Effective Implementation of Transformation Strategies

How to Navigate the Strategy and Change Interface Successfully

Edited by
Angelina Zubac · Danielle Tucker · Ofer Zwikael
Kate Hughes · Shelley Kirkpatrick

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CHAPTER 1

Introduction: Navigating the Strategy and Change Interface Successfully

Angelina Zubac, Danielle Tucker, Ofer Zwikael, Kate Hughes, and Shelley Kirkpatrick

Book's Aims

There are no two ways about it, it is no easy task to significantly change how an organisation operates, much less transform it. There is always so much leaders need to think about and there are countless ways a programme of strategic change could be derailed. This partly explains why

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it is regularly reported fewer than 30% of all strategies are fully implemented, if at all. Of course, not implementing a strategy or changing it mid-course may be a good thing if the management team is leading from the front and are continuously considering how the strategy could be improved or reimagined. Sometimes a strategy needs to be drastically tweaked or discarded entirely. Notwithstanding, it is more often the case that a strategy is badly or not implemented because the recursive practices required to effectively implement it or modify it over time are poorly understood or non-existent (Zubac et al., 2021), the organisation does not have a compelling vision for the future everyone can get behind (Kirkpatrick, 2016) and processes are not in place to ensure the organisation's strategic projects can realise their expected value (Zwikael & Smyrk, 2019).

Unfortunately, the management literature provides us with little definitive guidance about the best way to navigate the strategy process to create value and bring about meaningful organisational change regardless of the context. It is still replete with contradictions. For instance, even though MBA students are now taught there can be huge disparities between the planned strategy and what is actually realised, they are also taught the strategy process is essentially a mechanistic stepwise process, which may or may not involve everyone at the organisation. They are told the strategy process can only begin once the external and internal environments have been thoroughly analysed. The objective of this step is to understand the opportunities the organisation can viably pursue and to generate strategic options for the future. The options chosen from the final shortlist inform the strategic plan. Once the strategic plan is finalised, it is then possible to identify the programmes and budget allocations that are necessary to ensure the strategy can be successfully implemented. Further, top management accountabilities for each programme can then be confirmed

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to ensure the intended benefits are realised and organisational change happens.

Because most employees tend to resist change, MBA students are also taught that it is important to develop a change management plan as a cardinal last step in the strategy process. This plan defines the models of change and leadership that will be used to motivate everyone at the organisation to embrace the strategy and update their skills. However, it is not always clear why the organisation's people are being urged and/or incentivised to apply themselves differently because the people responsible for developing the change management plan are seldom the same as those who prepared the strategic plan. This vital connection is never established. As a result, it is not surprising that most leaders prefer to apply popular models of change instead of empirically validated models or are unable to learn valuable lessons from their implementation leadership experiences (Stouten et al., 2018).

With this in mind, differentiating itself from all other books on strategy implementation published to date, this book sheds light on the specialised (sub)processes and cognitions used by managers, singly or in combination, to navigate the strategy and change interface. Put another way, it demonstrates how the best managers make rationally derived strategies a reality in practical and sometimes very non-rational terms through the organisation's key processes and its people. The book applies the latest thinking from the resource-based literature, in particular the idea that high performing organisations have become adept at developing and utilising value creating dynamic capabilities to not only develop and implement a strategy but to make timely adjustments to it as is necessary. It builds on the idea that dynamic capabilities make it possible to sense opportunities and threats, seize profitable opportunities and mitigate threats, and reconfigure or transform the organisation as required. They are comprised of specialised (sub)processes and cognitions brought together, sometimes as platforms, to achieve these ends. The way dynamic capabilities are developed and utilised at different organisations will differ because no two organisations ever evolve in the same way (Teece, 2007).

This book also assumes that, unless managers understand the organisation's institutional context and accept that organisations are essentially all about their people, they will struggle or be unable to navigate the strategy and change interface successfully to bring about lasting change. Thus, it represents a break with past thinking about how to successfully enact change in organisations. Towards the end of the last millennium, it was widely accepted that organisations could be changed effectively if principles from industrial organisation (IO) economics and the resource-based view were judiciously applied. This is because these theories can be used by managers to understand the competitive environment, including how best to position the organisation within its industry and lever its unique portfolio of assets and capabilities. However, neither of these theories consider how an organisation can do well by emulating the behaviour of other organisations. This includes achieving success as a result of complying with the same laws, regulations and rules of the formal institutional environment, and the cultural and ethical norms and practices of the informal institutional environment of which their contemporaries are also subject. One more theory was required for this to happen. An institution-based view is such a theory because it acknowledges the social context within which strategic decisions are made. Decision-making is not limited to finding ways to outsmart the competition (Peng, et al., 2009). An institution-based view makes it clear that organisations can also thrive by becoming appreciably similar to competitors and other notable organisations.

