Implementing strategic decisions and analysing effects

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Although formulating a consistent strategy is a difficult task for any management team, making that strategy work – implementing it throughout the organization – is even more difficult (Hrebiniak, 2006). A myriad of factors can potentially affect the process by which strategic plans are turned into organizational action. Unlike strategy formulation, strategy implementation is often seen as something of a craft, rather than a science, and its research history has previously been described as fragmented and eclectic (Noble, 1999b). It is thus not surprising that, after a comprehensive strategy or single strategic decision has been formulated, significant difficulties usually arise during the subsequent implementation process. The best-formulated strategies may fail to produce superior performance for the firm if they are not successfully implemented, as Noble (1999b) notes. Results from several surveys have confirmed this view: An Economist survey found that a discouraging 57 percent of firms were unsuccessful at executing strategic initiatives over the past three years, according to a survey of 276 senior operating executives in 2004 (Allio, 2005).

According to the White Paper of Strategy Implementation of Chinese Corporations in 2006, strategy implementation has become “ the most significant management challenge which all kinds of corporations face at the moment”. The survey reported in that white paper indicates that 83 percent of the surveyed companies failed to implement their strategy smoothly, and only 17 percent felt that they had a consistent strategy implementation process. Modern organizations operate in an increasingly complex environment and the magnitude of the consequences of decisions at the strategic level demands high quality responses from the management. The

ever-changing and turbulent internal and external environments of the organization demands extreme sensitivity from the management in their reactions towards change. This often requires rapid response and the consequence of one course of action could be dramatically different from an alternative course of action. Strategic decisions are a reflection of the attitude, values and expectations of the decision-makers at the top level. They have a long term effect on the direction and future activity of the organization, and have resource implications, affecting decisions at the lower levels and initiating a wave of other, often lesser decisions (Hickson et al. 1986). The uncertainties and complexities of strategic decisions direct the decision makers to reduce the infinitely large problem into a manageable one.

This conversion to a manageable model of reality inherently involves a great number of assumptions, many of which rely on the judgement of the decision maker. But the scale of the complexity and variety of variables surrounding the decision is such that some of the assumptions are ill-defined and possibly wrong. To combat these problems the managers categorize the uncertain decisions into a number of criteria: Laplace, insufficient reason to believe otherwise; Minimax, making the best out of worst possible conditions; Maximax, the best out of the best alternatives; Savage, the best of the regrets for not taking the right actions; and Hurwicz, giving a range of attitudes from optimistic to most pessimistic (Turban 1993). The choice of the approach is linked to decision-makers conservatism. This question is crucial since decisions, especially those of a strategic nature, tend to have widespread effects on organizational members, processes, and structure.

This paper is concerned with one foundation of strategic decision making: More specifically, we aim to empirically address the why, what, how and where of this process. Thus, we conceive a firm's external environment to be a source of information (Aldrich and Mindlin, 1978) but also its internal environment, sometimes referred to as invironment. To scan the environment in order to make better-informed decisions (Choo, 1996) is an important task on the corporate agenda. Environmental scanning, whether or not it is referred to as such (Frishammar, 2002), may be defined as " the activity of acquiring information" (Aguilar, 1967, p. 1) and is the method by which managers perceive events and trends (Hambrick, 1982). Acquiring information is imperative in ascertaining environmental change and has implications for strategic decision making (Lozada and Calantone, 1997). In this study, strategic decisions are concerned with long-term direction and are normally about trying to achieve some advantage for an organization (Johnson and Scholes, 1999). A decision is, in accordance with Mintzberg et al. (1976), defined as a set of actions and dynamic factors beginning with the identification of a stimulus for action and ending with a specific commitment to action. Strategic simply means important, in terms of the actions taken, the resources committed, or the precedents set (Mintzberg et al., 1976). " Formulating strategy is difficult. Making strategy work – executing or implementing it throughout the organization – is even more difficult". Thompson & Strickland (2003) have stressed that the strategy-implementing/strategy-executing task is the most complicated and time-consuming part of strategic management (cited in Schaap, 2006).

