

Organizational Structure

Whatever action is performed by a great man, common men follow in his footsteps, and whatever standards he sets by exemplary acts, all the world pursues.

BHAGAVAD GITA

A strategic planning system should provide answers to two basic questions: what to do and how to do it. The first question refers to selection of a strategy; the second, to organizational arrangements. An organization must have not only a winning strategy to pursue but also a matching structure to facilitate its implementation. The emphasis in the preceding chapters has been on strategy formulation. This chapter is devoted to building a viable organizational structure to administer the strategy.

As we enter the next century, principles of strategic analysis and planning have been fully integrated into corporate decision making at all levels. Yet, although these precepts now enjoy global acceptance, the need to translate strategic guidelines into long-term results and adapt them to rapidly changing market conditions continues to rank among the major challenges confronting today's companies. Essentially, there are three aspects of implementation that, if properly organized, can lead to superior corporate performance and competitive advantage: organization planning, management systems, and executive reward programs.

Fitting these aspects to the underlying strategy requires strategic reorganization. There is no magic formula to ensure successful reorganization and, generally, no "perfect" prototype to follow. Reorganization is a delicate process that above all requires a finely tuned management sense.

The discussion in this chapter focuses on five dimensions: (a) the creation of market-responsive organizations, (b) the role of systems in implementing strategy, (c) executive reward systems, (d) leadership style (i.e., the establishment of an internal environment conducive to strategy implementation), and (e) the measurement of strategic performance (i.e., the development of a network of control and communication to monitor and evaluate progress in achieving strategic goals). In addition, the impact of strategic planning on marketing organization is studied.

THE TRADITIONAL ORGANIZATION

Corporations have traditionally been organized with a strong emphasis on pursuing and achieving established objectives. Such organizations adapt well to growing

internal complexities and provide adequate incentive mechanisms and systems of accountability to support objectives. However, they fail to provide a congenial environment for strategic planning. For example, one of the organizational capabilities needed for strategic planning is that of modifying, or redefining, the objectives themselves so that the corporation is prepared to meet future competition. The traditional organizational structure, based on “command and control” principles, resists change, which is why a new type of structure is needed for strategic planning:

The forces shaping organization today are dramatically different from those facing Frederick Taylor and Alfred Sloan. End-use markets are fragmenting, requiring faster and more targeted responses. Advances in the ability to capture, manipulate, and transmit information electronically make it possible to distribute decision making (“command”) without losing “control.” Gone is the abundant, primarily male, blue-collar workforce. Workers today are better educated, in short supply, and demanding greater participation and variety in their jobs.

Individually all these changes are dramatic; collectively they shape a new era in organization and strategy. Strategies are increasingly shifting from cost- and volume-based sources of competitive advantage to those focusing on increased value to the customer. Competitive strength is derived from the skills, speed, specificity, and service levels provided to customers. The Command and Control organization is under strain. Indeed, many businesses are finding that C&C principles now result in competitive disadvantage.¹

Exhibit 11-1 differentiates the characteristics of command and control structure (i.e., traditional organization with emphasis on the achievement of established objectives) and strategic planning. By and large, command and control structure works in known territory and is concerned with immediate issues. Strategic planning stresses unfamiliar perspectives and is oriented toward the future.²

CREATING MARKET-RESPONSIVE ORGANIZATIONS

As markets and technologies change more and more rapidly, organizations must respond quickly and frequently to strategic moves if they are to sustain competitive advantage. Although corporations have learned to make changes in strategy quickly, their organizations may lack parallel market responsiveness. One major reason for this failure is the conflict between scale economics, which is geared to the expansion and aggregation of resources, and the economics of vertical integration, which links differentiated functions and resources for maximum efficiency in responding to market changes.

The opposing pressures fueling this conflict are both subtle and complex. On one side of the equation are all the forces contributing to the need to reap maximum scale advantage. On the other side of the equation, the accelerated pace of change—environmental, competitive, and technological—drives corporations toward increased flexibility, high levels of internal integration, and smaller operating units.

Although scale advantage has traditionally held high ground, evidence is mounting that highly integrated organizations can increase productive capacity through the efficient coordination of functions and resources while remaining

EXHIBIT 11-1
Organizational Characteristics

<i>Command and Control Structure</i>	<i>Strategic Planning</i>
<ol style="list-style-type: none"> 1. Concerned with goals derived from established objectives. 2. Goals usually have been validated through extensive experience. 3. Goals are reduced to specific subgoals for functional units. 4. Managers tend to identify with functions or professions and to be preoccupied with means. 5. Managers obtain relatively prompt evidence of their performance against goals. 6. Incentives, formal and social, are tied to operating goals. 7. The "rules of the game" become well understood. Experienced individuals feel competent and secure. 8. The issues are immediate, concrete, and familiar. 	<ol style="list-style-type: none"> 1. Concerned with the identification and evaluation of new objectives and strategies. 2. New objectives and strategies can be highly debatable; experience within the organization or in other companies may be minimal. 3. Objectives usually are evaluated primarily for corporate significance. 4. Managers need a corporate point of view oriented to the environment. 5. Evidence of the merit of new objectives or strategies is often available only after several years. 6. Incentives are at best only loosely associated with planning. 7. New fields of endeavor may be considered. Past experience may not provide competence in a "new game." 8. Issues are abstract, deferrable (to some extent), and may be unfamiliar.

highly adaptive and market sensitive. Such organizations respond to the strategic need for change more quickly, smoothly, and successfully than centralized, large-unit organizations oriented toward scale aggregation.³

Management has basically three options for resolving the conflict between scale and integration. First, a company can choose to centralize its functions in order to achieve scale at the expense of market responsiveness. Second, it can opt for market responsiveness over scale; that is, it can emphasize small, independent units. Third, it can adopt another, more difficult approach, exploiting the strengths associated with both large and small organizational units to achieve benefits of scale and market responsiveness simultaneously. The key to sustainable competitive advantage lies in successful pursuit of the third alternative.

Exploiting the benefits of both large and small organizational structures involves creating market-responsive units within a framework of shared resources. Such units can combine the strengths of a small company (lean, entrepreneurial management; sharp focus on the business; immediacy of the relationship with the customer; dedication to growth; and action-oriented viewpoint) with those of the large company (extensive financial information and resources; availability of multiple technologies; recognition as an established business; people with diverse skills to draw on; and an intimate knowledge of markets and functions).

*Procedure for
Creating a Market-
Responsive
Organization*

The creation of such units demands that planners determine, as precisely as possible, in what form and to what degree resources must be integrated to ensure the level of market responsiveness dictated by their business strategy. This process can be successful only when it is undertaken in the context of a rigorous analytical framework that links strategy to organization.

