

Implementing Strategy Control & Structure

Part 1

Chartered Accountancy Strategic Level Strategic Management & Leadership (SML)

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STRATEGIC MANAGEMENT

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LEADERSHIP

CA - STRATEGIC LEVEL



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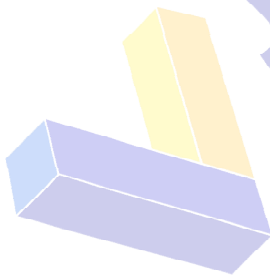
Implementing Strategy Control & Structure – (10%)

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INTRODUCTION

This chapter covers strategy implementation or execution part and issues of putting strategy in to practice. Role of organizational structure in strategy implementation is focused on and modern developments of same would be looked at which fuels the strategy execution part.



1.0 Implementing Strategy

In implementing strategy following key areas to be paid core attention;

.1. Separate Plans for

- The Implementation Manager
- Time
- Quality
- Resources
- Contingencies
- Communications
- Scope

2. Reporting

A reporting information system should be set up to record and monitor the progress of the implementation against the plan. The comparisons between actual and plan should be communicated to team members on a regular basis so that any slippage can be identified as soon as possible and possible solutions discussed.

If the impact of these delays is likely to have a significant impact on the timing of the implementation completion or the ability to deliver the key requirements of the strategy implementation, then the board of directors needs to be informed as soon as possible.

2.0 Monitoring Strategic Performance

When strategies have been selected and implemented, their progress and performance should be monitored. Management should check whether the organisation's strategies, taken both individually and collectively, are achieving their intended objectives.

When strategic performance falls short of expectation, management should consider control measures to rectify the situation. These could include amending a strategy, or abandoning a strategy.

2.1 Monitoring Financial & Non-Financial Performance

In each year of the business plan, management can:

- (a) Compare actual financial performance in the previous financial year (just ended) with the targets for performance in the business plan
- (b) Produce new forecasts for the remainder of the business plan period, and assess whether the organisation still expects to achieve its financial objectives by the end of this period

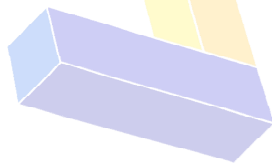
Non-financial performance should also be measured, as well as financial performance.

Why Non-Financial Performance is Important?

1. Historical Non-Financial performance is helpful in drafting the future
2. Some of the strategies are leading towards non-financial aspects

- **Setting “Milestones” for Performance**

- **Preparation of New Forecasts**



- **Evaluation of CSF's & KPI's**

3.0 Strategic Control

Strategic Controls involves monitoring the organization's progress towards set strategic objectives and to take control measures when actual performance tend to get deviated from the expected performance. Both financial & Non-Financial movements will be assessed.

3.1 Connection between Short-term & Strategic Monitoring & Controlling

3.2 Control Action : Changing Strategy



4.0 Organization Configuration & Structure

Johnson et al (2005) identify three major groups of challenges for 21st century organisation structures.

(a) **Flexibility of organisational design.**

The rapid pace of **environmental change** and increased levels of **environmental uncertainty** demand flexibility of organisational design.

(b) **Effective systems.**

The creation and exploitation of **knowledge** requires effective systems to link the people who have knowledge with the applications that need it.

(c) **Globalisation.**

Globalisation creates new types and a new scale of **technological complexity** in communication and information systems; at the same time, **diversity of culture**, practices and approaches to personal relationships bring their own new problems of organisational form.

An important element of response to this need is therefore an emphasis on the importance of facilitating effective **processes** and **relationships** when designing **structures**. Johnson et al (2005) use the term **configuration** to encompass these three elements.

4.1 Organizational Configuration

Johnson et al (2005) highlight that the following three elements form part of an organisation's configuration:

(a) **Structure** has its conventional meaning of organisation structure.

(b) **Processes** drive and support people: they define how strategies are made and controlled; and how the organisation's people interact and implement strategy.

(c) **Relationships** are the connections between people within the organisation and between those inside it and those on the outside.

Effective processes and relationships can have varying degrees of formality and informality and it is important that formal relationships and processes are aligned with the relevant informal ones.