CHAPTER TWO: LITERATURE REVIEW

2. 1 Strategic Decision Making

By definition, decision making is the process through which managers identify organizational problems and attempt to resolve them (Bartol & Martin, 1994). Crook, Ketchen, and Snow (2003) stated that the purpose of strategic management research is to help find ways to improve their performance. Further, strategic decision makings are those that determine the overall direction of an enterprise and its ultimate viability in light of the predictable, the unpredictable, and the unknowable changes that may occur in its most important surrounding environments. They ultimately shape the true goals of the enterprise (Mintzberg & Quian, 1991). Pearce and Robinson (1997) underlined the characteristics of strategic decision making as corporate level decisions (greater risk, cost, profit potential; greater need for flexibility and longer time horizons), functional level decisions (implement the overall strategy formulated at the corporate and business levels), action oriented operational issues; short range and low risk. Modest cost; dependent on available resources, and business level decision (bridge decisions at the corporate and functional levels; which is less risky, costly, and potential profitable than corporate level decisions, but more risky, costly, and potentially profitable then functional level decisions).

Tatum et al. (2003) stated that managers make day-to-day decisions, or resolve immediate problems. They also elaborated that managers have different decision styles due to the amount of information, number of alternatives, and attempt to integrate and coordinate multiple sources of input. Vroom (2003) in his study quoted Nutt (2002) on a study of 400

decisions that had been made by managers' in medium to large organizations in the USA, Canada and Europe. Surprisingly, half of the decisions failed; either never implemented or subsequently unraveled during the two-year observation period. Nutt (2002, in Vroom, 2003) stated that effective decision making is not merely a matter of decision quality but also of ensuring that the decision will have the necessary support and commitment for its effective implementation. Nevertheless, all strategic decision making must go through the decision making process in order for managers to come up with a good decision.

2. 2 Decision Making Process

Decision makers and managers need to allow themselves to be in the process of decision making. This decision making process will give the opportunity to decision makers and managers to come up with the alternatives, evaluate each alternatives, and select the best alternative or solution to the problem. Decision making process comprise of the steps the decision maker has to arrive at his choice. The process a manager uses to make decisions has a significant impact on the quality of those decisions (Certo, 2003). Moreover, Provan (1989) stated that people who participate in the strategic decision making process are at a high level in their organization, are competent, and are reasonably intelligent and articulate. Strategic decision making process can be and is influenced by those major groups in the organization that are most powerful and that a rational consideration of external environmental factors may have little direct impact on how strategies are actually formulated and implemented (Provan, 1989).

Basi (1988) stated that type of decision is a function of administrative level, and the style is a function of organizational culture. Administrative level is classified as institutional or executive or upper level, organizational or managerial or middle level, and technical or lower level. Meanwhile organizational culture is known as paternalistic, bureaucratic, and synergistic. Meanwhile, Nutt (1976) indicated in his study on the decision making models. He discussed 6 models of decision making of which bureaucratic model, normative decision theory, behavioral decision theory, group decision making, equilibrium-conflict resolution, and open system decision making. Nutt (1976) also discussed on the limits and ways to select the appropriate model for decision making for organization. As such organizations perform unique functions; the levels identified were technological or primary level, managerial level, and institutional level. Thus, factors which characterize the decision making environment will stipulate the appropriate model that can be optimally used (Nutt, 1976).

2. 3 Approaches to Strategy Implementation

There are different factors that affect strategy implementation. These factors can be divided into soft, hard, and mixed factors. Soft factors (or people-oriented factors) include the people or executors of the strategy, the communication activities (content and style issues) as well as the closely related implementation tactics, the consensus about and commitment to the strategy, while the hard (or institutional) factors include the organizational structure, the administrative systems. The way in which the strategy was developed and articulated (strategy formulation) contains hard and soft factors alike and is thus considered a mixed factor. Relationships among

different units/departments and different strategy levels also is treated as a mixed factor. In the following paragraphs we discuss these factors and how they affect strategic implementation of decisions.