To create a market-responsive organization, management can use a three-phase process: (a) determine corporate strategic boundaries, (b) balance the demands of scale and market responsiveness, and (c) organize for strategic effectiveness.

Determine Corporate Strategic Boundaries. How successfully a corporation aligns its structure with its strategic objectives depends on its success in making a number of key decisions: determining the stage of the value-added process at which it will compete, identifying those activities in which it has a competitive edge, selecting the functions it should execute internally, and developing a plan of action for integrating those functions most productively. These decisions determine how resources should be allocated and how external and internal boundaries should be drawn. They define the company's business—its products, services, customers, and markets—and determine both long- and short-term strategic potential. How well the company exploits its assets and the degree to which each division's performance supports strategic objectives determine how close it will come to achieving that potential.

How strategic boundary setting reflects the trade-offs between scale and integration becomes clearer when one considers the case of an assembler facing a typical make-or-buy decision for components. As long as the components manufacturer is able to produce common components for several customers, the assembler among them, the components manufacturer enjoys scale advantage. As the products ordered by the assembler become more specialized in response to market demands or increased competitive pressures, however, the benefits the components manufacturer gains from scale begin to decline. At the same time, the cost of integrating operations with those of the assembler increases as technical specifications become more complex and as manufacturing operations become more interdependent. To continue their relationship and sustain their respective advantages, the components manufacturer and the assembler are required to make additional investments: the components manufacturer in capital equipment outlays and product design; the assembler in negotiating terms, research and development planning, quality control, and related areas. As a result, a substantial "disruption cost" is incurred if the components manufacturer and the assembler decide to end their business relationship. Both parties attempt to guard against this potential loss through longer-term contracts, whether explicit or implicit. As interdependence increases, prices and contract negotiations become cumbersome and unresponsive. At some point, the economies of scale may decline enough and the integration costs climb high enough that the assembler finds it more cost effective to produce components internally—to bring that particular function inside the assembler's corporate boundaries.

In this classic make-or-buy example, economic trade-offs between scale and integration costs are direct and relatively clear-cut. As we move from simple make-or-buy decisions to issues of full-scale vertical integration, the economic impact can be far more subtle and far-reaching. Scale advantage is not expressed solely in terms of lower unit manufacturing costs but may also flow from the critical mass of skills gained or from the transferability of new product or process technologies. Valuable integration benefits, on the other hand, may be gained from the willingness to undertake more profitable research and development investments because vertical integration ensures a “market” in downstream operations.

Balance the Demands of Scale and Market Responsiveness. The balancing of scale and market responsiveness demands may be illustrated with reference to a large insurance company. The company faced a complex set of internal and market-based organizational trade-offs in its core business—property and casualty insurance. Lagging market growth, increased price sensitivity, new forms of product distribution, new information technology, and escalating competition were all placing enormous pressures on the company’s traditional mode of operation. Top management realized that fundamental changes in organization were needed in both its home office and in its field network if the company was to remain competitive and meet aggressive new growth and profit goals.

In responding to these pressures, the company found itself facing a familiar dilemma. On the one hand, it was vital that its organizational structure become more responsive to local market demand, particularly in terms of regional product pricing and agent deployment. This need pointed to decentralization as the logical method for restructuring operations, with the field divided into smaller sales and marketing regions and more responsibility assigned to local management. On the other hand, however, management was determined to reduce the costs of transaction processing. Meeting this need for administrative streamlining appeared to require that field offices around the country be reorganized into larger regional centers to exploit fully the scale economies offered by improvements in automated processing capacity.

Initially, these strategic requirements seemed to set large centers against locally responsive marketing and sales units. Yet, by carefully analyzing and “rewiring” its structure, the company was able to resolve the apparent conflict cost-effectively and efficiently. Here is the approach it pursued. The company’s field operations consisted of essentially self-sufficient regional centers; each center included all functional departments under its umbrella, ranging from sales, claims, and underwriting to operations and personnel. Two of these functions dominated field operations: customer interaction through sales and marketing and transaction processing. Originally, the field organization was designed around exploiting administrative scale in the processing function and balancing the need to locate sales and marketing functions to serve the customer base effectively. The underlying basis for the organizational design was the need to coordinate sales and processing functions because of the high volume of transactions and interactions between them. A layer of management between the home office and the regional centers coordinated programs and enforced company policies.

In line with its new strategic objectives (greater market responsiveness and increased productivity), the company instituted major organizational changes. First, the layer of management between the home office and regional centers was eliminated to improve communications and to facilitate more market-responsive decision making. Second, to achieve scale economies and contain costs, the reporting relationships of the processing centers were shifted from the regional level directly to the home office. New information technology allowed the company to “unhook” processing centers from sales functions and still remain adequately integrated. As a result, the number of regions of independent sale organizations was no longer tied to the number of processing centers. The number of processing centers was reduced as information-technology innovations allowed additional processing capacity, whereas the number of marketing and sales regions was increased as market requirements demanded, allowing the entire sales organization to move closer to its local client base. The needs for both market responsiveness and scale economies in processing was fully satisfied.

Organize for Strategic Effectiveness. To organize for strategic effectiveness, it is important to recognize that the ultimate goal of a business organization is competitive advantage, and the drive for competitive advantage must be expressed in economic terms and pursued through the use of economic tools. Only by placing organizational decisions in an economic context can the value of alternative forms of structure, incentive, and management process be determined.⁴ It is only in the light of these assessments that the steps needed to strike the proper balance between scale and market responsiveness can be taken. Needless complexity, excessive layers of management, and nonessential integration of channels must all be eliminated. The design phase is easy when compared to the difficulties of execution (i.e., implementing organizational change). It requires strong leadership, consistent signals and actions, and strategically driven incentive programs.

*Managing a
Market-Responsive
Organization*

Designing and managing a market-responsive organization requires overturning old assumptions. First, the linearity from strategy to structure and on to systems, staff, etc., cannot be reasoned. The process is instead iterative: a team is formed to meet a strategic need; it sizes up the situation, develops a specific strategy, and reorganizes itself as necessary. What’s more, the structure is temporary. The organization needs to be ready to change its configuration quickly to respond to new needs and circumstances. Second, the organization’s purpose is not to control from the top; it is to empower a group of people to get a job done. Management occurs through training, incentives, and strongly articulated goals, strategies, and standards.

