

Effective Strategy Implementation

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Abstract—To execute the strategy more effectively, this study proposes an integrated model combining the resource-based view of ‘McKinsey 7S’ and the industrial organization point of view. The model was tested through collecting primary data from employees of a disguised transformer manufacturer (TRANSCO). The findings prove that neither the resource-based nor the industrial organization is effective independently towards solving the strategy implementation problem, although the study suggests that the resource-based view is more reasonable than the industrial organization viewpoint. Indeed, the model of this study, which combines both viewpoints by employing the strategy formulation and the balanced scorecard, offers a more comprehensive solution and contributes to resolving the most difficult stage of strategic management—strategy implementation.

Index Terms—strategy implementation, strategy formulation, balanced scorecard

I. INTRODUCTION

The strategic management has generally had positive effects on the organizations’ performance during the 2000s [1]. Three main stages of strategic management are the formulation, implementation (action stage), and evaluation of strategies [2]. Both correct formulation and effective implementation are crucial to successful business [3], however, the effective implementation of an ordinary strategy can beat the second rate implementation of an excellent strategy [4]. The review on literature identifies the problem of how to execute the strategy more effectively. The purpose of this study is to propose a model that addresses the problem. Fulfilling its purpose, this study selects variables directly affecting strategy implementation; combines both resource-based and organizational viewpoints to propose a model suggesting those direct effects; tests the model through collecting data from one transformer manufacturer; and conducts multiple regression analysis to find the predictive power of the model.

II. LITERATURE REVIEW

The strategy formulation is prone to the wrong identification of internal and external factors [5]. Even developed correctly, any strategy is not considered effective since it requires to be implemented before it can create value for its organization [3].

To support this fact, [6] defined a simple relationship between the strategy formulation and implementation (Table I).

Based on the Table I and a simple probability assumption, a strategy may not succeed in 75% of cases. However, the review indicates that the problem often occurs during the implementation. This study has identified five evidences supporting the challenging nature of the strategy implementation:

- 66% of corporate strategies are never implemented [7].
- 95% of staff do not realize their organization’s strategy [8].
- Only 63% of financial objectives envisioned by companies’ strategies are achieved [9].
- Consequences show that 70 to 90 percent of organizations fail to realize the success of implementing their strategies [10].
- Strategies most often fail due to ineffective execution [11].

A strategy can be well developed but fail to be implemented. Indeed, the strategy implementation is the most challenging and difficult stage in strategic management [12]. Thus, the research problem is: How to execute strategy implementation more effectively.

TABLE I. INTERACTION OF STRATEGY FORMULATION AND IMPLEMENTATION¹

		Strategy Formulation	
		Appropriate	Inappropriate
Strategy implementation	Excellent	Success	Rescue or Ruin
	Poor	Trouble	Failure

From [5]

To effectively implement the strategies, a unique approach that best suits the internal and external challenges is crucial [13]. Adopting the best approach, however, necessitates addressing the issues of the variables affecting the strategy implementation [4]. To develop the strategy implementation model, this study selects the strategy formulation and management control system (e.g. Balanced Scorecard) as two key variables given that:

- The formulating, implementing, and monitoring the strategies is an ongoing process improving its results [14].
- The strategy formulation is the prerequisite for the strategy implementation [12].
- Reference [15] contended that the dynamic characteristic of the strategy formulation allows

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for adapting to the changing environment. And the strategy must adapt concurrently with its execution [3].

- Although the flexible strategy can improve the strategy implementation within a changing business environment, but these changes also necessitate controlling the strategy implementation progress. Reference [16] suggested that the management control system must be able to control the implementation progress while ensuring strategic alignment of all departments.

To further analyze, a model is required to test whether these two variables are good predictors of strategy implementation.

III. RESEARCH MODEL

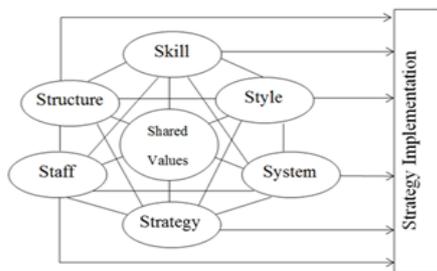


Figure 1. The 7S model. From [18]

One of the models describing the key variables for effective strategy implementation is the McKinsey's 7S model [17]. Reference [18] introduced a model called 'The 7S' (strategy, structure, systems, staff, skills, style, and shared values) and stated that interconnections among these 7 variables facilitate organizational change and progress (Fig. 1). Indeed, this model depicts the multiplicity of 7 variables affecting the organization's ability to execution of the planned strategies. Reference [17] modified the 7S definition through categorizing his Balanced Scorecard (BSC) as 'system'. Despite this modification, the 7S still ignores the effects of external factors on the strategy implementation. Indeed, the dominant effect of the resource-based viewpoint is noticeable within the design of the 7S. In accordance with the resource-based view, the performance of any organization is primarily determined by its internal resources such as physical, organizational, and human capital [19]. All the seven Ss can be categorized into internal resources accordingly. But, a too heavy emphasis or reliance on in-house resources as the sole performance predictor could fail. The results show that thousands of internally strong firms in 2006-2007 disappeared in 2008-2009 [12]. Reference [4] suggested changing strategies or implementation tactics as the external environment (e.g. market conditions) changes. To study the industrial organization is to learn about market conditions [20]. The famous 'structure-conduct-performance' model based on industrial organization viewpoint suggests that the structure of the market (e.g. the degree of product differentiation) determines the conduct (e.g. advertisement and price), which results in market

performance (e.g. profit) [21]. Therefore, there is a room for modifying the 7S through considering the effects of external factors during the action stage.

