Implementing Strategy

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PREFACE

This is a book about the implementation of strategy. Its purpose is to explain how critical planning, organizational design, and human resource decisions result in the successful attainment of long-term strategic aims and plans. With this end in mind, our writing was constantly affected by four guiding principles, beliefs, or criteria of effectiveness.

First, we attempted to be *eclectic* or *integrative* in our approach. Material on implementing strategy is not found in the theories and empirical research of a single field or discipline. Works in areas commonly differentiated and labeled as strategic management, organizational behavior, and organization theory clearly are pertinent and central to a sound discussion of implementation activities. Recognizing the contributions of these diverse areas, our attempt was to distill, derive, and integrate concepts and facts that are important to the successful implementation of strategy. Special emphasis was placed not only on the individual elements of our model but also on the links between them in an effort to bring together previously separate, even disparate, literature pertinent to the present task.

The second guiding principle was that we wished to develop a model of implementation that is not only integrative but also *clear, logical,* and *useful.* Our intention was not to obfuscate or create new jargon. Our wish was to present an approach whose underlying logic and utility would appeal to academics and practitioners alike. While the model clearly is rooted in and derived from the conceptual and empirical work of our academic colleagues, the goal was to explain strategy implementation in such a way that *actual* important design, planning, and human resource decisions could be made more effectively. A related purpose was to present an approach to *applied organizational change* that is suggested by the relations among the key elements of our implementation model.

Third, we were guided by a need to integrate the *short and long term* when discussing implementation activities. Recent criticisms of American management include the accusation of myopic, short-term thinking to the neglect of the long term. The organization and management literature shows a curious mix of attention to different time frames, with much of the work on strategy formulation focusing on the long run and work in organizational behavior

focusing primarily on micro issues in the nearer term. The present approach attempts to show how short-run activities are, in fact, central to the attainment of strategic aims. Our conceptual framework argues for the reduction or translation of long-term strategies into planning and design issues that are relevant and manageable in the short term. Short-run decisions do *not* necessarily represent a managerial myopia that militates against strategic plans and outcomes. As we try to show, purposive planning and design decisions, coupled with the appropriate use of incentives and controls, are crucial to melding the short and the long term in implementation activities.

Fourth, we were guided by a need to *clarify relationships between strategy and structure* across several strategic levels of organization. Much of the literature has tended to treat strategy-structure relationships as an "either-or" question: "Does strategy cause structure, or does structure cause strategy?" We believe that this issue is more complex than this simple question indicates; consequently, we felt a need to address these relationships directly and carefully in the development of the basic implementation model.

Evaluation of the extent to which our work conforms to or follows these guidelines is, of course, left up to the reader. We simply wish to inform him or her of the beliefs and biases that guided the painstaking development of our model of strategy implementation. Surely, holes still exist in our model; we hope, however, that the present work fills in more gaps than it leaves open.

In pursuit of our goals, we clearly were affected by the work of a number of individuals to whom we owe a major intellectual debt. The ideas and insights of such people as Alfred Chandler, Ernest Dale, Jay Galbraith, Paul Lawrence, Charles Lindbloom, James March, Raymond Miles, Henry Mintzberg, Charles Snow, George Steiner, and James Thompson pervade our work more than is indicated by the formal references. We also would like to thank the following people whose comments on earlier versions of this manuscript, or whose work in specific topic areas, proved extremely valuable: Jay Bourgeois, Don Hambrick, Roger Harrison, Charles Hofer, Peter Lorange, Don Michael, Bob Miles, Hasan Ozbekhan, Jeff Pfeffer, Bob Pitts, Brian Quinn, Max Richards, Richard Rumelt, Dan Schendel, and John Slocum. Of course, we alone are responsible for our interpretation of what (we think) they were saying or implying.

