

# MNG3702 – STRATEGY IMPLEMENTATION & CONTROL

## STUDY UNIT 1 – INTRODUCTION TO STRATEGY IMPLEMENTATION

### 1.3 INTRODUCTION

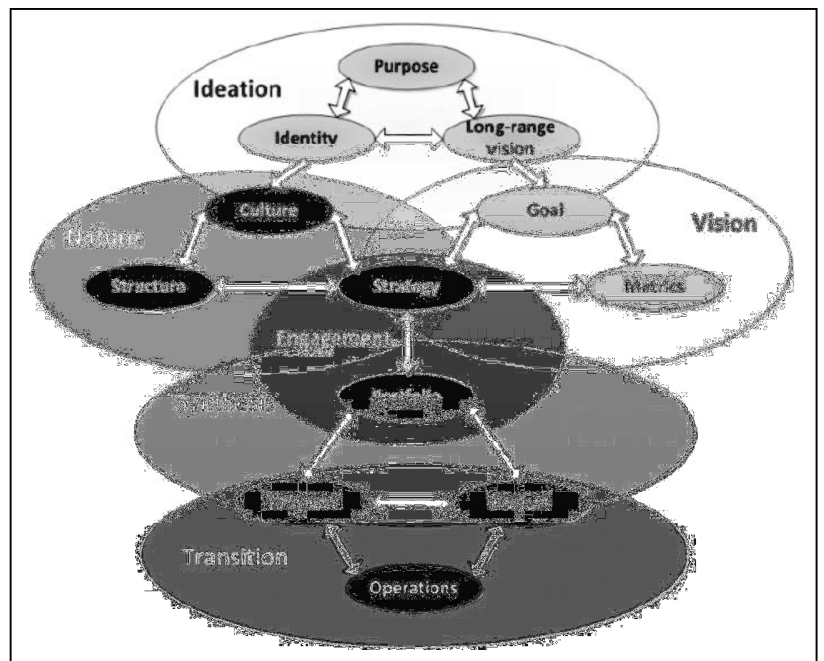
In strategy implementation we consider the **entire organisation** – not only divisional or functional segments. The approach to strategy implementation considers the impact of strategy implementation decisions for the entire organisation, at all managerial levels and across all functional areas. The organisation's strategic plans therefore can succeed only if properly supported, coordinated and implemented by middle and lower management.

Effective strategy implementation, therefore, requires consideration of all the essential components of the strategy implementation process as illustrated in Figure and discussed below.

- **Change Management (Unit 2)** - Strategy is not about conducting business as usual, it is about managing change, and change initiatives.
- **Organisational Learning (Unit 3)** - Organisations cannot change if they are unable to learn and adapt
- **Culture in strategy implementation (Unit 4)** - Change is often about changing the culture of an organisation and for that reason the role of leadership.
- **Adapt to the selected Strategy (Unit 5)** - The organisational structure of the organisation has to adapt to the selected strategy.
- **Strategy deployment (Unit 6)** - Strategy deployment is the process of managing the strategy implementation process and the strategic initiatives that form a vital part of it through programmes and projects.
- **Strategic control and performance management frameworks (Unit 7)** - Managers need to ensure that appropriate strategy review, evaluation and control mechanisms.

The four broad approaches to or perspectives on strategy implementation are:

1. **Organisational architecture.** This perspective views the organisation as an interrelated set of sub-systems, which must all be aligned, in balance and consistent if a strategy is to be implemented successfully.
2. **Organisational Change** - there is a perspective that strategy implementation is about managing planned change.
3. **Strategy deployment** - Strategy implementation can be viewed as a process of that collectively contribute towards the achievement of strategic objectives.
4. **The learning organisation** - Strategy implementation as organisational adaptation suggests that organisations learn and adapt organically rather than as part of a formal process.



## 1.4 TRANSLATING LONG-TERM OBJECTIVES INTO ANNUAL OBJECTIVES

Strategy has both long-term and short-term implications.

- Long-term objectives are attained by achieving successive, year-on-year short-term objectives.
- Annual objectives are derived from long-term objectives and cascaded down to middle or functional management levels, where action plans are implemented in order to achieve such objectives in the respective divisions or functional departments (finance, R&D, marketing, operations, human resources and purchasing).

Short-term objectives are defined as “**measurable outcomes achievable or intended to be achieved in one year or less**”

Formulating short-term objectives aid strategy implementation in at least three ways:

1. **Operationalises** long-term objectives, i.e. makes strategy part of the day-to-day jobs of everyone.
2. **Motivational force** and a means of avoiding conflict and disagreement.
3. **Standards for measuring progress and outcomes**, providing opportunity for timeous corrective action where needed and to ensure that strategy implementation stays on track.

Short-term objectives in particular should comply with the SMART requirements, i.e. specific, measurable, achievable, realistic and timely.

## 1.5 FUNCTIONAL STRATEGIES AND TACTICS IN STRATEGY IMPLEMENTATION

Functional strategies or tactics are **key routine activities that need to be executed** in each of an organisation’s functional Areas, defined as follows: “Detailed statements of the ‘means’ or activities that will be used by an organisation to achieve short-term objectives and establish competitive advantage”

We must draw a clear distinction between business strategies and functional strategies or tactics to appreciate the importance for effective strategy implementation.

Functional strategies or tactics differ from business strategies with regard to the following three dimensions:

1. **Time horizon** - strategies are based on a vision and mission, strategic intent and long-term objectives that extend a number of years. Functional strategies have to achieve objectives in the immediate future through short-term action plans because they:
  - a. focus the attention of **functional managers** on what is critical and needs to be **accomplished** to ensure successful strategy implementation, and
  - b. allow functional managers to **adjust to changing conditions**.
2. **Specificity** - Specific strategies or tactics and the related action plans for each functional area identify how managers in each of these areas can accomplish their tasks in the short term
3. **Participants** – Business strategies are developed by top management in conjunction with managers at all the organisational levels, but remain the ultimate responsibility and accountability of top management. Functional strategies are generally delegated by top management to managers at the functional levels.

## 1.6 ORGANISATIONAL CULTURE AND LEADERSHIP IN STRATEGY IMPLEMENTATION

### 1.6.2 ORGANISATIONAL CULTURE

Every organisation has its own unique culture that influences the behavior of individuals. Strategic leaders need to accept that they act as primary transmitters of and shape organisational culture. It is defined as:

**“a pattern of shared basic assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered as valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems”.**

High satisfaction levels make a significant contribution to exceptional employee performance and increased profitability. Conflict in terms of beliefs, values and assumptions between individuals and the organisation has a negative impact which in turn has an adverse effect on organizational performance and profitability.

Organisational culture serves important functions in an organisation that include serving

1. The vision and strategy of the organisation
2. The means through which to attain strategic objectives
3. An individual’s role orientation
4. Quality assurance
5. Common language and effective communication
6. The means for corrective actions and interventions.

### **1.6.3 STRATEGIC LEADERSHIP**

Strategic leadership and organisational culture are closely aligned and could significantly enhance factors that accommodate change and therefore strategy implementation. Leaders play a critical role in ensuring that their organisations pre-emptively and successfully adapt to dynamic and changing environments. It is top-level executives who are responsible for the success and sustainability of the organisation. Ultimately leadership is about **influencing the behaviour of other people**.

To be successful, top-level executives need to demonstrate strategic leadership, they must

- Be able to think **strategically**
- They need to be **emotionally intelligent**
- Have a **range of behaviours** at their disposal
- Have the wisdom to apply the right **combination of behaviours** at the right time
- Possess the ability to apply both **transactional and transformational leadership**.

These competencies are prerequisites for executives to perform their strategic leadership roles effectively by, among others;

- Setting organisational direction
- Driving the strategy
- Staffing the organisation
- Building and using organisational competencies
- Creating a supportive organisational culture
- Ensuring alignment between structure and strategy
- Leading and managing change

### **1.7 ORGANISATIONAL STRUCTURE AND STRATEGY IMPLEMENTATION**

Strategy implementation involves the use of organisational design, which is the process of deciding how an organisation should create, use and combine organisational structure, control systems and organisational culture to pursue its business model and long-term objectives. It can be defined as

**“the means through which a company assigns employees to specific tasks and roles and specifies how these tasks and roles are linked together to increase efficiency, quality, innovation and responsiveness to customers – the distinctive competencies that build competitive advantage”.**

The purpose of organisational structure is to coordinate and integrate the efforts of employees at all levels – corporate, business and functional – and across an organisation’s functions and business units so that all levels will work together in a way that allows the organisation to achieve its long-term objectives.

According to conventional wisdom, the choice of strategy plays a critical role in informing the nature of organisational structure, which basically reflects the “structure follows strategy” approach. Many modern strategists contend that strategy and structure are interlinked; and it may not be desirable for an organisation to develop its structure after it has developed its strategy, since the relationship is much more complex.

Here we briefly outline the following structures traditionally adopted by organisations, depending on their specific requirements:

- **The simple organisational structure** - usually includes an owner and a few employees, in which management tasks, responsibilities and communication are highly informal.
- **Functional organisation structure** - In slightly larger organisations it becomes necessary to have different people handling different tasks. Functional groups which are more formal and require formal planning, organisation, coordination and control.
- **Divisional structures** – occur when an organisation diversifies its product or service lines, and serves a number of geographic areas and heterogeneous customer groups, resulting in functional structures becoming inadequate. It is clear that planning, organisation, coordination and control for divisional structures pose greater managerial challenges. Where divisions become more autonomous, they are often referred to as strategic business units (SBUs).
- **Matrix organisational structures** - These are characterised by dual channels of authority, performance responsibility, evaluation and control, and are largely adopted by large, project-oriented organisations. Functional and staff personnel are assigned to both a functional area and a project manager. While easy to design, matrix organizational structures are difficult to implement and manage owing to the potential for conflict.

## **1.8 POLICIES, SYSTEMS AND PROCEDURES IN STRATEGY IMPLEMENTATION**

Policies are broadly defined as

**“specific guidelines, methods, procedures, rules, forms and administrative practices established to support and encourage work toward stated goals”**

Policies are directives designed to guide the thinking, decisions and actions of managers and their subordinates in implementing an organisation’s strategy.

Policies are characterised by setting boundaries, constraints and limits on all kinds of administrative actions. They clarify what can and cannot be done in pursuit of an organisation’s objectives, simplify decision-making, and promote delegation of decision making to appropriate managerial levels.

An organisation’s policies can either assist or block good strategy implementation. New strategies imply change, and for effective implementation, managers should review existing policies and procedures and, where necessary, formulate new policies and procedures that will unambiguously guide the behaviour of employees in the direction of effective implementation and operational excellence.

## **1.9 RESOURCES AND CAPABILITIES IN STRATEGY IMPLEMENTATION**

An organisation’s strategy will require either to exploit existing capabilities, or to explore and develop new capabilities, or to do both. A new strategy, and even a change in an existing strategy, will require additional resources and capabilities.

Planning and budgeting for additional resources and capabilities must occur early in or concurrently with the strategy formulation process.

## **1.10 THE IMPORTANCE OF STRATEGIC CONTROL**

Strategic control allows management to monitor and evaluate whether their strategy is performing as intended, whether it needs to be improved and, if so, how it can be improved. Strategic control is defined as

**“management efforts to track a strategy as it is being implemented, detect problems or changes in its underlying premises, and make necessary adjustments”**

Owing to the long-term implications of strategy, its timely and on-going monitoring, evaluation and control are of critical importance in alerting management to actual or potential problems and ensuring that stated objectives are achieved. However, strategy evaluation and control must have both a long-term and a short-term focus.

An effective strategic control process involves the following four steps:

- 1. Establishing standards and targets**
- 2. Creating measuring and monitoring systems**
- 3. Comparing actual performance against targets**
- 4. Evaluating results and taking corrective action where necessary.**

For effective strategic control, all aspects of the strategic management process need to be evaluated. These include assumptions regarding mission; long-term objectives; the outcomes of internal and external analyses that may call for review; changing environmental conditions as well as changing internal conditions regarding the organisation’s strengths and weaknesses.

## **1.11 THE REASONS FOR IMPLEMENTATION FAILURE**

Successful strategy implementation can be defined as implementation that;

- 1. Achieves the desired outcomes (strategic objectives)**
- 2. Completes all strategic initiatives successfully**
- 3. Is acceptable to all stakeholders**

Implementation failure accordingly means that

- A new strategy was formulated but was **not implemented**
- Or the implementation **was incomplete**
- **Strategic objectives were not attained**
- The **implementation was unacceptable.**

Failure is discussed in the following units.

- **Unit 2** - Deficiencies in leadership, organisational structures, functional strategies, policies and procedures, resources and capabilities and poor or ineffective alignment is regarded as a major reason for implementation failure.
- **Unit 3** - The so-called **Icarus paradox**, according to which organisations dwell on past successes, losing sight of and not adapting to changing market realities and changed requirements for competitive advantage, which invariably leads to failure. If organisations are unable to learn and adapt it may negatively impact on their ability to implement strategy.
- **Unit 4** - Effective leadership and management are required for strategy implementation, and if management is ineffective in this regard, it may lead to implementation failure.
- **Unit 6** - Strategy implementation may be hampered by ineffective implementation management processes. We refer to these management processes as strategy deployment.
- **Unit 7** - External factors may also impact on strategy implementation. Unexpected occurrences or misreading and misinterpreting the external environment may have a negative impact on strategy implementation.

The dire consequences of misalignment could include the following:

- new programmes running the risk of failure
- employee commitment to quality deteriorating
- individual objectives taking precedence over organisational objectives
- morale and productivity that diminish over time

It is generally acknowledged that poor implementation rather than poor formulation is the main cause of strategies failing.

## STUDY UNIT 2 –STRATEGY IMPLEMENTATION AS CHANGE MANAGEMENT

### 2.3 INTRODUCTION

Strategic change occurs when the organisation decides to change its strategic direction in light of internal or external factors. This then leads to large-scale changes in structure, culture and systems to support the new strategic direction. What makes strategic change complicated is that it often comprises a large number of large and small-scale changes within the larger strategic change programme.

### 2.4 ORGANISATIONAL ARCHITECTURE

The term 'business architecture' has many definitions in theory and also in practice.

- First, what is meant by 'architecture? The Oxford dictionary defines the term as **'the complex or carefully designed structure of something'**. In conversational terms, 'architecture' is usually associated with the construction industry and refers to blueprints, models and drawings.  
In terms of the management of organisations, architecture has two important themes.
  1. First, it has an **internal theme (internal architecture)** that refers to the way managers and other employees cooperate within the organisation, in order to realise organisational goals.
  2. Second, it has an **external theme (or external architecture)** which refers to the linkages between the organisation and its external stakeholders.
- Second, what is meant by 'business? A business is a legally recognised entity, designed to provide products and/or services to consumers while earning a profit and increasing the wealth of its owners. Improving performance is imperative for the business to grow and expand.

We can now define **'business architecture'** – as a blueprint of the organisation using architectural disciplines to improve performance. Business architecture

- Is a disciplined approach to realise an organisation's **vision and mission**, and to enhance accountability and improve decision making.
- The value is to increase the effectiveness of the various functions in the organisation, by mapping and modelling the organisation to its vision and strategic goals.
- It gives direction to all organisational aspects, such as the organisational structure and the administrative functions of the organisation.

The three stages of architecture:

1. **Strategic architecture** - Focuses on the entire organisation and answers the questions: where are we? and where are we going? This stage is conceptual and takes place in high levels of an organisation. It involves the formulation of a vision, a mission statement and an analysis of the environment, and determination of strategic objectives as strategies.

Strategic Architecture	<ul style="list-style-type: none"><li>• Vision</li><li>• Mission</li></ul>	<ul style="list-style-type: none"><li>• Environmental analysis</li></ul>	<ul style="list-style-type: none"><li>• Strategic objectives</li><li>• Business strategy</li></ul>
Business Architecture	<ul style="list-style-type: none"><li>• Internal architecture</li><li>• External architecture</li></ul>		
Architectural execution	<ul style="list-style-type: none"><li>• Organisational structure</li><li>• Subsequent structures</li></ul>		

2. **Business architecture** – The process moves out of high-level and conceptual phase and is developed at a level of detail that could be used to inform high-level estimates of cost, time and resources. Components used include business processes, business data, metrics and key performance indicators.
3. **Architectural execution** – The business architecture becomes physicalised and involves the determination of organizational structure and all subsequent business architecture, such as technology, information, etc.



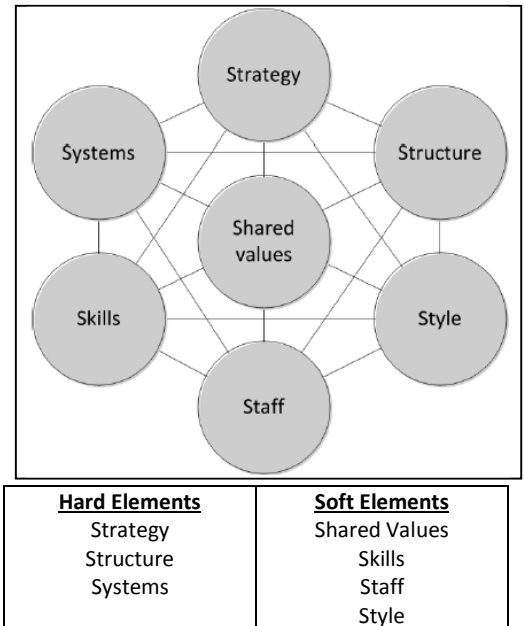
## Examples of a Business Framework

### The McKinsey 7-S Framework

A previous focus of managers was on organization as structure. As organizations grew in size and complexity, the more critical question became one of coordination.

The framework maps a constellation of interrelated factors that influence an organization's ability to change. The **lack of hierarchy** among these factors suggests that significant progress in one part of the organization will be difficult without working on the others.

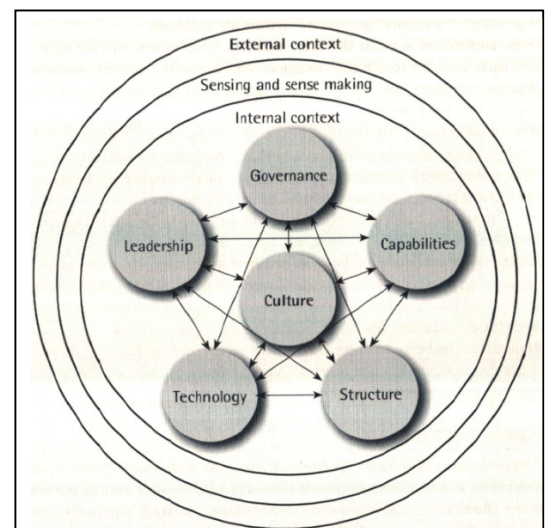
1. **Strategy** - A plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. Includes allocation of resources.
2. **Structure** - represents the way business divisions and units are organized and who is accountable to whom. It is visible and easy to change elements of the framework.
3. **Systems** - are the processes and procedures of the company's daily activities that determines how business is done.
4. **Skills** - are the abilities that the firm's employees perform very well. They also include capabilities and competences.
5. **Staff** - is concerned with what type, how many, and how they will be recruited, trained, motivated and rewarded.
6. **Style** - the way the company is managed by top-level managers, how they interact, what actions they take and their symbolic value. It is the management style of company's leaders.
7. **Shared Values** - the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and are the foundation of every organization.



### A Model of Business Architecture (Pg 222 TB)

Business architecture helps us to understand the building blocks of organisations and how these building blocks interact with one another.

- **External context** - The organisation operates in a certain context that brings with it stakeholders with certain claims and influences, as well as certain opportunities and threats offered by the macro- and task environments.
- **Sensing and sense making** - Its mechanisms and abilities for sensing developments and changes in the external environment and making sense of these for the benefit of the organisation.
- **Internal context** - The internal context consists of the internal stakeholders and their claims and influences, as well as the strategic purpose and direction.
- **Culture** - refers to the shared values and mindset of employees, and determines capacity to change and adapt to its external environment.
- **Leadership** - Critical to the shaping of culture, and for that reason are an integral part of the business architecture.
- **Governance** - Rules, procedures, policies, control systems and reward systems are all part of this element.
- **Structure** - Refers to the definition of departments and their interrelationships with each other and to the placement of people with the appropriate knowledge, skills and attitudes (competence) in the right positions.
- **Technology** - Refers to the technical elements of day-to-day functioning, service delivery and manufacturing processes.
- **Capabilities** - Those things that the organisation does really well. Capabilities are important in order to facilitate certain strategic decisions and to establish competitive advantage.

