

Effective Strategic Action: From Formulation to Implementation

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Abstract - Formulation and implementation of business strategies is often connected with CEOs, corporate heads of strategy or shareholders. A brilliant strategy may put a company on the competitive map and increase its performance. Unfortunately, most companies struggle with implementation. Enterprises generally fail at execution because they go straight to structural reorganization (which produces only short-term gains) and neglect the most powerful drivers of effectiveness – decision rights and information flow. What is the way to implement the business strategy effectively and which obstacles can harm the successful implementation?

Keywords – strategy, formulation, implementation, failure, performance

I. INTRODUCTION

Formulating a strategy has always been easier than implementing it correctly. According to Davenport [1] creating a brilliant strategy is nothing compared to executing it successfully. It has always been much easier to create a strategy document than to get employees to abide by it. Many employees do not even know the details of strategies. Plans by senior management are neither attended to nor executed. Performance expectations are not met.

Execution is critical to success, Hrebiniak [2] notes. Execution represents a disciplined process or a logical set of connected activities that enables an organization to take a strategy and make it work. Without a careful, planned approach to execution, strategic goals cannot be attained. Developing such a logical approach, however, represents a formidable challenge to management. A host of factors, including politics, inertia, and resistance to change, routinely can get in the way of execution success.

Despite its importance, execution is often handled poorly by many organizations. There still are countless cases of good plans going awry because of substandard execution efforts. This raises some important question.

If execution is central to success, why don't more organizations develop a disciplined approach to it? Why don't companies spend time developing and perfecting processes that help them achieve important strategic outcomes? Why can't more companies execute or implement strategies well and reap the benefits of those efforts?

The simple answer is that execution is extremely difficult. There are formidable roadblocks or hurdles that get in the way of the execution process and seriously injure the

implementation of strategy. The road to successful execution is full of potholes that must be negotiated for execution success.

Noble [3] thinks that 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. 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.

It is obvious that the biggest challenge for today's organizations is not formulation but rather strategy implementation. However, many companies fail in performance enhancement because they fail in implementing strategies into action. How can they overcome these obstacles in order to help firms' leaders to make necessary changes in the process of successful execution and strategy implementation?

II. STRATEGY AS ACTION

Strategy is about making series of decisions that drive corporate action under specific coupling with company's environment and context. Because decisions are actions, so the strategy itself is action, not just a description of action, according to Zelený [4]. In the area of traditional strategy, descriptions (information) have replaced action (knowledge), talk has replaced walk. Strategy is what company does, and what company does is its strategy. One cannot run a company just on descriptions and framed mission statements. The role of customers is crucial: the customer shapes strategy and triggers corporate action. Without respecting the customer there is no viable strategy. Customers, not corporate executives, determine if products and services add value, provide quality, are innovative or offer tradeoffs-free satisfaction.

Action and description of action are two very different domains and only rarely the two meet. Assorted corporate mission and vision statements are not strategy and have little to do with strategy. They are just descriptions of intentions, desires and plans – just words substituted for action. This gap between knowing what to do and actually doing it can be

excruciatingly real – and it has been widening and getting worse even since the onset of the information era.

Zelený [4] provides a summary of the emerging view of strategy:

- Any core competency or competitive advantage is temporary. Effective strategy is based on a continuous search for new advantage and production of new competencies.
- Strategy emerges from a series of interrelated decisions aiming towards reducing or eliminating tradeoffs conflict.
- Strategy is action, not a description of action, i.e. what a company does, not what it says, is its strategy.
- All action takes places in the present, not in the future, not in the past; the rest are descriptions.
- Current organization reflects current portfolio of resources. Strategy transforms resource portfolio into a better resource portfolio. Organization and strategy are interdependent and mutually co-determinant.
- Organization is a self-renewing cycle of basic processes; structure is a time-spatial snapshot of the underlying organizational process: organization determines structure, not vice versa. The relationship between structure and strategy is irrelevant.
- Corporate strategy must involve changes in business model, not just in products and services; i.e. it must allow continuous reinvention of itself as a company and business.
- Corporate resources are not given, but must be continually designed and re-designed towards maximization of added value for both business and its customers.
- Accumulated knowledge and past experience is the platform for change, not information of future intent, mission or vision. (Anything that can be framed and hanged on the wall is not strategy.)
- Added value is a better measure of strategic success than profit maximization. All employees and corporate teams, units and departments must add value to justify their earnings.
- Customer is the driver of strategy and the validating source and measure of quality, innovation and knowledge. Customer does not prefer tradeoffs: he wants it all.
- Markets are continually and unpredictably changing and shifting. Long-term strategy, based not on forecast, but rooted in foresight, brings forth the necessary consistency of purpose.
- New products, services and business models are being launched and tested at steady and predictable pace, regardless the boom or bust circumstances. Doing the work of crisis without the crisis – is a new corporate calling.
- Strategy cannot come from top-down in the form of descriptions and declarations. Neither can action

percolate from bottom-up. Strategy emerges from the action cycle of Customer-Innovation-Processes-Finance. CIPF should be the strategy of any business; only the measures of performance differentiate individual corporate strategies.

- Foresighting of trends, organizational adjustment and optimal conditions for CIPF-cycle functioning are the main charges of corporate leadership and executive management.
- Corporate strategy is not assembled like a Lego – piecewise into a unified whole. Rather, strategy is grown and nurtured into its existence from the past action, not backwards from the future – like a living organism, not like a contrived machine.

The above mentioned summary confirms that strategy as a competent and purposeful action will impress both competitors and customers. Strategy is about what you do, not about what you say you do. Strategy is about action, not about description of action. Strategy is about doing, not about talking. All corporations have strategy, whether they know it or not: it is embedded in their doing. Strategy is what you do. What you do is your strategy. Your action should be stronger and more reliable than your words.

III. FORMULATION OF COMPETITIVE STRATEGY

Among managers who make strategy and researchers who study it, fierce battles have been fought over the right way to discover a strategy. In one corner stand advocates of analysis, deliberation, and planning: Managers should study the competitive forces in their environment, deduce a set of choices that helps the firm confront those forces, and then implement the choices. In the opposite corner are those who support what's termed an emergent approach: Managers should try things out, learn from experience, adjust, and gradually craft a strategy.

Gavetti and Rivkin [5] consider both views (deliberate and emergent) as incomplete. They miss important other ways to search for a strategy, approaches that lie between deliberation and emergence. One way is analogical reasoning. After the period when industry conditions are wholly undefined but before economic cause and effect become sufficiently clear, an industry's environment offers clues that it is similar to other settings. Around 1996, for instance, the internet portal industry started to bear certain resemblances to traditional media. This enabled forward-thinking firms such as Yahoo, which saw the similarities early, to precede rivals in adopting effective practices from the established media business. Yahoo organized itself around "producers" developing online "properties" and invested deeply in its brand; some other portals on developing the faster search technology. Great strategists not only rely on emergence and deliberation at the right moments, but they also know when and how to employ analogies with care.

Porter [6] adds that strategy can be viewed as building defenses against the competitive forces or finding a position in the industry where the forces are weakest.

So how do we formulate strategies? The success of every small as well as big business depends on the actions taken by

the entrepreneur or a CEO and the results achieved. We have many useful frameworks for formulating business strategies, i.e. devising a theory of how to compete. Frameworks for strategy execution are comparatively fragmented and idiosyncratic, confirms Richardson [7].

The five-forces framework by M. E. Porter (1980) organizes and gives meaning to the numerous measures and characteristics of industries. The generic strategy framework by the same author (1980) reveals the fundamental approaches to gaining competitive advantage. The generic building blocks framework defines the basic dimensions along which a firm can outperform its competitors (Hill & Jones, 2001). The SWOT analysis framework is widely used to assess strategic situations. The VRIO framework (Barney, 2002) tells us under what conditions a firm's resources can enable it to gain and sustain a competitive advantage. The value-chain framework (Porter, 1985) allows us to analyze the firm's activities and sources of competitive advantage, Richardson [7] adds. CIPF-cycle focuses on customer, innovation, processes and financial perspective. And there are many more.