Market-responsive organizations are found most often in businesses that are driven by product development and customer service—electronics and software companies, for example—and are often smaller, younger organizations where traditional boundaries are weaker. Some large-scale models include parts of Honda and Panasonic, 3M, and also, in some ways, GE, which has developed extraordinary flexibility in recent years in reshaping its organization and pushing authority down to frontline managers.

Market-responsive organizations have obvious drawbacks: they lack tight controls, they are ill-suited to exploit scale or to accomplish massive tasks, and they depend on capable and motivated people at the working level. However, companies that cannot use the full market-responsive model can appropriate aspects of it—new product development teams, for instance.

Some large companies, such as IBM, Microsoft, and Dow Chemical, with the need for both innovation and coordination of resources among markets, product lines, and technologies, often use the concept in modified form. They frequently change the focus of resources and control by reshuffling product groups—shifting power among parts of the organization or by using ad hoc teams.

Experience suggests that people are quite willing and able to change as long as they have a clear understanding of what's expected of them, know why it is important to change, and have latitude in designing the new organization. Five key elements that companies should carefully consider in seeking strategic effectiveness are discussed below:⁵

1. **Forge a clear link between strategy and skills**—A company's strategy, which should embody the value it proposes to deliver to its customers, determines the skills it needs. Many companies, however, are not sufficiently clear or rigorous about this linkage. Because Frank Perdue promises to deliver more tender chickens, his organization must excel at the breeding and logistics skills necessary to deliver them. Because Volvo promises to deliver more reliable, tougher, and safer cars, it must be skilled in designing and manufacturing them. Because Domino's Pizza says it will deliver fresh pizza hot to your door within 30 minutes, each of its 5,000 outlets needs to be skilled at making a good pizza quickly and at customer order processing and delivery. Strategy drives skills, but if this linkage is missed, a company may end up doing some things right but not the right things right.
2. **Be specific and selective about core skills**—Managers often describe the core skills their companies need in terms that are too general. Saying that you need to be first rate at customer service or marketing is not good enough. For example, the employees of a department store committed to being better at customer service will not know what to do differently because the term *customer service* doesn't paint a specific enough picture of the behavior desired of them. In fact, a department store needs to be good in at least three different types of customer services: with hard goods such as refrigerators or furniture, customer service must have a high component of product and technical knowledge; with fine apparel, what counts is expertise in fashion counseling; with basics and sundries, the need is for friendly, efficient self-service. Each of these service goals translates into a different set of day-to-day behaviors expected of employees. Unless these behaviors are precisely defined, even willing employees won't change their behavior very much because they won't know how.
3. **Clarify the implications for pivotal jobs**—Consider the department store again. The definition of different types of customer services drives through to the identification of several specific jobs whose performance determines whether customers think the store is good at customer service: the product salesperson for refrigerators, the fashion counselor for fine apparel, and the cashier for sundries. Pushing the skill definition to these specific jobs, which may be called pivotal jobs, allows the company to describe in specific terms what the holders of these jobs

should do or not do, which kind of people to hire, which kind of training and coaching to give them, which rewards motivate them, and which kind of information they need. For example, at Nordstrom, the excellent Seattle-based fashion specialty retailer, the pivotal job is the frontline sales associate. Because Nordstrom is clear about the type of person it wants for this job—someone interested in a career, not just a summer position—it looks more for a service orientation than prior experience. It pays better than the industry average and offers incentives that allow top sales associates to make over \$80,000 a year. Nordstrom stresses customer service above all else. The company philosophy is to offer the customer, in this order, “the best service, selection, quality, and value.”

This clarity about priorities helps sales associates determine appropriate service behavior. So does the excellent product and service training they receive. And so does the customer information system that provides sales associates with up-to-date sales and service records on their customers. Nordstrom recognizes that its business success depends on the success of pivotal jobholders in delivering value to customers, and the company has geared its entire organization to support these frontline associates.

4. **Provide leadership from the top**—The key ingredients that have been found workable in this task include
 - Appeal to the pride of the organization. Most people want to do a superior job, especially for a company that expresses its mission with an idea bigger than just making money. Providing them with a single noble purpose—be it “quality, service, cleanliness, value” or “innovation”—will unleash energy but keep it focused.
 - Clarify the importance and value of building core skills. Provide the organization with a good economic understanding of the value as well as a clear picture of the consequences of not paying attention to core skills.
 - Be willing to do the tough things that break bottlenecks and establish credibility for the belief that “this change is for real.” Usually, the toughest things involve replacing people who are change blockers, committing key managers to the skill-building effort, and spending money on it.
 - Treat the program to build skills as something special, not as business as usual. Reflect this in the leader’s own time allocation, in the questions he or she asks subordinates, in the special assignments he or she gives people, in the choice of the special measurements he or she looks at, and so on.
 - Over-communicate to superiors, subordinates, customers, and especially to pivotal jobholders. Talk and write incessantly about the skill-building program—about the skills the company is trying to build and about why they are critical; about early wins, heroes, and lessons learned from failures; about milestones achieved.
5. **Empower the organization to learn**—Organizations, like individuals, learn best by doing. Building new core skills is preeminently a learning process. Sketch out for employees the boundaries of their playing field by defining the strategy, the skills the company is trying to build, the pivotal job behaviors required, and the convictions they must hold about what is right. But within these boundaries, give them a lot of room to run—to try things, succeed, fail and to learn for themselves exactly what works and what doesn’t. They will figure out for themselves details that could never be prescribed from above.⁶

To illustrate the point, take, for example, the 10,000 route salespeople of Frito-Lay. Michael Jordan, the company's president, says that these people with their "store to door service" control the destiny of Frito-Lay. Wayne Calloway, PepsiCo's former president and past CEO of Frito-Lay, describes this pivotal job as follows: "Our sales people are entrepreneurs of the first order. Over 100,000 times a day they encounter customers who are making buying decisions on the spot. How in the world could an old-fashioned sort of management deal with those kinds of conditions? Our approach is to find good people and to give them as much responsibility as possible because they're closest to the customer, they know what's going on."⁷

ROLE OF SYSTEMS IN IMPLEMENTING STRATEGY

The term *systems* refers to management systems, which include any of the formally organized procedures that pervade a business. Three types of systems may be distinguished: execution systems, monitoring systems, and control systems.

1. **Execution systems** focus directly on the basic processes for conducting the firm's business. They include systems that enable products to be designed, supplies to be ordered, production to be scheduled, goods to be shipped, cash to be applied, and employees to be paid.
2. **Monitoring systems** are any procedures that measure and assess basic processes. They can be designed to gather information in different ways to serve a number of internal or external reporting purposes: to meet SEC or other regulatory requirements, to control budgets, to pay taxes, and to serve the strategic and organizational intent of the company.
3. **Control systems** are the means through which processes are made to conform or are kept within tolerable limits. At the broadest level, they include separation of duties, authority limits, product inspection, and plan submittals.