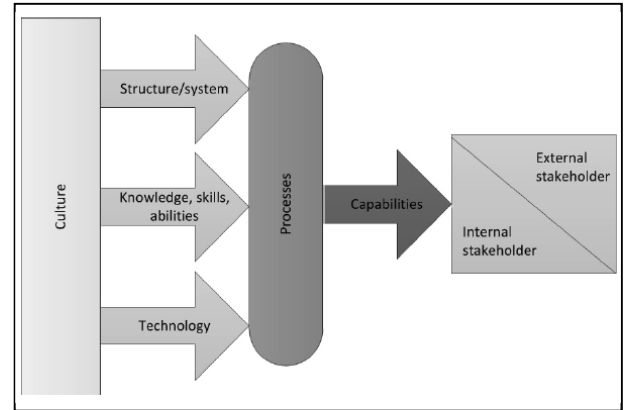


## The Lee, Venter and Bates Framework of Organisational Architecture

Depict the framework as a flow diagram or process

In terms of the framework, which should be read from right to left, the following components make up the organisational architecture:

- The architecture is shaped by the needs of internal and external stakeholders. For example, organisations exist to serve customers, so customers play an essential role in shaping the organisational architecture
- The organisation's capabilities, described as the important outcomes provided by the organisation, are distributed to the stakeholders.
- The organisational processes lead to the outcomes (capabilities), and are underpinned by the structures and systems of the organisation, the competencies of individuals (knowledge, skills and abilities) and the technologies employed by the organisation. Organisational culture underscores the organisational architecture.



## 2.5 PLANNED STRATEGIC CHANGE

### Types Of Strategic Change (Pg 209 TB)

Effective strategic leaders recognise when change is needed. Four types of changes are listed below:

1. **Adaptation** - is change within the current business model and current culture with the aim to realign strategy. This type is most common in organisations and occurs incrementally.
2. **Reconstruction** - is change that does not fundamentally alter the culture. It may be rapid and could be related to a turnaround situation where there is a need for structural adjustment or major cost-cutting in reaction to declining financial performance or changing market conditions.
3. **Revolution** - is classified as a type of change that requires rapid and major strategic and cultural transformation. This may occur in circumstances where pressures for change are extreme such as a potential takeover.
4. **Evolution** - is change in strategy that requires cultural change, but it happens over time. Since there is no pressing need for it, this type of change is often the most difficult to manage.

### The Context In Which Change Occurs (Pg 210 TB)

Context matters and it is dangerous to assume that the same rules would apply in every organisation. Clear consideration of contextual elements thus needs to precede the formulation of management strategies which will deal with change. Some examples of contextual elements include the following:

1. **Time:** How quickly is change needed?
2. **Scope:** How much change is required?
3. **Preservation:** What organisational resources and characteristics need to be maintained?
4. **Diversity:** How homogeneous are the staff groups and divisions within the organisation?
5. **Capability:** What is the managerial and personal capability to implement change?
6. **Capacity:** What change resources are available?
7. **Readiness:** How ready for change is the workforce?
8. **Power:** What power does the change leader have to impose change?

Contextual factors are important as they express the circumstances, or the existing external and internal conditions, that have been shown to influence organisational effectiveness. Change almost always engenders confusion and concern on the part of employees because initiatives may impact policies, procedures, resource allocation, future workplace exchanges as well as the potential for job losses, before and after.



## Managing Strategic Change (Pg 210 TB)

Cultural changes only succeed when the CEO and management team support them. Team members will manage strategic changes differently. There is no one best style of strategic leadership. Two broad skill categories are required to lead change:

- **Task-oriented skills** - are those related to organisational structure, design and control and to establishing routines to attain organisational goals and objectives.
- **Person-oriented skills** - behaviour that promote collaboration between employees, create a supportive climate and promote equitable management practices. Critical skills in that they enable leaders to motivate and direct followers.

There are three key activities involved in planned organisational change implementation:

1. **Communicating the need for organisational change** - Organisational members need to understand the reason for change, the nature of the change as well as the potential impact on their behaviour and routines. Effective communication can reduce organisation members' confusion and uncertainty, and guide their thinking and actions.
2. **Mobilising others to accept change** - Leaders need to mobilise staff members to accept and adopt change initiatives into their daily routines. Those who have something to gain will usually rally around a change initiative whilst those who have something to lose will resist it. Leaders need to create a coalition to support the change project.
3. **Evaluating change project implementation** - Leaders have a role in evaluating the content of change initiatives. To do this, they need to step back to assess both the new processes and procedures that have been proposed and their impact on the organisation's performance. They then need to evaluate the extent to which organisation members are performing the routines, practices or behaviours targeted in the planned change initiatives.
  - **Person-oriented leaders** have been shown to be reluctant to place too much emphasis on methods, productivity and on the imposition of impersonal standards. As a result, they might be less likely to engage in the evaluating activities involved in change implementation and to pursue them.
  - **Task-oriented leaders**, tend naturally to focus on tasks to achieve the performance improvements. Their attention to structure and performance objectives attunes them to the attainment of these objectives. They are both aware of the need to analyse goals and achievements, and comfortable with the need to refine processes following evaluation.

### 2.5.1 The Change Model Of Kurt Lewin

Kurt Lewin's change model is one of the oldest and most widely known planned change models, and has been around since 1947. The model quite simply describes planned change as a three-step process, involving:

1. **Unfreezing**
2. **Changing**
3. **Freezing**

**Step 1: Unfreezing** - Most individuals will resist change to maintain the current state. Actively "unfreezing" the status quo and readying the organisation for change is required. Communication is critical. The more employees know about the change, the better they understand why it is necessary and accept the change. Unfreezing entails two critical elements:

- **Current behaviours** examined and employees have to be shown how necessary change is, and how the status quo is hindering organisational growth.
- Employees have to be **informed of the imminent change**, the necessity, what it will entail and how it will benefit them.

**Step 2: Changing** - The actual change takes place, and due to the resistance it is the most difficult phase of the change process. Employees need to learn the new behaviours required of them, and they require a lot of support. This phase is characterised by

- Employees acquiring new knowledge, skills and attitudes (for example, through training)
- Organisational structures and systems changing
- Communication throughout to maintain the momentum of change by reminding employees why it is necessary and how it will benefit them

**Step 3: Freezing** - Once the change has been implemented, the challenge is to make it a permanent part of employee behaviour, i.e. "freezing". This phase is essential to ensure that employees do not simply revert back to their old ways of doing things. The change should be made part of the performance management and reward systems of the organisation.

### **2.5.2 The Change Model Of John Kotter**

John Kotter is a leading experts in change management from his eight-step change model. The eight steps are:

1. **Establishing a sense of urgency**
2. **Creating the guiding coalition**
3. **Developing a change vision**
4. **Communicating the vision for buy-in**
5. **Empowering broad-based action**
6. **Generating short-term wins**
7. **Never letting up**
8. **Incorporating changes into the culture**

**Step 1: Establishing a sense of urgency** - The “unfreezing” phase, requires leaders to establish a need for change and create a sense of urgency around the need for change.

**Step 2: Creating the guiding coalition** - A group of individuals with the knowledge, skills and attitudes to drive change. Also known as a “steering committee”. One of their key roles is to create and implement a roadmap for change.

**Step 3: Developing a change vision** - Create a compelling vision for change that employees can buy into and that will mobilise them. It will emphasise the need for change and aspirations of the organisation. Guidelines for a good change vision include:

- Provide a clear, compelling view of the future – in other words, it should be **imaginable**
- Appeal to the long-term interests of stakeholders and accordingly be **desirable**
- Be **feasible**, containing realistic and attainable goals
- Be **focused** and clear enough to provide guidance in decision making
- Be **flexible**, allowing individual initiative and alternative responses as conditions change
- Be easy to **communicate** and explain

**Step 4: Communicating the vision for buy-in** - Telling employees about change is not enough; they need to understand what it entails and why it is necessary, as well as why it will be beneficial to them. The change needs to be communicated consistently and on every platform. Leaders “walking and talking” the change is more powerful than any other communication tool.

**Step 5: Empowering broad-based action** - Ensure that existing and potential barriers to change are removed, and that those responsible for driving change are empowered to do so. Barriers may include structural barriers or and human barriers

**Step 6: Generating short-term wins** - To keep the enthusiasm and momentum going, it is imperative to show some short-term results in the form of setting performance goals aligned with the change and acknowledging and celebrating the goals.

**Step 7: Never letting up** - It is vital to ensure that the change process never stops and that the momentum is maintained. If this step is executed correctly and the change process is successful, this step will see many spontaneous examples of momentum becoming visible, such as new projects being initiated, efforts being made to keep urgency levels high, and employees increasingly being empowered.

**Step 8: Incorporating changes into the culture** - The most difficult aspect of change is changing the culture or mind-set of the organisation, and this will take up most of the time. For this reason it is seen as the last step and not the first step. In order to inculcate the change in the culture of the organisation, it must become part of the shared values and beliefs of the organisation. This could be accomplished by:

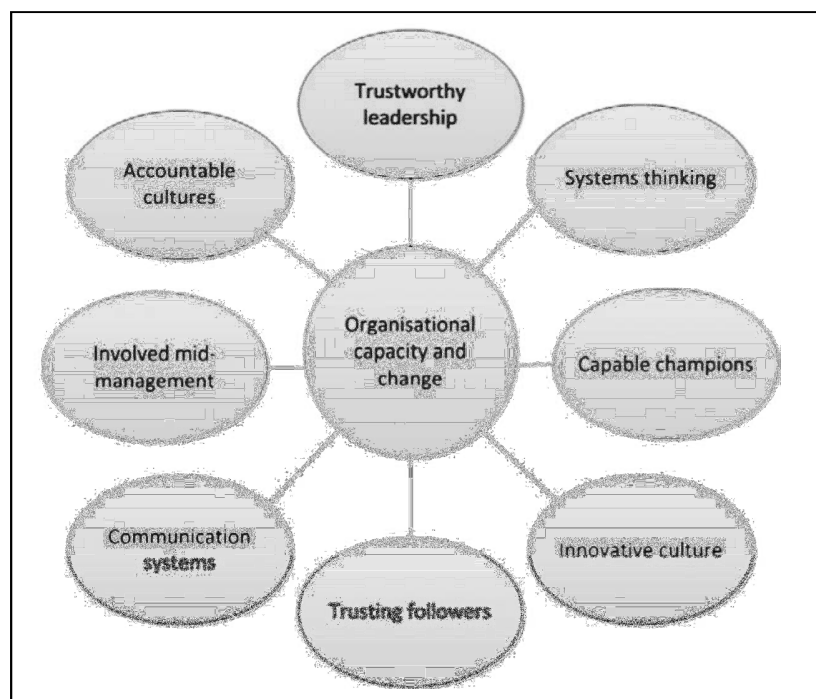
- proving that the **new way is better** than the old way
- achieving **visible success** (e.g. increased financial performance)
- accepting that some people may not accept the change and **moving on**
- **reinforcing new norms** and values with incentives, rewards and promotions
- **reinforcing the culture** with every new employee

## 2.6 PRECONDITIONS FOR EFFECTIVE CHANGE

According to William Judge, Focusing on Organisational Change, there are 8 preconditions for effective change which is referred to “organizational change capacity” (OCC), these include:

1. **Trustworthy leaders**
2. **Trusting followers**
3. **Capable champions**
4. **Systems thinking**
5. **Communication systems**
6. **Accountable culture**
7. **Innovative culture**
8. **Involved middle management**

1. **Trustworthy leaders** - No lasting, productive change within an organization ever happens without trust between its members. A trustworthy leader is someone who is perceived to be competent and someone who has the best interests of the organization as their priority.
2. **Trusting followers.** Leaders are only half of the equation when it comes to organizational change; the other half is the followers.
3. **Capable champions** - Individuals, and hence organizations, tend to be inertial. Organizations must identify, develop, and retain change champions in order to lead the change. Small organizations, are often the same as the head of the organization. Within medium and larger organizations, these champions are often middle management.
4. **Systems thinking** - These are the rules, structural arrangements, and budgetary procedures that facilitate or hinder an organization-wide.
5. **Communication systems** - Complements the systems thinking dimension. This dimension involves such things as e-mail networks, face-to-face meetings, telephone calls, and corporate announcements.
6. **Accountable culture** - The degree to which an organization holds its members accountable for results
7. **Innovative culture** - The culture of an organization defines appropriate behavior, and motivates individuals and offers solutions where there is ambiguity.
8. **Involved middle management** - Middle managers are those who link top executives to frontline workers. While change champions often come from the middle management ranks, middle managers can passively or actively block change initiatives due to their unique position within an organization.



## 2.7 BARRIERS TO STRATEGIC CHANGE

### WHY CHANGE PROGRAMMES FAIL (PG 212 TB)

Research into why change programmes fail can also provide lessons on the pitfalls to avoid. This chapter concludes with a summary of the main findings:

1. **Death by planning** - Some executives spend most of their time on the planning stage of the change programme. The result is 'analysis paralysis' and the focus is on discourse instead of the actual delivery of change.
2. **Loss of focus** - Often change is incremental and constitutes a series of initiatives over many years and initiatives are seen as change rituals with little significance as the original intention.
3. **Reinterpretation** - The existing paradigm of the organisation is so strong that change initiatives are reinterpreted to fit within the expected norms of behaviour and conduct.
4. **Disconnectedness** - Organisational members affected by change may not see the change programme as relevant to their realities.
5. **Behavioural compliance** - Some people may comply with the changes despite the fact that they do not buy into the change programme.
6. **Misreading scrutiny and resistance** - Change agents often consider resistance to change or critical scrutiny as negative or destructive behaviour. If concerns are ignored, it could increase resistance and should be addressed.
7. **Broken agreements and violations of trust** - If strategic leaders fail to honour undertakings to employees, they will lose the trust and respect of employees and increase the resistance to change.

Other reasons why change programmes fail include (SG 2.7.1-2.7.5):

1. **Leadership reasons** - It could be that the leadership has a different idea of the changes required than the Board of Directors, the rest of the management team or the employees. Communication and participation is critical. Trust is another key issue.
2. **Structural reasons** - Where the structure does not support the change required, the change programme could fail. For example, the managers in the organisation may not have the skills and mind-set required to operate in a digital environment.
3. **Cultural reasons** - Change requires a paradigm shift that is far removed from the current paradigm, changing the culture of the organisation may be too difficult or too time-consuming. This may lead to the failure and other consequences:
  - The existing paradigm may be so strong that change initiatives are **simply reinterpreted**.
  - Various members may **feel disconnected** from the change and not see it as relevant to them.
  - People may comply if they do not believe in the change, this is **superficial and not sustainable**.
4. **Systems reasons** - Where the systems are set up to support a specific paradigm simply become inadequate to deal with the changes. Systems refer to technical systems and business processes such as performance management and reward systems.
5. **Process reasons** - Some reasons inherent in the way the change process is managed, may lead to its failure, for example:
  - **Too much focus on planning**. Too much focus on planning the change and not enough on implementing it may lead to over-complicating and stalling change.
  - **Lack of communication**. John Kotter suggests that the vast majority of change programmes are “under-communicated”.
  - **The slow nature of change**. Given the slow and arduous nature of strategic change, it is easy to lose momentum and interest, so quick wins and considerable management attention is required to keep the change going.
  - **Not dealing with resistance**. Not dealing with resistance to change may lead to an escalation in resistance. It is essential to encourage dialogue and debate and to deal with resistance as soon as possible.

Beer and Eisenstat identify the following barriers to strategy alignment, which they refer to as the “**silent killers**” of strategy alignment, some of which have been alluded to above:

- **Unclear strategy** and/or conflicting priorities
- An **ineffective top management** team
- A **leadership style too controlling** (too top-down), or conversely, too laissez-faire (too easy-going or loose)
- **Poor coordination** across functions, businesses and geographic regions
- **Inadequate leadership skills** and development of down-the-line leaders
- **Lack of conviction** among members of the need for a proposed action
- **Ignorance** of the objectives of the organisation
- **Poor communication**

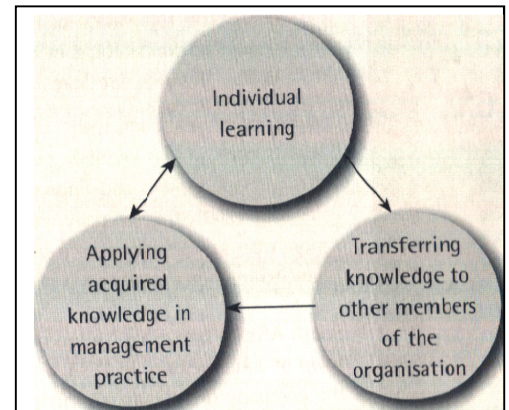
## STUDY UNIT 3 – THE IMPORTANCE OF ORGANISATIONAL LEARNING IN STRATEGIC CHANGE

### 3.4 ORGANISATIONAL LEARNING

#### THE IMPORTANCE OF ORGANISATIONAL LEARNING (PG 100 TB)

We should understand that individuals learn, not organisations. It is a three phase process:

1. The process starts with **individuals learning**.
2. The next phase is where **learning is shared** in the organisation until it becomes commonly accepted practice or knowledge.
3. The third phase is when the **learning is applied** to strategic decisions and management practices in the organisation, it starts becoming an **organisational capability**.



Organisational learning is continuous and experimental. Making mistakes is an important part of learning. A learning organisation could lead to three benefits:

1. Being able to **adapt more quickly** to environmental changes
2. Being able to **benefit from opportunities** and threats earlier than competitors, competitive advantage.
3. Being able to **apply newly acquired knowledge** to business problems and opportunities leading to innovation.

#### INDIVIDUAL LEARNING (PG 102 TB)

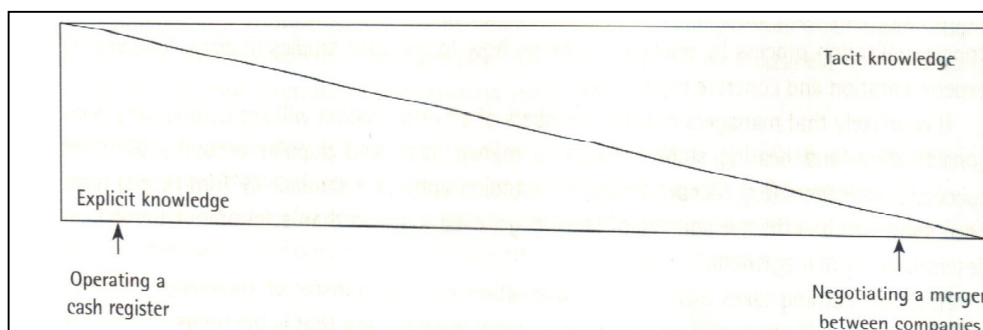
The learning process can be seen as a cycle, with four different activities as follows:

1. **Concrete experience** - which occurs when a person acts in a certain way.  
E.g. a lecturer hears using case studies is an effective way of teaching, so he presents his class with one.
2. **Thinking and reflecting** - The concrete experience is followed by a process of thinking and reflecting on the experience  
E.g. The lecturer considers what worked and what did not work in using the case study.
3. **Abstract conceptualization** - occurs when certain ideas or theories are extrapolated from the reflection.  
E.g. The lecturer forms ideas about how case studies could be used, and about what works and what does not work.
4. **Active experimentation** - occurs when the new ideas or concepts are deliberately tried in other similar settings to see what the results are. This leads to the cycle being repeated.  
E.g. The lecturer tries out different ways of using case studies in class, and in each case this will lead to further learning.

#### TRANSFERRING KNOWLEDGE TO OTHERS (PG 104 TB)

Knowledge is broadly categorised as being explicit or tacit.

- **Explicit knowledge** - is knowledge that can be written down or told to someone, for example you can explain to someone how to get on a bicycle, how the pedals work and how the brakes work.
- **Tacit knowledge** - consists of personal beliefs, values and perspectives that people take for granted and that may be much more difficult to communicate.





There are four basic types of knowledge transfer:

1. **Socialisation (tacit → tacit)** - This takes place when tacit knowledge is transferred from one person to another, but remains tacit. Behaviour is often learned by observing and imitating other people. For instance, a junior manager may learn by observing the CEO, finance director and legal representatives in action during merger negotiations.
2. **Combination (explicit → explicit)** - This takes place when explicit knowledge is mixed and shared. For example, when experienced machine operators decide to write a how-to manual for younger and more inexperienced employees.
3. **Internalisation (explicit → tacit)** - When explicit knowledge is used so often that it becomes part of the being of the person using it, it has become tacit knowledge. For example, when learning to drive, a person needs to be instructed but after a while, driving becomes almost automatic, it becomes an internalised skill.
4. **Articulation (tacit → explicit)** - When an attempt is made to convert tacit knowledge to explicit knowledge in order to share it with colleagues, articulation is used. For example, a course in strategic management.

Most types of knowledge are quite complex, and more than one type of transfer mechanism may be involved in conveying the full set of knowledge, skills and attitudes needed for a certain task.