The bulk of the manuscript was typed by Susan McMullen, Carol Morrison, Margaret Reagan, and Gwen Tolbert. For their effort, diligence, and good work, we thank them. We also appreciate their good humor, which makes any job—including the significant labor associated with writing and rewriting—much more bearable.

Finally, we would like to thank our wives and sons for their usual fine

support and encouragement. Both our families are small, but close, supportive, and satisfying. Home provides a climate perfect for professional or academic activities as well as social or family fun; we are grateful for such nice places and such nice people.

L. G. H.
W. F. J.

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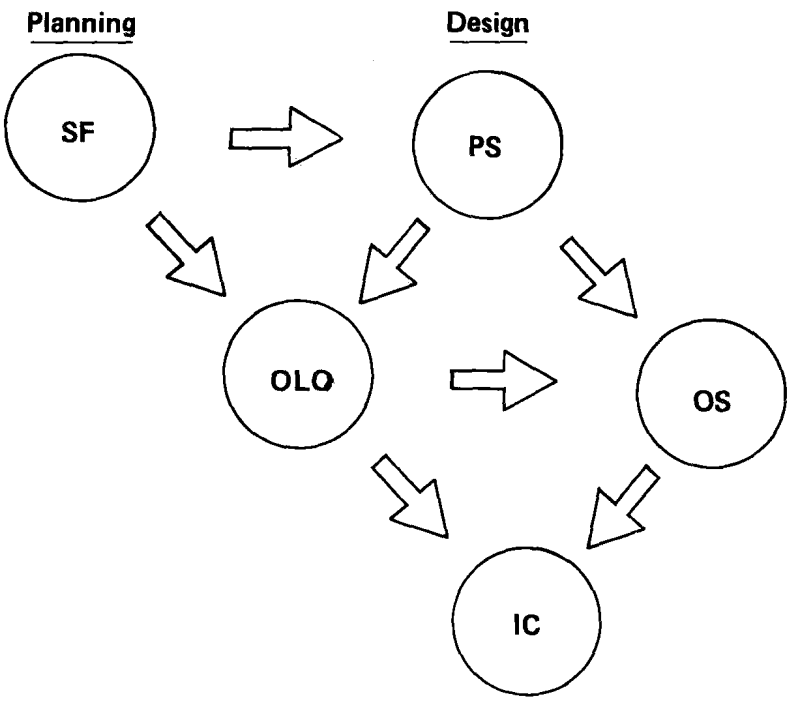
INTRODUCTION: STRATEGY IMPLEMENTATION MODEL



The methods and problems of strategy implementation have received less attention than have those of strategy formulation. This is peculiar because both practical and academic experience indicates that decisions made in implementing strategy have a substantial impact on organizational performance. There appears to be no unified, logical, normative approach for implementing strategy. The purpose of this book is to provide such an approach.

We believe, however, that much more has been written about strategy implementation than is apparent from a survey of titles of books and articles in academic and professional journals. The problem is not that we know too little about strategy implementation but that what we do know is fragmented among several "fields" of organization and management study. The result has been several, somewhat one-sided, views of the implementation process with little constructive integration of the many important perspectives on the topic. For example, strategic planning has been researched and written about within the area of business policy, yet a critical aspect of this process—goal setting—has received most attention within the field of organizational behavior. Similarly, organization design is often considered the province of researchers and practitioners in the field of organization theory. Yet the problems inherent in changing organization design, and thus implementing strategy, are studied by individuals interested in organization development.

Each of these fields or approaches has focused on critical aspects of the strategy implementation process, providing key insights into how it should be managed. In this sense, we know much more about the topic than is generally acknowledged. What remains, however, is a need for an integrated view of the implications of this knowledge for the theory and practice of strategy implementation. Our hope in this book is to make some progress toward such an integration.

