

14th Edition

# Crafting and Executing Strategy

The Quest for Competitive Advantage

CONCEPTS AND CASES

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Chapter

# 12

# Managing Internal Operations

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**“Winning companies know  
how to do their work better.”**

Michael Hammer and James Champy

**“If you talk about change  
but don't change the  
reward and recognition  
system, nothing changes.”**

Paul Allaire

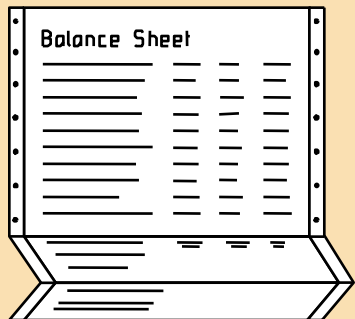


# Chapter Roadmap

- ◆ Marshaling Resources to Support the Strategy Execution Effort
- ◆ Instituting Policies and Procedures that Facilitate Strategy Execution
- ◆ Adopting Best Practices and Striving for Continuous Improvement
- ◆ Installing Information and Operating Systems
- ◆ Tying Rewards and Incentives Directly to Good Strategy Execution



# MARSHALING RESOURCES TO SUPPORT STRATEGY EXECUTION

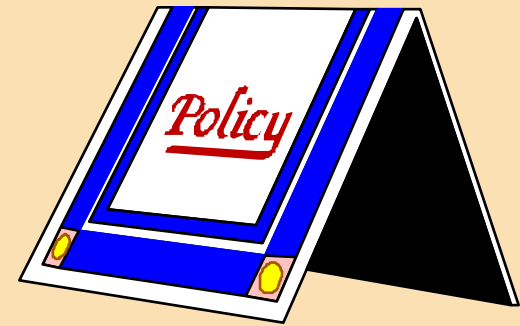


# Allocating Resources to Support Strategy Execution

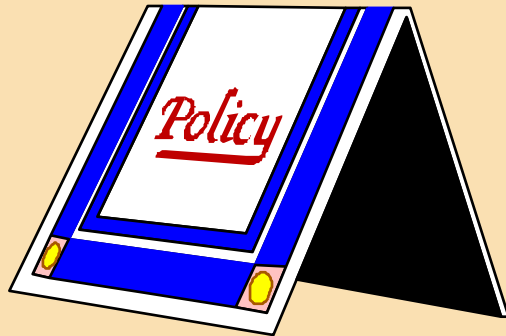
◆ *Allocating resources* in ways to *support effective strategy execution* involves

- Funding strategic initiatives that can make a contribution to strategy implementation
- Funding efforts to strengthen competencies and capabilities or to create new ones
- Shifting resources — downsizing some areas, upsizing others, killing activities no longer justified, and funding new activities with a critical strategy role