### **3.5 BARRIERS TO ORGANISATIONAL LEARNING (PG 101 TB)**

The three main barriers of organizational learning are:

1. **Dominant general management logic** - stems from the way managers conceptualise their business. Managers make decisions about the strategy and resources based on '*dominant*' logic. Ironically, the more successful an organisation is, the more difficult it often is to change its dominant logic.
2. **Management ignorance** - Managers assume that they know all there is to know about their business and their industry, and there is accordingly no need to learn anymore, *ignorance and arrogance* present a barrier to learning
3. **Absorptive capacity** - Refers to the ability of an organisation to recognise the value of new, external information, to assimilate it and to use it to address business problems. Absorptive capacity is a Strategic capability, and as with all resources and capabilities, it differs from organisation to organisation, so that some have a higher absorptive capacity than others, and would accordingly be able to learn much faster and to adapt more quickly to their environments, or to innovate.<sup>5</sup>

There are four dimensions that determine the absorptive capacity of an organisation. They are depicted in Figure 6.2 and briefly discussed below:

1. **Acquisition of external information** - This refers to the ability of the organisation to acquire relevant information from its external environment. May be limited by dominant management logic. The quality of the information and the sooner it is obtained is important.
2. **Assimilation of acquired information** - Refers to the ability to analyse and make sense of the acquired information. Interpreting and understanding the implications and the ability to share the information.
3. **Transformation of knowledge** - This refers to the abilities of the organisation to combine new knowledge with existing knowledge and to develop new insights.
4. **Applying new knowledge** - The real benefit of absorptive capacity occurs when the transformed knowledge and new insights to improve business operations and develop new innovations and ventures.

Ultimately, organisations with a high level of absorptive capacity will be able to develop competitive advantage, as they will be able to be more dynamic within their context.

### **3.6 KNOWLEDGE MANAGEMENT AND ORGANISATIONAL LEARNING (PG 105 TB)**

Organisational learning is not as easy as it requires a deep-seated change in the way the organisation and its leaders view the world. The following mechanisms, used in combination, are proposed to assist an organisation to become a learning one:

- 1. Leadership commitment to learning**
- 2. Building shared visions**
- 3. Encouraging diversity**
- 4. Encouraging double-loop learning**
- 5. Developing systems thinking abilities**
- 6. Encouraging individual and team learning**
- 7. Legitimising dissent**
- 8. Encouraging experimentation**
- 9. Establishing communities of practice**
- 10. Collaboration**
- 11. Knowledge management**

**Leadership commitment to learning** - Problems generally begin with top management and filter down, as does success. Leaders should demonstrate their own commitment, championing learning and using learning strategically for business results.

**Building shared visions** - Leaders need to develop visions to inspire employees to believe and buy into them. It is important to empower people towards a collective vision, involving them in setting the vision and distributing responsibility so people are motivated to learn.

**Encouraging diversity** - People from similar backgrounds tend to see things in a similar way. If top management is too similar in their backgrounds, it is easy for them to get caught up in a dominant management logic, and more difficult to change.

**Encouraging double-loop learning** - Single-loop learning occurs when individuals or organisations strive to achieve a goal and when they do not succeed, evaluate what went wrong. They may then try a different strategy, fail again, evaluate again, and so on until they run out of ideas. This persisting failure may push the individual or the organisation into a situation where the fundamental elements or rules governing the situation are questioned, leading them to re-evaluate their own mental models - the goals, values and beliefs they hold. This questioning of the fundamental underlying assumptions is known as double-loop learning.

**Developing systems thinking abilities** - The ability to see the 'big picture'. Systems thinking means that as an organisation, we understand how we are connected, how we fit in, how we are influenced by and how we can influence the environment.

**Encouraging individual and team learning** - Being committed to lifelong learning is an important. Learning should be designed into work so that people can be trained on the job, while ample opportunities should be provided for ongoing education and growth. Encouraging top managers to enrich their experience through sabbaticals and educational experiences.

**Legitimising dissent** - Thinking is not the exclusive domain of top managers. Everybody should think and contribute ideas, and should be encouraged to question business practices. A culture of dialogue and debate promotes double-loop learning.

**Encouraging experimentation** - Without failure, there is no learning. It is important to encourage experimentation and to see the failures for what they are - learning opportunities.

**Collaboration** - Collaboration with suppliers, customers and even competitors is becoming a common means of fostering learning. Organisations that cannot trust their collaboration partners or share openly will not be able to learn.

**Establishing Communities of Practice** - Communities of practice (CoPs) are the building blocks of learning systems. One of the key roles of a CoP is to define what competence entails in its context, and there are three elements:

1. **Joint enterprise** – i.e. that members of the CoP need to have a shared understanding of what their community is about and how they can contribute to it.
2. **Relationships of mutuality** - Members must be accepted and trusted, and able to interact with other members of the community.
3. **Shared repertoire of stories** - The community will develop a language, routines, rituals and processes of how to use the knowledge. The value of CoP occurs when sharing of information takes place across the boundaries of the CoP's, either between individuals or with other CoP's as a whole. This can happen in the following ways:
  - a. **People** - may form part of more than one community or be in a position to act as brokers between CoP's.
  - b. **Artifacts** - such as documents, tools, processes and discourses, may act as bridges between CoP's.
  - c. **Interaction** - can be a means of exchanging information directly between CoP's.

**Knowledge management** - Is the management function that creates or locates knowledge, manages the flow and ensures that the knowledge is used effectively and efficiently for the long-term benefit of the organisation. The creation of an efficient knowledge management system can contribute towards the creation of a learning organisation.

The process of knowledge management consists of the following four different phases:

1. **Discovery of knowledge** in the organisation
2. **Capturing the knowledge** in a way that enables it to be shared across departments
3. **Sharing knowledge** throughout the organisation
4. **Applying knowledge** to solve business problems and make decisions.

### A KNOWLEDGE MANGEMENT SYSTEM

**Knowledge acquisition** - Existing knowledge is supplemented by knowledge obtained through external and internal scanning, the addition of new employees and through training and development.

**Knowledge (new and existing)** - Knowledge is the sum total of information in the organisation.

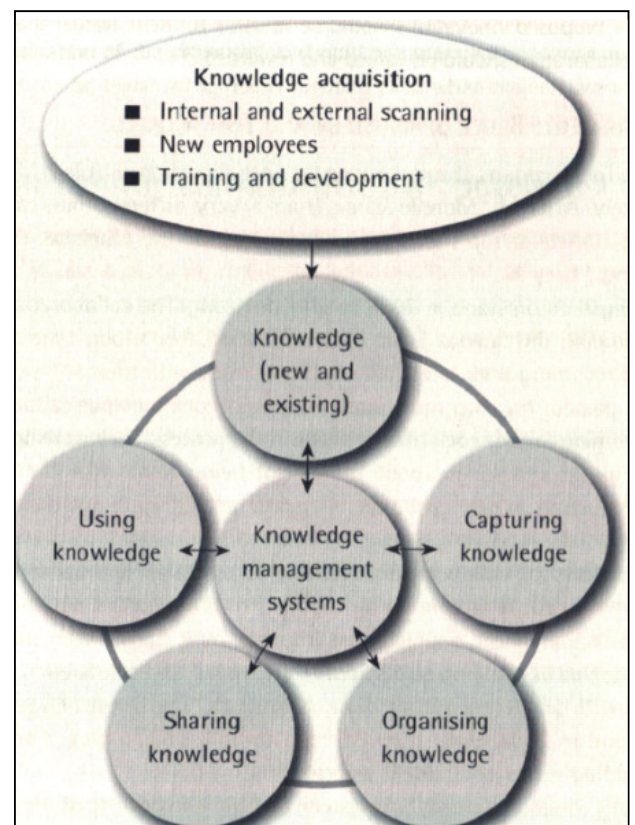
**Capturing knowledge** - Some knowledge may be explicit and easy to capture, such as training or product manuals. Strategically useful knowledge may be harder to capture. It may be impossible to capture all the tacit knowledge associated with a project, e.g. a consulting project unable to describe exactly how they dealt with the negotiation process, difficult clients and internal politics on the client site.

**Organising knowledge** – Consolidation of the knowledge and to capture it in a format and language that will be usable within the organisation.

**Sharing knowledge** - Knowledge is of little value unless it is shared across different teams and departments.

**Using knowledge** - Members must use the knowledge in a business setting to solve problems, improve business performance and deal effectively with opportunities and threats in the external environment.

**Knowledge management systems** - Information technology plays an increasingly important role in knowledge management systems as it enables their processes, while in turn being populated and enabled by them. There is a myriad of different technologies that may be useful during each of the phases of the knowledge management process.



### **3.7 BECOMING A LEARNING ORGANISATION**

Being or becoming a learning organisation is not a simple matter of following a process; it is a multifaceted, complex phenomenon. Learning organisations generally have three distinguishing characteristics:

1. **Supportive learning environment** - mistakes and experimentation are tolerated
2. **Concrete learning processes and practices** - communities of practice are used
3. **Leadership that reinforces learning behaviours** - dissent is tolerated

Critically evaluating organisational learning means that we can examine the learning practices of an organisation and compare it with the theory to identify what the organisation is doing correctly and where it is falling short with regard to organisational learning. Such an analysis would examine:

- The **barriers to organisational learning** that are evident in the organisation
- The **role of knowledge management systems** in enabling sharing of knowledge by individuals and units in the organisation
- The **processes that the organisation** has in place to encourage organisational learning

## STUDY UNIT 4 – THE IMPORTANCE OF ORGANISATIONAL LEARNING IN STRATEGIC CHANGE

### 4.4 ORGANISATIONAL CULTURE

Culture is defined as 'a pattern of shared basic assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems'.

Culture refers to a collection of values and norms shared by people and groups who work together.

Culture can be conceived by different layers:

- **Values** - The values of an organisation are the beliefs, traits and behavioural norms that management has determined should guide the pursuit of its vision and mission. These values are explicit and written down in value statements.
- **Beliefs** – Reflect a sense of what ought to be and in how people talk about issues the organisation faces.
- **Behaviours** - Are the day-to-day ways in which an organisation operates, work routines and how the organisation is structured and controlled. Such behaviours can create significant barriers to achieving strategic change.
- **Taken-for-granted assumptions** - When a solution to a problem works repeatedly, it becomes taken for granted. Such assumptions then become the core of an organisation's culture as they define what to pay attention to, what things mean, how to react emotionally to what is going on, and what actions to take in various kinds of situations.

### 4.5 INSTILLING AN ORGANISATIONAL CULTURE THAT SUPPORTS STRATEGY IMPLEMENTATION

Key considerations of culture that are grounded in actions, agreed behaviours and work practices and that are beneficial to strategy implementation include the following:

- **Matching the organisational culture with the requirements of the strategy execution effort.** This action can focus the attention of employees on what is most important to successfully implement the strategy.
- **Using strong group norms to create culture-induced peer pressure** which can shape employee behaviour to do things in a manner that aids the cause of good strategy implementation.
- Accepting that an **organisational culture that is consistent with the requirements for good strategy execution** can energise employees, deepen their commitment and enhance worker productivity.

#### 4.5.1 SHAPING ORGANISATIONAL CULTURE

Leaders play an invaluable role in shaping culture in the organisation. Organisational cultures spring from three sources:

- the **values, beliefs and assumptions** of the founders of the organisation (this is the most important source of culture)
- the learning and experience of group members
- new beliefs introduced by new leaders or other members of the organisation

Leaders transmit and shape organisational culture by way of certain embedding mechanisms, which may include:

- What leaders measure
- How they react to critical incidents
- How they allocate resources
- How they reward and allocate status
- How they recruit, promote and “excommunicate” members of the organisation

Leaders can also use structural mechanisms (which exhibit some commonalities with organisational architecture and the cultural web), such as:

- Organisational structures and systems
- Procedures
- Rituals
- Physical spaces and other physical artefacts
- Stories
- Statements

## 4.6 ASSESSING ORGANISATIONAL CULTURE

### CULTURAL ASSESSMENT

A well-accepted approach to analyse an organisation's culture is the **cultural web**: 'The cultural web shows the behavioural, physical and symbolic manifestations of a culture that inform and are informed by taken-for-granted assumptions, or paradigm, of an organisation.

The *elements of the cultural web* are as follows:

1. **The paradigm** - Forms the core of the cultural web as it represents all the assumptions taken for granted in the organisation. At the most basic level, the paradigm represents the way of doing business.
2. **Routines** - Are the ways things are done on a day-to-day basis within an organisation.
3. **Stories** - Centre on important events and personalities. These stories include heroes, villains, mavericks, successes and disasters. Most importantly, each story has a lesson and let people know what is conventionally important.
4. **Symbols** - Are objects, metaphors, events or acts that convey a meaning over and above their functional purpose.
5. **Power** - The ability of individuals or groups to persuade, induce or coerce others into following certain courses of actions. Power is not always associated with formal positions.
6. **Organisational structures** - Are the formal roles and reporting relationships in an organisation.
7. **Control systems** - The formal and informal ways of monitoring and supporting people within an organisation.

Substance within the elements contained in the cultural web can come from anywhere in the organisational hierarchy. A healthy organisational culture is characterised by willingness on the part of all organisational members to accept change and take on the challenge of introducing and executing new strategies. The most visible factor that distinguishes successful culture-change efforts from failed attempts is competent leadership at the top.

Culture is the most difficult organisational attribute to change. We can think of *culture as consisting of three "layers"*.

- **Layer 1. The visible layer of culture** - almost like the tip of the iceberg. It contains attributes of the organisation that are there for everyone to see, and includes "artefacts" such as company advertising, slogans, offices, vehicles and uniforms.
- **Layer 2. Professed values of the organisation** – those shared values that the organisation claims that it subscribes to around key topics such as customer service.
- **Layer 3. The organisations tacit (unseen) assumptions** - These elements of culture are not dealt with in everyday interactions in the organisation, and may in fact be taboo to discuss. Culture at this level is very difficult to define, yet it is vital as it is the driving force of organisational culture.

## 4.7 STRATEGIC LEADERSHIP

Strategic leadership is defined as "**a person's ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organisation**".

Thus, strategic leadership is the process of providing the direction, motivation and inspiration necessary to create and implement an organisation's vision, mission and strategies to achieve organisational objectives. Key characteristics associated with exceptional strategic leaders are:

1. **Vision**
2. **eloquence and consistency**
3. **articulation of the business model**
4. **commitment**
5. **being well-informed**
6. **willingness to delegate and empower**
7. **astute use of power**
8. **emotional intelligence**



## **4.7.2 STRATEGIC LEADERS (PG 207 TB)**

What is strategic leadership and what do strategic leaders do?" Having defined strategic leadership in the previous section, the question is answered by reviewing the following seven principles:

- Principle 1: **Strategic leaders are future-oriented and anticipate change**
- Principle 2: **Strategic leaders are evidence-based and research-led.**
- Principle 3: **Strategic leaders get things done.**
- Principle 4: **Strategic leaders open new horizons.**
- Principle 5: **Strategic leaders are fit to lead.**
- Principle 6: **Strategic leaders work effectively with all stakeholders.**
- Principle 7: **Strategic leaders "do the next right thing".**

### **Principle 1: Strategic leaders are future oriented and anticipate change**

- Looks 'beyond the present' and anticipate change to see opportunities before competitors.
- Constantly scanning the environment and uncover opportunities inside and outside the organisation.
- Encourage 'future thinking' through 'future dialogue' and scenario planning
- Skills are developed to identify opportunities rather than be the victim of unforeseen changes and events.

### **Principle 2: Strategic leaders get things done**

- Strategic leaders do not just question the status quo; instead they implement the best solutions to make a difference.
- They do not just talk about what they might do, they actually do it.
- Actions are based on careful reflection and examination of a problem

### **Principle 3: Strategic leaders open new horizons**

- Challenge existing work practice and strategy invariable elicit complex and conflicting information.
- They look beyond the obvious to recognise patterns, interpret different events and synthesise various
- Work with all stakeholders and understand how their work interweaves with that of their colleagues and relevant stakeholders to create opportunities for innovative practice.

### **Principle 4: Strategic leaders reach out to stakeholders**

- Value the input of stakeholders and understand the importance of these
- they use proactive communication and frequent engagements to build trust and get their support
- They are sensitive to different cultures and cross-cultural issues, and they respectfully confront issues and articulate perspectives that may differ from prevailing or dominant thinking.

### **Principle 5: Strategic leaders are fit to lead**

- Increased levels of anxiety and stress and to deal with this, leaders need to be resilient, flexible, reliable and resourceful.

### **Principle 6: Strategic leaders do the 'next' right thing and learn from past experiences**

- Strategic leadership is about 'doing the next right thing', which is about ethical leadership.
- Strategic thinkers need to insist on multiple options and should not get prematurely locked into simplistic go/no-go choices.
- They do not 'shoot from the hip' and recognise the importance of balancing rigour with speed
- Successful leaders are described as those who consistently apply the ethics of justice and caring.
- Strategic leaders also recognise the value of organisational learning.

### 4.7.3 CULTURE CHANGE

One of the major challenges for leaders is taking their organisations into an uncertain and highly unpredictable future based on the organisation's pre-emptive competitive strategies that need to be implemented. How change is implemented and managed depends on several factors, such as the **type of change**, the **magnitude of the change**, and the **context** in which it has to be implemented.

Four types of changes are listed below:

1. **Adaptation** - is change that can be accommodated within the current business model and culture with the aim to realign strategy. It is most common in organisations and occurs incrementally.
2. **Reconstruction** - is change that does not fundamentally alter the culture, but it may involve a good deal of disruption in an organisation. It may be rapid and could be related to a turnaround situation for a major structural adjustment or a major cost-cutting programme.
3. **Revolution** - Change that requires rapid and major strategic and cultural transformation. May occur in circumstances where pressures for change are extreme such as a potential takeover that threatens the continued existence of an organisation.
4. **Evolution** - is change in strategy that requires cultural change, but it happens over time. Since there is no pressing need for it, this type of change is often the most difficult to manage.

### 4.7.6 THE CONTEXT IN WHICH CHANGE OCCURS

Context matters and it is dangerous to assume that the same rules would apply in every organisation. Clear consideration of contextual elements thus needs to precede the formulation of management strategies which will deal with change. Some examples of contextual elements include the following:

- **Time:** How quickly is change needed?
- **Scope:** How much change is required?
- **Preservation:** What organisational resources and characteristics need to be maintained?
- **Diversity:** How homogeneous are the staff groups and divisions within the organisation?
- **Capability:** What is the managerial and personal capability to implement change?
- **Capacity:** What change resources are available?
- **Readiness:** How ready for change is the workforce?
- **Power:** What power does the change leader have to impose change?

Contextual factors are important as they express the circumstances, or the existing external and internal conditions. Change almost always engenders confusion and concern on the part of employees because initiatives may impact policies, procedures, resource allocation, future workplace exchanges as well as the potential for job losses.

### 4.7.7 MANAGING STRATEGIC CHANGE

Regardless of the type of or reasons for change, reinforcing a new culture requires effective communication and problem solving. It is furthermore important to establish and measure performance towards goals that fit with the new core values. Team members will manage strategic changes differently. There is no one best style of strategic leadership, essentially, two broad skill categories are required to lead change:

- **Task-oriented skills** - are those related to organisational structure, design and control and to establishing routines to attain organisational goals and objectives.
- **Person-oriented skills** - include behaviours that promote collaborative interaction between organisational members, establish a supportive social climate and promote management practices that ensure equitable treatment of organisation members. These interpersonal skills are critical to planned organisational change implementation because they enable leaders to motivate and direct followers.

There are three key activities involved in planned organisational change implementation:

1. **Communicating the need for organisational change** - In order to change the status quo and paint a picture of the desired outcome, change leaders need to communicate with followers. Organisational members need to understand the reason for change, the nature of the change as well as the potential impact on their behaviour and routines. Communication can reduce organisation members' confusion and uncertainty, and guide their thinking and actions.
2. **Mobilising others to accept change** - Leaders need to mobilise staff members to accept and adopt proposed change initiatives into their daily routines. This can be challenging as those who have something to gain will usually rally around a change initiative whilst those who have something to lose will resist it. Leaders therefore need to create a coalition to support the change project. Creating such a coalition is a political process that entails both appealing to organisation members' cooperation (person-oriented skills) and initiating organisational processes and systems (task-oriented skills) that enable that cooperation.
3. **Evaluating change project implementation** - Leaders have a role in evaluating the content of change initiatives. To do this, they need to step back to assess both the new processes and procedures that have been proposed and their impact on the organisation's performance.
  - Person-oriented leaders have been shown to be reluctant to place too much emphasis on methods, productivity and on the imposition of impersonal standards.
  - Task-oriented leaders tend naturally to focus on tasks that must be performed to achieve the targeted performance improvements. They are both aware of the need to analyse goals and achievements, and comfortable with the need to refine processes following evaluation.

## STUDY UNIT 5 – ALIGNING STRATEGY AND STRUCTURE

### 5.4 ORGANISATIONAL CULTURE - 'Strategy → Structure' or 'Structure → Strategy'?

Organisational structure is an important for strategy implementation. Strategic leaders establish organisational structures and secure and allocate resources to ensure goals and strategies are achieved and competitive advantage is retained. Departments and individuals use the resources to carry out the allocated tasks. Organisational structures are designed to ensure that determined strategies can be implemented. This supports **Alfred Chandler's** dictum that '**structure follows strategy**' and it also reinforces the principle that strategic management is an ongoing and circular process.

The success of the organisation will depend on various aspects:

- The **direction provided by the strategic leader** (within the boundaries of the internal and external environment).
- The **culture of the organisation** (discussed in detail in Chapter 10).
- The **degree of 'buy-in'**. Managers throughout the organisation should understand, support and own the vision, mission and strategy.
- The **ability of managers** to be innovative, add value and take measured risks to deal with environmental changes.
- The strategic leaders' ability to ensure **cooperation, coordination and synergy** between the various organisational departments and functions.
- Effective **sharing, monitoring and controlling** of relevant, timely and accurate information.

