Crafting vs. Executing Strategy

**Crafting the Strategy**
- Primarily a market-driven activity
- Successful strategy making depends on:
  - Business vision
  - Perceptive analysis of market conditions and company capabilities
  - Attracting and pleasing customers
  - Outcompeting rivals
  - Using company capabilities to forge a competitive advantage

**Executing the Strategy**
- Primarily an operations-driven activity
- Successful strategy execution depends on:
  - Doing a good job of working through others
  - Good organization-building
  - Building competitive capabilities
  - Creating a strategy-supportive culture
  - Getting things done and delivering good results

Executing the Strategy

- An action-oriented, make-things happen task involving management’s ability to:
  - Direct organizational change
  - Achieve continuous improvement in operations and business processes
    - Move toward operating excellence
  - Create and nurture a strategy-supportive culture
  - Consistently meet or beat performance targets
- Tougher and more time-consuming than crafting strategy

Implementing a New Strategy Requires Adept Leadership

- Implementing a new strategy takes adept leadership to:
  - Convincingly communicate reasons for the new strategy
  - Overcome pockets of doubt
  - Secure commitment of concerned parties
  - Build consensus and enthusiasm
  - Get all implementation pieces in place and coordinated

Why Executing Strategy Is a Tough Management Job

- Overcoming resistance to change
- Wide array of demanding managerial activities to be performed
- Numerous ways to tackle each activity
- Number of bedeviling issues to be worked out
- Demands good people management skills
- Requires launching and managing a variety of initiatives simultaneously
- Hard to integrate efforts of many different work groups into a smoothly-functioning whole
Goals of the Strategy Implementing-Executing Process

- **Unite** total organization behind strategy
- See that activities are done in a manner that is conducive to first-rate strategy execution
- Generate commitment so an enthusiastic crusade emerges to carry out strategy
- Fit how organization conducts its operations to strategy requirements

Characteristics of the Strategy Implementation Process

- Every manager has an active role
- No proven “formula” for implementing particular types of strategies
- There are guidelines, but no absolute rules and “must do it this way” rules
- Many ways to proceed that are capable of working
- Cuts across many aspects of “how to manage”

Characteristics of the Strategy Implementation Process (continued)

- Each implementation situation occurs in a different context, affected by differing
  - Business practices and competitive situations
  - Work environments and cultures
  - Policies
  - Compensation incentives
  - Mix of personalities and firm histories
- Approach to implementation/execution has be customized to fit the situation
- People implement strategies - Not companies!

Putting Together a Strong Management Team

- Assembling a capable management team is a cornerstone of the organization-building task
- Find the right people to fill each slot
  - Existing management team may be suitable
  - Core executive group may need strengthening
    - Promote from within
    - Bring in skilled outsiders

Staffing the Organization
- Putting together a strong management team
- Recruiting and retaining talented employees

Building Core Competencies and Competitive Capabilities
- Developing a set of competencies and capabilities suited to the current strategy
- Upgrading and reshaping this set as external conditions and strategy change
- Training and retraining company personnel as needed to maintain skills-based competencies

Structuring the Organization and Work Effort
- Instituting organizational arrangements that facilitate good strategy execution
- Deciding how much decision-making authority to push down to lower-level managers and frontline employees

A Company with the Competencies and Capabilities Needed for Proficient Strategy Execution

Figure 10.1: The Eight Components of Strategy Execution

Figure 10.2: The Three Components of Building an Organization Capable of Proficient Strategy Execution
### Building Core Competencies and Competitive Capabilities

**Crafting the strategy** involves:
- **Identifying** the desired competencies and capabilities to build into the strategy to help achieve a competitive advantage.

**Good strategy execution** requires:
- **Putting** desired competencies and capabilities in place,
- **Upgrading** them as needed,
- **Modifying** them as market conditions evolve.

### Example: Intel’s Core Competence
- **Design and mass production of complex chips** for personal computers.

### Example: Procter & Gamble’s Core Competencies
- **Superb marketing-distribution skills** and **R&D capabilities in five core technologies** - fats, oils, skin chemistry, surfactants, emulsifiers.

### Example: Ciba Specialty Chemicals Core Competence
- **Technology-based competencies** allowing it to quickly manufacture products for customers wanting customized products relating to coloration, brightening and whitening, water treatment and paper processing, freshness, and cleaning.