THREE CONSIDERATIONS OF USEFULNESS

The contribution of an integrated approach can be judged in terms of its relevance to the theory and practice of strategy implementation. We believe that, to make such a contribution, three criteria must be met. These are the criteria of *logic, action,* and *contingent prescription.*

Logic. Managers confronting implementation problems face an almost bewildering array of possible activities. Decisions must be made concerning which of many strategic and organizational variables should be changed, in

what order, and within what time frame. But all implementation activities are not equally salient under differing conditions, and differential costs, both human and financial, are incurred in their application. Faced with this complexity, and equipped with only limited information handling and decision-making capabilities, managers need a cognitively manageable implementation model or approach. Such a model must represent a *logical* delineation of major categories of implementation activities and the relationships among them, thereby reducing a previously intractable problem to one of limited proportions and allowing informed decision in the face of previously unmanageable complexity. But a logical model offers a second, perhaps even more important, advantage.

To be successful, managers must anticipate the consequences of alternative implementation activities, not only in the face of complexity, but often with little previous experience to guide them. We can partially compensate for this need to be omniscient through the use of a logical model that allows us to *deduce* consequences of implementation activities. By understanding a cognitively manageable and logically connected set of variables, we can then deduce a considerably larger set of consequences and particular outcomes of specific implementation activities. These specific outcomes and predictions should be quite useful because they (1) allow insight into problems with which the manager may have had no previous direct experience and (2) are founded upon the collective experience of many managers and academics (the logical model) gained across many industries and in many organizations. This "collective wisdom" should facilitate informed choice and more effective implementation.

Action. Strategy implementation takes place in the real world of management. It is concerned not only with questions of "why" but also of "how." Managers are rewarded for "doing" as well as "knowing," and this places the constraint of *usefulness* on any approach to implementing strategy.

At the same time, these constraints make development of an implementation model more difficult. Many apparently important variables are relatively inaccessible to observation and, more important, to manipulation. For example, one of the most studied effectiveness measures in organizations has been worker satisfaction. Yet it is very difficult to see, feel, or hear another person's satisfaction, or to know accurately that it has been affected by some measurable amount. How can this variable be changed?

The answer is problematic, both for practice and theory. For an approach to implementing strategy to be useful to both academicians and managers, it must emphasize variables that, first of all, are *manipulable* and, failing this, are at least relatively *objective.* Effective managerial action presupposes that

key variables are under the manager's control; without this, there is nothing to manage. Other nonmanipulable variables are important because they place constraints on such action. We recognize these constraints and present an approach to implementing strategy that has a direct relation to managerial action and decision making.

Contingent Prescription. Some time ago, Simon noted that the principles of management were like proverbs; you could always find one to support what you wanted to do.[1] Recent developments in the field of organization design and theory have supported the limited utility of principles proposing a "one best way" to manage, suggesting in their place a "contingency view" in which different organization designs or approaches are believed useful in different situations. This contingency position has come to dominate management theory and practice.

Critics of the principles of management, however, have overlooked one of their significant strengths: the principles told us what to do. A useful contingency approach to strategy implementation must have this same characteristic. It must indicate both our choices *and* the criteria for choosing. It is not enough to know that "it all depends"; we need to know what it depends on, *and* what to do about it. We call this the need for "contingent" prescription.

In this book, we adhere to the criteria of logic, action, and contingent prescription. While not always referring to the criteria specifically, throughout this book an attempt is made to satisfy the demands imposed by them. The purpose is to integrate what is known about the process of implementing strategy within a useful model that meets the needs of both managers and academicians.