### 5.5 BASIC STRUCTURAL TYPES

#### 11.4 Structural Alternatives (PG 225 TB)

Organisational structure provides the framework through which strategies are implemented. By dividing up tasks and grouping them into work units, the organisational structure places people in certain roles with certain responsibilities and expectations. In the case of:

- **Centralisation** - all major strategic decisions are made by top management.
- **Decentralised** - important decisions are also made by middle and lower management. By decentralising power and authority, a more democratic organisation is created.

The following factors should be considered in deciding whether to have centralised or decentralised authority:

- **External environment** - The more complex and volatile the environment and the higher the level of uncertainty, the greater the tendency is to decentralise authority and decision making.
- **History of the organisation** - There will be a tendency to follow the history of the organisation. It may be necessary to re-engineer and abandoning what has been successful in the past.
- **Nature of the decision** - The riskier the decision, the higher the costs involved and the higher the potential impact of the decision, the more pressure there will be to centralise decision making.
- **Strategy of the organisation** - The strategy determines the types of market, technological development and competition. Organisations which obtained new products through a strategy of research and development advocated product diversification and therefore utilised decentralised structures. Organisations that did business in more predictable industries became increasingly centralised.
- **Skills and maturity of lower-level managers** - If lower-level managers do not illustrate maturity in executing their responsibilities, decision making in the organisation will probably be centralized and vice-versa
- **Size and growth rate of the organisation** - The larger and more complex an organisation, the greater the need for decentralisation. In an organisation that is growing rapidly, management will have to bear the burden of an increasing workload, and therefore be obliged to shift some of the decision-making authority to lower levels, and thus to decentralise.

Advantages for decentralization:

- The **workload of top management is reduced**, enabling them to devote more attention to strategies.
- **Decision making improves** because decisions are closer to the core of action and time is not wasted by first referring the matter to a higher authority.
- **Improved morale and initiative** at the lower levels of management. Managers feel they participate in managing the organisation and are prepared for greater responsibilities with greater job satisfaction.
- Decentralisation of decision making renders it **faster and more flexible**.
- Decentralised authority also **fosters a competitive climate**. Manager's performance is compared with colleagues.

Disadvantages for decentralization:

- There is the **danger of loss of control**. Too much decentralisation will result in departments moving away from the centres of decision making.
- There is the **danger of duplicating tasks**.
- Decentralisation requires **more expensive and more intensive management training and development**.
- Decentralisation also demands **sophisticated planning and reporting methods**. Top managers will always be accountable for attaining the goals and must continually receive feedback.

More individual authority at middle and lower management levels requires thorough management training and development. The challenge is to find the appropriate degree of decentralisation and centralisation, to enable them to maintain control while innovating and managing change in a dynamic and turbulent environment.

It is not unusual for an organisation to be centralised at starts up. As limited power and responsibility are devolved to identifiable lower levels of management, the organisational structure becomes more formalised, but the central power of the strategic leader remains strong. As the organisation grows beyond a stage where one person can really remain in effective control, the switch is to decentralise with formal controls through organisational policies, procedures and formal reporting relationships.

### **11.5 Structural Forms (PG 227 TB)**

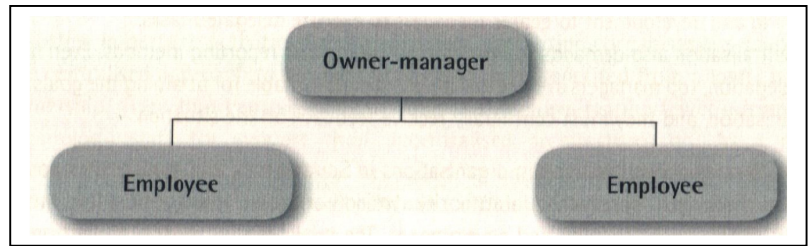
A number of structural forms can be adapted by an organisation in order for it to satisfy its particular needs. Organisational structure involves more than simply charting where businesses, products, services, people and other resources fit in relation to each other. Organisational structures are dynarric and also involve behaviour patterns. The following forms are discussed

1. **Entrepreneurial structure**
2. **Functional structure**
3. **Divisional structure**
4. **Holding company structure**
5. **Matrix structure**
6. **Global structure**
7. **Network structure**
8. **New venture units**
9. **Virtual Network Structure**

Most organisations will not have a 'pure' structure, but will most often use a combination of different structural elements or a 'hybrid' structure.

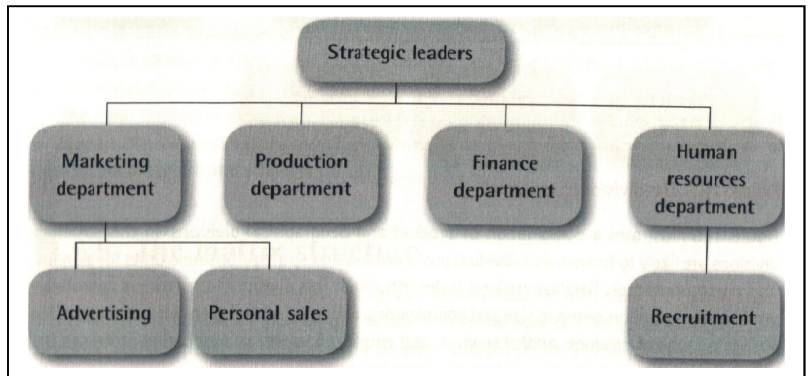
## 1. The Entrepreneurial Structure

- Typically built around the owner-manager.
- Usually utilised by small organisations in the start-up stages.
- Entirely centralised and no division of responsibility.
- Decisions are made by the owner-manager and employees refer everything significant back to the owner-manager.
- All power, responsibility and authority lie with the owner-manager.
- Advantage is that it enables the founder, who understands the business, to control its early growth and development.
- May be limiting as the owner may not having sufficient knowledge in certain areas, e.g. financial side.
- Appropriate up to a certain size, and will then develop into other more appropriate structures.



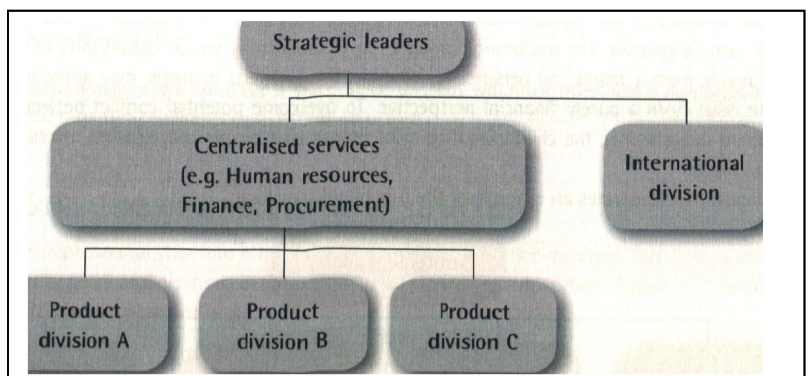
## 2. The Functional Structure

- Activities of each management function are grouped together into a unit, e.g. advertising, marketing and sales, under the marketing.
- Usually organisations with a single product focus to build competitive advantage.
- Dividing tasks into specialist areas enables personnel to focus on their area of expertise.
- Coordination of functions is challenging.
- Specialists may view the organisation solely from their own perspective. To overcome potential conflict between the different departments, the chief executive must ensure that proper coordination mechanisms are in place.
- Decision making in a functional structure is centralised.
- Advantages are that control resides with the strategic leaders
- This structure has relatively low overhead costs, clearly defined relationships, and relatively simple lines of authority and control. Promotes competitive advantage through the various functions.
- Limitations are the organisation may experience succession problems since specialists are created. Functions are unlikely to become entrepreneurial and the organisation may also experience coordination problems.
- Once an organisation has gone through the entrepreneurial stage and thereafter the functional stage, its choice of future corporate growth strategies will have a major impact on further structural developments.



## 3. The Divisional Structure

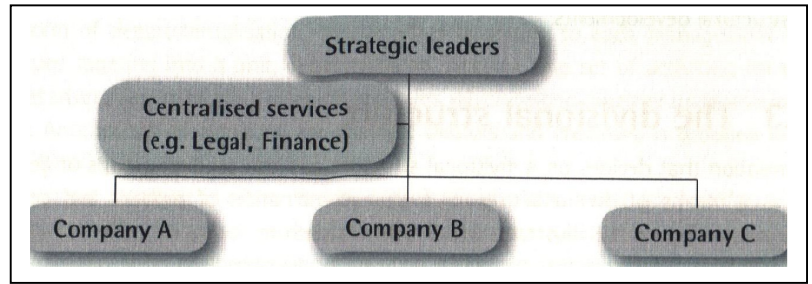
- Use products, geographic regions or combination as a means of divisionalising.
- Divisions are likely to be seen as individual profit centres and strategic business units for planning and control purposes.
- Decision making is decentralised.
- Appropriate when an organisation grows in size, complexities, operates in a turbulent environment and offers a diverse range of products.
- It is also appropriate when an organisation performs business internationally.
- The main advantage is that profit responsibility is decentralised. This organisation can assess the effectiveness and efficiency of various functions and adapt to changes more effectively and foster an entrepreneurial climate.
- Conflict may develop between divisions in their competition for limited resources, efforts and resources may be duplicated, and the evaluation of the relative performance of the divisions may be difficult.





#### 4. The Holding Company Structure

- The headquarters or corporate centre largely acts as an investment company.
- The operations of individual companies are largely independent.
- Structure is appropriate for organisations pursuing a restructuring strategy. It is usually effective in the case of diverse independent businesses in a conglomerate.
- Involves relatively low central overhead costs and the holding company is thus able to finance subsidiaries at a favourable cost of capital.
- Risks are spread between companies, it allows for cross-subsidisation between profitable and less profitable companies, and it facilitates acquisition, divestment and decentralisation.
- Limitation is that there are no centralised skills, no synergy and also a possible lack of organisational culture and strategic control.



#### 5. The Matrix Structure

- Combines the advantages of decentralisation with those of coordination.
- Requires dual reporting by managers, the permanent and dual control of operating units.
- Authority and accountability are defined in terms of particular decisions.
- This structure is appropriate in large, multiproduct and multinational organisations with significant interrelationships and interdependencies.
- It is a power structure to implement in organisations with more than one profit centre
- The advantages associated with a matrix structure are first and foremost that decisions can be decentralised within a large organisation which might otherwise be very bureaucratic.
- The structure makes optimal use of scarce skills and resources, and it enables control over growth and increasing complexity normally associated with growth. It also offers an opportunity for managers to develop and reach a certain level of maturity.
- Difficult to implement and the dual reporting lines may create confusion among employees, may cause conflict.
- It has high overhead costs and decision making can be very slow. It is, nonetheless, a power structure to implement in organisations with more than one profit centre



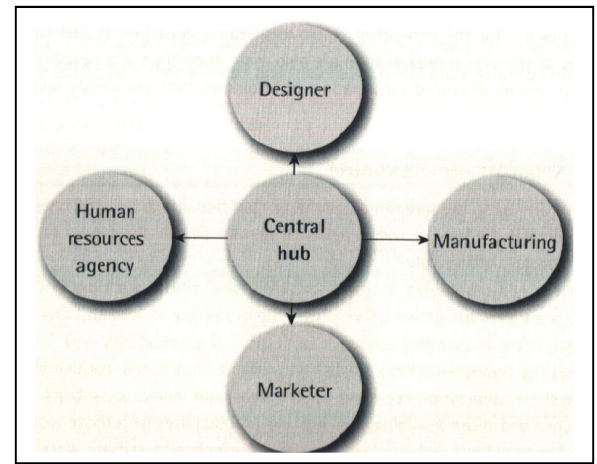
#### 6. The Global Structure

Usually associated with multiple strategies. There are essentially five possible global structures:

1. **A globally centralised organisation, remote from its global markets, but relying on exporting** - a cost-effective structure, but possibly too out of touch for contemporary global entities.
2. **Manufacturing plants that are located close to the organisation's markets in order to satisfy local needs and preferences** - This structure is known as an international and multi-domestic structure, and can be controlled centrally. The costs with this structure will be higher, but it will enable the global entity to offer higher levels of service.
3. **Centralisation of the manufacturing of key components** - This is possible in a country of low wages, with the final assembly nearer to the market.
4. **An integrated global structure with production locations chosen on resource or cost grounds** - finished products are transported to markets.
5. **A global network through strategic alliances** - This structure can be very effective, but it can also be difficult to control and may have costly overheads.

## 7. The Network Structure

- Involves an interrelationship between different organisations.
- Usually performs the core activities itself, but subcontracts some or many of its non-core operations to other organisations.
- One of the big challenges for a network organisation is to coordinate its network partners' activities to ensure that they contribute to the network organisation's mission and goals.



## 8. New Venture Units

- Consist of groups of employees who volunteer to develop new products or ventures for the organisation. These groups use a form of matrix structure. When the project is complete, it can be adopted into any of the following organisational structures:
  - The new products or ventures become a part of traditional structure, such as functional or product structure.
  - The products are developed into a totally new department.
  - The new products grow into divisions.

## 9. The Virtual Network Structure

- Builds on the features of the network structure.
- In the virtual organisation, people who are spread out in remote locations work as though they were in one place.
- It provides flexibility and efficiency because partnerships and relationships with other organisations can be formed or disbanded as needed.
- A disadvantage is that the levels of reciprocal and sequential interdependence are much higher than those of the network organisation.

### 5.5.1 AMBIDEXTROUS ORGANISATIONS

- Refers to the ability to be equally good at exploiting **existing opportunities** using **existing capabilities** while exploring and searching for new opportunities and new capabilities.
- In most organisations, the existing way of doing things tends to dominate management thinking, which makes it very difficult for them to be truly innovative and to develop new capabilities.
- Companies that are successful at both exploiting existing opportunities and exploring new opportunities (i.e. ambidextrous) separate their new, exploratory units from their traditional, exploitative ones, allowing for different processes, structures, and cultures.
- At the same time, they maintain tight links across units at the senior executive level, i.e. they manage organisational separation through a tightly integrated senior team.

### 5.6 INFLUENCES ON ORGANISATIONAL DESIGN

Organisation design refers to the decision to establish a formal organisational structure. Organisational design is not simply about the application of a process to arrive at a “best” organisational structure.

There are very few hard and fast rules or absolute guidelines. It is instead a far more fluid, messy process. Key questions can help the organisation think about the design:

1. **What needs to be done?**
2. **Why does it have to be done?**
3. **Who needs to do it?**
4. **How will they need to do it?**
5. **When does it have to be done?**
6. **What are the key dependencies and interdependencies?**

“tensions” will influence the organisational design, as they will require trade-offs in terms of the structure, tension between:

- Centralisation and decentralisation.
- The need for control and the need for agility and quick response times (hierarchical or “flat” structures)
- Keeping functions internal or outsourcing them

### **The Big Picture (PG 234 TB)**

It is important that there should be alignment between the strategy of the organisation and the organisational structure. However, it is also naive to think that there will be a pure and direct relationship between strategy and structure and that changes in strategy will unconditionally lead to structural changes.

The decision of how to structure the organisation, the following factors are important:

- 1. The current business architecture of the organisation** - Organisations are generally inert until there are forces that necessitate change, and if these forces are not perceived as strong enough, large scale structural changes are not likely to occur.
- 2. The strategy of the organisation** – The plan for the future, and implementing these plans may necessitate changes, i.e. when a small business decides to expand nationally, a simple entrepreneurial structure may not be sufficient.
- 3. External driving forces for change** - Sometimes there may be forces that necessitate changes, such as technology that enables remote working may enable a more dispersed structure.
- 4. The structure's influence on business architecture, strategy and even the external environment** - The structure specifies how the organisation deals with role players in the external environment

## STUDY UNIT 6 – STRATEGY DEPLOYMENT

### 6.4 STRATEGY DEPLOYMENT (PG 239 TB)

Strategy deployment consists of three key elements that should be considered an integrated whole:

1. Successful **implementation of strategic initiatives**.
2. Successful **alignment of individual behavior** with strategic direction
3. Successful **alignment of organizational units** with strategic direction.



### Aligning Individual Behaviour with Strategic Direction (Pg 241 TB)

To achieve each employee is aligned with the strategic direction, there are five tools:

1. **Recruitment process** - Organisations should recruit individuals that support their strategic direction. This is where it starts.
2. **Training and development** - required to ensure that knowledge, skills and attitudes of employees match the strategic direction of the organisation.
3. **Policies and procedures** - used to guide behaviours of individuals, new policies and procedures may need to be introduced.
4. **Process of cascading objectives** - used as a framework for setting objectives lower down in the organisation. In using this approach, strategic objectives will typically be used to derive annual objectives, which will be used to define the actions and required performance levels of individual employees.
5. **Reward systems** - that are tailored to reward behaviours and achievements that are in line with the strategy may encourage individuals to behave and actively support the strategic direction

### ENABLERS OF STRATEGY DEPLOYMENT (PG 242 TB)

Strategy deployment is a challenging and complex process, and it is underpinned by three important enablers;

1. **Communication** of the strategy
2. The ability of the organisation to **learn and adapt**
3. The **allocation of adequate resources**.

### Communicating the Strategy

There are four main objectives for the communication of strategy:

1. To ensure that **everyone understands** what the strategy is and how it will affect them.
2. To **resolve ambiguity and uncertainty** about the strategy.
3. To explain the **assumptions and judgements** that were made during the analysis process and to explain the decisions that were made and backup plans
4. To **ensure coordination** across all organisational units

Simply enforcing a strategy will elicit resistance to change. One of the key objectives of the communication process is to **'sell'** the strategy to the organisation, and to ensure that everyone understands why the decision was made and why it was the best decision under the circumstances.

The communication of the strategy may comprise of **formal communication initiatives**, such as presentations by management. It is also important for managers to ensure that they adopt the new strategy in their everyday language and in informal communication with their peers and subordinates, and even other stakeholders.



### Organisational Learning And Adaptation (PG 244 TB)

Knowing when to change the strategic direction is the difference between success and failure. Experimentation offers one key to making these adjustments successfully. Odds can be improved by learning from both mistakes and successes.

Learning through experimenting has three basic components:

1. **Conducting the experiment**
2. **Studying the success and failure of the experiment**
3. **Transferring the lessons learned throughout the organisation**

### Resource Allocation (PG 245 TB)

All organisations have limited resources. In considering requests for funding and in the budgeting process, organisations should take the following into account:

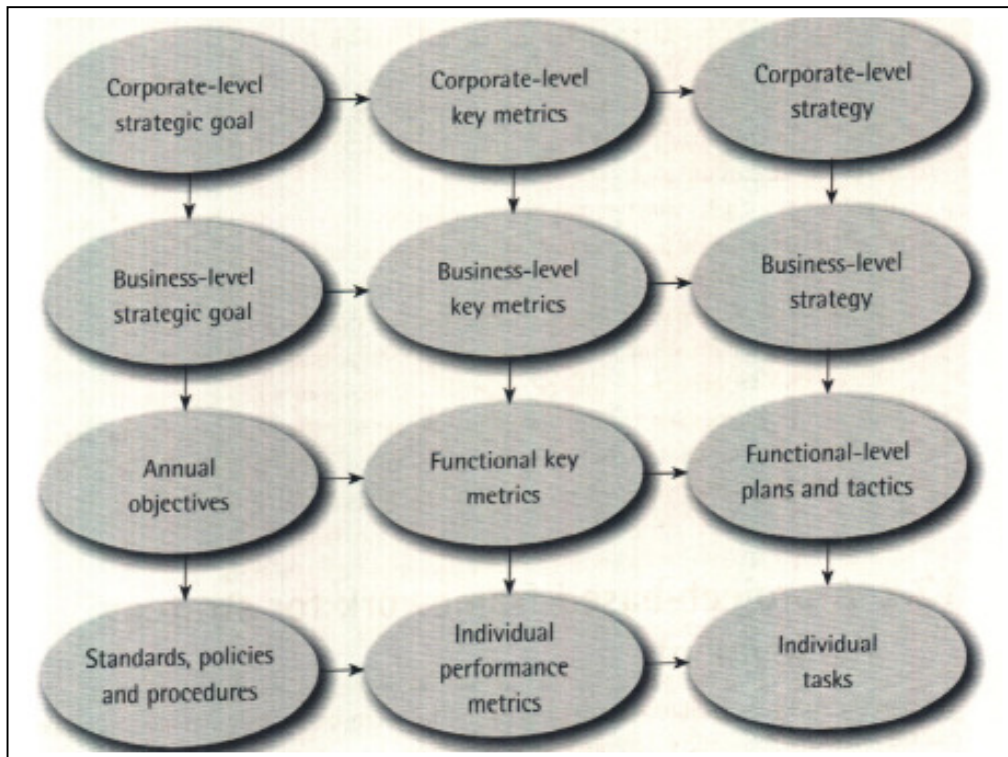
- The extent to which the **proposed resources contribute** towards the organisation's mission and long-term objectives
- The extent to which they **support the strategic direction** and key strategic initiatives
- The level of **risk associated** with the proposal

The proposals that most contribute towards the strategic success of the organisation and best fits its risk profile should enjoy preference.