As can be seen from this brief description, systems pervade the conduct of business. For that very reason, systems provide ample opportunity for strategies to fail. In most companies, the major emphasis is on execution systems. But creating systems that support strategies and organizational intent requires top management to include monitoring and control systems in addition to executing systems in strategic thinking and to focus on systems in strategy implementation. It means, as part of the strategic planning, answering such key questions as: What are the critical success factors? How do they translate into operational performance? How should that operational performance be measured and motivated? How should information about financial performance be derived? What business cycles are important? How should systems support them? What is the role of financial controls and measures? Where should control of information reside? How should strategic objectives and organizational performance be monitored and modified? How should internal and external information be linked?

In short, integrating all systems with strategy requires great vision—the ability to see the firm as an organic whole. Unfortunately, too many systems managers lack vision or clout and too many executives lack the understanding or the inclination to make this integration happen.

Techniques for Systems Design

To create systems that support strategic and organizational intent, top management must include systems in strategic thinking and focus on systems in strategy implementation. Once critical success factors have been identified and translated into operational measurements, good systems design techniques are needed to ensure that those factors and measurements are appropriately accommodated by all systems. Following are some guidelines for good systems design:

1. **Design an effective information-capturing procedure**—Data should be captured close to the source, and source documents should be linked. For example, at one company, data processing personnel collected information on raw materials from receiving reports two days after delivery and entered that information into purchasing control and inventory management systems. Two days later, accounting gathered information on the same delivery from invoices, this time entering it into accounting systems. The failure to link source documents led to apparent inventory discrepancies. Purchasing and inventory processes focused on inventory codes and quantities; accounting processes dealt with accounting codes and monetary amounts, which were available only at the end of the month.
These problems required a three-part solution: placing terminals at the receiving dock, where receiving clerks could enter operating information; using internal links to accounting codes; and creating a reconciliation proof on which quantities and amounts were entered as invoices were received.
2. **Manage commonly used data elements for firm-wide accessibility and control**—If a multidivisional firm allows each unit to code inventory discretely, stock that is commonly used cannot be traded and rebalanced. Traditionally, auto dealers maintained independent inventory controls. By contrast, Ford Motor Company has worked to keep its inventory records consistent and thus accessible to dealers so that imbalances at one lead to opportunities for another.
3. **Decide which applications are common and which tolerate distributed processing**—Typical considerations here include pinpointing the need to share data, determining the availability of hardware and software offerings that make a distributed approach feasible, and investigating the effect of geographical distance. Once a particular application or function is judged appropriate for a distributed approach, it must be integrated into an information network.
4. **Manage information, not reports**—Systems are often developed with end reports in mind, focusing on output, not content. If needs change or if developers and users misunderstand each other, the results can lead to frustration at best or the inability to modify output at worst. When the development focus is on content, on information that has been strategically identified as critical to success, users can tailor the presentation of output to their purposes. For example, in one company with a well-constructed receivables database, one manager chose to compare cash collections to target amounts, another used days outstanding, and a third used turnover ratios.
5. **Examine cost-effectiveness**—Questioning the value of a system and of the work required to support it is healthy. But such questioning must be handled properly. As an example, to escape merely chipping away at existing processes through cost reduction, Procter & Gamble developed its elimination approach, which is based on the key “if” question: If it were not for this [reason], this [cost] would be eliminated.⁸
Designing and maintaining systems that focus on strategic intent and that assess performance in terms of that intent is crucial to the success of a strategy. In fact, a

lack of integration between systems and strategy is an important reason why sound strategic and organizational concepts get bogged down in implementation and do not achieve the results their creators intended. Soundly designed and managed systems do not happen casually: they emerge only with top management involvement and with a clear vision of the importance of systems to strategic outcomes.

EXECUTIVE REWARD SYSTEMS

Executive compensation and strategy are mutually dependent and reinforcing. A good reward system should have three characteristics:⁹ (a) it should optimize value to all key stakeholders, including both shareholders and management alike (the so-called agency problem); (b) it should properly measure and recapture value; and (c) it should integrate compensation signals with those implicit in strategy and structure. Although these issues are generally addressed from the perspective of plan implementation, they also have an important but rarely noted strategic dimension. And that strategic dimension actually has a make-or-break impact on plan effectiveness.

The Agency Problem

The agency problem refers to the potential conflict of interest between shareholders and their agents, the executives charged with implementing corporate strategy. The executives of a corporation serve as agents of the corporation's shareholders. Yet, though both executives and shareholders are stakeholders in a corporation, their interests do not coincide. In fact, they naturally diverge on three counts: risk position (e.g., shareholders stand last in line among claimants to the resources of the corporation, whereas executives have the right to payment of salaries and benefits before the claims of shareholders are met); ability to redeploy (e.g., shareholders can freely redeploy their investments; the executives' human capital invested in the course of a career may not be easily redeployable at full value); time horizon (e.g., shareholders embrace long time horizons to earn competitive returns; time horizons of executives are usually shorter). These differences lead to differences in the ways each group measures the risks and rewards of any corporate action. In general, the differences in risk evaluation make a company's executives more averse to risk than are its shareholders.

Resolving the agency problem requires bridging the gap between the inherently divergent interests of shareholders and the executives entrusted with the responsibility of safeguarding and increasing shareholder investments. Though executive compensation plans can and should help resolve this problem, they often compound it. Most incentive plans, for example, are based on improvements in short-term earnings; therefore, they actually inhibit the very risk decisions required to provide highly competitive returns to shareholders.

New and creative ways of compensating executives must be developed to synchronize their interests with those of shareholders.

The Value Problem

From the company's viewpoint, the value issue is twofold. One aspect revolves around the need to reward executive performance in a way that is systematically

related to the market value of the corporation. The other is the need to create incentive plans for managers of individual business units.

In this book, our major concern is with creating incentive plans for managers of individual business units. Compensation planning for individual business units is illustrated with reference to a hypothetical company, Hellenic Corporation.¹⁰

Hellenic Corporation consists of four businesses: Alpha, Beta, Gamma, and Delta. Alpha operates in a promising market but needs to increase market share rapidly. Beta is an efficient, well-run business that already has the largest share of a mature market. Gamma, once a top performer, has suffered recently from serious management mistakes; nevertheless, it has the potential to be a winner again. Delta is a mediocre performer in a mediocre market; moreover, its business is largely unrelated to the other businesses of the corporation.