2. 3. 1 Strategy Formulation

It is clear that a poor or vague strategy can limit implementation efforts dramatically. Good execution cannot overcome the shortcomings of a bad strategy or a poor strategic planning effort (Hrebiniak, 2006). Several studies mention the fact that the kind of strategy that is developed (Alexander, 1985; Allio, 2005) and the actual process of strategy formulation, namely, how a strategy is developed (Kim & Mauborgne, 1991, 1993; Singh, 1998) will influence the effect of implementation. Alexander (1985) believes that the need to start with a formulated strategy that involves a good idea or concept is mentioned most often in helping promote successful implementation. As Allio (2005) notes, good implementation naturally starts with good strategic input: the soup is only as good as the ingredients (Allio, 2005). Whether a strategy itself is consistent and fitting or not is a key question for successful strategy implementation, but even a consistent strategy cannot be all things to all people. Bantel (1997) suggests that particular product/market strategies are effective at achieving particular performance goals to the exclusion of others. One of his conclusions is that synergies between strategy types and implementation.

2. 3. 2 Relationships among Different Units/Departments and Different Strategy Levels

Several studies treat institutional relationships among different units/ departments and different strategy levels as a significant factor that affects

the outcome of strategy implementation (Walker & Ruekert, 1987; Gupta, 1987; Slater & Olson, 2001; Chimhanzi, 2004; Chimhanzi & Morgan, 2005). Walker & Ruekert (1987) divide business strategy behaviors into three types: prospectors, differentiated defenders and low cost defenders. These distinctions are based on the strategy categories introduced by Miles & Snow (1978; prospectors, defenders, analyzers, reactors) and by Porter (1980; overall cost leadership, differentiation and focus). Walker & Ruekert stipulate that corporate-business unit relationships, inter-functional structures and processes, marketing policies and processes may all significantly influence business strategy implementation. Three aspects of the corporate-business unit relationship are especially likely to affect a unit's success in implementing a particular strategy: business unit autonomy, sharing programs and synergies across SBUs, as well as control and reward systems. In addition, functional competencies, allocation of resources, decision-making participation and influence, inter-functional conflict and coordination may have vastly different effects on the implementation of different kinds of strategies. Walker and Ruekert also assume that decision-making and coordination structures in the marketing department, and marketing policies and programs within the business unit, affect the performance of different business strategies in different ways.

Chimhanzi (2004) suggests that cross-unit working relationships have a key role to play in the successful implementation of marketing decisions. Implementation effectiveness is affected negatively by conflict and positively by communication and specifically, interpersonal, not written. In turn, these interdepartmental dynamics are affected by senior management support,

joint reward systems, and informal integration. Chimhanzi (2004) also points out that the marketing and R&D interface remains the most extensively researched dyad within the specific context of the new product development (NPD) process. Chimhanzi provides a multitude of references to such studies in his 2004 article. Other relationships that have received empirical attention, albeit to a lesser extent, include marketing, and accounting, finance, manufacturing, engineering, quality, and sales. There are also those studies, according to Chimhanzi, that have not focused on dyadic and multiple relations, but rather on marketing as the only one of many departments within a network of relationships. Chimhanzi & Morgan's (2005) findings indicate that firms devoting attention to the alignment of marketing and human resources are able to realize significantly greater successes in their strategy implementation. Specifically, these findings imply that marketing managers should seek to improve the relationship with their HR colleagues by emphasizing two of the process-based dimensions: joint reward systems and written communication.

2. 3. 3 Executors

Executors are comprised of top management, middle management, lower management and non-management. Effectiveness of strategy implementation is, at least in part, affected by the quality of people involved in the process (Govindarajan, 1989). Here, quality refers to skills, attitudes, capabilities, experiences and other characteristics of people required by a specific task or position (Peng & Litteljohn, 2001). Viseras, Baines, and Sweeney (2005) group 36 key success factors into three research categories: people, organization, systems in the manufacturing environment. Their

intriguing findings indicate that strategy implementation success depends crucially on the human or people side of project management, and less on organization and systems related factors. Similarly, Harrington (2006) finds that a higher level in total organizational involvement during strategy implementation had positive effects on the level of implementation success, firm profits and overall firm success. Next to these overall findings regarding the “ who” of strategy implementation, we will now review the individual groups of strategy executors at different hierarchical levels.