### Example: Disney’s Core Competencies
- **Theme park operation**
- **Family entertainment**

### Example: Toyota's Core Competence
- **Legendary “production system”** giving it the capability to produce high-quality vehicles at relatively low costs.
Three-Stage Process of Developing Competencies and Capabilities

1. First develop **ability** to do something
2. Build experience and gradually transform the **ability** into a **core competence** and **proven capability**
3. Continue to refine and polish the competence/capability, striving to perform the activity better than rivals, thereby turning the core competence into a **distinctive competence** and providing a path to **competitive advantage**!

Managing the Process of Building Competences: Four Key Traits

1. Competencies are **bundles of skills** and **know-how** growing from **combined efforts** of cross-functional departments
2. Normally, competencies **emerge incrementally** from various company efforts to deal effectively with market conditions
3. Leveraging competencies into competitive advantage requires **concentrating more effort** and **talent** than rivals on **strengthening competencies** to create valuable capabilities
4. Sustaining competitive advantage requires **adjusting competencies to new conditions**

Approaches to Developing Competencies

- **Internal development** involves either
  - Strengthening the company’s base of skills, knowledge, and intellect or
  - Coordinating and networking the efforts of various work groups and departments
- **Partnering** with key suppliers, forming strategic alliances, or maybe even outsourcing certain activities to specialists
- **Buying a company** that has the required capabilities and integrating these competencies into the firm’s value chain

Updating Competencies and Capabilities as Conditions Change

- Competencies and capabilities must **continuously be modified** and perhaps **even replaced with new ones** due to
  - New strategic requirements
  - Evolving market conditions
  - Changing customer expectations
- **Ongoing efforts** to keep core competencies **up-to-date** can provide a basis for **sustaining** both
  - Effective strategy execution and
  - Competitive advantage

Strategic Role of Employee Training

- **Training** plays a critical role in implementation when a firm shifts to a strategy requiring different
  - Skills or core competencies
  - Competitive capabilities
  - Managerial approaches
  - Operating methods
- Types of training approaches
  - Internal “universities”
  - Orientation sessions for new employees
  - Tuition reimbursement programs
  - Online training courses

Competitive Advantage Potential of Competencies and Capabilities

<table>
<thead>
<tr>
<th></th>
<th>When it is difficult to outstrategize rivals with a superior strategy . . .</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>. . . Best avenue to industry leadership is to out-compete rivals with superior strategy execution!</td>
</tr>
</tbody>
</table>

Building competencies and capabilities rivals can’t match is one of the best ways to out-compete them!
Figure 10.3: Structuring the Work Effort to Promote Successful Strategy Execution

**Step 1: Decide Which Value Chain Activities to Perform Internally and Which to Outsource**

- Involves **deciding** which activities are **essential to strategic success**
  - Most strategies entail certain crucial business processes or activities that must be performed exceedingly well or in closely coordinated fashion if the strategy is to be executed with real proficiency
  - These processes/activities usually need to be performed internally
  - Other activities, such as routine administrative housekeeping and some support functions, may be candidates for outsourcing.

**Step 2: Make Strategy-Critical Activities the Main Building Blocks**

- **Assign** managers of strategy-critical activities a visible, influential position
- **Avoid** fragmenting responsibility for strategy-critical activities across many departments
- **Provide** coordinating linkages between related work groups
  - Meld into a valuable competitive capability

**Step 3: Determine How Much Authority to Delegate to Whom**

- In a **centralized structure**
  - Top managers retain authority for most decisions
- In a **decentralized structure**
  - Managers and employees are empowered to make decisions
- **Trend** in most companies
  - Shift from authoritarian to decentralized structures stressing empowerment