Hellenic's strategic plan calls for Alpha to grow rapidly, for Beta to capitalize on its well-established position, for Gamma to turn itself around, and for Delta to be divested. This plan maximizes the value of the corporation as a whole. Each division is vital to the corporation's success; however, the management objectives of the chiefs at Alpha, Beta, Gamma, and Delta differ from one another and influence the market value of the firm in distinct ways. This conflict, however, does not mean that shareholder value is an impractical standard for determining executive reward. Even when a manager's performance is related only indirectly to shareholder value, increasing shareholder value need not be abandoned as the aim of executive compensation planning. The challenge is to craft a plan that links performance to value in a way that is consistent with the corporation's long-term strategy. To do this requires tailoring a specific compensation package for the manager of each business unit. The determinants of compensation at Alpha must be different from those at Beta, which again must be different from those at Gamma and at Delta.

This overall plan can be created by analyzing how risk and time horizons in executive pay plans suit the strategic objectives of each business unit. For example, the top manager at Alpha is engaged in a very long-term project. Exceptional growth and profitability are planned, and the risks incurred in executing the plan are considerable. These circumstances call for a pay package geared to the entrepreneurial challenges facing Alpha. Accordingly, the time horizon is very long and the risk posture is high. At Beta, where the prime objective is to maximize returns from a well-established market position, the time horizon and risk posture are moderate. At Gamma, the turnaround candidate, the time horizon is short and the risk posture is very high. At Delta, being managed for window dressing, the time horizon is short and the risk posture is low. In addition, other special sell-off compensation arrangements (e.g., a percentage of the sale price) may be needed.

*The Signaling
Problem*

A *signal* is simply an inducement to action. Because pay is clearly a powerful inducement to action, compensation systems are powerful signaling devices. Other signaling devices include financial controls, the planning process, and the top management succession plan. All these factors convey messages about what

a corporation expects and what it values. Collectively, these signals shape the corporation's culture and determine the actions it takes in given situations.

When management sends consistent signals through all channels, it adheres to a clear strategic track. Unfortunately, conflicting internal signals are common, and compensation is frequently the area of greatest dissonance. Companies must tackle the signaling problem directly. Winners should be paid like winners, and poor performers must not be rewarded. Briefly, executive compensation plans require more risk taking based on real value.

Incentive plans should be designed to induce risk taking. They should make executives think like owners. That is, the plan must bring the interests of executives in line with the interests of shareholders. By resolving the problems of agency and value, by ensuring that high levels of risk taking reap commensurate rewards, and by eliminating conflicting signals, companies can put in place the kinds of incentives required to create exceptional value for owners and agents alike.

LEADERSHIP STYLE

However strategic plans are arrived at, only one person, the CEO, can ensure that energies and efforts throughout the organization are orchestrated to attain desired objectives. What the Chinese general and philosopher Sun-tzu said in 514 B.C. is still true today: "Weak leadership can wreck the soundest strategy; forceful execution of even a poor plan can often bring victory." This section examines the key role of the CEO in shaping the organization for strategy implementation. Also discussed is the role of the strategic planner, whose activities also have a major impact on the organization and its attitude toward strategic change.

Role of the CEO

The CEO of a company is the chief strategist. He or she communicates the importance of strategic planning to the organization. Personal commitment on the part of the CEO to the significance of planning must not only be highly visible—it must also be consistent with all other decisions that the CEO makes to influence the work of the organization.¹¹ To be accepted within the organization, the strategic planning process needs the CEO's support. People accustomed to a short-term orientation may resist the strategic planning process, which requires different methods. But the CEO can set an example for them by adhering to the planning process. Essentially, the CEO is responsible for creating a corporate climate conducive to strategic planning. The CEO can also set a future perspective for the organization. One CEO remarked:

My people cannot plan or work beyond the distance of my own vision. If I focus on next year, I'll force them to become preoccupied with next year. If I can try to look five to ten years ahead, at least I'll make it possible for the rest of the organization to raise their eyes off the ground immediately in front of them.¹²

The CEO should focus attention on the corporate purpose and approve strategic decisions accordingly. To perform these tasks well, the CEO should support the staff work and analysis upon which his or her decisions are based. Along

the same lines, the CEO should ensure the establishment of a noise-free communications network in the organization. Communications should flow downward from the CEO with respect to organizational goals and aspirations and the values of top management. Similarly, information about risks, results, plans, concepts, capabilities, competition, and the environment should flow upward. The CEO should avoid seeking false uniformity, trying to eliminate risk, trusting tradition, dominating discussion, and delegating strategy development.¹³ A CEO who does these things could inadvertently discourage strategy implementation.

Concern for the future may require a change in organizational perspectives, as discussed above. The CEO should not only perceive the need for a change but should also be instrumental in making it happen. Change is not easy, however, because past success provides a strong motive for preserving the status quo. As long as the environment and competitive behavior do not change, past perspectives are fine. However, as the environment shifts, changes in policies and attitudes become essential. The CEO must rise to the occasion and not only initiate change but encourage others to accept it and adapt to it.¹⁴ The timing of a change may be more important than the change itself. The need for change must be realized before the optimum time for it has passed so that competitive advantage and flexibility are not lost. Exhibit 11-2 summarizes the qualities and attributes of a chief strategist.

Zaleznink makes a distinction between the CEO who is a manager and the CEO who is a leader. Managers keep things running smoothly; leaders provide

EXHIBIT 11-2

Qualities and Attributes of a Chief Strategist

1. **Trustworthiness.** Trustworthiness is one of the most important qualities required by any leader. In other words, anyone seeking to be a leader should always tell the truth, if for no other reason than it is simpler.
 2. **Fairness.** Americans will forgive much, but seldom unfairness. Unfairness in a chief executive (or for that matter in any executive) is particularly serious, because he or she sets the example for everyone else. In fact, to be called an unfair leader is damning, and even implies a flawed character.
 3. **Unassuming behavior.** Arrogance, haughtiness, and egotism are poisonous to leadership. Having a "servant" leadership viewpoint helps any CEO focus on company performance and on the needs of constituents rather than on his or her own performance or image. Successful leaders are as unassuming in the surroundings they create—or tolerate—as they are in their behavior.
 4. **Leaders listen.** Active listening helps assure the other person that he or she is being heard and understood. Unfortunately, of all the skills of leadership, listening is one of the most valuable; yet one of the least understood.
 5. **Open-mindedness.** Any leader with an open mind makes better judgements, learns more of what he or she needs to know, and establishes more positive relations with subordinates and constituents. In such an environment, people in the organization can be more productive.
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EXHIBIT 11-2***Qualities and Attributes of a Chief Strategist (continued)***