2. 3. 3. 1 Top management

Top management refers to senior-level leaders including presidents, owners, and other high ranking executives (CEO, CFO, COO etc.) and senior-level managers. Several researchers have emphasized the effect of top management on strategic decision implementation (Hrebiniak & Snow, 1982; Smith & Kofron, 1996; Schmidt & Brauer, 2006; Schaap, 2006). Most of them point out the important figurehead role of top management in the process of strategy implementation. Schmidt and Brauer (2006), for example, take the board as one of the key subjects of strategy implementation and discuss how to assess board effectiveness in guiding strategy execution and decision making. Hrebiniak and Snow (1982) find that the process of interaction and participation among the top management team typically leads to greater commitment to the firmâ€Ÿs goals and strategies. This, in turn, serves to ensure the successful implementation of the firmâ€Ÿs chosen strategy (cited in Dess & Priem, 1995). Smith and Kofron (1996) believe that top managers play a critical role in the implementation – not just the formulation – of strategy.

2. 3. 3. 2 Middle management

We can divide the viewpoints and approaches regarding middle management's effect on strategy implementation into three categories: The first one emphasizes the match of strategy and middle managers' leadership style (Gupta & Govindarajan, 1984; Guth & MacMillan, 1986; Govindarajan, 1989; Judge & Stahl, 1995; Heracleous, 2000). This viewpoint assumes that personality is the primary determinant of strategy implementation actions. The second perspective considers the effect of context on behavior (Waldersee & Sheather, 1996). The third one analyzes the impact of relationships between top management and middle management on strategy implementation (Wooldridge & Floyd, 1990, 1992b, 1997; Qi, 2005). There are also studies that have examined the ambiguous relationships between top management and middle management in the context of strategy implementation: On the one hand, middle managers expect direction and support from their top management. If they receive this guidance, then they will provide support for the strategy in return. One of the key factors determining their level of support is their demographic situation (such as age, gender, educational background, and business experience) (Qi, 2005).

On the other hand, top management should expect middle-level managers to question strategic decisions (Wooldridge & Floyd, 1990). Middle managers expect top management direction, but frequently feel that they are in a better position to start and evaluate alternative courses of action. Wooldridge & Floyd (1992b) consequently classify middle management involvement in strategy into four types: championing alternatives,

synthesizing information, facilitating adaptability and implementing deliberate strategy. The first two represent upward forms of involvement, while the last two are downward forms. Floyd & Wooldridge (1997) investigate the relationships between middle managersâ€Ÿ formal position, their strategic influence and organizational performance.

2. 3. 3. 3 Lower management and non-management

Unfortunately, few authors study the impact of lower management and non-management on strategy implementation. Gronroos (1985) believes that an organization must first persuade its employees about the importance of the strategy before turning to customers (cited in: Rapert & Lynch & Suter, 1996). Alexander (1985) suggests that there are many problems which over half of the corporations experienced frequently, such as the involved employees have insufficient capabilities to perform their jobs, lower-level employees are inadequately trained, and departmental managers provide inadequate leadership and direction. These three are the most frequent strategy implementation problems in relation to human resource. Line-level employees may use delay or prevent attempts toward change that they find particularly threatening or disagreeable. Nutt (1986) suggests that managerial tactics and leadership style can play a crucial role in overcoming the lower-level “ obstructionism” that is prevalent (to some degree) in many implementation efforts. Strategic decisions are nevertheless formulated by senior-level managers of the firm and then administratively imposed on lower-level management and non-management employees with little consideration of the resulting functional-level perceptions (Nutt, 1987). If lower-level management and non- management personnel are not aware of

the same information, or if information must pass through several (management) layers in the organization, consensus regarding that information may never come about. Thus, the lack of shared knowledge with lower-level management and non-management employees creates a barrier to successful strategy implementation (Noble, 1999b).