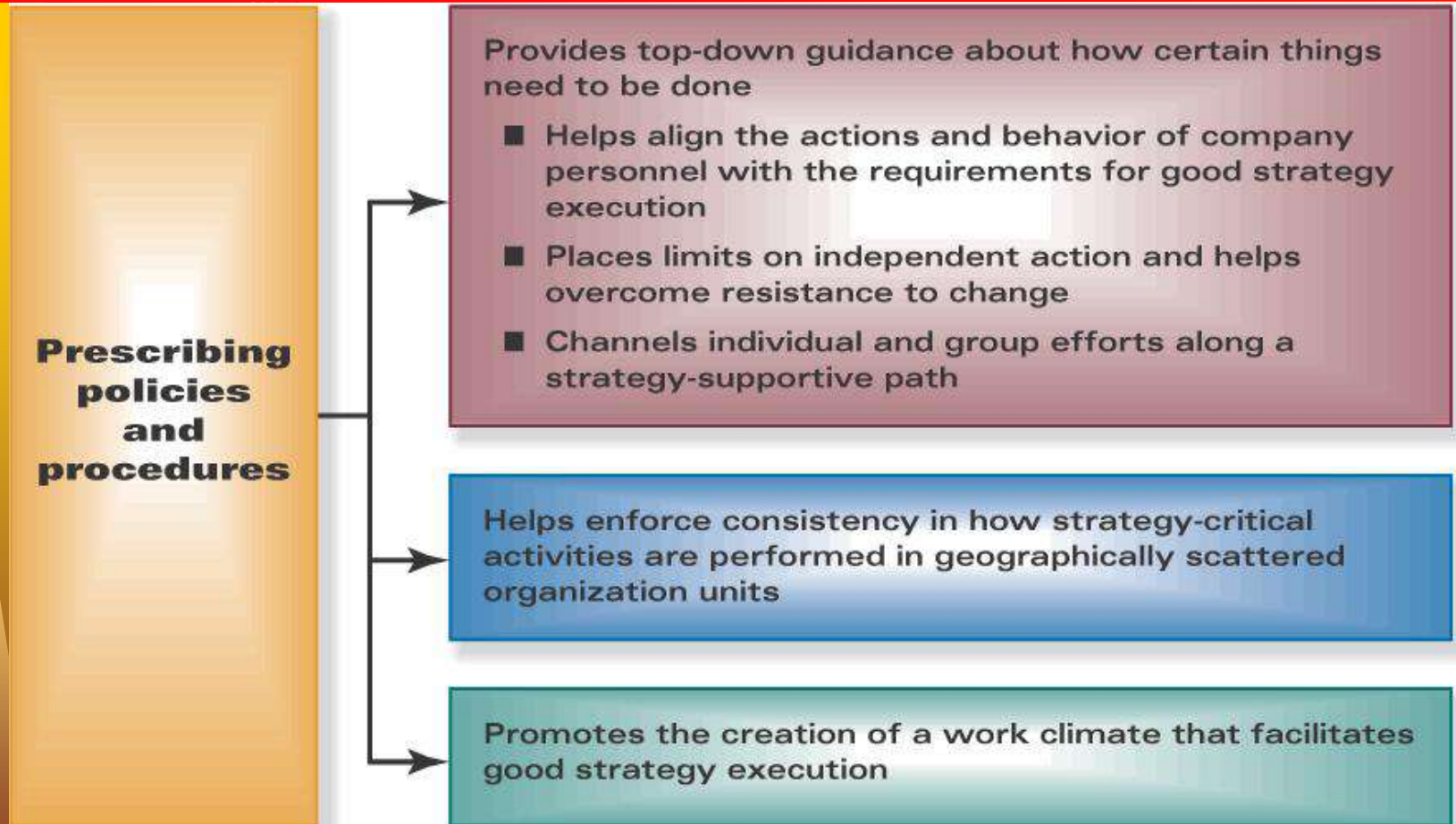




# ESTABLISH STRATEGY-SUPPORTIVE POLICIES



# Fig. 12.1: How Prescribed Policies and Procedures Facilitate Strategy Execution

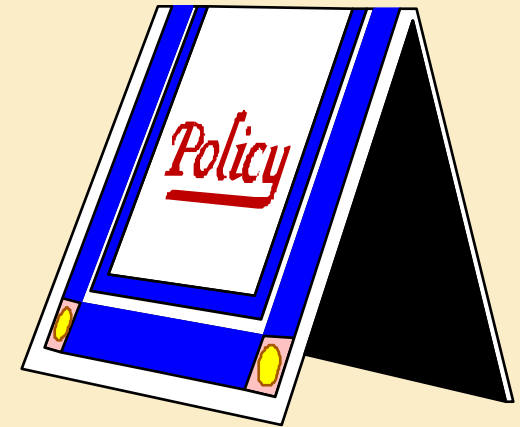




# Creating Strategy-Supportive Policies and Procedures

## ◆ *Role of new policies*

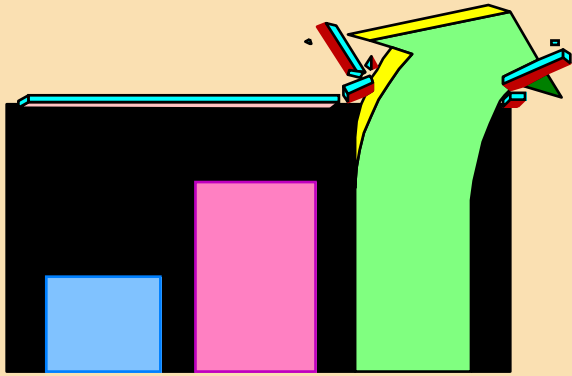
- Channel behaviors and decisions to promote strategy execution
- Counteract tendencies of people to resist chosen strategy