### **Strategy Deployment: Aligning Strategy with the Internal Environment**

In summary, we can see strategy deployment as a process for aligning all organisational units and employees with the formulated strategies.

It is not simply a matter of cascading objectives, metrics and strategies, the process is much more complex and communication, resource allocation, managing strategic initiatives and change are all part of it. At the most basic level, strategy deployment is about ensuring that all of the business unit goals, metrics and strategies are aligned with the corporate goals, metrics and strategies; that functional goals, metrics and plans support the business units, and that the functional level plans and tactics translate into individual measurements and tasks. The balanced scorecard is an example of a tool that can be used to align goals and metrics across the whole organisation.



## 6.5 MANAGING STRATEGY DEPLOYMENT

### 6.5.1 THE STRATEGY EXECUTION FRAMEWORK (SEF) (PG 246 TB)

The Strategic Execution Framework (SEF) is a strategy deployment framework that helps to align an organisation's projects and programmes with its strategies. Strategy deployment is in essence project-based work which requires the selection of and investment in specific engagements, portfolios, programmes and projects, which we refer to as strategic initiatives.

The purpose of the SEF is to help organisations to align activities and strategic direction better. There are six key aspects of an organisation that must harmonise in strategy deployment, these are:

1. **Ideation** - Art organisation's identity, how it sees itself and how it wants to appear to the world. This is expressed through statements of vision, mission, values and strategic goals.
2. **Nature** - The physical and psychological manifestation of the organisation in the form of its culture, its structure and its strategy. Together these elements create the internal context of the organisation. It is important that there is a good fit between these three elements. For example, if an organisation is dependent on innovation and quick response times, having a very hierarchical structure with rigid functional silos will not support its strategy.
3. **Vision** - Where the organisation wants to be in the future. In this case, 'vision refers to more than just a vision statement (which is an expression of ideation), it refers to the organisation's key goals and measures (metrics) that drive its strategy. Again it is important to ensure that there is a good fit between the goals the organisation wants to achieve, and the key metrics it will need to measure progress. These aspects were also addressed in Chapter 4.
4. **Engagement** - Essentially the bridge between the thinking process (of which strategy is the outcome) and the deployment process, where the portfolio of investments (an outcome of the resource allocation process) interconnects. The decision on the portfolio of investments is part of the resource allocation process outlined above.
5. **Synthesis** - Where the portfolio culminates in specific strategic initiatives in the form of programmes or projects. Our view of programme and project management in this instance refers to the strategic role of projects, rather than the tactical role normally assigned to it.
6. **Transition** - When the programmes and projects results in outcomes that then become part of the operations, i.e. the day-to-day activities of the organisation. For example, a project may result in the development of a new product range, which is then absorbed in the organisation's value chain of production, sales and after-sales support

Quite appropriately - ideation, nature, vision, engagement, synthesis and transition - combine to form the acronym **INVEST**.

### Engagement (PG 249 TB)

There are generally too many projects and too few resources. The purpose of the engagement process is to translate strategy into action, and to prioritise actions in a way that eliminates guesswork and power play in the allocation of resources, how it is going to spend its money in support of its strategy and in pursuit of attaining its vision. The clearer the link between the funding decision and the strategy, the better the level of alignment.

In the engagement domain, strategy consists of understanding **R + 2B + PATH**.

- **R** - 'Knowing where we are' requires the organisation to understand its *current ideation*, *current nature* and current progress towards vision.
- **2B** - the organisation needs to understand what *structural changes should be made* to align culture and what gaps exist between current and desired performance.
- **PATH** - is expressed through the specific initiatives that the organisation needs to implement to ensure alignment of strategy with nature and performance.

At this point, organisations may have a whole potential portfolio of investments, but due to limited resources, it cannot invest in all of them, and will have to make tough choices. One element that may help to make this process more is for the organisation to have clear criteria for making decisions. Some of the following elements may be useful as decision criteria:

- **Alignment with strategy and strategic capabilities**
- **Financial measures** (such as payback periods or return on investment)
- **Contribution towards achievement of long-term objectives**
- **Level of risk the organisation is prepared to accept** (also known as risk appetite)



## Synthesis (PG 249 TB)

The investment portfolio of the organisation funds those activities that are strategic initiatives and not part of the normal day-to-day operation of the organisation. For that reason, it is managed by means of programme and project management, with a view to ultimately absorb it into the operations of the organisation. The synthesis domain has three key performance areas:

- **Process methodology** for managing project-based work at the strategic level
- **Process maturity** for these process methodologies
- **Executive sponsorship** of project-based work

### **Process methodology**

In the process methodology for programme and project management, there are two key concepts:

1. **Programme management** is the process for managing multiple but interrelated projects. The role of programme management will be to oversee all projects, track progress and identify potential barriers till completion.
2. **Project management** requires a project team to set the scope for a project, to develop a project schedule, to obtain project resources, to implement the project phases and to track progress.

### **Process maturity**

Many organisations do programme or project management at the tactical level. Maturity is best viewed on a scale where 'no formal approach' is the bottom of the scale and 'best-in-class performance' is at the top. The lower the level of maturity, the less the chance of successfully using programme and project management in strategy deployment and the more work the organisation needs to do to develop maturity in these critical skills.

### **Executive sponsorship**

Without an executive sponsor to champion a project, it has little chance of succeeding. The role of the executive sponsor is to help overcome obstacles, to maintain visibility for the project and to help with investing in opportunities

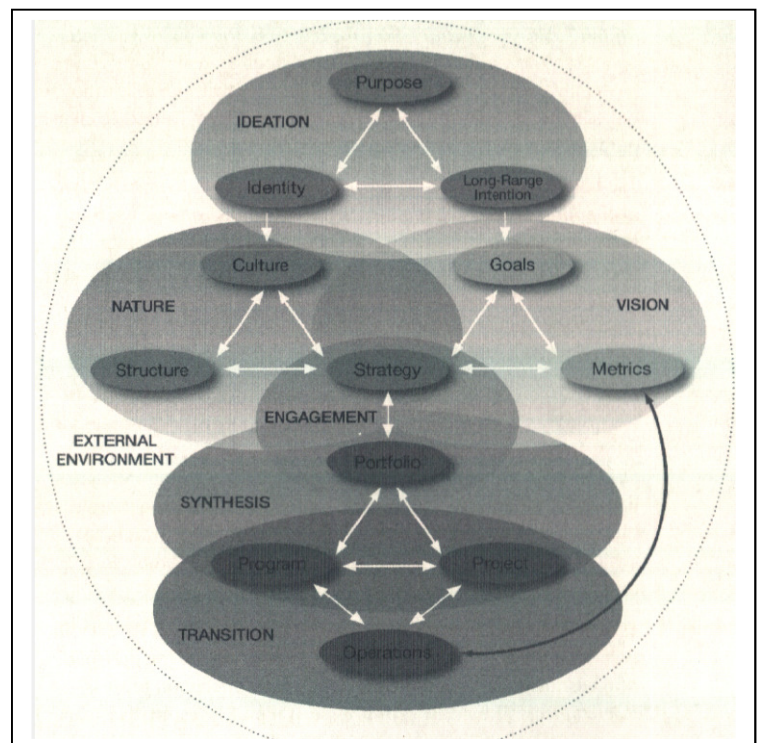
## Transition

The transition domain is where the organisation's strategic efforts succeed or fail. The outcomes of programme and project management will ultimately become part of the day-to-day activities of the organisation.

There are two types of transitional arrangement that have to be balanced by the organisation.

1. On the one hand, existing systems and processes have to be maintained and continuously improved upon in order to reap the benefits from them.
2. At the same time, the strategy deployment process is about finding those breakthrough changes that will really alter the game and ensure a step-up in performance.

Control is an important function to ensure that the strategic metrics of the organisation are being achieved. Metrics throughout the organisation must be aligned and working towards the same ultimate goal.



## 6.5.2 IDENTIFYING, SELECTING, MANAGING AND RESOURCING STRATEGIC INITIATIVES

Any formulated strategy may lead to the identification of a host of possible strategic initiatives. Strategic initiatives are those initiatives that are not part of the operations of the organisation, but are intended to permeate the strategy through the organisation.

Typical strategic initiatives include:

- Specific initiatives to **align culture, structure and systems with strategy**
- Specific initiatives to **ensure that a strategy is enabled**, e.g. strategy to reduce costs on a sustainable basis.
- Specific initiatives to **align organisational units and individual behaviour** with strategy.

However, although all the initiatives may have potential, the organisation has limited resources, and a key decision at this point would be which strategic initiatives to fund and which to discard. From this perspective, resource allocation will thus only occur to fund selected strategic initiatives in three steps:

1. **Project portfolio has to be selected.**
2. **Programme management has to be established** to ensure that all strategic projects are properly tracked and managed.
3. **Projects have to be managed** to ensure that project milestones are achieved and it becomes part of the operation of the organisation. These three terms are discussed in more detail below.

### **Project Portfolio**

Organisations cannot take on every potential strategic initiative as resources are limited. The purpose is to have a selected set of projects with a better chance of success rather than trying to spread resources too thinly and failing at most projects.

### **Programme Management**

Refers to the management of a group of related projects. Programme managers are key agents of change and take responsibility for coordinating the actions of project managers, project teams, functional managers and teams, suppliers and operational staff to ensure that projects are successfully implemented and the resulting products and processes are ultimately successfully transitioned to the operations of the organisation.

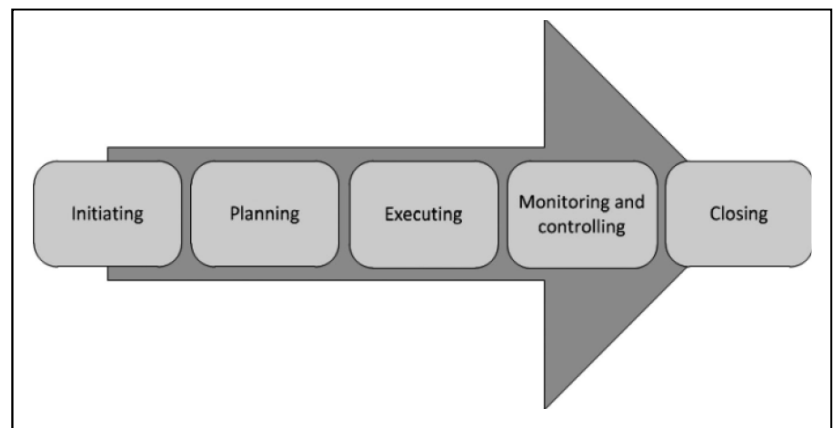
### **Project management**

A project is a temporary endeavour with the purpose of creating a unique product, service or outcome. Projects do not form part of the operations of an organisation, and for that reason it is ideally suited to function as a management framework for strategy implementation. Project management has some very specific attributes:

- It has a **specific purpose** or desired outcome.
- **It is temporary** – in other words it has a specific start date and end date.
- It is **multidisciplinary** and will require resources from various organisational areas.
- It **requires leadership and a “champion”** at a high level.
- It requires a certain **methodology, process and plan**.

A project typically has five stages:

1. The first stage is the **initiation** of the project. It is the identification and selection of strategic initiatives.
2. The creation of a project plan, **planning**.
3. The **execution** of the plan.
4. **Monitoring and controlling** take place throughout to ensure that the project progresses as planned, to take corrective action if required, and to ensure that project milestones are achieved.
5. Part of the **day-to-day operations** of the organisation.



### 6.5.3 A COMBINED PERSPECTIVE

If we consider these two approaches, we can suggest that they be combined into a single framework.

1. The strategy execution framework (SEF)
  2. Identifying, selecting, managing and resourcing strategic initiatives
- Strategic vision - the process begins with an understanding of the goals of the organisation. The strategic vision and goals determine the important
  - **Strategic metrics** – those aspects that executives will use to determine at a glance how the organisation is performing. Determined by the strategic vision.
  - **Strategies** - describe the “how” – the high-level formulation of how the organisation is going to shift its performance in key metrics.

Steps up to this point are generally regarded as part of the *strategy formulation phase*. In terms of strategy deployment, the process is very simply to manage **strategic initiatives** and to transition them to **operations** when the time is right.

**The external environment** - holds certain opportunities and threats, some known and some sudden and unexpected, that may affect the strategic direction and strategy deployment of the organisation.

**The internal environment** - culture, systems and capabilities will affect the strategic direction of the organisation, but will also have to be aligned with the strategy. A structure and framework for the implementation of strategic initiatives is a crucial element of the internal environment, while the operational environment is essentially regulated by processes, policies, procedures and performance standards.

### MANAGING STRATEGIC INITIATIVES (PG 251 TB)

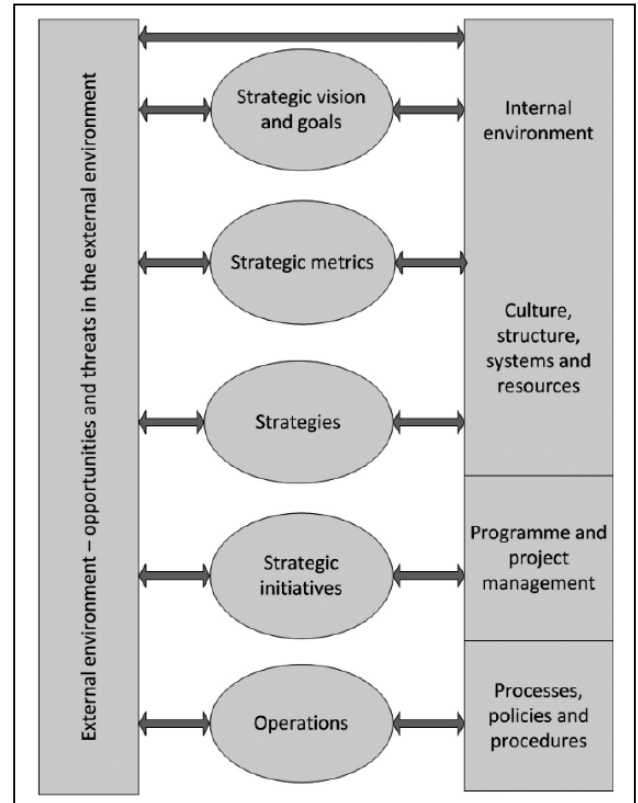
Determining a strategic direction for the organisation is the strategic leadership responsibility. Strategic leadership is multifunctional, involves managing through others, and helps organisations cope with change.

Strategic leadership requires the ability to accommodate and integrate the internal and external environment. Leadership practices for boards of directors in strategy deployment include the following:

- **Ensuring a steady flow of strategic initiatives** and projects to achieve the strategic objectives
- **Developing decision frameworks** for selecting strategic portfolio investments and for terminating unsuccessful initiatives
- **Regular evaluation of the progress** of strategy deployment

The role of management, on the other hand, is required in the strategy deployment process for planning and directing activities, and monitoring and taking corrective action where necessary. Management involved carry out this process by developing and communicating with people and managing and organising/prioritising resources.

Leadership and management are therefore emphasised differently in strategy deployment. The former is strategic and the latter operational. The focus in this section is on operational management, specifically the management of strategic initiatives and the process of making strategy part of everyone's job.

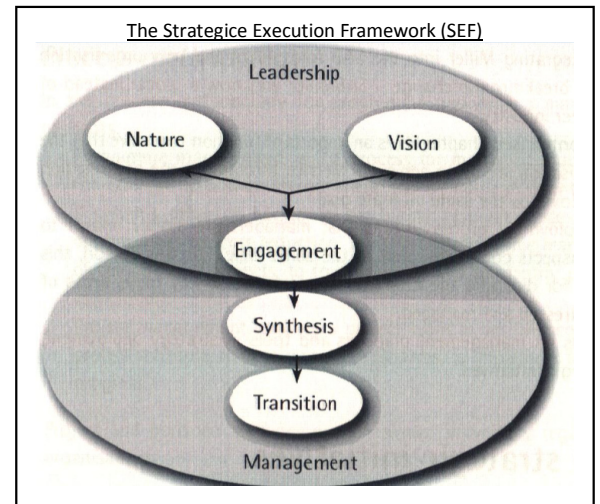


The process of managing strategic initiatives consists of the following(SEF):

1. Developing strategic initiatives by translating strategic goals into strategic initiatives
2. Prioritising strategic initiatives
3. Defining and approving strategic initiatives
4. Aligning individual behaviour
5. Strategic initiative reporting and management

A summary of the strategic initiative management process, 5 steps:

1. Translating goals in potential initiatives
2. Prioritizing strategic initiatives
3. Defining and approving strategic initiatives
4. Aligning individual behavior
5. Reporting and management,



### **TRANSLATING GOALS INTO STRATEGIC INITIATIVES (PG 253 TB)**

In transitioning from strategic decisions to strategy deployment, the first task is to translate strategic goals into specific initiatives that the organisation will undertake. The purpose is to create a detailed roadmap that aligns the day-to-day activities of the organisation with the strategic direction.

The balanced scorecard is a handy mechanism in the process of developing strategic initiatives.

### **Defining Initiatives**

Initiatives, the major efforts required to make progress toward strategic goals, must be clearly described during the implementation process. To do this, we recommend defining the following elements for each initiative:

- **Deliverables:** What will be the results of the initiative? How will "success" be measured?
- **Initiative leader and team:** Who is responsible and involved in the work?
- **Key activities:** What action steps need to be undertaken to achieve the deliverable?
- **Resource requirements:** What investments (people, equipment, time, finances) will be needed for the initiative?
- **Interdependencies:** How will the initiative impact other functions or areas? How will it affect other initiatives?
- **Milestones:** What are the major events, accomplishments, or key decision points that are anticipated? How will you know when and if your initiative is on or off track?
- **Performance metrics:** What will you measure to gauge progress on your initiative? How will you utilize these performance metrics to tell if your initiative is on or off track?
- **Timeline:** When will the initiative begin and end? At what milestone will you judge if your initial timeline is correct?

The process to identify strategic priorities is as follows:

1. **Identify the potential strategic initiatives associated with each strategic goal.** There may be multiple strategic initiatives for each goal, and certain initiatives may address more than one goal.
2. **Explain what the outcome of each initiative will be,** i.e. how it will contribute to attaining the strategic goal.
3. **Identify the key people** (leader and team members) that will be responsible for each initiative.
4. **Identify resources** that will be required to complete the initiative.
5. **Identify interdependencies** with other organisational units and support functions.
6. **Specify a project duration** (start and end date).

It is the process of describing strategic initiatives and creating mechanisms for tracking progress that is important, not the template used (see page 255/256).



## **PRIORITISING STRATEGIC INITIATIVES (PG 253 TB)**

In the context of the planning process, organisations must identify strategic initiative candidates and prioritise them based on strategic impact. **Qualitative and quantitative** information on each potential initiative should be assessed.

Strategic initiative leaders should provide an overview of the proposed initiative and should include the following information:

- **Description of the initiative**
- **How it supports the strategic agenda**
- **Expected impact or outcome (if possible this should be linked to strategic goals and metrics)**
- **Capital and resource requirements**
- **HR requirements - people and skills**
- **Revenues and expenses**

### **Defining and Approving Strategic Initiatives**

Only a few important projects should be selected, most likely only from categories A and B, due to limited resources. The selected strategic initiatives should be considered holistically to ensure that they address the vision of the organisation. The purpose of this step is to get a bird's eye view of the selected initiatives in order to get a sense of how they interconnect and to integrate them into a strategic programme and project management framework.

### **Communicating Strategic Initiatives**

The purpose of this phase is to ensure that all employees are aware of the strategy and strategic initiatives that will be deployed. It is also important to link strategic initiatives with individual performance agreements, in most organisations, this process will be part of the performance management system.

### **Strategic Initiative Reporting and Management**

Organisations need effective processes in place for systematically measuring and evaluating progress towards their strategic goals. These processes help them to remain focused as they execute their strategies, all the time learning and adjusting as they go. There may also be a need to report to the board and senior management specifically on progress, and in this regard executive dashboards that provide a quick summary of progress will be most useful.

## **6.5.5 EXECUTIVE COMPENSATION**

The top management of an organisation are appointed as agents of the owners and are compensated in various ways. The means of compensation can be roughly grouped into three categories:

1. **Total guaranteed package** - Like any employee, executives earn a salary and benefits.
2. **Short-term incentives** - Refer to all cash-based payments that are paid to an individual based on company and individual performance in the short term (a year), such as performance bonuses.
3. **Long-term incentives** - Long-term incentives are ways of linking executive remuneration to the long-term performance of the organisation. Share options are popular long-term incentives. The reward lies in the difference between the future share price and the current share price (market value), referred to as "golden handcuff s".