2. 3. 4 Communication

Forman and Argenti (2005) rightly note that, " although an entire discipline is devoted to the study of organizational strategy, including strategy implementation; little attention has been given to the links between communication and strategy." But Forman and Argenti also note that business communication researchers have become increasingly interested in the contribution of corporate communication to a company's ability to create and disseminate its strategy in the last decade. However, very few authors have investigated the link between corporate communication and strategy, and – when they have – their focus has primarily been on how corporate communication affects the firm's relationship with its various stakeholders. At least, numerous researchers have already emphasized the importance of communication for the process of strategy implementation (Alexander, 1985; Rapert & Wren, 1998; Peng & Litteljohn, 2001; Heide & Grønhaug & Johannessen, 2002; Rapert & Velliquette & Garretson, 2002; Forman & Argenti, 2005; Schaap, 2006). Rapert and Wren (1998) find that organizations where employees have easy access to management through open and supportive communication climates tend to outperform those with more restrictive communication environments.

2. 3. 5 Implementation tactics

Bourgeois Ð¨ and Brodwin (1984) examine five process approaches used to advance strategy implementation: Commander model, Change model, Collaborative model, Cultural model, Crescive model. The first approach addresses strategic position only, and should guide the CEO in charting a firmâ€Ÿs future. The CEO can use economic and competitive analyses to plan resource allocations to achieve his goals. The change model emphasizes how the organizational structure, incentive compensation, control systems and so forth can be used to facilitate the implementation of a strategy. The collaborative model concentrates on group decision-making at a senior level and involves top management in the formulation process to ensure commitment. The fourth approach tries to implement strategy through the use of a corporate culture. The final approach draws on managersâ€Ÿ inclinations to want to develop new opportunities as see them in the course of their day-to-day management. The first three models assume implementation as after-the-fact. This implies that the number of strategy developers is few and that the rest of the organization is somehow manipulated or cajoled into implementation. For the latter two models, most of the energy is used for strategy formulation and the strategy requires relatively little effort in its implementation. Lehner (2004) takes implementation tactics as genuine organizational behavior based on the assumption that implementation in general is dependent on the environment, and various strategic and organizational variables.

2. 3. 6 Consensus

Many authors focus on the role of consensus for strategy implementation (Nielsen, 1983; Floyd & Wooldridge, 1992a; Dess & Priem, 1995; Rapert & Lynch & Suter, 1996; Noble, 1999b; Dooley & Fryxell & Judge, 2000). Nielsen (1983) contends that firms must achieve consensus both within and outside their organization in order to successfully implement business strategies (Noble, 1999b). The consensus about a company's strategy may differ across levels: If members of the organization are not aware of the same information, or if information passes through different layers in an organization, a lower level of consensus may result. This lack of shared understanding may create obstacles to successful strategy implementation (Noble, 1999b).

Floyd and Wooldridge (1992a) label the gulf between strategies conceived by top management and awareness at lower levels as " implementation gap". They define strategic consensus as the agreement among top, middle-, and operating-level managers on the fundamental priorities of the organization. Consensus, in their approach, has four levels: strong consensus, blind devotion, informed skepticism and weak consensus. Floyd and Wooldridge argue that strong consensus exists when managers have both, a common understanding of, and a common commitment to their strategy. If, however, managers are committed to something, but do not share an understanding what that " something" is (they are well-intentioned but ill-informed) blind devotion is the likely result. If, by contrast, managers share an understanding of their strategy, but are not really committed to it, they are well informed yet unwilling to act. Floyd and Wooldridge call this realistic

condition „ informed skepticismâ€Ÿ. Of course when neither shared understanding nor commitment is high, weak consensus is the likely result. Improving understanding and commitment can close this dangerous “ implementation gap”.

2. 3. 7 Commitment

Shared understanding without commitment may result in “ counter effort” and negatively affect performance (Wooldridge & Floyd, 1989, cited in Rapert, Lynch and Suter, 1996). Some authors take shared understanding as a commitment. MacMillan & Guth (1985) and McDermott & Boyer (1999) all think that the shared understanding of middle management and those at the operational level to the top management team’s strategic goals is of critical importance to effective implementation (Rapert & Velliquette & Garretson, 2002). Strategy implementation efforts may fail if the strategy does not enjoy support and commitment by the majority of employees and middle management. This may be the case if they were not consulted during the development phase (Heracleous, 2000). Alexander (1985) thinks obtaining employee commitment and involvement can promote successful strategy implementation Some CEOs believe that one way to accomplish this is to involve employees and managers right from the start in the strategy formulation process. Involvement and commitment should also be developed and maintained throughout the implementation process. If middle and lower level managers and key subordinates are permitted to be involved with the detailed implementation planning, their commitment will be likely to increase.