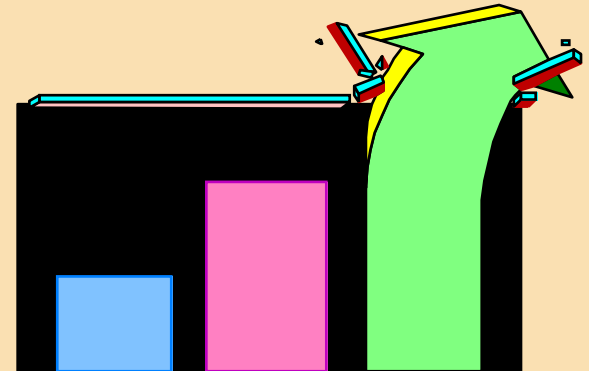
## ◆ *Too much policy* can be as *stifling* as

- Wrong policy or as
- Chaotic as no policy

## ◆ Often, the *best policy* is *empowering employees*, letting them *operate between the “white lines”* anyway they think best



# ADOPTING BEST PRACTICES AND STRIVING FOR CONTINUOUS IMPROVEMENT



# Instituting Best Practices and Continuous Improvement

- ◆ Searching out and adopting *best practices* is integral to effective implementation
- ◆ *Benchmarking* is the backbone of the process of identifying, studying, and implementing best practices
- ◆ *Key tools* to promote *continuous improvement*
  - TQM
  - Six sigma quality control
  - Business process reengineering



# What Is a Best Practice?

- ◆ Any *activity* that at least one company has proved *works particularly well*
- ◆ A *path* to *operating excellence*



# 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

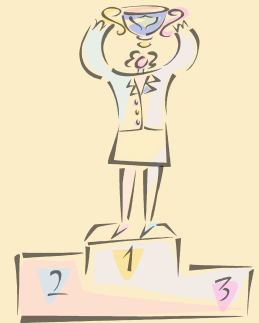
◆ To be *valuable and transferable*, a *best practice* must

- Demonstrate success over time
- Deliver quantifiable and highly positive results *and*
- Be repeatable

