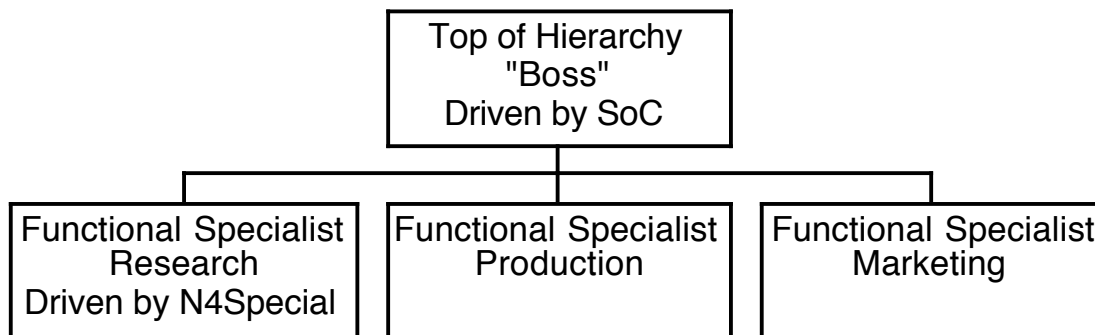


Strategy Implementation: Leadership, Structure, and Control

Despite being the “O” in VRIO, strategic implementation - bringing about the necessary development and deployment of resources in order to gain or sustain a competitive advantage - is in many ways the stepchild of strategy. Having big ideas and thinking about the future of the organization is often perceived as being interesting and exciting. However, the much more challenging task of actually executing those grandiose visions is often given short shrift. This note deals with a couple of topics related to strategic implementation. First, a simple typology of how organizations are structured. Second, a "simple" model of management that encompasses several topics relating to management. Finally, issues surrounding strategic change.

Organizational Typology. Any organization can be described as a hierarchy with different divisions of authority and specialization. Even "flat" organizations, "work teams", or even families have some element of authority and specialization.¹ The boxes and lines in an organizational chart are designed to illustrate the organization's structure – the formal socialized relationships that it embodies. A sample organizational hierarchy is shown below.

Simple Org. Example



As shown in the example, the number of levels in an organization is driven by the **span of control** - the number of people that can be effectively monitored by an individual. An individual's span of control is influenced by their ability, the complexity of the task, and the level of professionalism of the people working with them.² This drives vertical structure – the number of levels in the organization.

The **need for specialization** is driven by the benefits from the division of labor. It has been noted that when individuals specialize in specific tasks the more proficient they will become. This was dramatically illustrated in Adam Smith's *Wealth of Nations* (1776).

¹ There are numerous reports and ideas surrounding the limitations of hierarchy and calling for new models. However, any new method of structuring human activity has to include some aspect of authority/accountability and take advantage of the benefits of specialization.

² Work is defined as compensated task directed behavior. A task is some result oriented action.

This need for specialization is what drives horizontal structure – the number of subgroups inside the organization.

The two ways to describe structure, vertical structure and horizontal structure, (sometimes called vertical and horizontal differentiation) can be combined into some very common “organizational forms.” The type of organizational form is often driven by how many industries the firm competes in.

If an organization is in a single industry it will often have what is termed a simple or functional structure. The firm's specialized divisions will be driven by functional needs, e.g. accounting, finance, marketing, whatever. However, when a firm operates in multiple industries, it is often helpful to have specialized divisions for each industry, each with its own self contained set of functions. This form of organization is relatively new, arising in the first half of the twentieth century and is called the M-form. The M-form simply replicates a functional structure for each industry where the organization operates. It has become exceptionally popular and most large firms now employ this structure. The divisions between industries are generally called strategic business units (SBU) (see also corporate strategy).

While the M-form allows for a high degree of financial and strategic control in order to facilitate growth it does have some limitations. Its problems center around the inevitable conflict within and between the strategic business units and headquarters. Since the headquarters unit often takes resources from one unit in order to give it to another (recall, milking the cow to invest in the star in the BCG matrix approach) there is an incentive to hide information and distort reality inside your SBU. This deception and competition is often not very constructive. A final problem is setting transfer prices, the price one division charges another for its products/services. For example, how much should ABC pay Disney's movie division for showing *The Little Mermaid* on TV? Obviously this does not matter from the perspective of the firm as a whole, but it matters a lot to each division. There are also considerable opportunities for firms to avoid taxes by manipulating the transfer prices set between their international divisions.

However, describing structure for its own sake is not really our concern. Our concern is explaining why firm performance differs. In order to address this, a short detour is needed.

A Simple Model of Management. Figure 1 shows a simple model of management. This is in no way the only model of management, or even the best model of management, but it is a pretty simple one built around the importance of motivation. If management is most easily defined as getting work done through others, motivation, self directed goal attainment, would seem to play a central role. That's why motivation is at the core of this model.