Considering both resource-based and industrial organization viewpoints, [22] introduced his model called 'Comprehensive Strategic Management Framework'. According to this framework, the strategy formulation stage (Fig. 2) includes developing vision and mission statements, performing internal and external analyses, establishing long-term objectives, and selecting strategies. Reference [12] defined the internal factors as: (1) cultural factors, (2) management factors (planning, organizing, motivating, staffing, and controlling activities), (3) marketing factors (customer analysis, selling, product planning, pricing, distribution, marketing research, and cost-benefit analysis), (4) finance and accounting factors, (5) production and operation factors (process, capacity, inventory, workforce, and quality), (6) R&D factors, and (7) management information systems. He then suggested that organization's vision and mission are the basis for developing alternative strategies. Reference [12] also categorized external factors as: (1) economic forces, (2) social, cultural, demographic, and natural environment forces, (3) political, governmental, and legal forces, (4) technological forces, and (5) competitive forces.

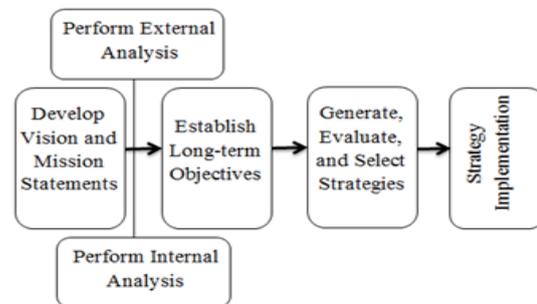


Figure 2. Strategy formulation stage of Comprehensive Strategic Management Model. From [22]

TABLE II. 7S [18]'S PARALLELS WITH THE STRATEGIC MANAGEMENT MODEL [22]

The 'S' defined by [18]	Corresponding [22] 's internal factor(s)
Systems	Planning (subset of 'management'); Controlling (subset of 'management'); Management information systems
Staff	Staffing (subset of 'management'); Workforce (subset of 'production and operation')
Style	Motivation (subset of 'management'); Culture
Skills	Management; Marketing; Production and Operation
Structure	Organizing (subset of 'management')
Shared values	Vision and Mission statements
Strategy	Strategy formulation

There is a parallel (Table II) between the '7-S' and [22]'s definitions of external factors. According to definitions, 6Ss can be referred as internal factor(s) (the

‘strategy’, if considered as the current one, is not analyzed as neither internal factor nor external factor by [22]). Table II

BSC is classified under ‘systems’ [17]. Since these control systems are adopted during the implementation process [10], so they do not affect the initial formulation and this study examines their effects on implementation separate from the other ‘systems’.

In addition to defining the external analysis to take the PEST (political, economic, social, and technological) and competitive forces’ effects into account while formulating business strategy, References [12], [22] suggested changing implementation actions in line with external factors.

Hence, the industrial organization way of thinking helps modify the 7-S model through [22]’s strategic management model and [17]’s article on ‘How the balanced scorecard complements’ as depicted in Fig. 3. In this figure, S1 to S6 respectively stand for (1) systems, (2) staff, (3) style, (4) skills, (5) structure, and (6) shared values-all as internal factors. The political, economic, social, technological and competitive forces-all constitute external factors.

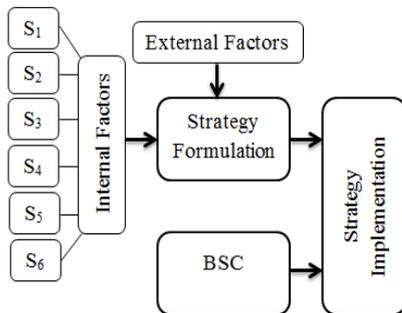


Figure 3. Research model

Based on Fig. 3, the research questions are:

- Which factors (internal or external) are more important to be assessed to formulate an appropriate strategy?
- How do the strategy formulation and BSC affect the strategy implementation?

IV. RESEARCH DESIGN

This study creates its design, which is the plan of how the research goes about answering its questions [23], through the following process:

- To design the questions and the tool that asks those questions from respondents and measures the responses:

Cross-sectional studies examine a phenomenon within a particular period of time [23], and frequently use the survey strategy [24]. The survey strategy is a popular research method in the business and management field and often employed to answer ‘how’ and ‘what’ questions [23], such as the questions of this study. The survey strategy allows researchers to collect quantitative data [25]. Therefore, this study has collected quantitative data. Among primary data collection methods, the questionnaire has adopted since the observation was not

feasible due to the considerable distance from the company’s plant and the interview requests failed. This study also has developed its own questionnaire, which can collect data variables including opinion, behavior, and attribute [26].