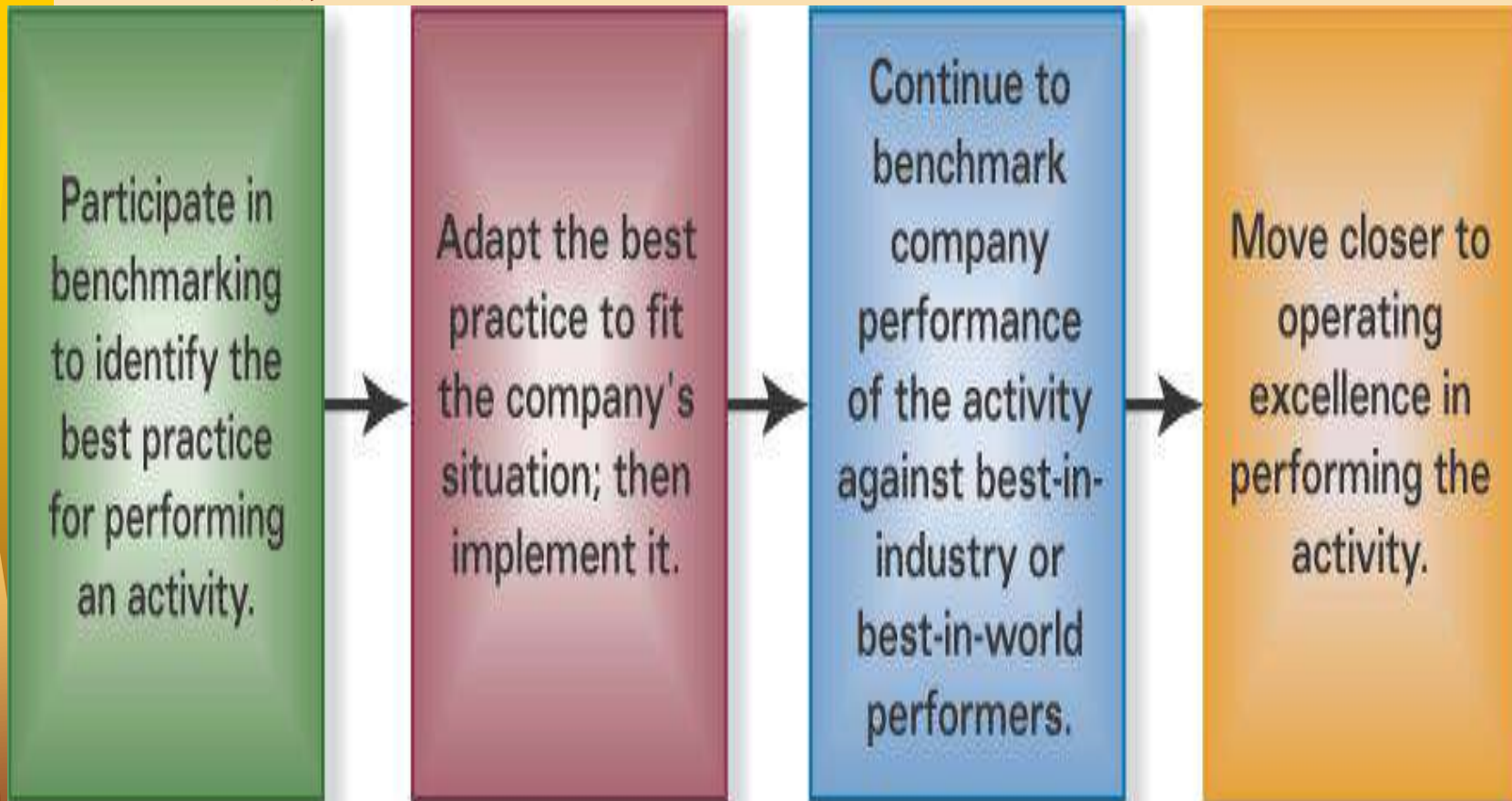


# Characteristics of Benchmarking

- ◆ Involves determining *how well* a firm *performs* particular *activities* and *processes* when compared against
  - ➔ *“Best in industry”* or *“Best in world”* performers
- ◆ *Goal* – Promote achievement of *operating excellence* in performing strategy-critical activities
- ◆ *Caution* – Exact *duplication* of *best practices* of other firms is *not feasible* due to differences in implementation situations
- ◆ *Best approach* – Best practices of other firms need to be *modified or adapted* to fit a firm’s own specific situation