2. 3. 8 Organizational Structure

Factors relating to the organizational structure are the second most important implementation barrier according to Heide & Gronhaug & Johannessenâ€Ÿs (2002) study. Drazin and Howard (1984) see a proper strategy-structure alignment as a necessary precursor to the successful implementation of new business strategies (Noble, 1999b). They point out that changes in the competitive environment require adjustments to the organizational structure. If a firm lags in making this realignment, is may exhibit poor performance and be at a serious competitive disadvantage. Gupta (1987) examines the relationships between SBUs' strategies, aspects of the corporate-SBU relationship, and implementation and finds that structures that are more decentralized produce higher levels of SBU effectiveness, regardless of the strategic context. Schaap (2006) also suggests that adjusting organizational structure according to perfect strategy can ensure successful strategy implementation.

2. 4 Decision Support Systems

So and Smith (2003) stated that a major component of any information system is the individuals that supply, manipulate, access and rely on the system. Individual's information needs and requirements for decision making are the reasons information systems exist. Bounds, Dobbins, and Fowler (1995) defined decision support systems (DSS) as information systems that use decision rules, decision models, a comprehensive database, and the decision maker's own insights in an interactive computer-based process to assist in making specific decisions. Pourvakhshouri and Mansor (2003) stated DSS is a well established area of information system applications, which

assists the decision makers to derive an in-time, efficient solution. A DSS may also be defined as an integrated, interactive and flexible computer system that supports all phases of decision making with a user-friendly interface, data and expert knowledge (Fabbri, 1998 in Pourvakhshouri & Mansor, 2003). Majchrzak and Gasser (2000) indicated that TOP-MODELER can help managers in overcoming the burden of strategic decision making in their daily business operations. The system also assists the managers to understand their organization structure in gaining closest relationship possible. Ulvila and Brown (1991) stated that decision tree analysis is the oldest and most widely used form of decision analysis. Managers have used it in making business decisions. On the other hand, Heenan and Addleman (1991) proposed that mangers to use multivariate analysis (MVA), the quantitative methods can help to evaluate the complex and intangible factors that influence consumers. Moreover, MVA had been used for application to business problems in consumer packaged goods and services sector.

2. 5 Decision Approach

Decision making style of managers can be classified based on their approach towards the problem that they tried to solve. Barton and Martin (1994) stated that various models of decision style being adopted such as rational model, non-rational model, satisficing model, incremental model, and garbage-can model. Basically, these models are based on the individual manager's perspective toward decision making. First, rational model suggested that managers engage in completely rational decision processes, ultimately make optimal decision, and possess and understand all

information relevant to their decisions at the time they make them. Second, non-rational model suggests that information-gathering and -processing limitations make it difficult for managers to make optimal decisions. Third, satisficing model suggests that managers seek alternatives only until they find one that looks satisfactory, rather than seeking the optimal decision. Fourth, incremental model stated that managers make the smallest response possible that will reduce the problem to at least a tolerable level. Finally, garbage-can model stated that managers behave in virtually a random pattern in making non programmed decisions. Basi (1988) identified that decision style is influenced by organizational culture; which will lead to decision making.

So and Smith (2003) indicated that differences in decision makers' cognitive styles, cognitive abilities and personality are important factors in decision making and performance. Further, the Myers-Briggs type indicator (MBTI) (Myers and McCaulley, 1985 in So and Smith, 2003) is used to determine cognitive styles along two basic dimensions, perception (information acquisition), and judgment (data processing and evaluation). MBTI categorizes individuals as sensors or intuitors in the perception dimension; and MBTI classifies individuals as thinking or feeling types in judgment dimension. Rausch (2003) indicated that managers' leadership roles need to consider 8 suggested questions as they develop a plan, solve a problem, meet a cha