At the top is what we've spent a lot of our time talking about, organizational performance. Organizational performance is a result of the organizations structure enabling, focusing, and then harnessing all the individual job performances of its

workers.³ Organizational performance feeds back into organizational culture and the extrinsic rewards that are available to offer workers in exchange for their future performance. Organizational structure is the same idea described above and also includes the policies and procedures (enduring patterns) of the organization. Organizational structure serves both to structure worker activities and to integrate all the individual job performance results into organizational performance. Structure feeds back to many components, including situational constraints (e.g. job design), ability (through the HR function of selection), and instrumentality. Along with performance, structure plays a direct role in creating organizational culture, e.g. “entrepreneurial” or “bureaucratic.” Job performance is modeled as a result of motivation, ability, and situational constraints. Motivation is defined as self directed goal attainment and results from instrumentality, appreciation of how to obtain a reward, and valence, the attractiveness of the reward(s). Based on Herzberg’s two factor motivation theory, rewards can be either intrinsic, valued for their own sake by the worker, e.g. “a job well done”, or extrinsic, e.g. pay.

There are three major tips that don’t fit directly into the simple model. First, it is important to always set the criteria first when evaluating job performance. Otherwise, it is easy to become biased. Second, when providing feedback be specific, as immediate as possible, and keep it problem oriented. This will help instrumentality as well as not threaten the extrinsic reward most of us feel from doing a good job, or at least, wanting to do a good job. Finally, use groups or teams only when you confront a clear and complex task, and realize that while diverse teams often achieve better results, they do so at a much slower pace than homogenous teams.

How Effective Management Can Drive Performance. Most Americans think of control as a bad thing, but for organizations, control is pretty crucial. How an organization controls its members can be a key factor in understanding why firm performance differs. The best form of control, ironically, is one that most don’t associate with control at all – culture. Recall that culture is simply shared norms and values. It has many possible foundations in the signs, symbols, stories, ceremonies, values and rewards that are part of an organization. To the extent that an organization can socialize its members with a culture that is aligned with its mission and goals, it has a large advantage over other organizations that must rely on bureaucratic controls. For example, despite using piecework labor rates, Lincoln Electric only has three employees to process the resulting paperwork, relying on the integrity of their workforce to serve as an important control mechanism, providing them additional cost advantages.

Of course, culture usually doesn’t serve as the control system most organizations utilize. Most utilize some forms of bureaucratic control as well. Bureaucratic control is simply written rules and policies on how an organizations’ members should behave. Often time these take multiple forms, a budget, a performance meeting, and a job description, are all examples of bureaucratic control. Usually, bureaucratic rules grow as the organization does.

³ Rationally organizational structure: a. facilitates goal specificity; and b. formalizes social relationships.

So what is the best control? Obviously, every organization will have a mix of control systems, it is the job of managers to make sure they are aligned with the mission, goals, and strategies of the organization. Just like in business level strategy, there is no one best control system or culture, what you should seek to do is have systems that align with your strategy. This is probably the main reason it is so hard to have the low cost and the differentiation strategy – it would be almost impossible to align the firm on two such conflicting objectives.

Strategic Leadership. Here I tread lightly, but this is the one area where I disagree with almost everyone. Most formal study of leadership focuses on the wrong object – the leader. You can only recognize a leader by their followers, therefore, to be a good leader, think of your followers! It's not about you! This is why so much leadership training is wasted. Until leaders see their role as to help and facilitate the work of their followers they are doomed to be mediocre leaders. Of course, they can still get super rich, as we discussed in corporate governance. However, no matter what books they read, consultants they hire, seminars they attend, awards they win, or how many sycophants⁴ they surround themselves with, unless a leader is thinking about followers, they are not destined for greatness.

If a leader is anyone with followers, then theory suggests that the best leaders will initiate structure while being considerate of their followers. This ties back well to the simple model of management. Initiating structure provides instrumentality for followers on what they should do. At the same time, most of us like those who are mindful of our presence and needs, therefore, consideration serves as an intrinsic reward.

The true test of a leader (or manager, as in my mind the primary difference is that leadership has positive connotations while management has (unfairly) become denigrated) is their ability to handle change. This is one of the rare cases where the cliché – people resist change - is wrong. People do not dislike change, they dislike change that is not to their benefit! Again, the simple model of management points a clear path. People resist change because it threatens their instrumentality. Therefore, in order to facilitate change, explain what is going on. Sounds obvious, but almost never done.

This is unfortunate, because most people underestimate the importance all members in the organization have. A university president has a lot of power, but even so, cannot clean all the university's restrooms alone. Therefore, others must help. Management is required, and therefore the others must be convinced, through some mix of intrinsic and extrinsic rewards, to help.

⁴ A self seeking servile flatterer; fawning parasite.

Figure 1: A Simple Model of Management