Executive compensation focuses on the following key issues:

- **Size** - The size of executive compensation is serious contention for unions and other observers protesting against CEOs earning so much, especially in comparison with the lower of workers. On the other hand, it is argued that CEOs take on an inordinate amount of stress and risk in their roles and should be rewarded accordingly if they are successful.
- **Aligning rewards with strategic performance** - Compensation should be aligned with strategic success for short-term performance and long-term success. The so-called "golden parachutes", according to which executives receive large pay-outs regardless of their or the organisation's performance.
- **Calculation of variables** - The bases for calculating the variable part of compensation (short-term and long-term) have become increasingly complex and difficult to understand.
- **Variable component of remuneration** - The variable component of remuneration has grown from about 60% of the total guaranteed package a decade ago to between 200% and 1000% today, depending on the industry and company.

Executive compensation has become an issue of corporate governance. The King Code (King III) specifies that executive compensation should be fair and equitable. Other mechanisms to govern executive compensation include:

- **Oversight** - King III recommends the establishment of a remuneration committee as a subcommittee of the Board of Directors. Their role would be to oversee executive compensation and to make recommendations.
- **Transparency** - Organisations should provide full disclosure of director's earnings and how their compensation is structured.
- **"Say on pay"** - Shareholders are increasingly given the option to vote on executive compensation. The "say on pay" clause in King III is regarded as a failure, since it is a non-binding advisory vote and many companies simply choose not to implement it, with no consequences.

#### **6.5.6 ALIGNING PERFORMANCE, REWARDS AND STRATEGY**

In order to align performance, strategy and rewards, must be based on the right measures, which have been derived from and contribute to the achievement of strategic objectives. Employees can be rewarded in various ways. These rewards can be roughly categorized into extrinsic and intrinsic rewards.

**Extrinsic** - rewards are generally more tangible in nature and are given in return for performance. They serve as an extrinsic form of motivation that is a form of motivation outside of the individual. They may include:

1. A competitive salary and salary increases
2. Attractive perks and fringe benefits
3. Performance bonuses for meeting or exceeding performance targets
4. Stock options
5. Promotion (promotion should be from within, so that it serves as motivation)
6. An attractive, pleasant physical work environment

**Intrinsic** - rewards are intangible and generally appeal to intrinsic motivation – the inner drive for achievement and the satisfaction of doing something important. Intrinsic rewards mostly have to do with employers creating a pleasant, stimulating work environment by:

1. valuing employees' suggestions and ideas and acting on those with merit
2. creating a work environment that is caring and sincere
3. inspiring employees with the knowledge that they are part of something important
4. transparency and open sharing of information on performance, strategy and market conditions
5. flexibility in work conditions
6. providing the opportunity to work overseas or to work on challenging projects

**For a reward system to be effective, it should:**

1. Make up a significant portion of the total compensation package
2. Extend to all employees, not only top management
3. Be administered with objectivity and fairness
4. Tie incentives directly to outcomes related to good strategy execution and attainment of strategic objectives
5. Be based on factors under the control of the individual or team being rewarded.
6. Be implemented speedily
7. Make use of both monetary and non-monetary rewards
8. Avoid allowing for exceptions such as rewarding effort rather than outcomes
9. Be individualised to each employee as far as possible.

Reward systems are complicated to implement and there are no step-by-step guidelines. The following are useful indicators of the success of a reward system:

1. The plan **captures attention and people talk** more about their activities and take pride in their successes.
2. Employees clearly **understand the reward plan** and can explain it.
3. **Employees know more** about the organisation's mission, plans and objectives than before.
4. The rewards are **paid out on time**.
5. The **performance of the unit or organisation improves**.



## 6.6 BARRIERS TO STRATEGY DEPLOYMENT

Strategy implementation and deployment is the area where strategies most often fail. Barriers include:

- 1. Managers are trained to plan, not to execute** - Most textbooks focus on strategic analysis and planning, rather than on execution. In line with this, most managers are better trained to analyse and plan than implementation of a strategy.
- 2. Poor or vague strategy** - The old adage of 'garbage in, garbage out'. If the strategy is not clearly formulated and understandable, the implementation efforts are not likely to succeed.
- 3. Lack of a clear framework for implementation** - The components of strategy implementation are well known, but a clear framework for strategy implementation is lacking. This results in confusion about who is responsible for what and limited sharing of information.
- 4. The separation of 'thinking' and "doing"** - The separation of the 'thinking' part of strategy and the 'doing' part has the effect that strategy implementation is seen as the work of the lower levels in the organisation, while strategy formulation is the work of the higher levels.
- 5. Resistance to change** - If employees are not considered in the process of strategy development, resistance to change may be the result. They will not believe in the strategy and will see it as someone else's problem.
- 6. Bounded rationality** - In practice, managers can deal with only a limited number of options, meaning managers will tend to reduce the overall task to a number of small steps that are easier to manage, but may not be optimal.
- 7. Lack of resources** - To implement strategic change is a resource-intensive process. Not having access to key resources such as money or key skills can act as a severe barrier.
- 8. Misalignment of goals and strategic initiatives** - The strategic initiatives identified may take up time and resources without having any effect. The reason is likely that the initiatives are not properly aligned with the goals.
- 9. Underestimating the implementation process** - Strategy formulation may take a few weeks or few months and involve a small team. By comparison, strategy implementation may take a very long time and will involve a large number of people. It is a much more complex process to manage and keep track of, and managers may lose steam if they fail to see short-term results.
- 10. Lack of communication** - Given the duration and complexity of the strategy implementation process, quite often lower levels in the organisation have no idea what the organisation is trying to achieve. This is most often a communication failure.

## STUDY UNIT 7 – MANAGING IMPLEMENTATION RISK

### 7.3 INTRODUCTION

#### **A DEFINITION OF STRATEGIC CONTROL (PG 268 TB)**

Strategic management is mainly the responsibility of top management and that it consists of certain steps, namely

1. **Strategy Formulation**
2. **Implementation**
3. **Control**

Strategy formulation and implementation processes run over multiple years, and for that reason, strategic control cannot wait until implementation is completed, but is rather an ongoing process embedded in many different functions in the organisation.

#### **Strategy Formulation**

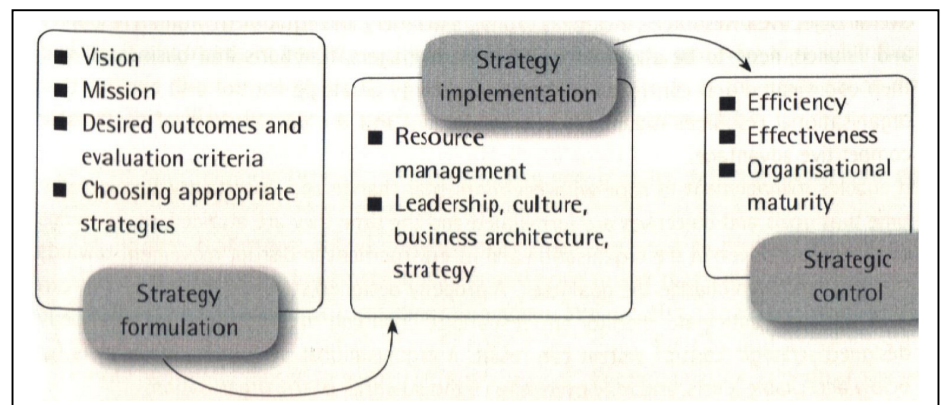
- The vision, mission and overall purpose are the formulation of the organisation's ultimate end point and provide the basis of the strategic management process.
- Strategies are then formulated which specify ways in which the organisation intends to achieve its overall purpose.

#### **Strategy Implementation**

- The organisation then plans their implementation.
- Resources are made available when and where they are required.
- Chosen strategies also demands appropriate leadership, organisational culture, business architecture and organisational structure.

#### **Strategic control**

- Regulatory task of top management and any individual or group that controls key actions of the organisation.
- Determines if there have been deviations from the overall plan or environment that require corrective measures.
- Without strategic control, organisations have no indication of how well they are performing in relation to their ultimate end point and desired outcomes.
- Strategic control keeps the organisation moving in its intended direction and ensures consistency between the organisation and its environment.
- At any point in time, strategic control compares where the organisation is in terms of performance to where it is supposed) to be.



A strategy requires massive resources and is a long-term undertaking. The importance of strategic control below. We need to distinguish between **operational and strategic control**.

- **Operational control** usually has a short-term focus and is reactive by nature. A performance standard will have been specified, and the actual performance is measured against the standard. If the performance falls short of the standard, corrective action is taken. If the performance consistently exceeds the standard, the standard may be too low and has to be revisited. That is the role of strategic control, which is about managing strategic risk.
- **Strategic control** encapsulates the entire strategic management process. It is an interactive and iterative control system that should constantly scan the environment for key changes, review the assumptions that strategic direction and strategies are based on, and track the progress of implementation through project monitoring and control and operational and functional controls.

While strategic control may contain elements of reactive control, it should also contain elements of proactive control.

- **Reactive controls** are mainly used to track the progress of implementation, The Strategic Control Process. The purpose of reactive control is to ensure that the implementation process remains on track and to take corrective actions.
- **Proactive controls** are used to timeously identify any potential threats to the implementation process. The purpose of proactive control is to identify threats, through environmental scanning, to the implementation process at an early stage. Environmental scanning serves two purposes:
  1. To ensure that the assumptions on which the strategy and its implementation is based, still holds true
  2. To ensure that unexpected events are dealt with.

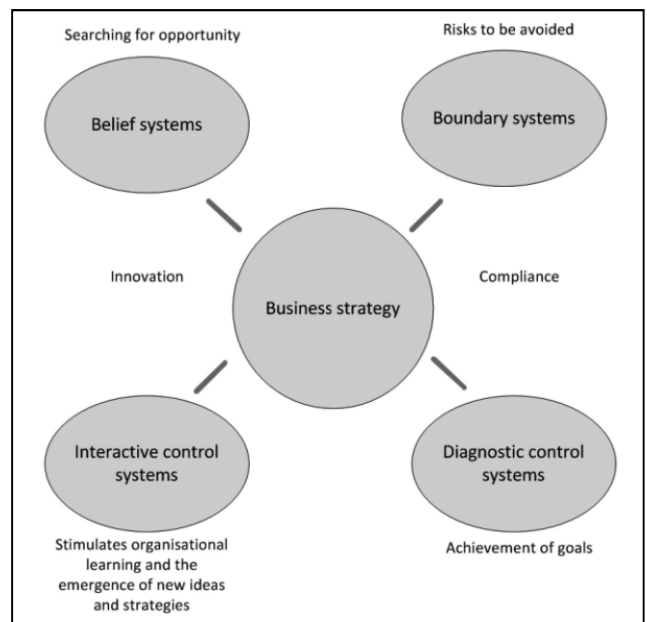
Proactive and proactive controls relating to the elements of strategic control are compared.

	REACTIVE CONTROLS	PROACTIVE CONTROLS
Purpose	To track implementation progress and keep the implementation process on track	To identify internal and external threats to the implementation process
Control mechanisms	<ul style="list-style-type: none"> <li>• Project management</li> <li>• Organisational performance measurement Balanced Scorecard</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental scanning</li> </ul>
Control measures	<ul style="list-style-type: none"> <li>• Achievement of strategic initiative milestones</li> <li>• Achievement of strategic objectives</li> <li>• Functional performance and</li> <li>• achievement of functional objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Assumptions</li> <li>• Unexpected events</li> </ul>

The work of Robert Simons on business strategy control levers provides a different perspective on the elements. Simons identifies four types of control systems that managers use to control business strategy.

These four systems are:

1. **Belief systems** - Belief systems encourage and guide the necessary search for new opportunities and innovations. They are the set of organisational definitions that senior managers communicate formally and reinforce to provide a set of basic values and beliefs, purpose and direction. The vision statement and mission statement reinforce the belief system.
2. **Boundary systems** - Boundary systems are more negative in the sense that they set boundaries on the search for new opportunities by defining and limiting the acceptable domain for opportunity-seeking behaviour. Two kinds of boundaries form part of boundary systems:
  - Business conduct boundaries rely on formal codes of conduct, such as codes of business conduct.
  - Strategic boundaries are used to specify the range of opportunity-seeking behavior to support explicit strategy.
3. **Diagnostic control systems** - Are more traditional and backward-looking in nature, and tend to focus on the management of exceptions, when corrective action is taken to get performance back on track. Diagnostic controls save management time as they require management attention only when there is a substantial deviation between performance standards and actual performance.
4. **Interactive control systems** - Whereas diagnostic control systems are designed to take up as little management time as possible, interactive control systems demand a lot of management time. A diagnostic control system measures the intended strategy (i.e. it is aligned with the strategic management process), while interactive control systems are aligned more with emergent strategy and accordingly contribute to the formation of strategy.



## THE IMPORTANCE OF STRATEGIC CONTROL (PG 270 TB)

Strategic control is necessary in any organisation for the following reasons:

1. **Provides a coordinating mechanism** - links the strategic planning, implementation and control processes of an organisation.
2. **Ensures that the organisation's resources** are deployed in such a way that it attains its overall objectives and that resources match key success factors and competitive advantage.
3. **It enables management to cope with environmental change and uncertainty** - A properly designed strategic control system can help managers anticipate, monitor and respond to changing circumstances. An
4. **Complex organisations need strategic control measures to ensure that costly mistakes are avoided.** Small mistakes and errors do not often seriously damage the financial health of an organisation.
5. **It ensures a balance between organisational effectiveness and efficiency.**
  - **Effectiveness** is achieved when the organisation formulates, pursues and achieves appropriate goals, in essence it means '*doing the right things*'.
  - **Efficiency** is when the resources required to achieve an objective are weighed against what was actually accomplished. The organisation will be more efficient the more favourable the ratio between benefits (outputs or performance) and costs (inputs or resources) is. Efficiency essentially means '*doing things right*'. Efficiency is achieved by using the fewest input to generate a maximum amount of output.

### Strategic control

1. Provides a **coordinating mechanism**
2. Ensures that **resources** are deployed in such a way that an organisation attains its overall objectives
3. Enables management to cope with **environmental change and uncertainty**
4. Ensures that **costly mistakes are avoided**
5. Ensures a **balance between effectiveness and efficiency.**

Strategic control can be broadly classified into two categories, namely backward looking and forward looking.

1. **Backward-looking** strategic control is broadly the same as the operational control process and consists of setting performance standards, measuring performance and addressing deviations. The strategic control process, organisational maturity model and the balanced scorecard are all examples.
2. **Forward looking**, on the other hand, due to the complexity and long time frames of strategic management, control cannot be solely backward looking. It also needs to consider key events in the environment and how that will influence the strategic direction, strategic plans and implementation efforts of the organisation going forward.

## THE STRATEGIC CONTROL PROCESS (PG 271 TB)

Strategic control is the process which ensures that the organisation's overall goals or desired outcomes are realised or that the organisation's actual performance ties in with predetermined outcomes. There are 6 steps, namely:

- **Step 1: Establish performance benchmarks**
- **Step 2: Establish desired outcomes/baseline performance**
- **Step 3: Measure actual performance**
- **Step 4: Establish and evaluate deviations**
- **Step 5: Take corrective action**
- **Step 6: Recognise and reward organisational performance**

### Step 1: Establish performance benchmarks

Determining the level of performance. Benchmarking provides a tool for comparing the organisation to its best competitors to determine what is possible. Benchmarking is defined as the formal process of comparing the attributes of one organisation to those of another. A generic benchmarking process consists of three steps:

1. **Define the attribute** to be benchmarked and identify a best-in-class comparison organisation.
2. **Document the comparison** organisation's process at strategic and operational levels. Compare the best-in-class practices with the organisation's own methods, specifying all differences.
3. **Develop a strategy** for adopting best practices and improving the organisation's own processes and performance.

## 2: Establish desired outcomes/baseline performance

Establish the desired outcomes or baseline performance of the organisation. This is the target against which subsequent organisational performance will be compared, and it should meet the following criteria:

- It should be expressed in **measurable** terms.
- It should be **realistic**.
- It should address the **key performance indicators** for the organisation.

The starting point of this process would be the strategic goals of the organisation. Flowing from strategic goals, desired outcomes and baseline performance should be communicated with departments, individuals and stakeholders.

### Step 3: Measure actual performance

This step involves collecting information and reporting on actual performance. The variables should be reliable and quantifiable to make meaningful comparison possible. This may require the identification of certain key milestones as interim measures, and ensuring they are achieved on time and within required performance parameters.

### Step 4: Establish and evaluate deviations

The fourth step in the strategic control process involves;

- a) Comparing measured performance against desired **outcomes and baseline performance**, and
- b) Comparing measured performance against **best-in-class performance**.

Actual performance may be higher than, lower than or identical to these measures. Strategic managers usually react to exceptional differences between actual and planned performance (this is known as 'control by exception'), whereas subordinates deal with less significant deviations.

### Step 5: Take corrective action

This step is aimed at achieving or bettering the overall performance standard and ensuring that differences do not recur in future. This step involves identifying the symptoms of poor performance, identifying the root causes for poor performance and determining and executing the necessary improvements. Lastly, a continuous improvement project should be launched to ensure that incremental improvements become a permanent part of the process.

### Step 6: Recognise and reward organisational performance

The purpose of strategic control is not only to identify and rectify poor performance, but also to recognise and reward good and exceptional organisational performance.

## THE ORGANISATIONAL MATURITY MODEL (PG 291 TB)

The context of maturity in this context, would be the measuring of the organisation's ability to model performance and life cycle cost given a set of predetermined criteria representing industry standards of excellence. A maturity model should then provide a measure or classification of progressive levels of sophistication at which organisations function.

Maturity models are associated with the **capability maturity model (CMM)**-based appraisal methods that allow organisations to evaluate their existing practices against the guidance provided in a CMM. The original CMM was developed by the Software Engineering Institute (SEI) to ensure consistent delivery of programmed lines of code. Later models attempted to improve on this and the CMMi was born. The organisational maturity measure provides a practical assessment of the organisational climate with regard to strategic control.

An organisational maturity model provides the organisation with a tool against which these measures of effectiveness and efficiency can be measured. It allows the organisation to do the following:

1. **Institute an integrated quality management system.**
2. **Assess current performance.**
3. **Set baseline measures for future reference**
4. **Plan for organisational development.**
5. **Quantify levels of performance.**
6. **Classify level of performance.**
7. **Evaluate deviation from the plan.**
8. **Benchmark current performance**
9. **Set intermediate and future targets to achieve.**
10. **Plan for organisational improvement.**
11. **Measure investment impact.**
12. **Contract leadership and management performance.**
13. **Recognise and reward organisational performance.**



1. **Institute an integrated quality management system** - This system allows management to integrate key business performance measures that are interrelated and provides the ability to manage these performance measures within a structured and well-defined business-oriented quality management system.
2. **Assess current performance** - The process of defining the organisation's vision and mission may be preceded or succeeded by the assessment of key business practices. The outcome of a preceding assessment can be used as a reality check as well as a guideline in scoping future plans. As a succeeding activity, it serves to assess organisational health and to scope resource investments required to make the organisation 'future ready'.
3. **Set baseline measures for future reference** - Baselining is the practice of defining the point of departure against which progress should be measured.
4. **Plan for organisational development** - Assessment of current business practices should expose shortcomings and weaknesses within the business environment.
5. **Quantify levels of performance** - The organisational maturity model, through assessment of key business practices, provides a means of quantifying performance measures.
6. **Classify level of performance** - The progressive nature of the organisational maturity model classifies classes of performance, ranging from ad hoc to superior, against which current organisational performance can be classified.
7. **Evaluate deviation from the plan** - Assuming organisational plans have been baselined (agreed and contracted), assessment allows verification of the current status against the baselined status so that management can evaluate any deviations.
8. **Benchmark current performance** - Quantified assessments allow the current status of the organisation's measured performance to be gauged against accepted industry norms and standards. The greatest benefit is achieved in the observation of best-in-class processes rather than just the comparison of business metrics.
9. **Set intermediate and future targets to achieve** - Assessment of business practices should be succeeded by root cause analysis to expose required breakthrough and continuous improvements which will aid the setting of intermediate and future business performance targets.
10. **Plan for organisational improvement** - The required breakthrough and continuous improvements should be planned for by developing business improvement projects that will require funding, resource allocation and management approval.
11. **Measure investment impact** - Liquid and intellectual asset investment required to improve the organisation's maturity or performance can be measured through conducting and comparing annual maturity assessments.
12. **Contract leadership and management performance** – Continuous organisational assessment allows for quantifiable leadership and performance management which at the best of times remains an emotive issue in most organisations.
13. **Recognise and reward organisational performance** - Annual assessment, if quantified, serves to facilitate and motivate team-based reward and recognition.

The objective of striving toward maturity is to improve the organisation's ability to achieve strategic objectives through effective management and leadership principles, and effective processes and systems, with a stable and competent workforce.