### Table 10.1: Advantages and Disadvantages of Centralized versus Decentralized Decision Making

<table>
<thead>
<tr>
<th>Centralized Organizational Structure</th>
<th>Decentralized Organizational Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Disadvantages</strong></td>
<td><strong>Primary Advantages</strong></td>
</tr>
<tr>
<td>- Decisions on most matters of importance should be pushed to managers up the line who have the experience, expertise, and judgment to decide what is the wisest or best course of action.</td>
<td>- Decision-making authority should be put in the hands of the people who live it and most familiar with the situation and these people should be trained to exercise good judgment.</td>
</tr>
<tr>
<td>- Front-line supervisors and rank-and-file employees can’t be relied upon to make right decisions—because they don’t know what is best for the organization and because they do not have the time or the inclination to properly manage the tasks they are performing (letting them decide what to do is their job).</td>
<td>- A company that shares and leverages intellectual capital of all its employees can subject perform a command-and-control company.</td>
</tr>
<tr>
<td>- Tight control from the top maximizes accountability.</td>
<td>- Encourages lower-level managers and rank-and-file employees to exercise initiative and assume responsibility.</td>
</tr>
<tr>
<td>- Long delays in decision making because management bureaucracy must decide on a course of action.</td>
<td>- Promotes greater motivation and involvement in the business or the part of even company personnel.</td>
</tr>
<tr>
<td>- Does not encourage responsibility among lower-level managers and rank-and-file employees.</td>
<td>- Spurred new ideas and creative thinking.</td>
</tr>
<tr>
<td>- Decisions are made at lower levels, thereby better reflecting customer needs and concerns.</td>
<td>- Allows fast, responsive, decentralized management.</td>
</tr>
<tr>
<td>- Delays in decision making cannot be executed at lower levels because of the hierarchical decision-making processes.</td>
<td>- Encourages greater participation and involvement at all levels of the organization.</td>
</tr>
</tbody>
</table>

**Step 4: Provide for Internal Cross-Unit Coordination**

- **Classic method of coordinating activities**
  - Have related units report to single manager
  - Upper-level managers have clout to coordinate efforts of their units
- **Support activities should be woven into structure to**
  - Maximize performance of primary activities
  - Contain costs of support activities
- **Formal reporting relationships** often need to be supplemented to facilitate coordination
Step 5: Provide for Collaboration With Outsiders

- Need multiple ties at multiple levels to ensure
  - Communication
  - Coordination and control
- Find ways to produce collaborative efforts to enhance firm’s capabilities and resource strengths
- While collaborative relationships present opportunities, nothing valuable is realized until the relationship develops into an engine for better organizational performance

Chapter 11: Managing Internal Operations: Actions That Promote Good Strategy Execution

Characteristics of Organizations of the Future

- Extensive use of Internet technology and e-commerce business practices
- Fewer barriers between
  - Different vertical ranks
  - Functions and disciplines
  - Units in different geographic locations
  - Company and its suppliers, distributors, strategic allies, and customers
- Capacity for change and rapid learning
- Collaborative efforts among people in different functions and geographic locations
- Assembling work teams including more members dispersed over a wider geographic area

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

Frederick Herzberg

MARSHALING RESOURCES BEHIND THE DRIVE FOR GOOD STRATEGY EXECUTION

ESTABLISH POLICIES AND PROCEDURES TO FACILITATE STRATEGY EXECUTION

Screen graphics created by: Jana F. Kuznicki, Ph.D.
Troy University
Figure 11.1: How Prescribed Policies and Procedures Facilitate Strategy Execution

- Prescribing policies and procedures 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.

Figure 11.2: From Benchmarking and Best-Practice Implementation to Operating Excellence

- To be valuable and transferable, a best practice must:
  - Demonstrate success over time.
  - Deliver quantifiable and highly positive results and be repeatable.
- Characteristics of Best Practices:
  - The best practice must have a proven record in:
    - Significantly lowering costs.
    - Improving quality or performance.
    - Shortening time requirements.
    - Enhancing safety or delivering some other highly positive operating outcome.
- Popular TQM Approaches:
  - Deming’s 14 Points
  - Baldridge Award Criteria
  - Crosby’s 14 Quality Steps
  - The Juran Trilogy

What Is Total Quality Management?

- 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 and total customer satisfaction.
Implementing a Philosophy of Continuous Improvement

- Reform the corporate culture
- Instill enthusiasm to do things right throughout company
- Strive to achieve little steps forward each day (what the Japanese call kaizen)
- Ignite creativity in employees to improve performance of value-chain activities
- Preach there is no such thing as good enough
- Understand it is a \textit{race without a finish}

Six Sigma Quality Control — A Tool for Promoting Operating Excellence

- Six Sigma is a \textit{disciplined, statistics-based system} aimed at having not more than 3.4 defects per million iterations for any business practice
- Two \textit{approaches} to Six Sigma
  - \textit{DMAIC process} (Design, Measure, Analyze, Improve, Control)
    - An improvement system for \textit{existing processes} falling below specification and needing incremental improvement
    - A great tool for \textit{improving performance} when there are \textit{wide variations} in how well an activity is performed
  - \textit{DMADV process} (Define, Measure, Analyze, Design, Verify) or \textit{DFSS} (Design for Six Sigma)
    - An improvement system used to develop \textit{new processes or products} at Six Sigma quality levels