Therefore, the book provides insight into how an organisation's leadership can effect strategic change by building a dynamic capability base designed to comprehensively address the institutional environment. Crucially, it develops a number of versatile frameworks leaders can utilise while leading a complex programme of strategic change to bring out the best in others.

The Corporate Strategy: The Market and Non-Market Domains

Accordingly, the corporate strategy in this book is conceived as being an amalgam of four fundamental strategies: the organisation's financial, customer value creation, resource strategies and its non-market strategies. This reflects the idea that organisations must constructively participate in the capital, product and service, and the resource markets, and the non-market environment of relevance to them if they are to succeed. This must be done while observing these institutions' parameters as is appropriate (Zubac et al., 2012). Hence, for-profit organisations need to use the market system (capital, product and services, and resource markets) while observing the rules of competition and pursuing their profit agendas. Not-for-profit organisations need to use the market system to achieve their stakeholders' social goals and their revenue neutral agendas. Comparable principles apply to the non-market institutions with the potential to impact the organisation. Regardless of their profit-seeking status, all organisations need to address the demands placed upon them by the non-market environment to gain legitimacy. However, the methods used to gain legitimacy by for-profit and not-for-profit organisations are likely to differ because they are driven by different value systems.

All organisations need to comply with the expectations of collectives of institutions. This is because all institutions are socially derived. They exist to serve society in some meaningful way. Many institutions are promoted through the auspices of an organisation too. When the organisation is not a for-profit or not-for-profit organisation as is commonly understood and has a legitimising objective, in all probability it was established to ensure compliance, for example, it was established to ensure compliance with the rules for safely driving a car, transacting commercially or manufacturing fit-for-purpose products. Markets, regulators, standards developers, enforcement agencies, the judiciary and governments are all institutions, as are the laws and conventions or behavioural norms that they exist to define, oversee or uphold. By the same token, for-profit and not-for-profit organisations are institutions. All of these institutions matter in different ways (North, 1994).

These ideas underpin the whole book. They are depicted diagrammatically at the top of (Fig. 1.1) in the area labelled "a". As shown, the corporate strategy informs the organisation's financial, customer value creation, resource and non-market strategies. However, as the double-headed arrows suggest, the organisation's people are always learning and finding new ways to improve upon the strategy or change it, as well as solve problems as they arise; therefore, it is inevitable the corporate strategy will be informed by the four lower-level strategies.

The opportunities inherent in the market and non-market systems are determined through the processes associated with the appropriate lower-level strategy. Accordingly, the financial strategy reflects the capital markets of relevance to the organisation. The customer value strategy reflects the product and service markets of relevance to it. The same can be said of the resource strategy—it reflects the resource markets of most relevance to the organisation. The non-market strategy reflects the specific non-market institutions that could impact the organisation. As the double-headed arrows connecting the strategies also suggest, each of