6. **Sensitivity to people.** A leader cannot motivate or persuade constituents or others effectively without having some sense of what is on their minds. Sensitivity to people also means that leaders are sensitive to their feelings. Leaders are polite, considerate, understanding, and careful that what they say to someone is not dispiriting unless criticism is intended.
 7. **Sensitivity to situations.** Situations are created by people and must be dealt with by people. Any company leader who is called on to resolve a dispute or disagreement must combine a careful analysis of the facts with an acute sensitivity to the feelings and attitudes of the people involved.
 8. **Leaders take initiative.** Initiative is one of the most important attributes of any leader. Just think a bit, use judgment, and act. Nothing happens except at the initiative of a single person.
 9. **Good judgment.** Judgment is the ability to combine hard data, questionable data, and intuitive guesses to arrive at a conclusion that events prove to be correct.
 10. **Broad-mindedness.** Broad-mindedness refers to tolerance of varied views and willingness to condone minor departures from conventional behavior. This attribute is closely related to being open-minded, adaptable, and flexible. Other aspects of broad-mindedness are being undisturbed by little things, willing to overlook small errors, and easy to talk with.
 11. **Flexibility and adaptability.** The leader should be ready to consider change and be willing to make changes when most agree they are needed.
 12. **Capacity to make sound and timely decisions.** All decisions will be of higher quality where subordinates are free to speak up and disagree. The leader should recognize that the speed as well as the quality of his or her decisions will set an example for others to follow in the organization.
 13. **Capacity to motivate.** A leader should have the capacity to move people to action, to communicate persuasively, and to strengthen the confidence of followers.
 14. **Sense of urgency.** A sense of urgency should underlie everything that the leader does—for example, bring new products out on time, deliver orders promptly, or get things done faster than competitors. When a sense of urgency has spread through a company, it can make a substantial difference in both effectiveness and efficiency, making it easier to speed up activities further when necessary.
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Source: See Marvin Bower, *The Will To Lead* (Boston, MA: Harvard Business School Press, 1997).

longer-term direction and thrust.¹⁵ Successful strategic planning requires that the CEO be a good leader. In this capacity, the CEO should

1. Gain complete and willing acceptance of his or her leadership.
2. Determine those business goals, objectives, and standards of behavior that are as ambitious as the potential abilities of the organization will permit.
3. Introduce these objectives and motivate the organization to accept them as their own. The rate of introduction should be the maximum that is consistent with continued acceptance of the CEO's leadership. Because of this need for acceptance, the new manager must always go slowly, except in emergencies. In emergencies, the boss must not go slowly if he or she is to maintain leadership.

4. Change the organizational relationships internally as necessary to facilitate both the acceptance and attainment of the new objectives.

A coordinated program of change in pursuit of a sound and relevant strategy under the active direction of the chief executive and the chief planner can lead to significant progress. Although this may only begin a long-term program, it should yield benefits far beyond the time and effort invested. Although pace and effectiveness of strategic change cannot be judged in quantitative terms, there are useful criteria by which they may be assessed. Some of the more important hallmarks of progress are listed here:

- Strategies are principally developed by line managers, with direct, constructive support by the staff.
- Real strategic alternatives are openly discussed at all levels within the corporation.
- Corporate priorities are relatively clear to senior management, but they permit flexible response to new opportunities and threats.
- Corporate resources are allocated based on these priorities and in view of future potential as well as historical performance.
- The strategic roles of business units are clearly differentiated as are the performance measures applied to their managers.
- Realistic responses to likely future events are worked out well in advance.
- The corporate staff adds real value to the consideration of strategic issues and receives cooperation from most divisions.

Role of the Strategic Planner

A strategic planner is a staff person who helps line executives in their planning efforts. Thus, there may be a corporate strategic planner working closely with the CEO. A strategic planner may also be attached to an SBU. This section examines the role of a strategic planner at the SBU level.

The planner conceptualizes the planning process and helps translate it for line executives who actually do the planning. As part of this function, the planner works out a planning schedule and may develop a planning manual. He or she may also design a variety of forms, charts, and tables that may be used to collect, analyze, and communicate planning-oriented information. The planner may also serve as a trainer in orienting line managers to strategic planning.

The planner generates innovative ways of performing difficult tasks and educates line managers in new techniques and tools needed for an efficient job of strategic planning. The planner also coordinates the efforts of other specialists (i.e., marketing researchers, systems persons, econometricians, environmental monitors, and management scientists) with those of line management. In this role, the planner exposes managers to the newest and most sophisticated concepts and techniques in planning.

The planner serves as an adviser to the head of the SBU. In matters of concern, the SBU head may ask the planner to undertake a study. For example, the SBU head may seek the advice of the SBU strategic planner in deciding whether private branding should be accepted so as to increase market share or whether it should be rejected for eroding the quality image of the brand.

Another key role the planner plays is that of evaluator of strategic plans. For example, strategic plans relative to various products/markets are submitted to the SBU head. The latter may ask the planner to develop an evaluation system for products/markets. In addition, the planner may also be asked to express an opinion on strategic issues.

The planner may be involved in integrating different plans. For example, the planner may integrate different product/market plans into an SBU strategic plan. Similarly, an SBU's plans may be integrated by the corporate strategic planner from the perspectives of the entire corporation. For example, if a company uses the growth rate-relative market share matrix (see Exhibit 10-4) to judge plans submitted by different businesses, the planner may be asked not only to establish the position of these businesses on the matrix but also to furnish a recommendation on such matters as which of two question marks (businesses in the high-growth-rate, low-market-share quadrant of the matrix) should be selected for additional funding. The planner's recommendation on such strategic issues helps crystallize executive thinking.

Matters of a nonroutine nature may be assigned to the planner for study and recommendation. For example, the planner may head a committee to recommend structural changes in the organization.

Obviously, the job of strategic planner is not an easy one. The strategic planner must

1. Be well versed in theoretical frameworks relevant to planning and, at the same time, realize their limitations as far as practical applications are concerned.
2. Be capable of making a point with conviction and firmness and, at the same time, be a practical politician who can avoid creating conflict in the organization.
3. Maintain a working alliance with other units in the organization.
4. Command the respect of other executives and managers.
5. Be a salesperson who can help managers accept new and difficult tools and techniques.

In short, a planner needs to be a jack-of-all-trades.