Characteristics of Six Sigma Quality Programs

- Six Sigma is based on \textit{three principles}
  1. All work is a process
  2. All processes have variability
  3. All processes create data to explain variability
- \textit{DMAIC process is a good approach to improve performance} when \textit{wide variations} in how well an activity is performed exist
- Evidence exists that \textit{innovation} can be \textit{stifled} by Six Sigma programs
- \textit{Blended approach} to Six Sigma implementation \textit{involves}
  - Pursuing incremental improvements in operating efficiency and
  - Giving freer rein to R & D and other processes focusing on new ways to offer value to customers

Approach of the DMAIC Process

- \textit{Define}
  - What constitutes a defect?
- \textit{Measure}
  - Collect data to find out why, how, and how often the defect occurs
- \textit{Analyze} — Involves
  - Statistical analysis of the metrics
  - Identification of a “best practice”
- \textit{Improve}
  - Implementation of the documented “best practice”
- \textit{Control}
  - Employees are trained on the “best practice”
  - Over time, significant improvement in quality occurs

Guidelines for Implementing Six Sigma Quality Programs

- Systematic application of Six Sigma methods to a company’s value chain activities
  - Can significantly improve the proficiency of strategy implementation
- Key challenges in implementing Six Sigma quality programs
  1. Obtain managerial commitment
  2. Establish a quality culture
  3. Full involvement of employees

Business Process Reengineering vs. Total Quality Programs

- \textit{Reengineering}
  - Aims at quantum gains of 30 to 50% or more
- \textit{Total quality programs}
  - Stress incremental progress
- \textit{Techniques are not mutually exclusive}
  - \textit{Reengineering} — Used to produce a good basic design yielding dramatic improvements
  - \textit{Total quality programs} — Used to perfect process, gradually improving efficiency and effectiveness
Examples of Support Systems

**Federal Express**
- Internal communication systems allowing it to coordinate 70,000 vehicles handling an average of 5.5 million packages per day
- Leading-edge flight operations systems allow a single controller to direct as many as 200 of 650-plus aircraft simultaneously
- E-business tools for customers

**Otis Elevator**
- Sophisticated maintenance support system

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

**INSTALL INFORMATION AND OPERATING SYSTEMS**

**Examples of Support Systems**

- On-line reservation system
- Accurate and expeditious baggage handling system
- Strict aircraft maintenance program

**TYING REWARDS AND INCENTIVES TO STRATEGY EXECUTION**

**Gaining Commitment: Components of an Effective Reward System**

<table>
<thead>
<tr>
<th>Monetary Incentives</th>
<th>Non-Monetary Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base pay increases</td>
<td>Praise</td>
</tr>
<tr>
<td>Performance bonuses</td>
<td>Constructive criticism</td>
</tr>
<tr>
<td>Profit sharing plans</td>
<td>Special recognition</td>
</tr>
<tr>
<td>Stock options</td>
<td>More, or less, job security</td>
</tr>
<tr>
<td>Retirement packages</td>
<td>Stimulating assignments</td>
</tr>
<tr>
<td>Piecework incentives</td>
<td>More, or less, autonomy</td>
</tr>
<tr>
<td></td>
<td>Rapid promotion</td>
</tr>
</tbody>
</table>
Approaches: Motivating People to Execute the Strategy Well

- Provide attractive perks and fringe benefits
- Rely on promotion from within when possible
- Make sure ideas and suggestions of employees are valued and respected
- Create a work atmosphere where there is genuine sincerity and mutual respect among all employees
- State strategic vision in inspirational terms to make employees feel they are part of something worthwhile
- Share financial and strategic information with employees
- Have knockout facilities
- Be flexible in how company approaches people management in multicultural environments

Examples: Motivational 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 as 110% of their piecework compensation.

J.M. Family Enterprises
Benefits for employees include: a great lease on new Toyotas, cruises in the Bahamas on the 172-foot company yacht, office facility has a heated lap pool, a fitness center, and a free nail salon, and professionally made take-home dinners.