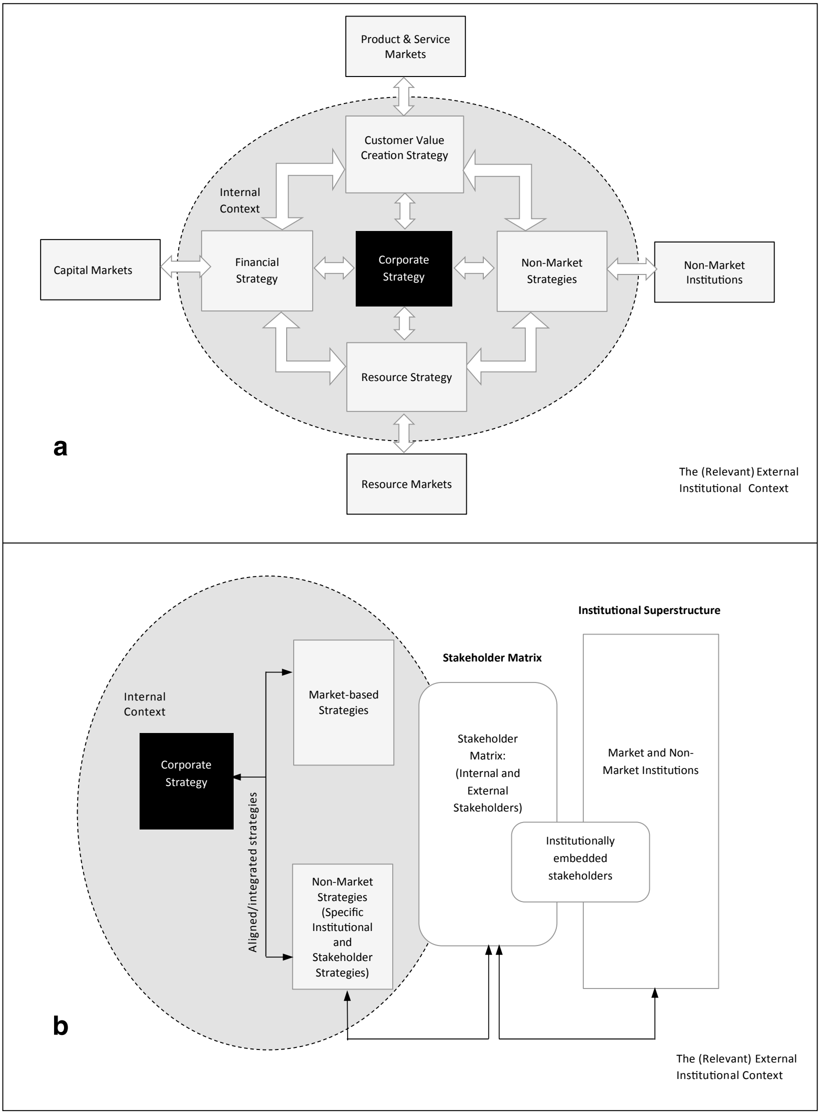

Fig. 1.1 The firm's strategic context: Two perspectives

these strategies are best developed, implemented and/or revised with an appreciation of how they complement or could impact each other.

The section labelled "a" similarly establishes the fact that all organisations evolve their own institutions and, consequently, their own unique internal context. Ideally, the strategies encourage the organisation's people to cultivate (sub)processes and cognitions, including mindsets that allow them to play a positive role at the organisation and contribute to its cultural development. Of course, it is conceivable that sometimes the (sub)processes and cognitions that are evolved are not particularly constructive. This is consistent with what we already know about institutions. Some organisations are very dysfunctional due to their inefficient processes or problematic cultures. In summary, the external institutional environment influences the evolution of the organisation's internal context, and organisations will influence the development of society's institutions over time. The extent to which this can occur depends on their intertwined histories, including the way in which certain institutions accumulated power.

The potential usefulness of this approach is further clarified diagrammatically in (Fig. 1.1) in the section labelled "b". In this perspective, the organisation's market strategies are grouped together because they have the same underlying drivers. These are distinct from the organisation's non-market strategies. Market strategies address the market environment while non-market strategies address the non-market environment, that is, market strategies focus on achieving the organisation's economic objectives while non-market strategies focus on achieving its non-economic objectives, including the organisation's ethical and cultural objectives. Just as was the case in "a", the corporate strategy informs the development of the organisation's market and non-market strategies. Each of the lower-level strategies informs the corporate strategy. When the market and non-market strategies are approached in an integrated manner, they are more likely to complement and support each other (Baron, 1995).

What is most significant about this second perspective is that it highlights how important it is to consider the interests and needs of stakeholders. This includes at all stages of the strategy process. This is indicated by the inclusion of the "stakeholder matrix". The stakeholder matrix makes it clear that while some stakeholders may be internal stakeholders, a large number of important stakeholders are likely to be external to the organisation. Both kinds of stakeholders may have some sort of association with, be embedded within, or be socially defined by an external institution, which may or may not be fronted by an organisation. No matter the type of organisation, organisations are more likely to achieve so much more through their strategy than they otherwise would have done if their stakeholders' needs are considered. Stakeholders help organisational leaders understand if the organisation is demonstrating the "right" set of values. This is important because when an organisation disappoints some stakeholders the organisation's reputation could suffer inordinately (Freeman et al., 2021). For example, we probably can all recount an instance where one extremely well-written and widely read published letter to a newspaper editor had a profound impact.