MEASURING STRATEGIC PERFORMANCE

Tracking strategy, or evaluating progress toward established objectives, is an important task in strategy implementation. There are three basic considerations in putting together a performance measurement system: (a) selecting performance measures, (b) setting performance standards, and (c) designing reports. A strategic performance measurement system requires reporting not by profit center or cost center but by SBU. It may require allocation or restatement of financial results based on the new type of reporting center. Most management reporting is geared to SEC (Security and Exchange Commission) and FASB (Financial Accounting Standards Board) requirements and focuses on the bottom line. For many business units, however, profit is not the pertinent measure of a unit's strategic performance.

In selecting performance measures, only those measures that are relevant to the strategies adopted by each SBU should be chosen. For example, brand building,

advertising, and many public relations activities are commonly designed to build long-term value for the brand and the organization. In reality, most marketing expenses are investments. They are investments in customers. A marketing investment that makes certain customers more loyal can deliver a return by persuading these customers to buy and pay more, by costing less in sales and service, and by referring new customers through existing customers' visible use of the product or service and their advocacy. Ford estimates that each percentage point gained in car-owner loyalty is worth \$100 million in profit every year.¹⁶

Further, when setting performance standards, the targets, or expected values, should be established so that they are consistent with both the strategic position of business units and the strategies selected. Finally, reports should focus management attention on key performance measures. Exhibit 11-3 summarizes significant issues in measuring strategic performance.

ACHIEVING STRATEGIC PLANNING EFFECTIVENESS

As mentioned above, most companies have made significant progress in the last 10 to 15 years in improving their strategic planning capabilities. Clear, concise methods have been developed for analyzing and evaluating market segments, business performance, and pricing and cost structures. Creative, even elegant, methods have been devised for displaying the results of these strategic analyses to top management.

Few today would argue the value—in theory at least—of the strategic approach to business planning. RJR Nabisco's former CEO, Lou Gerstner (now CEO at IBM), describes that value in the following words: "It is my absolute conviction that you can out-manage your competition by having brilliant strategies."¹⁷ Unfortunately, RJR Nabisco's successful experience appears to be more the exception than the rule. Much more typical are reports of dissatisfaction with the results of strategic planning.

Why the achievement gap between strategic planning and strategic performance? Reasons undoubtedly will vary from corporation to corporation, but certain ones appear to be critical. First, many companies have found that top-down strategic planning produces resistance on the part of operating managers. Second, strategic planning efforts have failed to encourage innovative ideas and techniques to implement the strategy. Third, even in companies known for excellence in strategic planning, lack of adequate emphasis on marketing has led to poor implementation of strategic plans.

Strategy Implementation and Management Behavior

Strategic planning as currently practiced has produced resistance on the part of operating managers. One observer has identified three types of resistance: measurement myopia (i.e., managers behave in ways that show good short-term performance), measurement invalidation (i.e., managers supply top management with distorted or selected biased data), and measurement justification (i.e., managers justify their behavior excessively and become excessively cautious about specific factors identified as critical cash flow or ROI determinants).¹⁸

EXHIBIT 11-3
Strategic Performance Measurements

1. To be effective, strategic performance measures must be tailored to the particular strategy of each individual business unit. While there is a basket of generic strategic measurement tools, selection and application is highly dependent on detailed understanding of the particular business strategy and situation.
 2. Strategic performance measurements have two dimensions:
 - **Monitoring key program implementation** to ensure that the necessary elements of strategy are being provided.
 - **Monitoring results** to ensure that the programs are having the desired effects.
 3. Strategy performance necessarily involves trade-offs—costs and benefits. Both must be recognized in any useful strategic performance measurement system:
 - **Objectives**—assessing progress toward primary goals.
 - **Constraints**—monitoring other dimensions of performance that may be sacrificed, to some degree and for some period, in order to achieve strategic objectives.
 4. Strategic performance measurements do not replace, but rather supplement, short-term financial measurements. They do provide management with a view of long-term progress in contrast to short-term performance. They may indicate that fundamental objectives are being met in spite of short-term problems, and that strategic programs should be sustained despite adversity. They may also show that fundamentals are not being met although short-term performance is satisfactory, and, therefore, strategy needs to be changed.
 5. Strategic performance measurement is linked to competitive analysis. Performance measurements should be stated in competitive terms (share, relative profitability, relative growth). While quantitative goals must be established, evaluating performance against them should include an assessment of what competition has been able to attain.
 6. Strategic performance measurement is linked to environmental monitoring. Reasonable goals cannot always be met by dint of effort if the external world turns against us. Strategic performance measurement systems must attempt to filter uncontrollable from controllable performance, and provide signals when the measures themselves may be the problem, rather than performance against them.
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Source: Rochelle O'Connor, *Tracking the Strategic Plan* (New York: The Conference Board, Inc., no date): 11. Reprinted by permission of the publisher.

To solve this resistance problem, it is important to remember that, although sophisticated management tools and the up-to-the-minute techniques of business schools may help identify a desirable strategic course, implementation of a strategy requires time-honored simple and straightforward approaches. As a matter of fact, the latter are still vital prerequisites for success. Experience shows the following specific steps are helpful in effective implementation.¹⁹

- **Benchmark using world standards.** Find the world champions in every process you measure, from inventory turns to customer service, and try to exceed them.
- **Use process mapping.** Break down your organization's activities to their component parts. Identify the inefficiencies, then redesign each process as if from scratch.

For each step, ask whether customers would pay for it if they knew about it.

- **Communicate with employees to encourage them to focus on external reality—customers and competitors.** Define a clear vision that creates a sense of urgency. Help them understand the impact of their own behavior.
- **Distinguish what needs to be done from how hard it is to do it.** The difficulty of doing is irrelevant; real emphasis should be on what is to be done.
- **Set stretch targets.** There is nothing wrong with asking employees to perform as well as the best in the world. But don't tell them how to do it. They will come out with ideas to accomplish what has to be done.
- **Never stop.** When you get ahead of the pack, don't relax. That is just when your competitors are getting energized by benchmarking against you.

Effective Innovative Planning

Effective strategic planning should eliminate organizational restraints, not multiply them; it should contribute to innovation, not inhibit it. In the coming years, strategic planners face a unique challenge because innovation and new product development must be stimulated within the structure of large, multinational corporate enterprises. A number of companies have proved that innovation and entrepreneurial drive can be institutionalized and fostered by a responsive organizational structure. 3M and IBM, for example, have established technology review boards to ensure that promising product ideas and new technologies receive adequate start-up support. Adopting another approach, Dow Chemical has instituted an "innovation department" to streamline technology commercialization.