## Fig. 12.2: From Benchmarking and Best-Practice Implementation to Operating Excellence



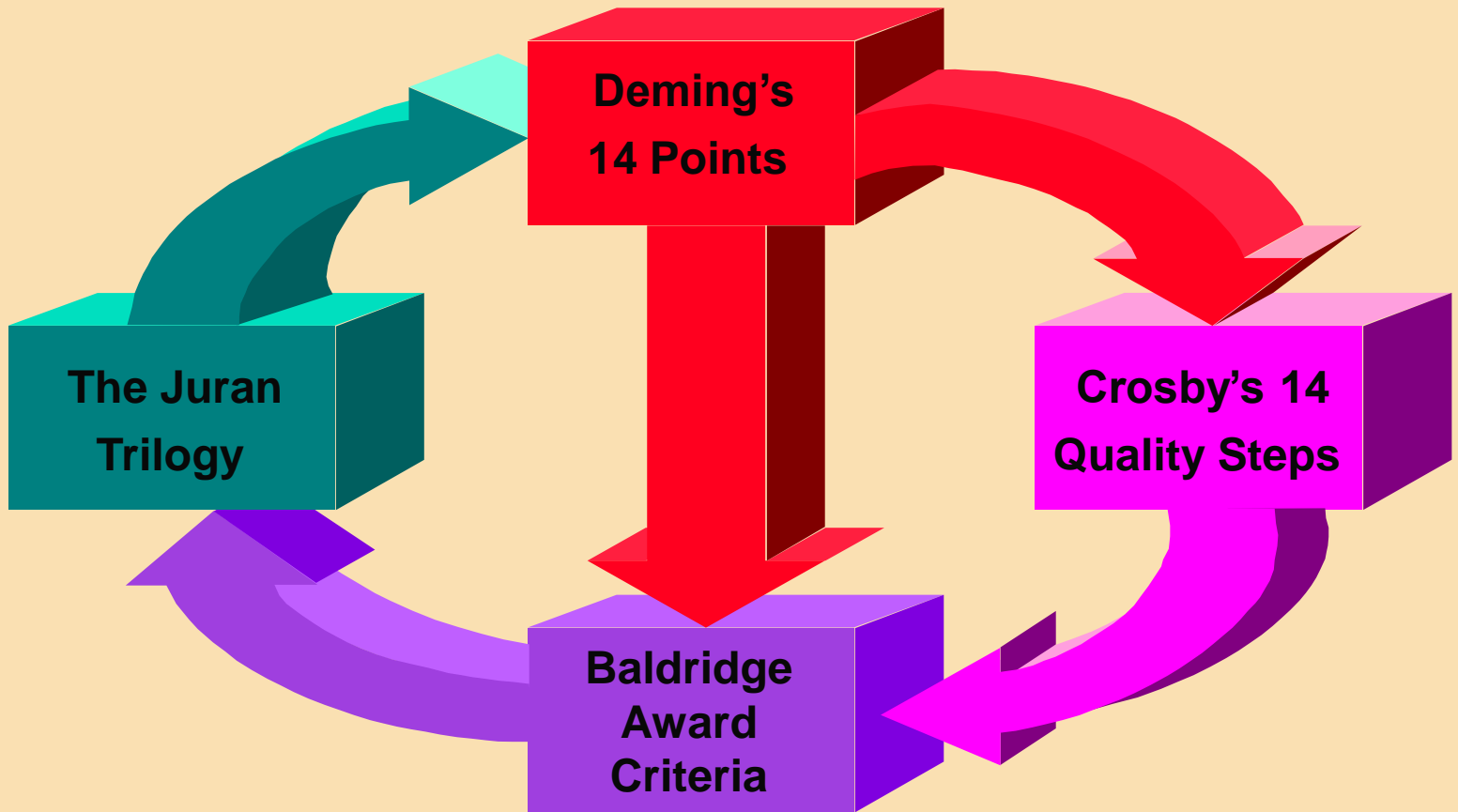
# What Is *Total Quality Management*?

- ◆ 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



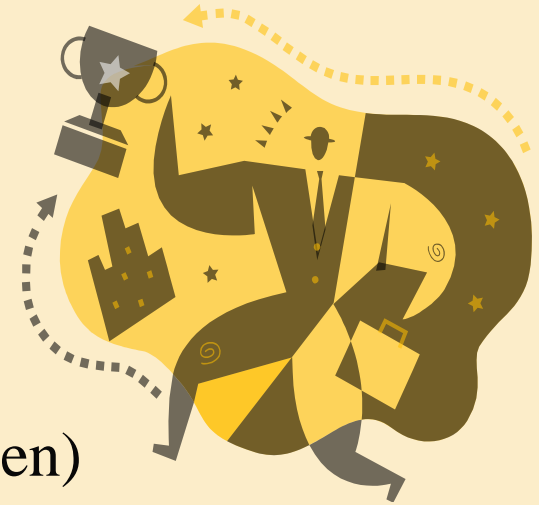


# Popular TQM Approaches



# 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



# What Is Six Sigma Quality Control?

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

# TQM vs. Process Reengineering

## ◆ *Reengineering*

→ Aims at quantum gains of 30 to 50% or more

## ◆ *TQM*

→ Stresses incremental progress

## ◆ *Techniques are not mutually exclusive*

→ *Reengineering* – Used to produce a good basic design yielding dramatic improvements

→ *TQM* – Used to perfect process, gradually improving efficiency and effectiveness



# Approach: Capturing Benefits of Best-Practice and Continuous Improvement Programs

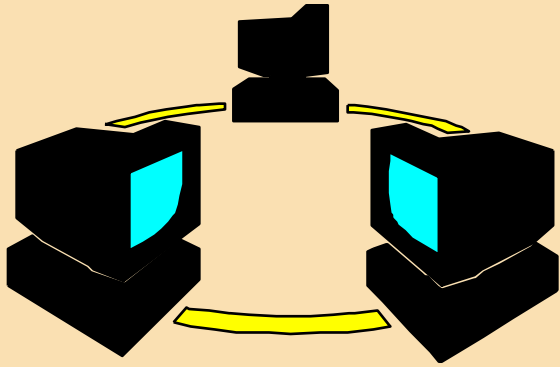
- ◆ Select indicators of successful strategy execution
- ◆ Benchmark against best practice companies
- ◆ Reengineer business processes
- ◆ Build a TQ culture
  - ➔ Requires top management commitment
  - ➔ Install TQ-supportive employee practices
  - ➔ Empower employees to do the right things
  - ➔ Provide employees with quick access to required information using on-line systems
  - ➔ Preach that performance can/must be improved