Of course, some stakeholders may end up having a larger say in how the organisation operates while others have very little. It is important to assess the potential of all stakeholders to impact the organisation regardless lest something of strategic importance ends up being missed. Organisations are stakeholder dependent for this reason. This second perspective also reinforces the fact that gone are the days when the sole objective of a strategy was to maximise the welfare of shareholders. Instead, the welfare of all stakeholders must be internalised by the organisation if it is to find its place in the world and be governed with foresight (Tirole, 2001).

The Strategically Aligned Organisation

The two preceding frameworks provide insight into the organisational forms the contemporary organisation ought to aspire to evolve. In the past, it was taken as a given that young or growing organisations should build the same vertical, divisional structures as large multi-business industrial organisations of the last century. It was argued that these behemoths had achieved scale and scope efficiencies because the divisional structure enabled effective decentralised decision-making (Chandler, 2001). Of course, while growing and resource constrained, it was important to adopt organisational forms of a more intermediate nature, such as the functional form. What was important, no matter the structure that was ultimately adopted, was a structure that allowed decisions to be made by those most qualified to make them, no matter where that person sat within the organisation's hierarchy (Miles & Snow, 1984; Miller & Kirkpatrick, 2021).

These principles are illustrated diagrammatically in (Fig. 1.2). The section labelled "a" is an example of a functional structure. Functional

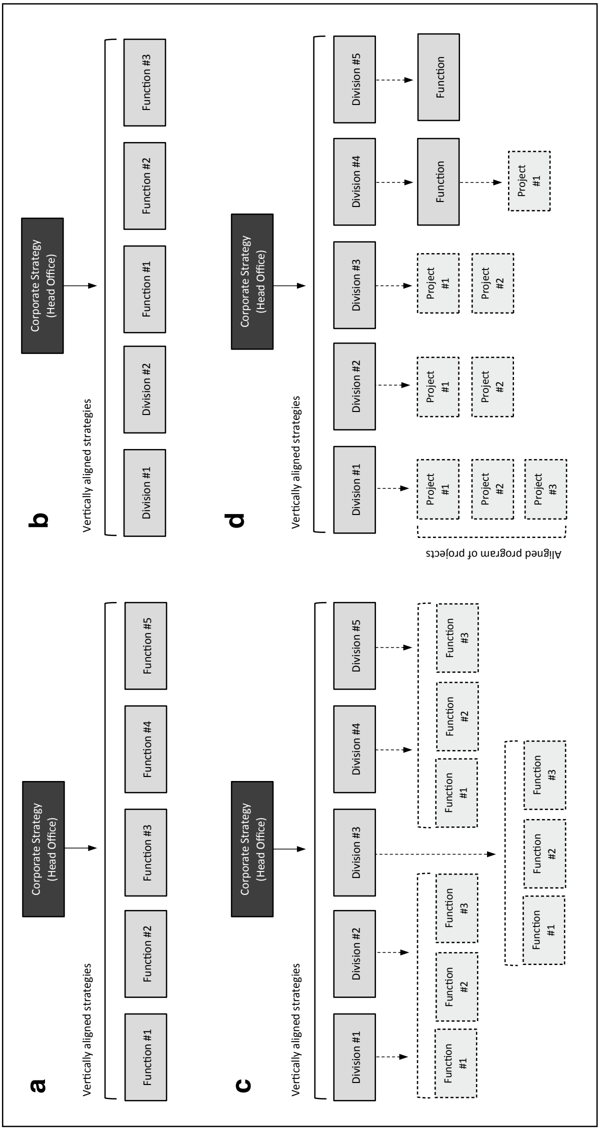

Fig. 1.2 Examples of traditional vertical structures

structures are normally adopted when an owner or single manager needs assistance from people with functional expertise. The section labelled "b" is an example of a divisional and functional structure. Such vertical structures are adopted when it is important to have decision input from managers with market or product expertise, as well as managers with functional expertise. The section labelled "c" is an example of a divisional structure supported by functions. Divisional structures of this type are adopted when head office requires divisional support, and the divisions require specialist functional support. The section labelled "d" is an example of a matrix structure. Matrix structures are adopted to ensure divisional or functional strategic projects are undertaken by project professionals who can draw on the expertise of divisional or functional staff. The project manager and the head of the division or functional area instigating the project are normally jointly responsible for the project.

