

Strategy Implementation and Performance

Alexander H. Kern
Vienna University of Economics and Business
alexander.kern@wu.ac.at

Abstract

The aim of this paper is to give insight into the relationship of strategy implementation and firm performance. Strategy implementation is on the one hand nearly neglected by the academic literature but on the other hand vitally important for firm performance and still up to 90% of formulated strategies are believed to fail. Specifically, the objectives of this paper are: (i) to identify strategy implementation dimensions that have a significant impact on firm performance, (ii) to analyze how the strategy type, (iii) how the involvement of middle management in the strategy formulation process, and (iv) how the involvement of consulting firms in the strategy formulation process influences the relationship between strategy implementation and firm performance.

Introduction and Motivation

The motivation of this paper derives from three circumstances. First, strategy implementation is nearly neglected in the strategy process literature. Second, existing literature acknowledges that strategy implementation is more important for firm performance compared to strategy formulation. Third, meanwhile knowing from existing literature about the importance of sophisticated strategy implementation capabilities still up to 90% of formulated strategies are believed to fail. Therefore reasons for these circumstances are put forward and analysed.

Beginning in the mid 90s up to today authors have written that strategy implementation is gaining more and more relevance. But in fact this was not becoming reality. In a literature review paper of Hutzschenreuter and Kleindienst (2006) articles from 1992 up to 2005 in the field of strategy process were collected and analysed. The result was that around 90% of the articles dealt with strategy formulation issues and only around 10% were concerned with strategy implementation issues. To take the same line, eight years earlier Grundy (1998) had commented on the disequilibrium between strategy formulation and strategy implementation issues and had ended up with an around 9:1 relation for strategy formulation issues as well.

Why has strategy implementation received quite little attention in the literature so far? From Steiner's and Miner's (1977) point of view it is very difficult to clearly define the borders where strategy implementation starts and where it ends. Alexander (1991) points out a common opinion that strategy implementation is seen as a stage in the strategy process that anyone can do, hence the strategy formulation affords more skills. Furthermore, compared to strategy formulation it seems to be much less glamorous in the scientific community. Moreover, strategy implementation research is highly challenging due to the fact that there are found difficulties in gaining insights into the inner workings of a firm (Noble, 1999).

It is difficult to tell if weak firm performance is a result of underdeveloped strategy formulation or strategy implementation capabilities. Thus some argumental facts are provided to make the picture a bit clearer. Hrebiniak and Joyce (2001) claim that “many implementation-related variables are vitally important in explaining firm performance. They explain more variance in firm performance than those related to formulation.“ Thus

successful strategy implementation is seen as a critical path in strategy process (e.g., Wernham, 1985, and Alexander, 1985) and the capability to implement a strategy seems to be more important than to formulate it (e.g., Kaplan and Norton, 2001; and Sterling, 2003).

According to various studies it is to be believed that up to 90% of formulated strategies are never implemented (e.g., Gray, 1986; Judson, 1991; Nutt, 1999; and Sirkin, Keenan and Jackson, 2005). Knowledge about strategy implementation can be therefore seen as a source of competitive advantage and several arguments are provided in the literature.

First, globalization has made business transactions enormously fast. Deregulated capital markets and access to all sorts of information at any place and any time has resulted in a more dynamic business environment. As a result competitive advantages deriving from superior strategies are becoming short-lived (Hitt, Ricart and Nixon, 1998 in Schaap 2006).

Second, relentless pressure from shareholders for greater profitability leads to more frequent strategy adaptions. Hence strategy implementation must occur in shorter time periods and gains in importance (Macdiarmid, Moukanas, and Nehls, 1998).

Third, in complex organisations strategic change affects all parts of an organization. Continuously increasing complexity of firms is therefore accompanied by the increasing risk that something is overseen when implementing it (Atkinson, 2006; and Johnson-Cramer, Parise and Cross, 2007; Franken, Edwards, and Lambert, 2009).

Fourth, fire fighting due to implementation problems ties valuable management time. Excellent strategy implementation creates time for the top management team to spend on long range topics (Macdiarmid, Moukanas, and Nehls, 1998).