Wegmans
Employees have flexible schedules and benefits include onsite fitness centers. Employees from cashiers to butchers to store managers are all treated equally and viewed as experts in their jobs. Employees receive 50 hours of formal training per year.

Ukrop’s Super Markets
Stores stay closed on Sunday; company pays out 20% of pretax profits to employees in the form of quarterly bonuses; and the company pays the membership tab for employees if they visit their health club 30 times a quarter.

Nordstrom
Pay salespeople higher than prevailing rates, plus commission. “Rule #1: Use good judgment in all situations. There will be no additional rules.”

W. L. Gore
Employees get to choose what project/team they work on, each team member’s compensation is based on other team members’ ranking of his/her contribution to the enterprise.

Amgen
Employees get 16 paid holidays, generous vacation time, tuition reimbursements up to $10,000, on-site massages, a discounted car wash, and the convenience of shopping at on-site farmers’ markets.

Balancing Positive vs. Negative Rewards

- **Elements of both are necessary**
  - Challenge and competition are necessary for self-satisfaction

- **Prevailing view**
  - Positive approaches work better than negative ones in terms of
    - Enthusiasm
    - Dedication
    - Creativity
    - Initiative
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.

Objectives in designing the reward system:
- Generously reward those achieving objectives
- Deny rewards to those who don’t
- Make the desired strategic and financial outcomes the dominant basis for designing incentives, evaluating efforts, and handing out rewards

Creating a results-oriented system
- Reward people for results, not for activity
- Define jobs in terms of what to achieve
- Incorporate several performance measures
- Tie incentive compensation to relevant outcomes
  - Top executives – Incentives tied to overall firm performance
  - Department heads, teams, and individuals – Incentives tied to achieving performance targets in their areas of responsibility

Guidelines for Designing an Effective Compensation System:
1. Payoff must be a major, not minor, piece of total compensation package
2. Incentive plan should extend to all employees
3. Administer system with scrupulous fairness
4. Link incentives to achieving only the performance targets in strategic plan
5. Targets a person is expected to achieve must involve outcomes that can be personally affected
6. Keep time between performance review and payment short
7. Make liberal use of non-monetary rewards
8. Avoid ways of rewarding non-performers

“...strategy and culture. If I could pick two, I’d pick strategy and culture.”

Wayne Leonard
CEO, Entergy

Instilling a Strategy-Supportive Corporate Culture
## Defining Characteristics of Corporate Culture

- Core values, beliefs, and business principles
- Ethical standards
- Operating practices and behaviors defining “how we do things around here”
- Approach to people management
- “Chemistry” and “personality” permeating work environment
- Oft-told stories illustrating
  - Company’s values
  - Business practices
  - Traditions

## Features of the Corporate Culture at Wal-Mart

- Dedication to customer satisfaction
- Zealous pursuit of low costs
- Frugal operating practices
- Strong work ethic
- Ritualistic Saturday morning meetings
- Executive commitment to
  - Visit stores
  - Listen to customers
  - Solicit employees’ suggestions

## Features of the Corporate Culture at General Electric

- Hard-driving, results-oriented atmosphere prevails
  - All businesses are held to a standard of being #1 or #2 in their industries as well as achieving good business results
- Extensive cross-business sharing of ideas, best practices, and learning
- Reliance on “workout sessions” to identify, debate, and resolve “burning issues”
- Commitment to Six Sigma Quality
- Globalization of the company

## Features of the Corporate Culture at Nordstrom’s

- Deliver exceptional customer service to customers
- Company motto
  - “Respond to Unreasonable Customer Requests”
- Out-of-the-ordinary customer requests viewed as opportunities for “heroic” acts

## Where Does Corporate Culture Come From?

- Founder or early leader
- Influential individual or work group
- Policies, vision, or strategies
- Operating approaches
- Company’s approach to people management
  - Traditions, supervisory practices, employee attitudes
- Organizational politics
- Relationships with stakeholders

## Role of Stories at Microsoft

- Oft-told stories focus on . . .
  - Long work hours of programmers
  - Emotional peaks and valleys in encountering and overcoming coding problems
  - Exhilaration of completing a complex program on schedule
  - Satisfaction of working on cutting-edge projects
  - Rewards of being part of a team responsible for a popular new software program
  - Tradition of competing aggressively
How Is a Company’s Culture Perpetuated?
- Selecting new employees who will “fit” in
- Systematic indoctrination of new employees
- Senior management efforts to reinforce core values, beliefs, principles, key operating practices
- Story-telling of company legends
- Ceremonies honoring employees who display cultural ideals
- Visibly rewarding those who follow cultural norms