In addition to ensuring effective decision-making, the "right" structure or organisational form became synonymous with the ability to achieve fit with the external environment and the related concept of the strategically aligned organisation. This is because high performing organisations were good at meeting the demands of the external environment, strategically using the resources they had at hand. When an organisation was sustainably high performing, it was because its managers could quickly adapt its structure and use organisational resources differently to meet the demands of the external environment and, thus, achieve the organisation's strategic objectives (Sarta, 2021).

Although both vertical and horizontal structures can be used to achieve a particular strategic theme, the horizontal structures established at the organisation tend to be more useful in this regard. The theme adopted depends on the priorities of the organisation (Kathuria et al., 2007). For instance, it may be important to ensure the organisation is able to consistently reconfigure its value chain to achieve its industry position goals (Porter, 1985). Likewise, it may be important to ensure everyone at the organisation contributes to new product development initiatives in the same way (Acur et al., 2012), the organisation's goals and individual employees' goals better align (Alagaraja, 2013; Han et al., 2019; Wright & Snell, 1998) or the organisation's digital systems are able to be used more strategically (Coltman et al., 2015). If the wrong underlying strategic driver is chosen or it is assumed what is good for the organisation today will be good for it tomorrow, then the organisation could struggle. Inconsistencies between the organisation and the greater institutional environment may emerge that become extremely problematic. They may be very difficult to bridge without completely transforming the organisation.

To avoid inconsistencies emerging, it is important to consider the cross-disciplinary and wide-ranging strategic implications of the organisation's unique institutional context. This is illustrated diagrammatically in (Fig. 1.3). As opposed to (Fig. 1.2), it is taken as a given that just as much effort should be placed on building suitable horizontal structures as is placed on building vertical structures. As illustrated in (Fig. 1.3), this is because market and non-market environments cannot be thoroughly addressed without establishing an appropriate set of knowledge sharing, learning, decision-making and collaborative action-oriented structures based on what was learned about the institutional environment. The ability to respond to the institutional environment may also be contingent on the ability to source resources from across the organisation and effectively use them. If the corporate strategy informs how the three market and non-market strategies are developed, implemented and/or revised over time, and the four lower-level strategies inform the corporate strategy, a diversity of people with expert knowledge and experience of all kinds will need to be involved in every single strategic decision made at the organisation. This needs to be enabled as much as is practicably possible through the formal structures. This includes by establishing platforms, self-forming teams and/or focused microdivisional structures (Zubac et al., 2021).

The Strategy and Change Interface

However, despite knowing more than we have known ever before about the strategy and change interface, it is still difficult to understand how organisations can approach strategic change problems consistently. Resource-based theory has come close to providing a solution. It is still the dominant theory for explaining why some organisations are able to outperform other organisations within their industry for sustained periods of time. Indeed, it deservedly pushed IO economic explanations for high performance from the top spot of explanations because it explains how the possession of a superior resource base could improve an organisation's competitiveness within its industry (Helfat et al., 2007). However, as previously discussed, an institution-based view has the potential to