Some of the frameworks mentioned above, along with numerous ones not mentioned, can be useful in strategy execution – in putting the strategy into action. In particular, the value chain and VRIO frameworks get us thinking about the activities and resources needed to execute the strategy. But on the whole, the frameworks are most useful in strategy formulation.

IV. IMPLEMENTATION OF CORPORATE STRATEGY

As we move into execution, the standard frameworks leave us with a fragmented and incomplete understanding of how the firm's strategy should be translated into action. Hrebiniak [2] as well as Kaplan and Norton [8] see the difficulty of framing strategy execution as inherent in the phenomena. The firm's theory of how to compete is a simplified abstraction from the complexity of any real business situation. In each real competitive situation, the firm's particular characteristics and history, the circumstances in the industry, and the details of each competitor, present unique challenges and opportunities. The strategy frameworks allow us to abstract from all of that detail and capture the essential elements of competition. But as we move toward execution, the detail becomes more important. The details of the firm's product and services, its activities and resources, its people, and nearly everything else about the firm, are the ingredients of execution. Clearly, getting the details right is enormously important to effective strategy execution. And frameworks for thinking about this problem, for helping to get the details right, are enormously beneficial.

A. Extremes of strategy execution

Strategy execution has for too long lurched between two extremes, Davenport [1] says. One camp, called "strategic engineering", envisions strategy execution as an engineering exercise, and view employees as cogs in a machine well-oiled by computers. In this view, the role of the senior

executive team is to clearly articulate the strategy and specific objectives, to "cascade" those objectives throughout the organization, and to create process flows, performance measures, and automated reporting vehicles to ensure alignment and compliance down the organization chart. Strategy engineers often talk of maps, scorecards, and flow charts, as if the only real problem for organizations is to clearly describe what needs to be done by employees. The notion that those employees might have a better idea is seldom considered.

The other extreme, called "strategic anarchy", encourages executives to simply get out of the way of their employees' entrepreneurial and innovative energies. "Command and control" organizational structures are a relic of the past, according to this perspective. People know best how to do their own jobs, and it is those at the front line who interface with customers, after all.

Neither extreme, of course, is very useful for organizations attempting to perform well in difficult and changing business environments. The engineering approach neglects the fact that front-line employees do have to innovate and improvise much of the time, as any strategy, process, or metric won't always correspond with what it takes to be successful in the real world. The strategic anarchists ignore the need for organizations to move in a consistent, planned direction. Obviously right answer to effective strategy execution lies somewhere in the middle.

B. Reasons for failure in strategy implementation

Failure while putting strategy into action can be caused by many factors. Among the most interesting belong:

- *Isolation from the workforce*

First limitation factor in CEO's being able to create and follow through great strategy is their isolation from their own workforce. Information is idealized as it passes each management level resulting in good strategy being based on questionable data and ideals. Not so many CEO's spend time with staff at all levels and most importantly listen without passing judgement. However, can this "method" help to build a more dynamic business with less need for radical change?

- *Difficulties while connecting strategic choices*

A good strategy is the product of the creative combination of two disparate logics but CEOs and strategists are seldom conditioned to become skilled at the requisite creative combination. The two most fundamental strategic choices are deciding *where to play* and *how to win*. These two decisions – in what areas will the company compete, and on what basis will it do so – are the critical one-two punch to generate strategic advantage. However, they cannot be considered independently or sequentially. In a great strategy, your where-to-play and how-to-win choices fit together and reinforce one another.

For example, operating only in your home country market may seem to be a perfectly fine where-to-play choice and winning on the basis of technological superiority a perfectly fine how-to-win choice, but their combination almost always produces a bad strategy – because of global economies of scale in R&D, some competitor will globalize

and blow out the geographically narrow national player. These choices do not fit or reinforce.