#### **THE FIVE KEY BUSINESS AREAS TO ADDRESS (TB 293)**

Organisational maturity can further be defined as a process or evolutionary improvement path from ad hoc, inconsistently performed practices, to a mature, disciplined development of the knowledge, skills and motivation of the workforce. In order to achieve performance excellence, an organisation needs to address five key business areas:

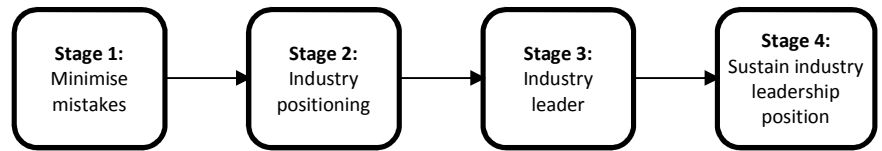
1. **Organisational strategy, structure and support** - Refers to the formulation, deployment and review of an organisation's overall strategy and plans, and the organisational structure needed to support its strategies and plans.
2. **Workflow processes** - All organisational processes need to be identified, measured, reviewed and improved.
3. **Management skills and competence** - They refer to the behaviour and actions of the managerial team and leaders, and their inspiration, support and promotion of a culture of performance and success
4. **Functional skills and competence** - The organisational maturity model does not only highlight the important role played by top managers, it also stresses the importance of the skills and competency of functional management.
5. **Resource and information management systems** - The last business practice focuses on the effective and efficient utilisation of organisational resources and information.

These business practices must be addressed simultaneously in order to achieve performance excellence. These practices are interrelated and all impact directly on other practices and therefore contribute to their respective efficiency improvement or deterioration.



## THE FOUR STAGES OF MATURITY (TB 294)

The OMM identifies four stages of organisational Maturity, these are:



### Stage 1: Minimise Mistakes

This is the lowest stage of maturity and can be broken down by department, section or unit and begins with the realisation of non-performance which needs to lead to immediate action. It involves minimising costly mistakes to stimulate an environment where calculated risks are encouraged. An improvement project can be launched to address breakthrough upgrades in business practices, which may look as follows at this stage:

- **Organisational strategy, structure and support** - Business plans, programmes and projects are not aligned with strategy; organisational structure is not conducive to the free flow of information; although project management is well recognised, the organisation does not support or place priority on project activities.
- **Workflow processes** - Processes are ad hoc and not well documented; no differentiation is made with regard to complexity, risk or competence. Quality happens by accident.
- **Skills and competence** - Development plans for employees are not a priority; not much opportunity is created with regard to team competence or individual specialisation.
- **Resource and information management systems** - Systems are stand-alone with very limited interfacing; handovers are manual and lead times are consistently long.

### Stage 2: Industry Positioning

During the second phase, emphasis is placed on adding value to the internal environment and driving efficiencies. Management seeks to gain some advantage from their resource allocation in order to create a measure of competitive advantage. Business practices may have the following characteristics during this phase:

- **Organisational strategy, structure and support** - Projects and programmes are aligned with strategy; the organisational structure is conducive to the free flow of information; project management is not only well recognised, but the organisation actually places a premium on all project activities.
- **Workflow processes** - Processes are well documented and followed; quality happens consistently, but is internally focused (efficiencies); the organisation recognises the power of benchmarking.
- **Skills and competence** - Development plans for employees are in place and opportunity is created with regard to team competence and individual specialisation; competence is still internally focused, with skills development aimed at improving internal efficiencies.
- **Resource and information management systems** - A workflow management system is in place and interfaces with critical resource management systems; manual handovers are minimised and lead times are considerably improved; the workflow management system takes care of change management and configuration management.

### Stage 3: Industry Leader

Management expects the organisation to support and significantly strengthen its competitive position actively to become a competitive leader in its industry. All contributions are derived from and are dictated by the organisational strategy. Organisations often arrive at this stage as a consequence of their success in developing an effective business strategy based on formal planning processes, and their wish to support that strategy in all functional areas. The organisational culture has evolved to being recognised as 'being the best' in its industry, thereby finding an optimal mix in efficiency and effectiveness. Business practices have the following characteristics during this phase:

- **Organisational strategy, structure and support** - Long- and short-term strategies are optimised and critical performance indices are used to measure variances between actual and planned performance; all projects and programmes are initiated from strategy development; the organisational structure fully supports the free flow of information; early warning systems are in place for critical business areas; the organisation has successfully shifted to a manage-by-project or programme culture.
- **Workflow processes** - Processes are streamlined, bottlenecks have been removed and metrics are in place to measure process performance; risk and competence contribute greatly towards resource optimisation; quality is not negotiable and the focus is shifting towards adding value to the external environment; backward and forward vertical integration may be achieved with little effort; benchmarking of processes is undertaken and forms part of the organisation's learning initiatives.

- **Skills and competence** - Development plans for teams and employees are aligned and fully support achieving the organisation's strategy; management and functional maturity is evident in all areas of the business environment; competence focus is shifting to the external environment with development plans including external interfaces.
- **Resource and information management systems** - All systems are fully integrated and proactive systems learning takes place; no manual handovers exist with lead times on complex work exceeding customer expectations.

#### Stage 4: Sustain Industry Leadership Position

The final stage is the most progressive of the four stages. During this phase, the organisation is expected to provide significant support to the desired competitive advantage. The organisational culture has evolved to continuous improvement as well as the continuous seeking for new opportunities. Business practices have the following characteristics:

- **Organisational strategy, structure and support** - The organisation collaborates and relies on its relationship with the external environment; critical performance indices are used to measure variances; external projects and programmes are initiated from strategy development; external structures are fully supportive of the free flow of information, with early warning systems in place for critical business areas; the organisation has successfully shifted to a manage-by-project culture.
- **Workflow processes** - Stonewalls and bottlenecks have been removed from external processes; metrics are in place to measure overall process performance; external and internal quality in terms of workflow processes is not negotiable, and external entities are encouraged to participate in benchmarking initiatives.
- **Skills and competence** - Development plans for external and internal teams and employees are aligned and fully support the overall strategy; a premium is placed on management and functional maturity in all areas of the external and internal management environment; training plans fully support the development of the subject matter science, before addressing the art of execution; industry certification completes the quality perspective and is seen as a competitive advantage with commercial value for the person as well as the organisation.
- **Resource and information management systems** - All external information systems are fully interfaced with internal systems and proactive system learning takes place; no external manual handovers exist with lead times on all complex work exceeding customer expectations; communication and risk management extends to social media.

The characteristics of the business practices in each of the above four phases of the OMM will provide an indication of the maturity of the organisation. Ideally, an organisation will aim to have the characteristics associated with stage 4 of the model, in order to sustain its industry leadership position over the long term.

#### ORGANISATIONAL MATURITY IN PRACTICE (TB 297)

Driven from the top of the organisation with strong sponsorship, the 'stages of learning' of an individual as well as an organisation's progressive journey toward becoming skilled in a particular discipline are as follows:

- **Stage 1: Blissful** - The organisation (or individual) is ignorant about shortcomings or needs.
- **Stage 2: Frustrated** - The journey starts when an awareness of shortcomings or needs manifests. Here the organisation finds itself consciously unskilled.
- **Stage 3: Awkward** - At the onset of acquiring the skills, the organisation will experience awkwardness.
- **Stage 4: Natural** - Awkwardness in any application only makes way for confidence through continued application or practice. At the natural stage, the organisation finds itself consciously skilled.
- **Stage 5: Confident** - Achieving confidence in applying a skillset is only acquired through the integration of all facets of a specific discipline. At the confident stage, the organisation finds itself unconsciously skilled. Leadership in mature organisations will be characterised by being confident, self-assured, decisive, bold and assertive.
- **Stage 6: Right** - Progress to 'right' can only be achieved if the work undertaken is in alignment with personal values and beliefs. The sense of elevated achievement is reinforced by the belief that individuals in the organisation find themselves in their right work. Individuals align to leaders whose personal values are congruent with that of the organisation.

Considering the organisational maturity journey together with the stages of learning, it is evident that strong and mature leadership is required to facilitate the journey. It is said that it takes a big man to do introspection and admit to his shortcomings, and organisations are no different. To further emphasise strong leadership, the organisational maturity model should not be seen as a quick fix. Depending on the size of the organisation, it could take as long as seven years to achieve the highest level of maturity. Innovation and rapid skills development therefore are of the essence.

## ENVIRONMENTAL SCANNING AS A STRATEGIC CONTROL MEASURE (TB 299)

For a strategic control system to be effective, it should also have a broader forward-looking element, and environmental scanning is a mechanism to achieve this. Environmental scanning refers to the activities of the organisation and individual employees to monitor the external and internal environment constantly to identify issues that may impact on the organisation's ability to achieve its strategic objectives. Environmental scanning can be formal or informal;

- **Formal environmental scanning** activities may take the form of organisational departments or individuals responsible for collecting and processing environmental data.
- **Informal environmental scanning** activities are varied and may take place when employees of an organisation interact with media, employees or managers from another organisation, or attend industry association meetings or conferences.

The events identified by the organisation can range from macro-environmental factors such as government legislation and natural disasters, to competitive action and even internal aspects. The purpose of environmental scanning is to:

1. **Constantly evaluate the assumptions on which the strategic plan rests**, to determine if they are still valid or should be re-assessed
2. **Pre-empt disastrous events** or at least react as speedily and appropriately as possible after the event occurred
3. **Track if there are any events or trends** that may threaten the successful execution of a strategic plan
4. **Identify opportunities** that may emerge from the environment.

## CHARACTERISTICS OF AN EFFECTIVE STRATEGIC CONTROL SYSTEM (TB 299)

For a strategic control system to be effective, it should have the following characteristics:

1. **Integrated with strategic planning.** A strategic control system is effective only when it is integrated with strategic planning. Control complements planning because, when deviations are encountered, it shows that plans and even goals need to be revised. Control therefore renders the necessary inputs in the planning process. The narrower the interface between strategic planning and control, the better the strategic control system.
2. **Flexibility.** An effective strategic control system should be able to accommodate change. The management environment is changing constantly, which necessitates timely adjustments in goals and performance targets.
3. **Accuracy.** A strategic control system should be designed in such a way that it provides a goal-oriented and accurate picture of the situation. Errors and deviations should not be concealed in the control process.
4. **Timeliness.** Timely control data are supplied regularly and as needed.
5. **Objectivity.** The strategic control system should provide control data that are as objective as possible.
6. **Simplicity.** Lastly, the strategic control system should not be too complex, because complex systems can have a negative influence on the sound judgement of competent managers.

## 7.4 ORGANISATIONAL PERFORMANCE MEASURES

There are four elements to measuring organisational performance measures:

1. **A goal or objective** - specifies where the organisation wants to be at some point in the future.
2. **A measure** - is a quantifiable measurement of how the achievement of a goal will be measured.
3. **The baseline measure** - is an indication of where we are now – our starting point in terms of the metric.
4. **The target** - specifies what you want to achieve in terms of the metric.

### **AREAS OF STRATEGIC CONTROL (PG 274 TB)**

Strategic control entails a close study and measurement of various performance areas of an organisation. The power and value of performance measurement can never be overstated. The organisation's performance measurement should revolve around the measurement of organisational effectiveness and efficiency.

The various measures of performance should be designed to leverage the following roles of measurement:

1. Measurement **creates understanding**.
2. Measurement **drives behaviour**.
3. Measurement **leads to results**.

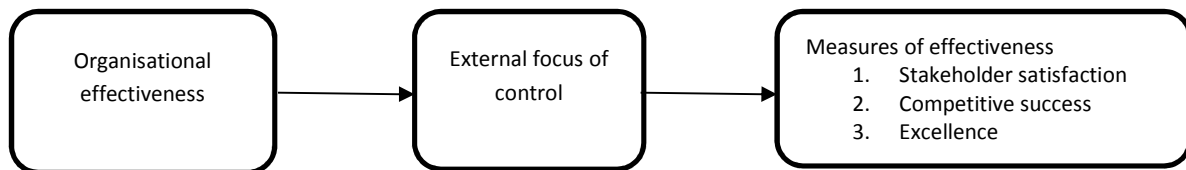
### **Measuring Organisational Effectiveness**

Organisational effectiveness is 'doing the right things'. This implies that the organisation has a strategic perspective which is:

- a. Right for the **present**
- b. Developed in line with **future needs and trends**
- c. Linked to a **clear vision, mission and overall purpose** which are communicated to and understood at all levels.

In other words, strategic effectiveness means that the organisation's strategic choices are aligned with the internal and external environment. Measures of organisational effectiveness can be grouped into three categories, namely:

1. **Stakeholder needs and satisfaction**
2. **Competitive success**
3. **excellence.**



### **1. Measures of Stakeholder Needs and Stakeholder Satisfaction**

Stakeholders are those individuals and groups, both internal and external, who have a stake in and influence over the organisation. The organisation should have the ability to identify stakeholder needs correctly and satisfy these needs as far as possible and sustain it over time and in changing circumstances.

Possible measures of an organisation's ability to identify the needs of stakeholders are:

1. The number of **need-satisfying products** and/or services offered
2. The number of **new products and/or services** developed
3. The number of **new markets entered** by the organisation.
4. Stakeholder satisfaction can be **measured** by the organisation's
5. **Service levels and agreements** with stakeholders
6. **Image, trustworthiness, loyalty and reputation** with all stakeholders
7. **Ability to forecast and react** to a changing environment and changing opportunities.

### **2. Measures of Excellence**

Measures of organisational excellence are

- The **morale and motivation** of the workforce
- The **commitment of the workforce** towards the attainment of the organisational vision, mission and goals
- Evidence of **leadership qualities**
- The ability of the organisation to **recognise the need for change** and to implement change processes successfully
- The organisation's ability to **establish a service-oriented culture**.

### 3. Measures of Competitive Success

Strategists need to measure the organisation's ability to add more value for its customers than its rivals, and thus attain a position of relative advantage. Measures of competitive success are an organisation's

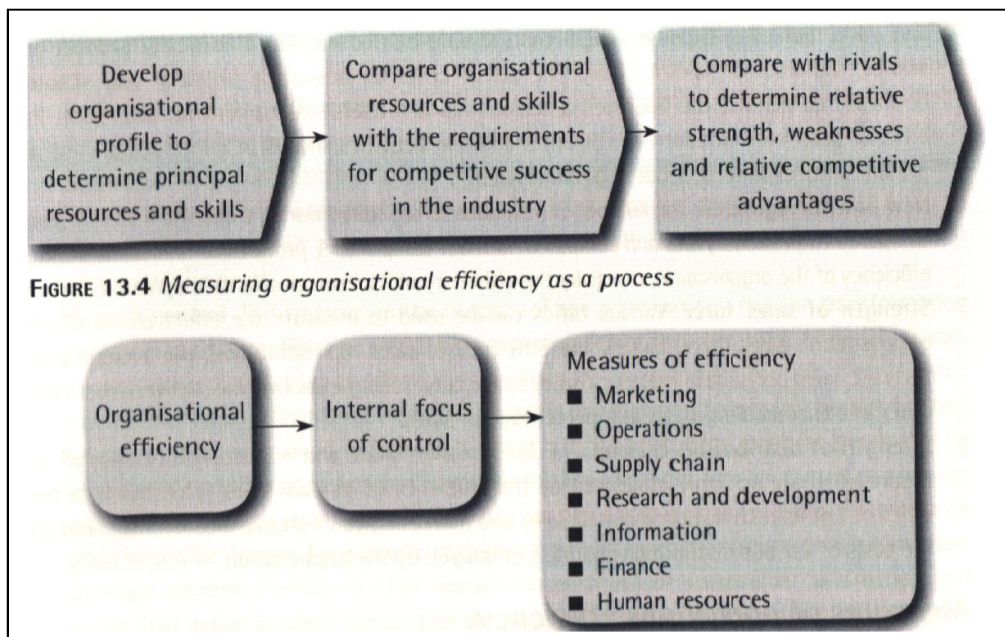
- **Market share**
- **Ability to exploit new suppliers** in order to add value and improve competitive position
- **Ability to provide total quality**
- **Innovation/intrapreneurship** efforts
- **Ability to utilise capital** for competitive advantage
- **Ability to use capital to fund** most profitable investment opportunities
- **Ability to harness information technology.**
- **Ability to generate profits**

Ultimately, the best measure of competitive success is the ability to generate profits that are consistently and sustainably higher than the industry or sector average.

### MEASURING ORGANISATIONAL EFFICIENCY (PG 276 TB)

Efficiency is 'doing things right' and refers to the sound and optimal management of organisational resources to maximise the returns from it. Measuring overall organisational efficiency is rather complex and takes place mainly at the functional level. The figure summarises the measures of organisational efficiency. These seven measures are discussed below:

1. **Marketing efficiency**
2. **Operations efficiency**
3. **Supply chain efficiency**
4. **Research and development efficiency**
5. **Information management efficiency**
6. **Financial efficiency**
7. **Human resources efficiency**





## 1. MEASURES OF MARKETING EFFICIENCY

The marketing function involves the **conception, pricing, promotion and distribution of ideas, products and services**. The efficiency of these activities can be measured by the following:

1. **Sales analysis**
2. **Market share**
3. **Customer retention**
4. **Customer value analysis**
5. **Marketing costs analysis**
6. **New patents registered**
7. **Strength of sales force**
8. **Strength of distribution channel**

1. **Sales analysis** - Entails a study of the composition of sales as they appear in the organisation's income statement. This determines whether actual sales correspond with planned sales. Different bases can be used for sales analysis, such as sales per geographic area, product range, customers and distribution channel.
2. **Market share** - An organisation's relative market share has a decisive influence on its overall efficiency. The higher an organisation's relative market share, the higher its rate of return.
3. **Customer retention** - The number of customers doing business with an organisation at the end of its financial year, shown as a percentage of those customers who were active customers at the beginning of the same year. Customer retention plays a huge role in the efficiency of the organisation. Small increases can change profitability.
4. **Customer value analysis**. The value that the organisation provides to its customers should also be analysed. Maintaining customer value has a significant long-term impact on an organisation's service orientation and efficiency.
5. **Marketing costs analysis** - This entails a comprehensive examination of the organisation's total marketing cost structure, as it appears in the organisation's income statement for a particular financial period. Used to determine if current marketing activities should be continued, expanded, reduced or eliminated.
6. **New patents registered** - The number of new patents registered during a financial year, compared to previous years and to main competitors, provides an indication of the efficiency of its research and development efforts.
7. **Strength of sales force** - Various ratios can be used to measure the effectiveness of an organisation's sales force, namely the efficiency of sales representatives, the average cost per visit, sales per square metres of sales space, advertising effectiveness, delivery costs per order and the handling costs as a percentage of sales.
8. **Strength of distribution channel** - The sales, market share and marketing efficiency of an organisation are influenced by the efficiency of its distribution channel.

## 2. MEASURES OF OPERATIONS EFFICIENCY

Measures of operations efficiency are concerned with the **transforming of resources into products and services**. Operations efficiency is determined at different stages in the transformation process, namely when inputs are made, when transformation takes place, and when outputs are produced. Different types of control are needed at different stages of the process:

1. **Preliminary control**
2. **Concurrent control**
3. **Rework control**
4. **Damage control**
5. **Feedback control**
6. **Capacity control**
7. **Quality control**

1. **Preliminary control** - Concentrates on resources or inputs that the organisation gets from the external environment. It is designed to anticipate and prevent possible problems, i.e. planning and organising.
2. **Concurrent control**. Involves taking action as inputs are transformed into outputs to ensure that standards are met. The aim is to meet standards for product or service quality and quantity. It relies heavily on feedback.
3. **Rework control**. This focuses on the outputs of the organisation after the transformation process is complete. Final products are inspected before they are sold. Although rework control alone may not be as effective as preliminary or concurrent control, it can provide management with information for future planning.
4. **Damage control**. Damage control focuses on customer or stakeholder satisfaction and means that action is taken to minimise the negative impact of faulty outputs on customers or stakeholders, such as a warranty.



5. **Feedback control.** Feedback from customers and stakeholders is used to ensure continuous improvement in products.
6. **Capacity control.** Capacity decisions are strategic and critical to the success as they impact on the organisation's ability to meet demands for products and services. Capacity should be measured in terms of output and there are two types:
  - a. **Design capacity** is the maximum output rate that an operation, process or facility is designed for, under ideal circumstances and conditions.
  - b. **Effective capacity** is the achievable rate of output that is usually less than design capacity due to allowances that should be made for personal time, set-up time and maintenance. The efficiency of capacity is calculated by dividing the actual output of the operations function during a specific period of time by the effective capacity (expressed as a percentage). Efficient capacity is influenced by numerous variables including facilities factors (design, ergonomics, location); process factors; human factors; external; supply chain factors; operational factors; and product and service design.
7. **Quality control.** Product and service quality management and control should lead to improved performance and competitiveness of an organisation. Quality of design refers to the stringent conditions that the product must possess to satisfy customer needs. Quality of performance basically revolves around the product's performance when it is used and it measures customer satisfaction.