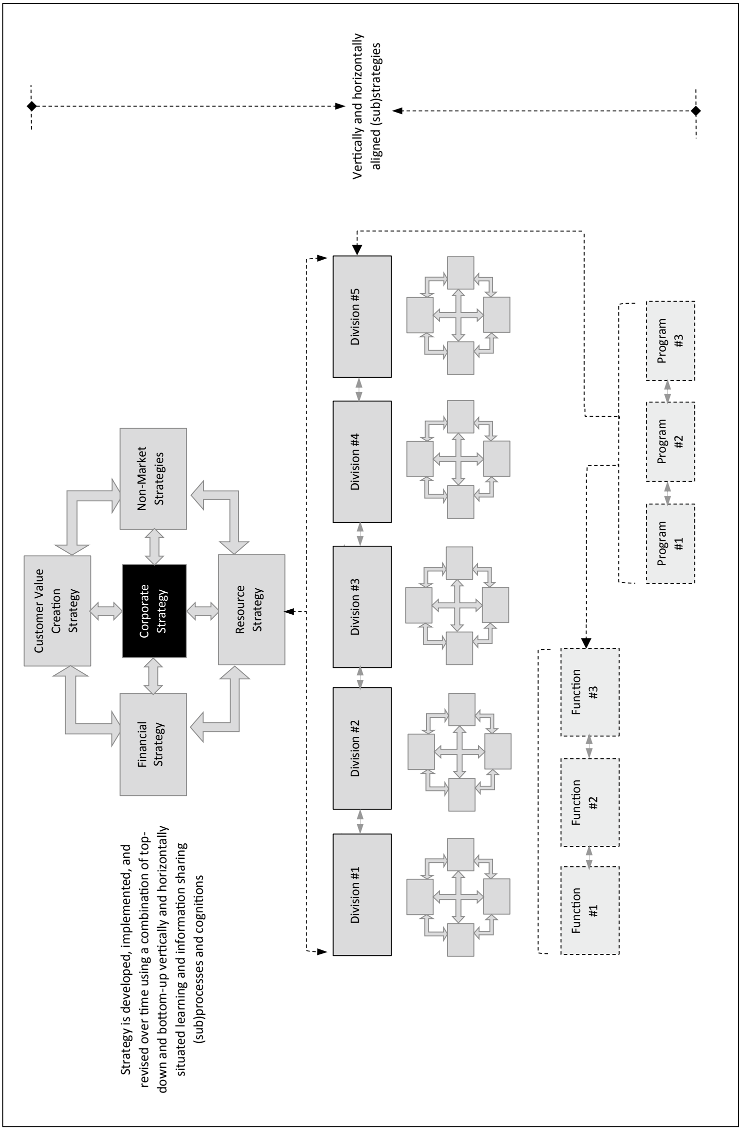

Fig. 1.3 Example of structures at a large modern organisation

provide even more insight into the sources of competitive advantage and high performance more generally because it also explains the benefits of becoming similar to other organisations.

Interestingly, there are situations when an institution-based view also explains a differential advantage. For instance, when an organisation is at the forefront of changing an institution with broad social implications, it may become known as the organisation that took the lead. Some organisations have been the first or only organisation to propose a change to a law or standard, to comment on a proposed change in government policy or to suggest and garner support for the establishment of a new industry body. Indeed, there are many potential reputational and knowledge-based advantages that an organisation can gain by taking the lead to transform an institution (Greenwood & Suddaby, 2006). Analogously, some organisations will imitate the competitive actions and business models of successful organisations during periods of uncertainty to avoid being left behind. There are many potential ways to benefit from being known as an industry leader or being the first to introduce a new type of business model to the market (DiMaggio & Powell, 1983). Thus, in addition to providing insights about the benefits of sameness, an institution-based view explains institution-based forms of differentiation. This is something that IO economics and resource-based explanations of differential performance have not explained.

Without a doubt, leaders face many challenges when navigating the strategy and change interface. In addition to determining the extent to which an organisation should differentiate itself from other organisations while simultaneously pursuing social legitimacy, leaders also need to understand the many different actions their organisations can take given the diversity of markets and non-market institutions that confront the organisation on any given day. The problem is only so much can be achieved at any one time too. Also, what works well one day may not work well another day. It may take years for an organisation to come even close to achieving its stated strategic objectives, if at all. Even if is able to achieve good things through its strategies, there is another challenge to overcome. Organisations cannot grow and perform sustainably over time unless they can develop the dynamic capabilities that they need to enable their people to sense, seize and reconfigure or transform the organisation as is necessary. Dynamic capabilities are the means by which organisations are able to meet the demands of a changing external environment. However, they need to be able to change too.

These ideas are illustrated diagrammatically in (Fig. 1.4). Just as before, it can be observed that corporate strategy informs the four lower-level strategies. The four lower-level strategies inform the corporate strategy. All of these strategies are important for addressing the capital, product and service, resource markets and non-market institutions of most relevance to the organisation. These can variously promote or constrain the organisation's growth. Most importantly, (Fig. 1.4) makes it clear organisations cannot effectively develop, implement and revise their strategies over time allowing for the institutional context unless it possesses sensing, seizing and reconfiguring/transforming dynamic capabilities. These need to be particularly attuned when the institutional environment is especially