To encourage perpetuation of new ideas and innovation, management should:²⁰

1. Focus attention on the goals of strategic planning rather than on process; that is, concentrate on substance, not form.
2. Integrate into its business strategy the analysis of emerging technologies and technology management, consumer trends and demographic shifts, regulatory impact, and global economics.
3. Design totally new planning processes and review standards and acceptance criteria for technological advances and new business "thrusts" that may not conform completely to the current corporate base.
4. Adopt a longer planning horizon to ensure that a promising business or technological development will not be cut off prematurely.
5. Ensure that overly stringent financial requirements aren't imposed during the start-up phase of a promising project.
6. Create special organizational "satellites," such as new venture groups, whose mission is to pursue new ideas free from the pressures of day-to-day operations.
7. Institute financial and career reward systems that encourage bold, innovative development programs.

STRATEGIC PLANNING AND MARKETING ORGANIZATION

Strategic planning deals with the relationship of the organization to its environment and thus relates to all areas of a business. Among all these areas, however, marketing is the most susceptible to outside influences. Thus, marketing

concerns are pivotal to strategic planning. Initially, however, the role of marketing in the organization declined with the advent of strategic planning. As Kotler noted in 1978:

Strategic planning threatens to demote marketing from a strategic to an operational function. Instead of marketing being in the driver's seat, strategic planning has moved into the driver's seat. Marketing has moved into the passenger seat and in some companies into the back seat.²¹

It has generally been believed that the only marketing decision that has strategic content is the one concerned with product/market perspectives. As far as other marketing decisions are concerned, they are mainly operational in nature; that is, they deal with short-term performance, although they may occasionally have strategic marketing significance. Product/market decisions, however, being the most far-reaching in nature as far as strategy is concerned, are frequently made by top management; the marketing organization is relegated to making operating decisions. In brief, the inroads of strategic planning have tended to lower marketing's status in the organization.

Many marketers have opined that marketing would continue to be important, but mainly for day-to-day operations. For example, Kotler predicted that

1. The marketer's job would be harder than ever in the 1980s because of the tough environment.
2. The strategic planner would provide the directive force to the company's growth, not the marketer.
3. The marketer would be relied on to contribute a great deal of data and appraisal of corporate purposes, objectives and goals, growth decisions, and portfolio decisions.
4. The marketer would assume more of an operational and less of a strategic role in the company.
5. The marketer would still need to champion the customer concept because companies tend to forget it.²²

Experience has shown, however, that marketing definitely has an important strategic role to play. How neglect of marketing can affect strategy implementation and performance can be illustrated by Atari's problems. This company had been a pioneer in developing video games. Because of negligence in marketing, however, Atari failed to realize how quickly the market for video games would mature. Atari based earnings projections on the assumption that demand would grow at the same rate as in the past and that the company would hold its share of the market. But its assumption proved to be wrong. The market for video games grew at a much lower rate than anticipated.

Continuous close contact with the marketplace is an important prerequisite to excellent performance that no firm can ignore:

Stay close to the customer. No company, high tech or low, can afford to ignore it. Successful companies always ask what the customer needs. Even if they have strong technology, they do their marketing homework.²³

More businesses today than during the establishment years of strategic planning are making organizational arrangements to bring in marketing perspectives—an understandable development because, with the emergence of strategic planning (particularly in organizations that have adopted the SBU concept), marketing has become a more pervasive function. Thus, although marketing positions at the corporate level may have vanished, the marketing function still plays a key strategic role at the SBU level.

Businesses, by and large, have recognized that an important link is missing in their strategic planning processes: inadequate attention to marketing. Without properly relating the strategic planning effort to marketing, the whole process tends to become static. Business exists in a dynamic setting. It is only through marketing inputs that perspectives of changing social, economic, political, and technological environments can be brought into the strategic planning process.

Overall, marketing is once again assuming prominence. Businesses are finding that marketing is not just an operations function relevant to day-to-day decision making. It has strategic content as well.

As has been mentioned before, strategic planning emerged largely as an outgrowth of the budgeting and financial planning process, which demoted marketing to a secondary role. However, things are different now. In some companies, of course, concern with broad strategy considerations has long forced routine, high-level attention to issues closely related to markets and marketing. There is abundant evidence, however, of renewed emphasis on such issues on the part of senior management and hence of staff planners in a growing number of other companies as well. Moreover, both marketers and planners are drawing increasingly from the same growing body of analytical techniques for futurist studies, market forecasts, competitive appraisals, and the like. Such overlapping in orientation, resources, and methods no doubt helps to reinstate the crucial importance of marketing in the strategic planning effort.

Accumulating forces have caused most firms to reassess their marketing perspectives at both the corporate and the SBU level. Although initially marketing got lost in the midst of the emphasis on strategic planning, now the role of marketing is better understood and is reemerging in the form of strategic marketing.²⁴ The decade of the 1990s will indeed be considered as a period of marketing renaissance.

SUMMARY

The chapter examined five dimensions of strategy implementation and control: creation of a market-responsive organization, the role of systems in implementing strategy, executive reward systems, leadership style, and measurement of strategic performance. It is not enough for an organization to develop a sound strategy. It must, at the same time, structure the organization in a manner that ensures the implementation of the strategy. This chapter examined how to accomplish this task, that is, to match organizational structure to strategy.

Inasmuch as strategic planning is a recent activity in most corporations, no basic principles have been developed on the subject. As a matter of fact, limited academic research has been reported in this area. However, it is clear that one fundamental aspect that deeply impacts strategy implementation is the proper linking of organization, systems, and compensation. This chapter examined how to ensure maximum market responsiveness, how to fully exploit management systems as a strategic tool, and how to tie the reward system to the strategic mission.

Strategy implementation requires establishing an appropriate climate in the organization. The CEO plays a key role in adapting the organization for strategic planning. Also examined was the role of the strategic planner in the context of strategic planning and its implementation.

Many companies have not been satisfied with their strategic planning experiences. Three reasons were given for the gap between strategic planning and strategic performance: (a) resistance on the part of operating managers, (b) lack of emphasis on innovations, and (c) neglect of marketing. Suggestions were made for eliminating dysfunctional behavior among managers and for improving innovation planning.

As far as the strategic role of marketing is concerned, with the advent of strategic planning, marketing appears to have lost ground. Lately, however, marketing is reemerging as an important force in strategy formulation and implementation.

DISCUSSION QUESTIONS

1. What is the meaning of scale integration in the context of creating a market-responsive organization?
2. Discuss the three broad principles of establishing a market-responsive organization.
3. Define the term *systems*. Discuss the three categories of systems examined in this chapter.
4. Discuss the three problems that affect the establishment of a sound executive reward system.
5. What is the significance of the office of the CEO in strategic planning?
6. How does the role of a strategic planner at the corporate level differ from the role of a planner within the SBU?

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