It is very important to be aware that structures, processes and relationships are **highly interdependent**: they have to work together intimately and consistently if the organisation is to be successful.

4.2 Organizational Structure

An organisation's formal structure reveals much about it.

- (a) It shows who is **responsible** for what.
- (b) It shows who **communicates** with whom, both in procedural practice and, to great extent, in less formal ways.
- (c) The upper levels of the structure reveal the **skills the organisation values** and, by extension, the **role of knowledge and skill** within it.

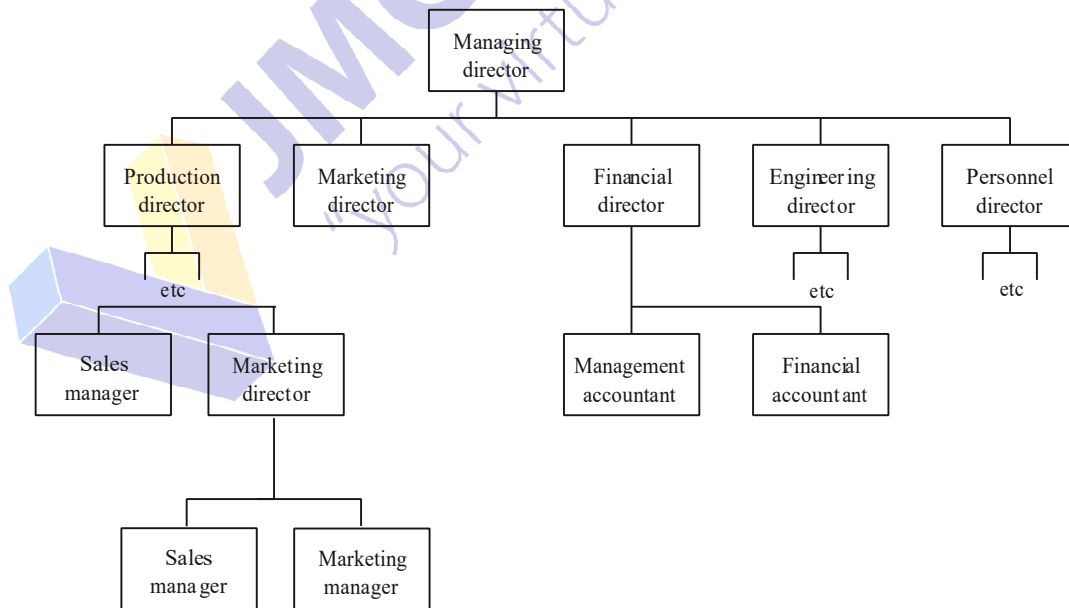
Self contained organisations

Historically, organisational structures have tended to be '**self contained**' as they are distinct from external groups such as customers, competitors and suppliers.

Johnson et al (2005) review seven basic 'self contained' structural types:

- Functional
- Multi-divisional
- Holding company
- Matrix
- Transnational
- Team
- Project

The Functional Structure



Advantages

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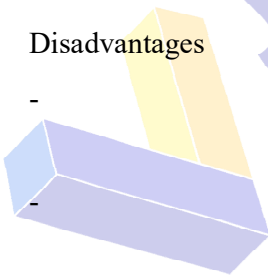
Disadvantages

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The Multi Divisional & Holding Company Structure

The **multi-divisional structure** divides the organisation into semi-autonomous divisions that may be differentiated by territory, product, or market. The holding company structure is an extreme form in which the divisions are separate legal entities.

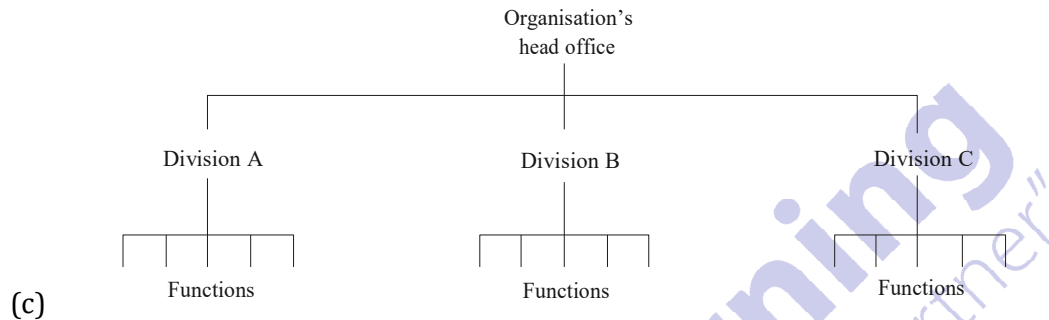
Disadvantages

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The multi-divisional structure might be implemented in one of **two forms**.