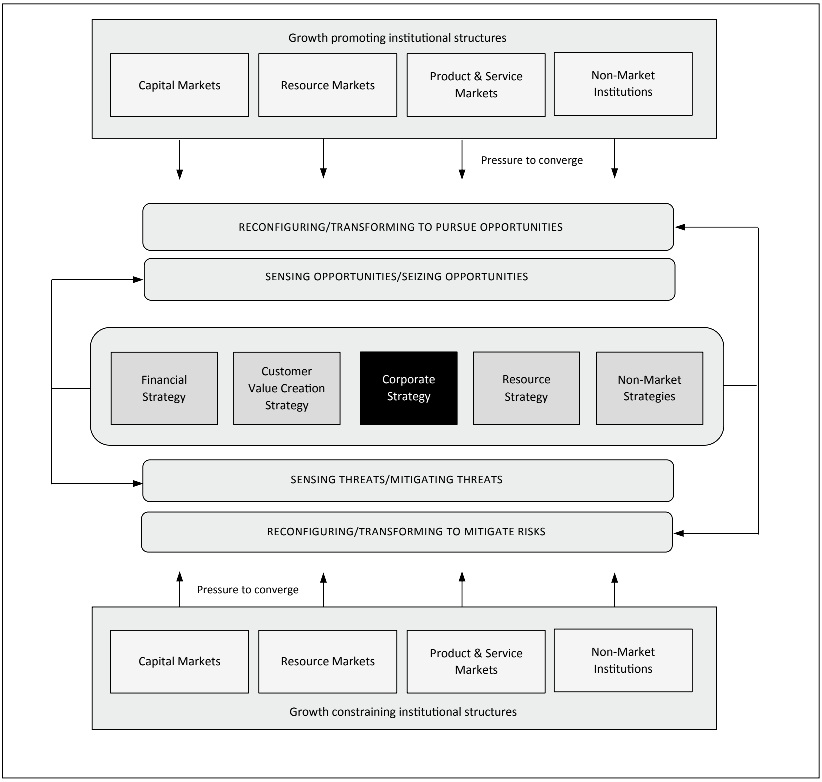

Fig. 1.4 An institutional approach to strategy and change

complex and diverse. As the double-headed arrows suggest, the dynamic capabilities organisations develop by utilising many (sub)processes and cognitions are always changing too because new ways to sense, seize and reconfigure/transform are always necessary to find to stay relevant.

Logically, since dynamic capabilities allow organisations to keep pace with change emanating from the external environment, organisations that find it difficult to address change in the external environment are less likely to possess dynamic capabilities. The capabilities they develop will be of a more ad hoc nature. This is not to say that the people leading such organisations should just give up. When an organisation becomes good at sensing, seizing and reconfiguring through the process of implementing the strategy, as bad as it might be, its people can change the strategy. The organisation can then pursue the opportunities that would have otherwise been overlooked (Lee & Puranam, 2016).

Thinking, Collaborating and Acting Strategically Together

In summary, there are many good reasons why leaders should not take a rigid stepwise approach when developing and implementing its strategies. Although it can be helpful to run strategy workshops or go away to a strategy retreat to get to know each while setting the organisation's direction, this is only a small part of what strategy is all about. Ultimately, the strategy process works best when everyone, in every part of the organisation, understands that the concept of "the current strategy" is just that, a concept. It is simply a means by which everyone can learn about the organisation's longer-term strategic objectives and identify the projects that should be undertaken in future to achieve them. The strategy process also works best when everyone understands the strategy is not set in stone and that it will change over time as it becomes clearer how the organisation can more effectively address the external environment with the resources it has on hand.

As to the latter, it will be important to establish the ways in which the organisation's people can change the strategy, including improve upon how fit with the external environment is achieved over time. The dynamic capabilities, particularly the specific (sub)processes and cognitive methods that are key for enabling these changes, must be apparent and accessible. Everyone at the organisation should be aware of how they can use these tools for adapting the organisation and the extent to which they are authorised to use them to initiate change given the organisation's decision-making and operational structures. The organisation's people cannot contribute to the strategic development of the organisation over time otherwise. Likewise, how internal stakeholders think, feel and institutionalise knowledge and interact with each other, as well as interact with external stakeholders must be understood. Certainly, this is something that the astute leader needs to understand will be part of the mix.