### 3. MEASURES OF SUPPLY CHAIN EFFICIENCY

Measures of supply chain efficiency should be developed and implemented so it creates understanding of supply chain processes and guides an organisation's progress towards real performance and collaboration. The following can be regarded as the most important measures of supply chain efficiency:

1. **Customer satisfaction** - To meet customers' real needs, strategic managers should understand what those needs and how efficiently the organisation is performing.
2. **Process costing** - Making good process decisions requires that costs be measured and compared across activities, departments or even organisations. Two costing methods are particularly important:
  - a. Total costs are the sum of all relevant costs for a given decision.
  - b. Activity-based costing (ABC) links costs directly to the activities that drive them, helping managers to understand the nature of important processes.
3. **Supply chain measures.** The following supply chain metrics are useful in determining and evaluating supply chain efficiency:
  - a. **Supply chain days of supply:** the total number of days of inventory required to support the supply chain
  - b. **Cash-to-cash cycle time:** time required to convert a rand spent – from raw materials to finished product
  - c. **Inventory idle time:** the ratio of days that inventory is idle to days that inventory is being productively used
  - d. **Customer inquiry response time:** the average time between receipt of a customer call and connection with the appropriate representative from the organisation
  - e. **Customer inquiry resolution time:** the average time required to resolve a customer enquiry
  - f. **Order fulfilment cycle time:** average lead times consistently achieved, from customer order to delivery
  - g. **On-shelf-in-stock percentage:** the percentage of time that products are available on the shelf or where the customer expects to find them
  - h. **Perfect order fulfilment:** the percentage of orders that are delivered complete, on time, in perfect condition and with accurate and perfect documentation
  - i. **Source/make cycle time:** the cumulative time to build a shippable product from scratch
  - j. **Supply chain response time:** the theoretical number of days required to recognise a major shift in market demand and make the necessary changes
  - k. **Total supply chain cost:** the sum of all the costs incurred in planning, designing, sourcing, making and delivering a product broken down for each member of the supply chain
  - l. **Value-added productivity:** total revenues generated less the value of externally sourced materials, expressed as a ratio of total organisational headcount
4. **Scorecards.** Scorecards create balance by featuring a set of qualitative measures in the formal measurement system. Over time, they have become a strategic management tool as objectives, measures, targets and action plans have been incorporated into the development process.
5. **Benchmarking.** Benchmarking can be implemented successfully by supply chain managers actively seeking to identify progressive supply chain processes and then learning as much as they can about them.

#### 4. MEASURES OF RESEARCH AND DEVELOPMENT EFFICIENCY

The measurement of research and development efficiency mainly revolves around the monitoring of newly developed products and/or services and the improvement of old products. The following measurements can be used:

1. **The number of newly registered patents.** New patents are particularly important in fast- changing industries, such as information technology, communications and pharmaceutical industries.
2. **Quality of researchers.** The quality of researchers will have an influence on the success of newly developed products and services, and may lead to more patents being registered.
3. **Reputation of the organisation as a leader in its industry and its national and international standing.** An organisation's reputation as a leader in its industry is clearly an indication of its research and development efficiency.
4. **Relative amount spent on research and development activities.** The amount that the organisation spends on research and development activities in relation to the industry norm can also be used as a measurement of efficiency.

#### 5. MEASURES OF INFORMATION MANAGEMENT EFFICIENCY

Measurement of the efficiency of information systems is imperative for any kind of organisation. The following measures can be implemented:

1. **Organisational knowledge and the extent of information sharing** - the awareness and understanding of a set of data and the ways in which this information can be made useful in an organisational function, activity or decision. It is only useful when it is shared between departments and individuals.
2. **Usefulness of information and information systems** - Information and information systems are useful when they are
  - Accessible
  - Accurate
  - Complete
  - Economical
  - Flexible
  - Relevant
  - Reliable
  - Secure
  - Simple
  - Timely
  - Verifiable.
3. **Disaster recovery planning** - To prepare for mishaps, either malicious or natural, organisations need to ensure that they have well-planned programmes in place, called business or disaster recovery plans.
4. **Decision-making and problem-solving capabilities and procedures** - Various types of information systems can be developed and implemented in order to support all kinds of managers in solving problems and making effective and efficient decisions.
5. **Information system security** - The development, implementation and maintenance of information systems constitute a large and growing part of the cost of doing business. In measuring the effectiveness of information system security, strategists should ensure that information security systems
  - Reduce the risk of systems and organisations ceasing operations
  - Maintain information confidentiality
  - Ensure integrity and reliability of data resources
  - Ensure the uninterrupted availability of data, resources and operations
  - Ensure compliance with policies and laws regarding security and privacy.
6. **Ethics** - Strategists need to ensure that a code of ethics is in place, which states the principles and core values that are essential to the management of information and information systems in their organisation.

#### 6. MEASURES OF FINANCIAL EFFICIENCY

Measuring financial efficiency is probably the most widely used measurement of organisational success:

1. **Weighted average cost of capital.**
2. **Share price against stock market indices.**
3. **Financial ratio analysis.**
4. **Capital structure.**
5. **Cash flow**

1. **Weighted average cost of capital.** Should an organisation identify its optimal capital structure, it can calculate its weighted average cost of capital. The target proportions of debt, preferred stock and common equity, along with its component costs of capital, are used to calculate weighted average cost of capital. The current weighted average cost of capital is the weighted average cost the organisation would face for a new, or marginal, rand of capital - it is not the average cost of rands raised in the past.

2. **Financial ratio analysis.** The commonly used measure of financial efficiency is ratio analysis. The real value of financial statements is that they can be used to measure financial efficiency and can help predict future earnings, dividends and cash flow. Financial ratios can be grouped into six categories:
- a. **Liquidity ratios.** These deal with the question: will the organisation be able to pay off its debts as they come due over the next period of time? Various measures of liquidity can be used, for example the current ratio (which measures the organisation's ability to meet short-term obligations), and the acid test ratio (also called the quick ratio) which measures the organisation's ability to pay off short-term obligations without relying on the sale of inventories.
  - b. **Asset management ratios.** This group of ratios measures how effectively the organisation is managing its assets. Four measures can be used for this purpose:
    - i. the **inventory turnover ratio** measures the number of times that an organisation's inventory is sold out and restocked per year
    - ii. the **average collection period is used to appraise accounts receivable**, and measures the number of days' sales that are tied up in receivables
    - iii. the **fixed assets turnover ratio** measures how efficiently the organisation uses its plant and equipment (the ratio of sales to net fixed assets)
    - iv. the **total assets turnover ratio** measures the turnover of all the organisation's assets - the ratio of sales to total assets
  - c. **Debt management ratios.** This group of ratios measures the extent to which the organisation uses debt financing. Two measures are commonly used for this purpose:
    - i. **The total liabilities to total assets ratio**, which is called the debt ratio and measures the percentage of funds provided by sources other than equity
    - ii. **The times-interest- earned ratio (TIE)**, which measures the extent to which the operating income of the organisation can decline before it is unable to meet its annual interest costs.
  - d. **Profitability ratios.** An organisation's profitability is the net result of a number of decisions, actions, policies and procedures. The financial ratios that we have examined thus far (liquidity, asset management and debt management ratios) provide useful clues as to the efficiency of an organisation's operations. Four measures can be used to assess an organisation's profitability:
    - i. **Organisation's profit margin on sales** gives the profit per rand of sales
    - ii. **Basic earning power (BEP)** shows the raw earning power of the organisation's assets, before the influence of taxes and leverage
    - iii. **Return on total assets** measures the return on total assets (ROA) (see below) after interest and taxes
    - iv. **'Bottom line' accounting ratio**, is the return on common equity (ROE), which is the ratio of net income to common equity.
  - e. **Market value ratios.** Relates the organisation's stock price to its earning, cash flow and book value per share. These ratios give management an indication of what investors think of the company's past performance and future prospects. Three measures can be used:
    - i. **The price/earnings ratio (P/E ratio)** shows how much investors are willing to pay per rand of reported profits
    - ii. **The price/cash flow ratio** shows how much investors are willing to pay per rand cash flow
    - iii. **Market/book ratio** gives an indication of a stock's market price to its book value, and also shows how investors regard the organisation.
  - f. **Rate of return on assets (ROA) ratio** (also called the Du Pont equation) ties all the above mentioned ratios together. It measures the percentage earned on total assets employed in the organisation.

In the strategic control process, ratio analysis should be used for comparisons:

- a. To compare an **organisation's current ratios with its historic ratios** in order to identify trends and make forecasts
- b. To compare an **organisation's ratios with those of other organisations** in the same industry, i.e. With industry average figures
- c. To compare an **organisation's ratios with those of a smaller set of leading organisations** in the industry, called benchmarking.

3. **Share price against stock market indices.** Some organisations are so small that their common stocks are not actively traded, such organisations are said to be privately owned. The stocks of larger organisations are owned by a considerable number of investors, such companies are publicly owned, and their stock is publicly held. It is therefore useful to compare an organisation's share price against stock market indices to determine the finance efficiency of the organisation.
4. **Capital structure.** One of the primary functions of financial management is to manage operating cash flows as efficiently as possible. A key element of this management process is the capital structure decision, i.e. deciding what mix of debt and equity securities the organisation should issue to finance its operations. In addition, finance staff are also expected to ensure that the organisation has adequate working capital available to operate smoothly on a day-to-day basis.
5. **Cash flow.** Most business is conducted by large organisations, they collect cash from many sources and make payments from a number of different sources or bank accounts. A system must be in place to transfer funds from where they come in to where they are needed. Strategists need to ensure that cash is provided when needed and enable the organisation to reduce the cash balances needed to support operations.

## 7. MEASURES OF HUMAN RESOURCES EFFICIENCY

Measuring human resources efficiency is probably one of the most challenging tasks of any manager. Various measures can be employed in the strategic control process:

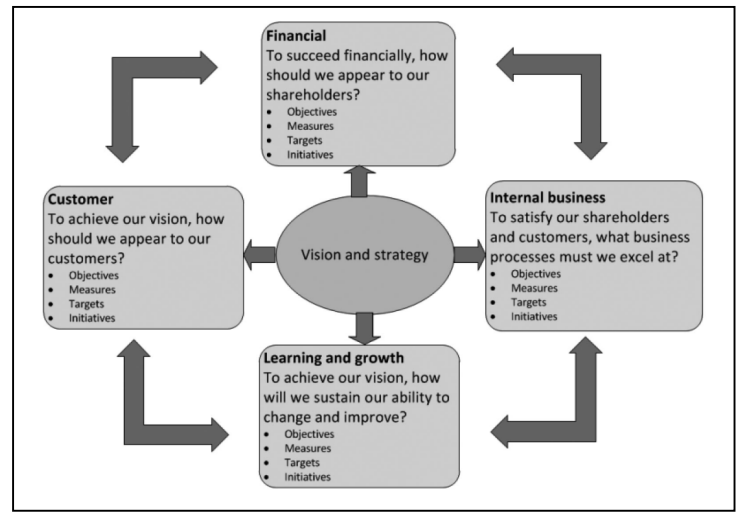
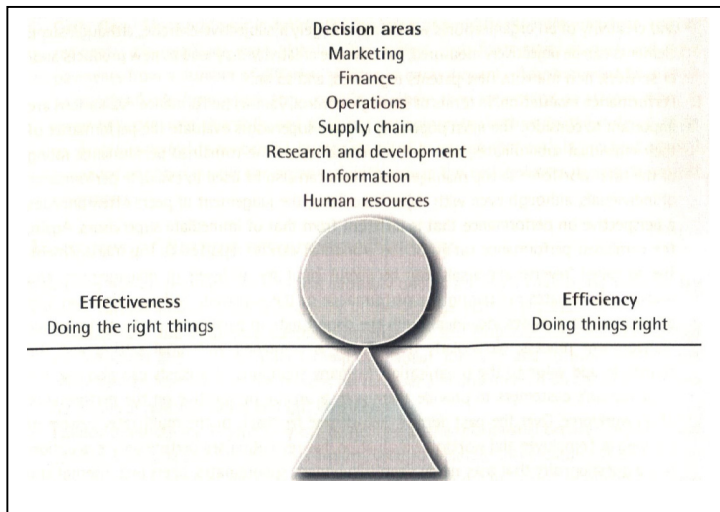
1. **Absenteeism and employee turnover** - Absenteeism and employee turnover rates should be calculated and used in order to improve labour planning and avoid redundancies. The reasons for turnover and absenteeism should be determined by means of questionnaires and exit interviews.
2. **Labour productivity** - Productivity can be defined as the relationship between products and services and the resources used to generate those outputs. Labour productivity measures the relationship between outputs and the labour resources used to generate the output. Labour productivity can be increased in five basic ways:
  - a. A greater output is made with **fewer inputs**.
  - b. A greater output is made with the **same inputs**.
  - c. The same output is made with **fewer inputs**.
  - d. A smaller output is made with even **fewer inputs**.
  - e. A greater output is made with **more inputs**, but the increase in output is greater than the increase in inputs.
  - f. An **improvement in quality**
3. **Achievement of agreed targets** - The Achievement of targets for the human resources function should be measured and analysed. Reasons for failure should be determined and incorporate into the next planning cycle.
4. **Training expenditure per employee** - Organisations regard training expenditure as an investment on which they expect a return. The training expenditure per employee is one measure of the effectiveness of human resources only if it is used in conjunction with the labour productivity measurements.
5. **Competencies, capacities and creativity** - The measurement of the competency, capacity and creativity of an organisation's workforce is largely a subjective exercise.
6. **Performance evaluation** - Various performance evaluations are important to consider. The most popular is to have supervisors evaluate the performance of their individual subordinates, and determine and report the combined performance rating of the total workforce to top management. The so-called 'reverse appraisals', self-appraisal and 360-degree feedback, or the multi-rater system of carrying out employee and workforce evaluation, The combination of these multiple perspectives offers a more balanced point of view on individual performances as well as the combined performance of the organisation's workforce.

It will be difficult for any organisation to focus on all of the efficiency measures described above. Each organisation will have to decide which measures it considers most important. These will be determined to a large degree by the type of organisation, its strategic direction, its key performance indicators (e.g. strategic goals) and the preferences of key stakeholders.

## BALANCING ORGANISATIONAL EFFECTIVENESS AND EFFICIENCY

Strategic managers are responsible for balancing effectiveness and efficiency. On the one hand, managers must be effective by getting the job done. On the other hand, managers need to be efficient by reducing costs and not wasting resources. Too much emphasis on effectiveness will mean that the job gets done, but limited resources are wasted. Too much emphasis on efficiency will mean that the job does not get done because available resources are underutilised. The answer lies in the middle: the job needs to get done and limited resources must not be wasted.

The figure illustrates the balancing act between organisational effectiveness and efficiency. In all decision areas (marketing, finance, human resources, research and development, operations, supply chain and information), doing the right things and doing things right should always be in equilibrium.



## 7.5 MANAGING ORGANISATIONAL PERFORMANCE USING THE BALANCED SCORECARD

The balanced scorecard (BSC) is a widely accepted tool for managing organizational performance. The BSC focuses on four dimensions, and its purpose is to define the small number of strategic goals and key measures that measures performance across the organisation. For each goal, the organisation has to identify how it will be measured, what target it wants to achieve in the given time frame, and the strategic initiatives that it will implement to achieve these targets.

The BSC also offers the opportunity of developing strategy maps. Strategy maps show how the objectives of the organisation are connected and how value is created for the organisation. This helps the organisation to understand how improving performance in one area will lead to improved performance in another area.

As a control mechanism, the BSC measures an organisation's attainment of its mission. The intent is to link and balance the goals and related measures for each perspective to one another. The four dimensions include the following:

1. **Financial dimension** - Answers the question: to succeed financially, how should we appear to our shareholders? Measures of the financial dimension include profitability, growth in profits and the market value of the organisation.
2. **Customer dimension** - Answers the question: to achieve our vision, how should we appear to our customers? Measures of the customer dimension include perceptions of service quality, trustworthiness and loyalty.
3. **Internal business processes dimension** - Answers the question: to satisfy our shareholders and customers, what business processes must we excel in? Measures of this dimension include productivity, employee motivation, organisational competencies, employee competencies, employee rate of defects and/or errors, and safety records.
4. **Learning and growth dimension** - Answers the question: to achieve our vision, how will we sustain our ability to change and improve? Measures of this dimension include knowledge management, creativity, development of new products and services, employee training and development.

All four dimensions of the BSC are equally important. The model contends that long-term organisational excellence and quality can be achieved only by taking a broad approach, and not by solely focusing on financial performance. The model is future oriented and not primarily a review mirror of performance.

Implementation of the BSC benefits an organisation in the following ways:

1. It helps **align key performance goals** and measures with strategy at all levels of an organisation.
2. The model provides management with a **comprehensive picture of business operations**.
3. It **facilitates communication and understanding** of business goals and strategies at all levels of an organisation.
4. The model **provides strategic feedback** and learning to management.



## 7.6 STRATEGIC RISK MANAGEMENT AND CORPORATE GOVERNANCE

The purpose of corporate governance guidelines is to enable organisations to manage themselves more sustainably and accountably. Organisations are expected to take some risks by exploiting market opportunities in pursuit of investor returns at the same time, avoid undue risk that could be detrimental to their stakeholders.

Governance mechanisms therefore include monitoring the actions, policies and decisions of corporations and their agents. While the responsible management of risk is one of the key cornerstones of good corporate governance, it is clear that this is an aspect that boards and organisations are struggling with. In a study PWC, found the following:

- The boards of big **organisations do not fully understand the risks** that they are running or how knock-on impacts can spread across risk categories. This in turn makes it harder to manage organisations within their risk appetite.
- **Checks and balances at the board level are critical.** Too many boards do not have enough members with industry expertise to ask tough questions about executives' decisions.

A study conducted for the Organization for Economic Cooperation and Development (OECD) found that corporate failures following the financial downturn of 2008 were largely brought about by failures in corporate governance and strategic risk management. They found the following factors contributed to governance and risk failures:

- **Corporate governance is (almost) voluntary.** Corporate governance could have prevented some of the worst aspects of the crisis, and could have contributed significantly to reducing the catastrophic impacts of the economic downturn.
- **Unconsidered risk-taking.** Investor (shareholder) pressures lead many businesses to undertake risks that simply are not in the best long-term interests of the organisation.
- **Non-executive oversight is limited,** as directors have only a limited amount of time to devote to an organisation, but almost unlimited responsibilities. This problem is exacerbated when, as in South Africa, for example, non-executive members may be non-executive members on several boards.
- **Too much reliance on external audits.** External audit is stretched to a point where the degree of reliance that is placed upon it is out of proportion to the amount of work that actually goes into the external audit process.
- **Internal audit is often regarded as a nuisance,** and does not receive the regard that it should.
- **Boards are forced to rely on management,** including the risk management team, to deal with strategic risk.

The strategic risk management process is discussed see below. However, in terms of how organisations should deal with these strategic risks and corporate governance challenges, an organisation must ask itself the following questions:

1. **How well is my strategy actually defined?** A good understanding of the key risks to strategic goals and the share price requires a good understanding of the strategy itself. A robust articulation of the key elements of strategy allow your board to define and identify how the strategy will interact with the risks faced by the business.
2. **How broad are the risks that we are considering?** Strategy should be defined in the context of the risk environment in which the business operates. Bringing together the internal risk information from the business, with an understanding of exogenous risk exposures should be a key focus of the board.
3. **What risk scenarios have we considered to test our plans?** It is often difficult to identify all potential risk exposures and their causes. Those risks that are going to be of most interest to the board will often be defined by the potential impact of the consequences of the risk manifesting. Scenario analysis with board input can encourage management to consider a range of scenarios that could result in significant adverse consequences for the business and help to ensure that a wider breadth of risk impacts are considered than is currently the case.
4. **Have we mapped our risks to key performance and value measures?** Where possible, it is useful to consider risk in the context of how shareholders or stakeholders measure value in the organisation. This will help management articulate to stakeholders how the risks they are taking or the risks the business is exposed to may affect the organisation's ability to realise its objectives. Creating common metrics for risk and performance also allows management to define the priorities of risk management activities and focus on the risks that are more relevant to stakeholders and the board.

Encouraging management to understand risk impacts in the context of key performance metrics can be a complex task. However, if the key value drivers of the business are well understood by management, determining the potential impact of risk events on these value drivers should be achievable and should be considered part of a good risk management system.



## STRATEGIC RISK MANAGEMENT (TB 300)

Strategic risk management is becoming increasingly important, especially since corporate governance frameworks place a strong emphasis on the role of the directors in managing risk. Public companies are also required to report on their risk management processes. The strategic risk management process entails four steps:

- **Step 1: Risk identification.** Corporate risks are identified in terms of the potential losses or gains (opportunities or threats). Strategic risk differs from operational risk in the sense that the latter can cause temporary setbacks that can be insured against (e.g. fire damage), whereas the former can lead to the organisation failing to meet its strategic goals or even its total demise.
- **Step 2: Risk analysis.** Any organisation faces many different risks, and the role of risk analysis is to assist the organisation in prioritising them to ensure that efforts in dealing with risks are well spent. Techniques like scenario planning can assist in the risk analysis process.
- **Step 3: Risk evaluation.** During this phase, the risks are evaluated in terms of their likelihood of occurring and the impact they will have on the organisation.
- **Step 4: Risk responses.** During this phase, the organisation strives to identify appropriate responses to the key risks it faces. Strategic risks can generally not be addressed by operational or tactical responses. They require a strategic response.

As in the case of strategic control, the business architecture (e.g. leadership and culture, technology and skills) can play a role in determining how effective strategic risk management will be.