- (a) Simple divisionalisation
- (b) The **holding company** (group) structure

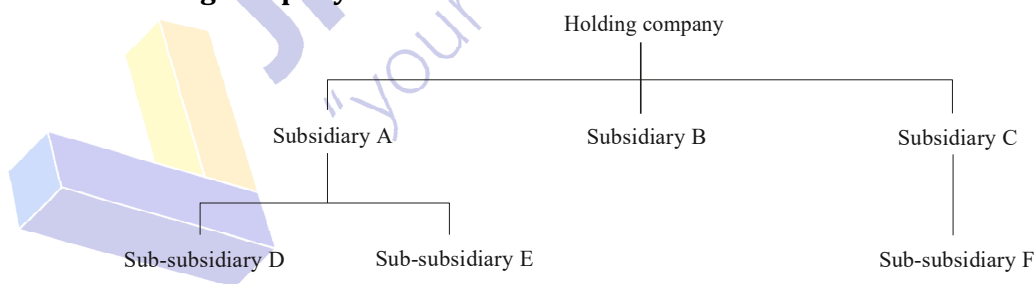
Simple divisionalisation



This enables concentration on particular product-market areas, overcoming problems of functional specialisation at a large scale. Problems arise with the power of the head office, and control of the resources. Responsibility is devolved, and some central functions might be duplicated.

holding company (group) structure is a radical form of divisionalisation. **Subsidiaries are separate legal entities.** The holding company can be a firm with a permanent investment or one that buys and sells businesses or interests in businesses: the subsidiaries may have other shareholders.

Holding company structure

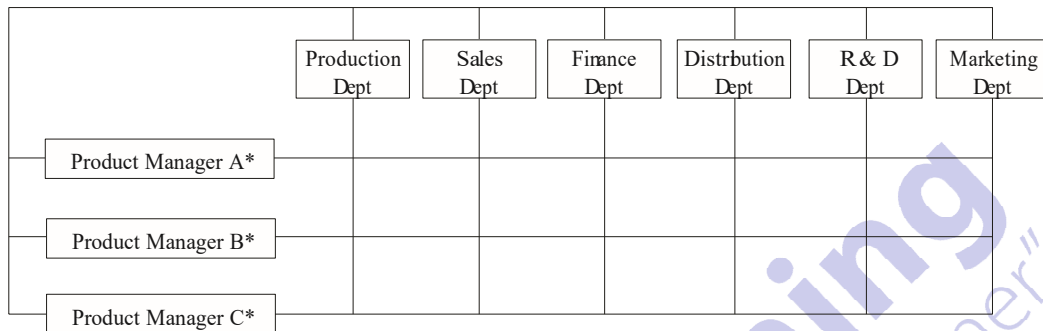


Divisionalisation has some advantages, despite the problems identified previously.

- (a) It focuses the attention of subordinate management on business performance and results.
- (b) **Management by objectives** is the natural control default.
- (c) It gives more authority to junior managers, and therefore provides them with work that grooms them for more senior positions in the future.

- (d) It provides an organisation structure which reduces the number of levels of management. The top executives in each division should be able to report direct to the chief executive of the holding company.

Matrix Structure



Advantages

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A Matrix structure is suited under;

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Transnational Structure

The transnational structure attempts to reconcile global scope and scale with local responsiveness. In international strategy, it has been difficult to combine **responsiveness to local conditions** with the degree of co-ordination necessary to achieve major **economies of scale**.

The **transnational structure** attempts to combine the best features of these contrasting approaches in order to create **competences of global relevance, responsiveness to local conditions** and **innovation and learning** on an organisation-wide scale.

Bartlett and Ghoshal (2002) describe it as a **matrix** with two important general features.