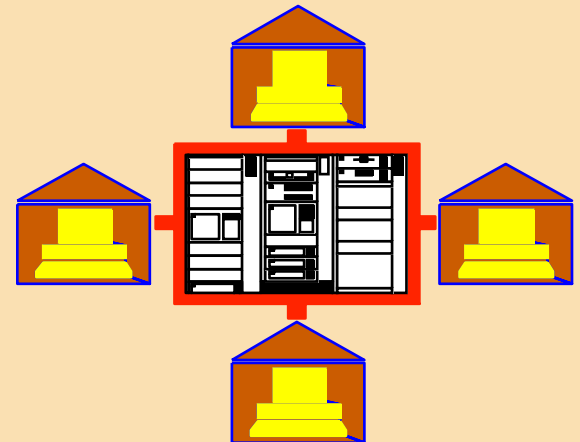
# Characteristics of Continuous Improvement Programs

- ◆ Can greatly enhance a company's
  - Competitive capabilities
  - Ability to achieve a competitive advantage
- ◆ Have hard-to-imitate aspects
- ◆ Require substantial investment of management time and effort
- ◆ Expensive in terms of training and meetings
- ◆ Seldom produce short-term results
- ◆ Long-term payoff — instilling a culture that strives for operating excellence

**Excellence!**

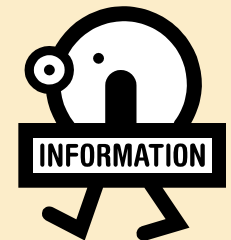


# INSTALL INFORMATION AND OPERATING SYSTEMS



# Installing Strategy-Supportive Information and Operating Systems

- ◆ Essential to promote successful strategy execution
- ◆ Types of support systems
  - On-line data systems
  - Internet and company intranets
  - Electronic mail
  - E-commerce systems
- ◆ Mobilizing information and creating systems to use knowledge effectively can yield
  - Competitive advantage

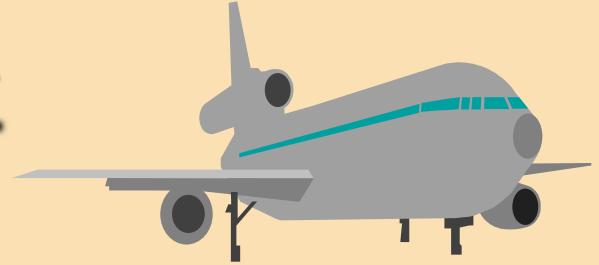




# Examples of Support Systems

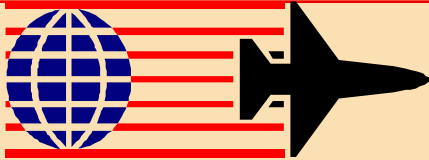


## Airlines



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

# Examples of Support Systems



**Federal Express**

**FedEx®**

- ◆ Internal communication systems allowing it to coordinate 60,000 vehicles handling an average of 5.2 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



# Examples of Support Systems



## **Otis Elevator**



Sophisticated maintenance support system



## **Wal-Mart**



Most sophisticated retailing systems  
of any retailer in world

# Examples of Support Systems



## Domino's Pizza



Computerized systems at each outlet facilitate ordering, inventory, payroll, cash flow, and work flow functions



## Mrs. Fields' Cookies



Systems monitor hourly sales to suggest product mix changes and to improve customer response

# What Areas Should Information Systems Address?

- ◆ Customer data
- ◆ Operations data
- ◆ Employee data
- ◆ Supplier/partner/collaborative ally data
- ◆ Financial performance data