The trouble is, CEOs do not usually get to the top by integrating different logics in that way. More often they rise by pushing a single logic. They like to analyze a problem and come up with a single, sufficient answer, like how to globalize or get costs under control or introduce a new product, rather than trying to look for answers to two questions that fit together elegantly.

Meanwhile, corporate strategists and strategy consultants get ahead by demonstrating mastery of all sorts of conceptual tools for analyzing where-to-play (five forces, profit maps, etc.) or how-to-win (experience curve, value chain, VIRO, etc.). However, there as yet is no analytical tool for combining a given where-to-play choice with a congenial how-to-win choice or vice versa. That takes creative insight. But the majority of people who seek to become corporate strategists or strategy consultants do so because they are much more comfortable with analysis than what they perceive as guesswork. So they tend to become expert at strategic analysis, not strategy. That is why CEOs and strategists so seldom produce good strategies. Strategy is a creative act and the way to produce good strategy is go beyond basic analysis to creatively integrate your choices concerning where you play and how you propose to win. [9]

Furthermore, a good strategy goes beyond where-to-play and how-to-win choice. It includes “when”, too. A strategy for profits today/next year may not help a company succeed in the long term.

- *Listening to consultants instead of thinking*

Over the years strategy consultants try to adjust their advices and recommendations according to what they believe their client is willing and able to do. Even when they are creative enough to create a strategy that fits the firm completely, they still set up their recommendations to what they think the client’s abilities to understand are.

- *Planning and execution are independent*

Strategy formulation and implementation are separate, distinguishable parts of the strategic management process. Logically, implementation follows formulation; one cannot implement something until that something exists. But formulation and implementation are also interdependent, part of an overall process of planning-executing-adapting. This interdependence suggests that overlap between planners and “doers” improves the probability of execution success. Not involving those responsible for execution in the planning process threatens knowledge transfer, commitment to sought-after outcomes, and the entire implementation process.

- *Time*

The successful implementation of strategy takes more time than its formulation. This can challenge managers’ attention to execution details. The longer time frame can also detract from managers’ attention to strategic goals. Controls must be set to provide feedback and keep management abreast of external “shocks” and changes. The process of execution must be dynamic and adaptive, responding to unanticipated events. This imperative challenges managers responsible for execution.

- *Other execution-related problems*

They include responsibility and accountability for execution activities and decisions that are not clear; poor knowledge sharing among key functions or divisions; dysfunctional incentives; inadequate coordination; poor or vague strategy; and not having guidelines or a model to shape execution activities and decisions. [10]

- *Indirect factors*

Politics: Elections provide an opportune time to consider the effects government decisions have on business strategies. Unexpected economy swings, economic growth rate.

Recent technological development, research, modernization, investments.

V. CONCLUSION

Neilson, Martin and Powers [11] consider execution as a notorious and perennial challenge. Even at the companies that are best at it just two-thirds of employees agree that important strategic and operational decisions are quickly translated into action. As long as companies continue to attack their execution problems primarily or solely with structural or motivational initiatives, they will continue to fail. They may enjoy short-term results, but they will inevitably slip back into old habits because they won’t have addressed the root causes of failure. Such failures can almost always be fixed by ensuring that people truly understand what they are responsible for and who makes which decisions – and then giving them the information they need to fulfill their responsibilities.

When a company fails to execute its strategy, managers should not think about restructuring its processes. Fundamentals of good execution start with clarifying decisions right and making sure information flows where it needs to go. If managers get those right, the correct structure and motivators often become obvious.

Successful implementation of a strategy requires an involvement of whole organization. CEOs are generally open to the idea of the strategy process and they are aware of the fact that the execution is critical to success. It is mostly the implementation that creates obstructions. There are several obstacles that can harm the successful implementation. However, using right methods, frameworks or timing may reduce or minimize them at all.

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