This study is to answer two questions about the respondents’ opinions on the dependent variable (strategy implementation) and the independent variables (strategy formulation and BSC) affecting it. Opinion data are suggested to collect through the rating scales [23]. Therefore, the Likert rating scale was selected to measure the variables.

- To select the respondents who answer the questions and provide the data.

Since the findings of [27], [28], and [29] were published, there has been a growing recognition of middle-level managers’ role in strategy implementation. This fact generates the interest of involving middle-level managers as the population of this survey, thus justifying the use of the cluster sampling technique as a means to involving particular respondents.

- To select the analytical method that analyzes the data to allow for answering research questions.

This study has conducted the multiple regression analysis, which allows for incorporating two and more independent variables to explain the variation in the dependent variable [30]. Independent variables are strategy formulation and BSC, and in the dependent variable is strategy implementation.

V. DISCUSSION AND RESULTS

This study employs multiple regression analysis to answer its two questions. The regression analysis identifies the relationship between strategy formulation and its predictors (internal and external factors). Besides, the multiple regression analysis allows for incorporating two and more independent variables to explain the variation in the dependent variable [23]. Thus, this analysis allows incorporating strategy formulation and BSC in explaining the variations of strategy implementation. Results are as follows:

TABLE III. THE INFLUENCE OF INTERNAL AND EXTERNAL FACTORS ON STRATEGY FORMULATION

Model Summary	R	R Square	Adjusted R Square	Standard Error of the Estimate
	0.914 ²	0.836	0.829	0.212

Predictors: (Constant), Internal factors, External factors

TABLE IV. COEFFICIENT OF INTERNAL AND EXTERNAL FACTORS

Model Summary	Unstandardized Coefficients		Sig.
	B	Std. Error	
(Constant)	1.179	0.631	.045
Internal Factors	0.444	0.169	0.010
External Factors	0.325	0.196	0.000

TABLE V. REGRESSION ANALYSIS FOR STRATEGY FORMULATION AND BSC

Model Summary	R	R Square	Adjusted R Square	Standard Error of the Estimate
	0.713 ³	0.508	0.499	0.422

Predictors: (Constant), Strategy formulation, BSC

TABLE VI. COEFFICIENTS OF STRATEGY FORMULATION AND BSC

Model Summary	Unstandardized Coefficients		Sig.
	B	Std. Error	
(Constant)	0.872	0.295	0.004
Strategy formulation	0.619	0.077	0.000
BSC	0.151	0.068	0.030

From the regression analysis, the model summary (Table III) shows that the 83.6% variation in the strategy formulation is explained by the internal and external factors. Besides, the standard error estimate value of 0.212 (between 0 and 1, while closer to 0) proves that the model can accurately predict the strategy formulation changes. This strengthens the fact that relationships between internal and external factors and strategy formulation are predictable. In addition, according to Table IV, internal factors with higher beta coefficient (0.444) than external factors are more significant in predicting the strategy formulation. However, both factors have a significant relationship as the significance value for both is below 0.05.

The model summary (Table V) shows that strategy formulation and BSC contribute to 50.8% of successfully implementing strategies. Table VI proves that in this study strategy formulation has a higher beta coefficient (0.619) than BSC in predicting the success of strategy implementation (Y). The significant values of strategy formulation (X_1) and BSC (X_2) are below 0.05 so these two can be included in the equation of regression. Equation model (1) which can be written down from the results in the form of standard regression is:

$$Y = 0.872 + 0.619 X_1 + 0.151 X_2. \quad (1)$$

The constant number (0.872) represents the effects of other variables, which are not examined in this study, on strategy implementation.

Although the regression analysis does not necessarily reveal a cause and effect relationship between variables [31], but the 7S model supports the existence of such relationship between the independent and dependent variables of this study. The results answer the research questions as follows:

- Internal factors (systems, staff, style, skills, structure, and shared values) are more important than external factors (economic forces; social, cultural, demographic, and natural environment forces; political, governmental, and legal forces; technological forces; and competitive forces) to be analyzed in strategy formulation. This study

suggests that the resource-based view to the strategic management is more reasonable than the industrial organization viewpoint.

- Both strategy formulation and BSC have a significant positive relationship with the success of strategy implementation. The improvements in strategy formulation and BSC will increase the effectiveness of strategy implementation. However, this study finds the effect of strategy formulation more influential than that of BSC.

Results show that the comprehensive strategy implementation models (e.g. 7S) with considerable numbers of interrelated variables can be theoretically customized to solve the strategy implementation problem. Besides, neither the resource-based view nor the industrial organization view towards the strategic management can independently solve the strategy implementation problem.

Future research should compare successful and unsuccessful strategic attempts to determine what those successful companies did differently from unsuccessful ones. In addition, future research should try to include more variables that can influence the strategy implementation effectiveness.

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