Forces Causing Culture to Evolve
- New challenges in marketplace
- Revolutionary technologies
- Shifting internal conditions
  - Internal crisis
  - Turnover of top executives
- A new CEO who opts to change things
- Diversification into new businesses
- Expansion into foreign countries
- Rapid growth that involves adding many new employees
- Merger with or acquisition of another company

Types of Corporate Cultures

<table>
<thead>
<tr>
<th>Strong vs. Weak Cultures</th>
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<table>
<thead>
<tr>
<th>Unhealthy Cultures</th>
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<table>
<thead>
<tr>
<th>High-Performance Cultures</th>
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<table>
<thead>
<tr>
<th>Adaptive Cultures</th>
</tr>
</thead>
</table>

Characteristics of Strong Culture Companies
- Conduct business according to a clear, widely-understood philosophy
- Considerable time spent by management communicating and reinforcing values
- Values are widely shared and deeply rooted
- Have a well-defined corporate character, reinforced by a creed or values statement
- Careful screening/selection of new employees to be sure they will “fit in”

Characteristics of Weak Culture Companies
- Lack of a widely-shared core set of values
- Few behavioral norms evident in operating practices
- Few strong traditions
- No strong sense of company identity
- Little cohesion among departments
- Weak employee allegiance to company’s vision and strategy

Characteristics of Unhealthy Cultures
- Highly politicized internal environment
  - Issues resolved on basis of political clout
- Hostility to change
  - Avoid risks and don’t screw up
  - Experimentation and efforts to alter status quo discouraged
- “Not-invented-here” mindset – company personnel discount need to look outside for best practices
  - New or better managerial approaches
  - Innovative ideas
- Disregard for high ethical standards and overzealous pursuit of wealth by key executives
Characteristics of High-Performance Cultures

- Standout cultural traits include:
  - A can-do spirit
  - Pride in doing things right
  - No-excuses accountability
  - A results-oriented work climate in which people go the extra mile to achieve performance targets
- A strong sense of involvement by all employees
- Emphasis on individual initiative and creativity
- Performance expectations are clearly identified for all organizational members
- Strong bias for being proactive, not reactive
- Respect for the contributions of all employees

Hallmarks of Adaptive Cultures

- Willingness to accept change and embrace the challenge of introducing new strategies
- Risk-taking, experimentation, and innovation to satisfy stakeholders
- Entrepreneurship is encouraged and rewarded
- Funds provided for new products
- New ideas openly evaluated
- Genuine interest in well-being of all key constituencies
- Proactive approaches to implement workable solutions

Culture: Ally or Obstacle to Strategy Execution?

- A company’s culture can contribute to – or hinder – successful strategy execution
- A culture that promotes attitudes and behaviors that are well-suited to first-rate strategy execution is a valuable ally in the strategy execution process
- A culture where attitudes and behaviors impede good strategy execution is a huge obstacle to be overcome

Why Culture Matters: Benefits of a Tight Culture-Strategy Fit

- A culture that encourages actions and behaviors supportive of good strategy execution
  - Provides clear guidance to employees regarding what behaviors and results constitute good job performance
  - Creates significant peer pressure among co-workers to conform to culturally acceptable norms
- A deeply embedded culture tightly matched to the strategy
  - Aids the cause of competent strategy execution by top management to culturally approved behaviors, thus making it far simpler for management to root out operating practices that are a misfit
- A culture imbued with values and behaviors that facilitate strategy execution promotes strong employee commitment to the company’s vision, performance targets, and strategy

Creating a Strong Fit Between Strategy and Culture

- Responsibility of Strategy Maker – Select a strategy compatible with the sacred or unchangeable parts of organization’s prevailing corporate culture
- Responsibility of Strategy Implementer – Once strategy is chosen, change whatever facets of the corporate culture hinder effective execution

Figure 12.1: Changing a Problem Culture

- Step 1: Identity facets of present culture that are conducive to strategy execution and operating excellence and those that are not
- Step 2: Specify what new actions, behaviors, and work practices should be prominent in the “new” culture
- Step 3: Talk openly about problems of present culture and how new behaviors will improve performance
- Step 4: Follow with visible, forceful actions —both substantive and symbolic—to ingrain a new set of behaviors, practices, and cultural norms
### Symbolic Culture-Changing Actions