KEY QUESTIONS AND PRINCIPLES IN IMPLEMENTING STRATEGY

With these criteria in mind, we shall shortly propose a model for implementing strategy. The important characteristics of the model arise from answers to two key questions: (1) What decisions and actions can be taken by managers who are implementing strategy? and (2) How can these decisions be organized to meet the criteria of logic, action, and contingent prescription? When answering these questions and making decisions based on the analysis of variables or factors central to the implementation process, we

believe that managers are guided by two critical principles. These are the *principle of intended rationality* and the *principle of minimum intervention.*

The Principle of Intended Rationality

In recent years there has been considerable interest in theories of limited rationality in decision making. Simon,[2] March and Simon,[3] and March[4] have argued that the classical economic theory of rational decision making does not adequately attend to the limited information handling capacity of decision makers. The classical model assumes that decision makers have knowledge of all alternatives, the consequences of all alternatives, and a consistent preference ordering and decision rule that allows choice from among them. Bounded rationality requires modification of this rational choice model, as discussed by March:

> *Because of such limits, the decision process that is used differs in some significant ways from the decision process anticipated by a more classical formulation. Decision making is seen as problem solving, search, and incremental trial and error. Described as "muddling through" by Lindblom, as "feedback-react" procedures by Cyert and March, and as "cybernetic" by Steinbruner, incremental, limited rationality is usually contrasted with long-run planning, forecasts, and commitments. The intelligence of organizational action is seen as lying not in the capability to know everything in advance but in the ability to make marginal improvements by monitoring problems and searching for solutions. Thus theories of limited rationality are essentially theories of search or attention: What alternatives are considered? What information is used?*[5]

We believe that recognition of bounded rationality and the limited actions of the classical economic decision model are essential to a theory of strategy implementation. The criterion of logic recognizes such limitations explicitly, when we argue that a logical, deductive model is required to reduce the complexity of implementation activities to cognitively manageable proportions. The major consequence of limited rationality is to require that large strategic problems be "factored" into smaller, more manageable proportions for implementation. This process delimits the "candidates" for attention, allowing more rational decision given limited decision capacity.

The limited rationality of decision makers has been previously recognized in both the strategy and organizational literatures. As an example, Hofer and Schendel argue that strategy formulation should occur at both a corporate or portfolio level, as well as at a more local business level, presumably to allow managers to focus their limited attention on a restricted set of strategic problems appropriate at those levels. They note that because top managers "have neither the time nor the capacity (limited attention) to understand and use-

fully compare"[6] competitors for resources, a two-stage allocation process is used. In the first stage, capital is allocated by the corporate level to particular businesses; in the second stage, responsibility for further capital spending is delegated to the business level. This is because the business level "has the detailed knowledge of markets, products, and technology necessary to make such evaluations."[7] Similarly, in organization design, Thompson[8] has recognized the concept of bounded rationality and the need for the allocation of attention in arguing that organizations must establish structural units within which rationality can be a reasonable criterion. As he notes:

> *We would expect the complexity of the structure, the number and variety of units, to reflect the complexity of the environment . . . the more difficult the environment, the more important it is to assign a small portion of it to one unit.*

Complexity leads the organization to establish structural units to deal with relatively homogeneous segments of its environment, and to then further subdivide these units based upon their capacity to undertake the necessary surveillance and information processing activities demanded by these homogeneous segments. These illustrations show how large implementation problems are reduced in size using methods of strategic planning and organization design, respectively.

Clearly, one of the most relevant and insightful discussions of the intimate relationship between intended rationality and strategy formulation and implementation has been provided by Quinn in his concept of "logical incrementalism." Following intensive study of a number of U.S. and European industrial organizations, he has concluded that because of both cognitive and process limits (the timing imperatives influencing awareness, consensus, and efficiency during strategic change) on rationality "top executives typically deal with the logic of each subsystem of strategy formulation *largely on its own merits* and usually with a *different set of people*" [emphasis ours].[9] In his view:

> *The most effective strategies of major enterprises tend to emerge step by step from an iterative process in which the organization probes the future, experiments, and learns from a series of* partial *(incremental) commitments rather than through global formulations of total strategies. Good managers are aware of this process, and they consciously intervene in it.*[10] [Italics ours]

A model of strategy implementation must therefore directly address problems of allocation of attention stemming from limited information processing capability. The model that we present shortly includes the need to selectively attend to implementation problems through appropriate planning and organizing actions. These actions delimit both the scope and the time frame of