkages with each there and try to maximize them Corporate office requires Joint strategic plans for independent Bus's.

Plans of individual Bus's would be circulated to similar Bus's for critiques. Implications for Management Control - Continued Budgeting in a single industry firm with Coo's that know operations well employ more personal contact with BIG managers, etc. Budgeting in a conglomerate relies on formal processes because of the size and scope of the firm - informal communication is nil. Budgeting Characteristics of conglomerates revolve around: BIG managers have more influence in developing their budgets because of their knowledge base.

Greater emphasis is placed on meeting the budget since the CEO has no other way to monitor performance. Inter-company transfer pricing between Bus's are more frequent in single industry and related diversified firms than conglomerates. Conglomerates - BIG sourcing flexibility Single or related firms - synergies are important - no sourcing decision ability is allowed. Incentive Compensation policy differs across corporate strategies : Use of Formulas - Conglomerates use more formulas to calculate bonuses - Subjective factors are prevalent in Single and related firms.

Profitability Measures - Conglomerates employ Bus's profitability as bonuses calculation tool - Single and related firms employ individual BIG performance and that of the entire organization as the base form bonuses. Business Unit Strategy Diversified corporations segment themselves into Bus's and assign different strategies to each BUY. BIG strategy depends on: Its Mission Its Competitive Advantage Bus's choose from the following missions: Build, Hold, Harvest, and Divest. Bus's have two ways to compete: low cost or differentiation. Mission The control - mission fit line reasoning is:

Mission of BIG influences uncertainties and their short vs. long term tradeoffs. Control systems are varied to motivate managers toward making appropriate tradeoffs. Different Missions require different control systems. Mission and Uncertainty are magnified in Build Units than are found in

Harvest Units: are employed during a product's decline stage. Build Bus's focus on increasing market share which puts them in greater conflict with competitors - Harvest strategy is more benign. Build managers tend to experience more productivity dependencies than Harvest managers.

Build units in new evolving industries have less business experience in these type of operations. Mission and Time Span have short and long term tradeoffs for build versus harvest strategies: Share-building Price cutting Large R Expenditures Major Market Development Expenditures Long termgoalsover short Harvest concentrates on short-term profits Strategic Planning processes depends on several issues while pursuing its mission. An uncertainenvironmentcreates an important strategic planning process. A stable environment calls for a " broad-brush" planning process. Harvest Units are stable and employ DDCD.

Build Units get lower discount rates because of their life cycle position. Budgeting Implications in designing budgeting systems support varied missions. (Review Exhibit 13. 4) Budgets are relied on less in Build Units than in Harvest Units. Further differences between Build and Harvest Units: Build units will have more budget revisions because of their product life cycle position Build unit managers have greater input and influence than Harvest Managers. Incentive Compensation System Incentive Compensation system for BIG managers must address: Size of bonus to Gem's base salary.

What measures performance for bonus calculation. How high of reliance on subjective factors. How frequently should awards be made? Mission of BIG influences design variables. (Review Exhibit 13. 5) Answers to the previous questions: First: Riskier the strategy the higher the incentive bonus. Second: Rewards tied to performance will create certain optimal outcomes withrespectto the criteria. Third: It depends on the nature of the criteria - long-term vs. short-term, long-term favors more subjective because it is harder to measure. Fourth: More frequent awards focus on short-term goals - build managers.

Competitive Advantage Choosing a differentiation approach over low-cost increases a business unit's uncertainty for three reasons: Production innovation is harder - uniqueness. Scale. Low cost Bus's produce no-frill commodity products and succeed because they are priced below competition. Top Management Style Management style is a function of: BackgroundPersonalityAgeEducationExperience Various dimensions of management style will influence the operation of control systems. Personal vs. Impersonal Controls Some managers are number driven - large amounts of data for decisions.

Others are people-orientated - they gather information based on discussions. Manager's attitudes toward reports affect the detail provided, mainly they like graphs instead of tables, etc. Tight vs. Loose Control Manager's style affects the degree of tight versus loose control environment based on how routine the situation is overall. The more routine process the looser the control while, new processes need constant monitoring and changes to improve the entire processes. Higher level managers typically utilize less detail to manage and more to overall results.