- Lead by example – Walk the talk
- Emphasize frugality
- Eliminate executive perks
- Require executives to spend time talking with customers
- Ceremonial events to praise people and teams who "get with the program"
- Alter practices identified as cultural hindrances
- Visible awards to honor heroes

### Grounding the Culture in Core Values and Ethics

- A culture based on ethical principles is vital to long-term strategic success
- Ethics programs help make ethical conduct a way of life
- Executives must provide genuine support of personnel displaying ethical standards in conducting the company’s business
- Value statements serve as a cornerstone for culture-building

### Approaches to Establishing Ethical Standards

- Formal values statement and a code of ethics
- Word-of-mouth indoctrination and tradition
- Annual reports and Websites
- Making stakeholders aware of a commitment to ethical business conduct is attributable to
  - Greater management understanding of role these statements play in culture building
  - Renewed focus on ethical standards stemming from recent corporate scandals
  - Growing numbers of consumers who prefer to patronize ethical companies

### Table 12.1: Representative Content of Company Values Statements and Codes of Ethics

<table>
<thead>
<tr>
<th>Typical Core Values</th>
<th>Areas Covered by Codes of Ethics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfying and delighting customers</td>
<td>Exposing off-company personnel to display honesty and integrity in their actions and avoid conflicts of interest</td>
</tr>
<tr>
<td>Dedication to superior customer service, top-notch quality, product innovation, and/or technological leadership</td>
<td>Maintaining full compliance with all laws and regulations applicable to the company's business</td>
</tr>
<tr>
<td>A commitment to excellence and results</td>
<td>Adherence to all laws prohibiting anticompetitive practices, conspiracies to fix prices, or attempts to monopolize</td>
</tr>
<tr>
<td>Establishing such qualities as integrity, fairness, compassion, and mutual respect</td>
<td>Foreign Corrupt Practices Act</td>
</tr>
<tr>
<td>Corporate values and principles against insider trading</td>
<td>Competition laws and prohibitions against insider trading</td>
</tr>
<tr>
<td>Encouraging and supporting honesty and ethical behavior</td>
<td>Discrimination and sexual harassment regulations</td>
</tr>
<tr>
<td>Creativity, encouraging initiative, and competing responsibly</td>
<td>Political contributions and lobbying activities</td>
</tr>
<tr>
<td>Teamwork and cooperative attitudes</td>
<td>Prohibiting giving or accepting bribes, kickbacks, or gifts</td>
</tr>
<tr>
<td>Fair treatment of suppliers and customers</td>
<td>Engaging in fair dealing and honest practices</td>
</tr>
<tr>
<td>Making the company a great place to work</td>
<td>Not dealing with suppliers that employ child labor or engage in other irresponsible practices</td>
</tr>
<tr>
<td>A commitment to having fun and creating a fun work environment</td>
<td>Being above-board in accounting and using accurate financial statements to honestly present information about assets and other intellectual property</td>
</tr>
<tr>
<td>Being stewards of shareholders’ investments and maintaining commitment to profit and growth</td>
<td>Responsibility to protect proprietary information and not divulge trade secrets</td>
</tr>
</tbody>
</table>

### Figure 12.2: The Two Culture-Building Roles of a Company’s Core Values and Ethical Standards

- Help create a work climate where company personnel share common and strongly held convictions about how the company’s business is to be conducted
- Signal employees that they are expected to:
  - Display the company’s core values in their actions
  - Uphold the company’s ethical standards

### Figure 12.3: The Benefits of Cultural Norms Strongly Grounded in Core Values and Ethical Principles

- Communicates the company’s good intentions and validates the integrity and aboveboard nature of the company’s conduct of its business
- Steers company personnel toward doing things right and doing the right thing
- Establishes a corporate conscience and provides yardsticks for gauging the appropriateness of particular actions, decisions, and policies
Establishing a Strategy-Culture Fit in Multinational and Global Companies

- Institute training programs to
  - Communicate the meaning of core values and
  - Explain the case for common operating principles and practices
- Create a cultural climate where the norm is to
  - Adopt best practices
  - Use common work procedures
  - Pursue operating excellence
- Give local managers
  - Flexibility to modify people management approaches or operating styles
  - Discretion to use different motivational and compensation incentives to induce personnel to practice desired behaviors