These ideas are considered by the chapter contributors of this book in a variety of ways, reflecting a range of theoretical and disciplinary traditions. Consequently, the book has been divided into five sections. The first considers the nature of the strategy process. The second, third and fourth consider how the financial, product and service, and resource markets of most relevance to the organisation could impact it. The fifth and final section considers the non-market environment and how organisations could address it. The chapters demonstrate the relationship between the corporate strategy and the four fundamental strategies. Importantly, they demonstrate the many recursive practices and enabling structural, learning and cognitive mechanisms that should be in place and then effectively utilised to implement a strategy as a process of learning, as suggested diagrammatically in (Fig. 1.5). Each strategy is essentially a reflection of the other. The following is an overview of the sections and the chapters contained within them.

The Strategy Process

The three chapters in the first section of this book consider the nature of the strategy process in some detail from different disciplinary view-points. Chapter 1 by Steven Cofrancesco, *A social context view of strategic cognition: Strategists are highly emotional and interactive Homo sapiens*, argues that it is a mistake to assume strategy can be formulated and implemented linearly and rationally. The strategy process evokes strong emotions. These can be advantageously harnessed. Chapter 2 by Harry Sminia and Freddy Valdovinos Salinas, *Implementing strategy and avenues of access: A practice perspective*, argues that strategy is best conceived as a continuous implementation process. This is because the structures, incentives, cultural and people goals, and controls put in place to position the organisation in future can never be pursued with certainty. Concomitantly, Chapter 3 by Czeslaw Mesjasz, *Strategy implementation and organisational change:*

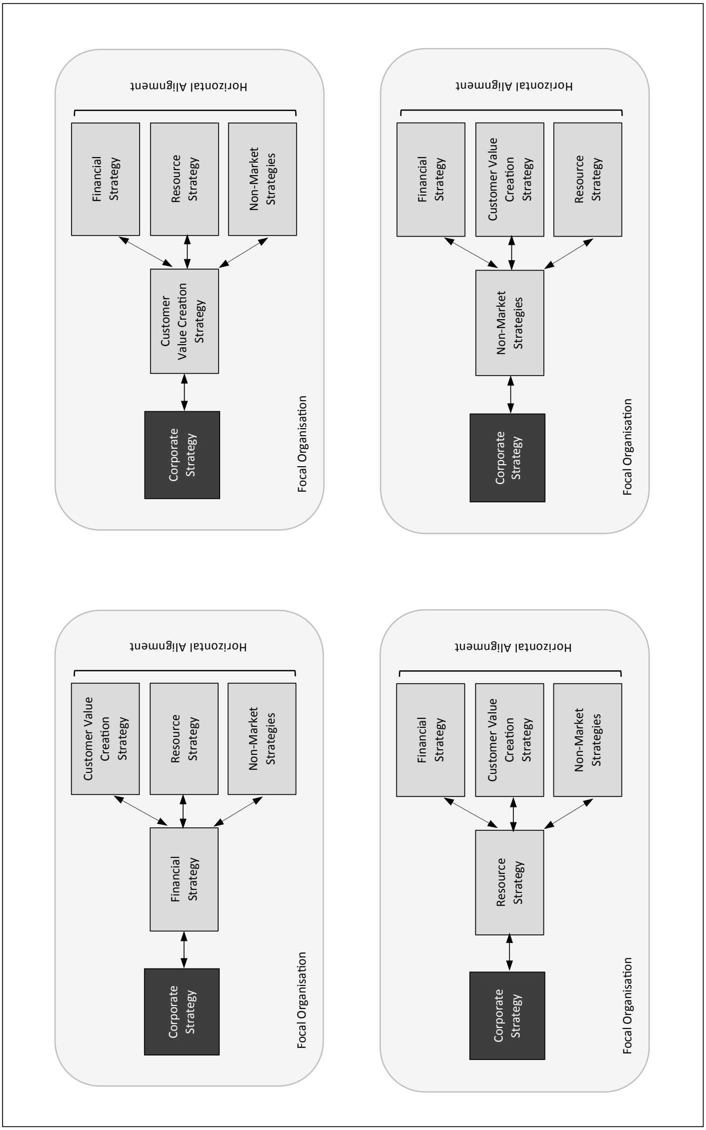

Fig. 1.5 Towards a strategically aligned organisation: Thinking, collaborating and acting strategically together