# Exercising Adequate Control Over Empowered Employees

## ◆ *Challenge*

→ How to ensure actions of employees stay within acceptable bounds

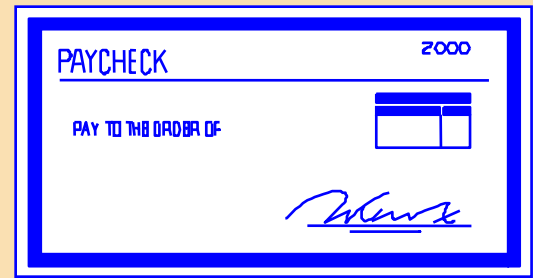
## ◆ *Control approaches*

### → *Managerial control*

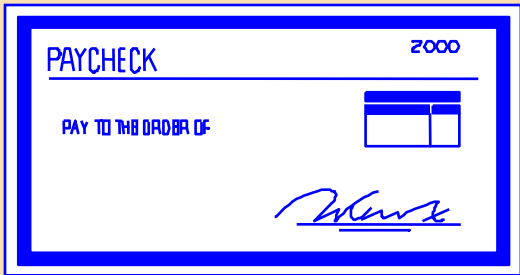
- Establish boundaries on what not to do, allowing freedom to act with limits
- Track and review daily operating performance

### → *Peer-based control*





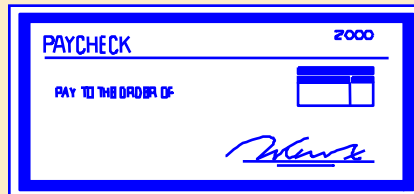
# DESIGN STRATEGY-SUPPORTIVE REWARD SYSTEMS



# Gaining Commitment: Components of an Effective Reward System

## Monetary Incentives

- ◆ Base pay increases
- ◆ Performance bonuses
- ◆ Profit sharing plans
- ◆ Stock options
- ◆ Retirement packages
- ◆ Piecework incentives



## Non-monetary Incentives

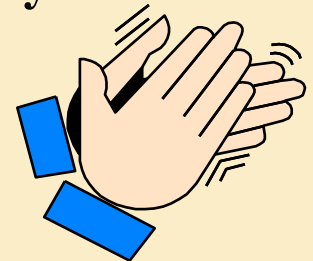
- ◆ Praise
- ◆ Constructive criticism
- ◆ Special recognition
- ◆ More, or less, job security
- ◆ Stimulating assignments
- ◆ More, or less, autonomy
- ◆ Rapid promotion





# 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



## *No Lay-Off Policies*



Japanese automobile producers, along with several U.S. based companies (Southwest Airlines, FedEx, Lands' End, and Harley Davidson) have no lay-off policies, using employment security both as a positive motivator and a means of reinforcing good strategy execution.



# Examples: Motivational Practices



*Lilly*

Answers That Matter.

*Stock Options*



Procter & Gamble, Merck, Charles Schwab, General Mills, Amgen, Tellabs, and Eli Lilly provide stock options to all employees. Having employee-owners sharing in a company's success is widely viewed as a way to bolster employee commitment.



MERCK

*Procter & Gamble*



Charles Schwab

# Examples: Motivational Practices

NORDSTROM

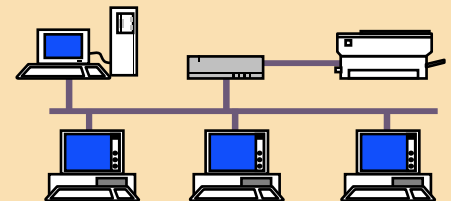
**Nordstrom**



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

**CISCO SYSTEMS**  
  
EMPOWERING THE  
INTERNET GENERATION™

**Cisco Systems**



Offers on-the-spot bonuses of up to \$2,000 for exceptional performance.

# Examples: Motivational Practices



imagination at work

## **GE Medical Systems**



Based on a program called *Quick Thanks!*, an employee can nominate any colleague to receive a \$25 gift certificate in appreciation for a job well done.

**LINCOLN**  
**ELECTRIC**

## **Lincoln Electric**

**THE WELDING EXPERTS**

Rewards productivity by paying for each piece produced (defects can be traced to worker causing them). Bonuses of 50 to 100% are common.

# 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**
    - **Effort**
    - **Creativity**
    - **Initiative**



# Linking the Reward System to Performance Outcomes

- ◆ *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



# Key Considerations in Designing Reward Systems

- ◆ Create 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**