- (a) It responds specifically to the challenges of globalisation.
- (b) It tends to have a high proportion of fixed responsibilities in the horizontal lines of management.

Johnson et al (2005) note that the transnational has three specific operational characteristics:

- (a) National units are **independent operating entities**, but also provide capabilities, such as R&D, that are utilised by the rest of the organisation.
- (b) Such shared capabilities allow national units to achieve global, or at least regional, **economies of scale**.
- (c) The global corporate parent adds value by establishing the **basic role of each national unit** and then supporting the **systems, relationships and culture** that enable them to work together as an effective network.

Team Based Structure

A team-based structure extends the matrix structure's use of both vertical functional links and horizontal, activity-based ones by utilising **cross-functional teams** (Johnson et al, 2005). Business processes are often used as the basis of organisation, with each team being responsible for the processes relating to an aspect of the business. For example, a purchasing team might contain procurement specialists, design and production engineers and marketing specialists in order to ensure that outsourced sub-assemblies are properly specified, and contribute to brand values and are promptly delivered at the right price.

Project Based Structure

The project-based structure is similar to the team-based structure except that projects, by definition, have a **finite life** and so, therefore, do the project teams dealing with them (Johnson et al, 2005). This approach is very flexible and is easy to use as an adjunct to more traditional organisational forms. Management of projects is a well-established discipline with its own techniques. It requires clear project definition, if control is to be effective; and a comprehensive project review, if longer-term learning is to take place. Both team- and project-based structures extend the matrix approach by using cross-functional teams. The difference is that projects naturally come to an end and so project teams disperse.

5.0 Choosing a Structure

An organisation's structure must provide a means of exercising appropriate **control**. It must also respond to the three challenges identified earlier: **rapid change**, **knowledge management** and **globalisation**.

Johnson et al (2005) summarise the seven basic types in a table. They emphasise that no single model of organisation is suitable for all purposes: managers must make choices as to which challenges they regard as most pressing.

The stars in the table denote the capacity of each type of structure to cope with each of the challenges outlined in the top of each column. Three stars indicates high capacity, with one star indicating poor capacity.

	Control	Change	Knowledge	Globalisation
Functional	***	*	**	*
Multi-divisional	**	**	*	**
Holding	*	***	*	**
Matrix	*	***	***	***
Transnational	**	***	***	***
Team	*	**	***	*
Project	**	***	**	**

Goold and Campbell (2002) propose nine tests that may be used to assess proposed structures. The first four relate to the organisation's **objectives** and the **restraints** under which it operates.

(a) **Market advantage:**

Where processes must be closely co-ordinated in order to achieve market advantage, they should be in the same structural element.

(b) **Parenting advantage:**

The structure should support the parenting role played by the corporate centre.

(c) **People test:**

The structure must be suited to the skills and experience of the people that have to function within it. For example, skilled professionals used to a team-working approach might be frustrated by a move to a functional hierarchy.

(d) **Feasibility test:**

This test sweeps up all other constraints, such as those imposed by law, stakeholder opinion and resource availability.

The tests forming the second group are matters of **design principle**.

(a) **Specialised cultures:**

Specialists should be able to collaborate closely.

(b) **Difficult links:**

It is highly likely that some inter-departmental links will be subject to friction and strain. A good example would be the link between sales and production

when there are frequent problems over quality and delivery. A sound structure will embody measures to strengthen communication and co-operation in such cases.

(c) **Redundant hierarchy:**

The structure should be as flat as is reasonably attainable. This allows more rapid vertical communication and coordination.

(d) **Accountability:**

Effective control requires clear lines of accountability.

(e) **Flexibility:** The structure must allow for requirements to change in the future so that, for example, unexpected opportunities can be seized.

Centralization v decentralization

A relatively simple quality of an organisational structure is whether it is centralised or decentralised.

Centralisation means control is retained at the centre of an organisation, for example at head office. Centralisation facilitates control and standardisation.

Decentralisation utilises talent and local knowledge.

- **Centralisation** means a greater degree of central control.
- **Decentralisation** means a greater degree of delegated authority to regions or sub-units.

Advantages of Centralization

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Advantages of Decentralization

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