Fifth, strategy implementation is more complex and challenging than strategy formulation. An integrative view of strategy implementation affords a multivariate approach in order to identify the interaction effects of different strategy implementation dimensions (Hrebiniaik and Joyce, 2001; and Kazmi, 2008).

Last, at the strategy implementation stage usually more people are involved than when formulating a strategy. Thus it takes a lot more effort to give direction to the middle and lower management hierarchies than to the top management team alone (e.g., Burgelman and Grove, 1996; and Balogun, 2006).

In a nutshell, although strategy implementation is seen as vitally important for firm performance and firms are still struggling to implement their strategies, academic literature is not claiming centrality for the topic of strategy implementation.

Contribution

Although remarkable progress has been made in the strategic management field, strategy implementation still remains a partly unsolved riddle. Therefore it is still an important and ongoing concern for researchers and practitioners (Barney, 2001; and Miller, Wilson, and Hickson, 2004). The contribution of this paper can be seen as following. Alexander (1991), Noble (1999) and Pryor, Anderson, Toombs and Humphreys (2007) brought up the issue that there is a lack of empirical models concerning strategy implementation. The absence of a sufficient number of theoretical, empirical models and guidelines makes it difficult for practitioners to excel at strategy implementation. Useful evidence will be provided of the effects of strategy implementation dimensions on firm performance to provide valuable indications for future research.

Strategy Implementation Dimensions, and Control Variables

For this purpose an extensive review of the literature was undertaken and based on the analysis of this literature relevant strategy implementation dimensions have been identified:

- Ressource Availability (e.g., Al-Ghamdi, 1998; and Dibb, and Simkin, 2009)
- Strategy Operationalization (e.g., Kaplan, Norton, 2008; Pearce, and Robinson, 2009)
- Implementation Coordination (e.g., Alexander, 1985)
- Internal Communication (e.g., Al-Ghamdi, 1998; De Geuser, Mooraj, and Oyon, 2009)
- Top Management Support (e.g., Noble and Mokwa, 1999; Thorpe, Morgan, 2007)
- Structure Alignment (e.g., Thorpe, and Morgan, 2007; Pucko, and Carter, 2008)
- Incentive Alignment (e.g., Schaap, 2006)
- Change Culture (e.g., Miller, 1997; Heide, Gronhaus, and Johannessen, 2002)
- Middle Management Involvement (e.g., Floyd, and Wooldridge, 1990 and 1992)
- Control and Feedback (e.g., Okumus, 2001; Brenes, Mena, and Molina, 2007)

Additionally, it is controlled for size, perceived environmental uncertainty, family owner- and leadership, use of a Balanced Scorecard and consulting involvement in the strategy formulation stage.

Sample, Statistical Techniques, and Empirical Models

A questionnaire was sent to CEOs of Austrian firms in different industries that employ at least 200 employees. The strategy implementation dimensions identified in the literature were measured with at least two items and 7 point Likert-scale. The survey will be finished at the beginning of December 2009.

Regression analysis will be used to identify the causal effects of strategy implementation dimensions on firm performance. Four models are illustrated below and research findings are expected to provide useful knowledge for further theory development and managerial practice.

Figure 1 shows the standard model and the effects of strategy implementation dimensions on firm performance.

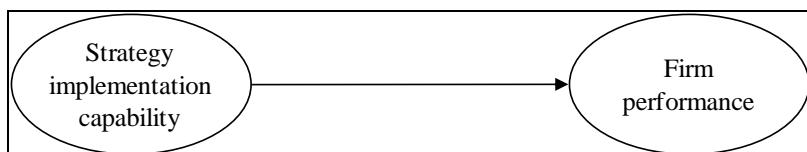


Figure 1: Effects of strategy implementation dimensions on firm performance

In figure 2 the moderating effect of different strategy types (Miles, and Snow, 1978) on the relationship between strategy implementation and firm performance is shown. It can be hypothesized that different strategy types stress different dimensions of strategy implementation (Floyd, and Wooldridge, 1992).

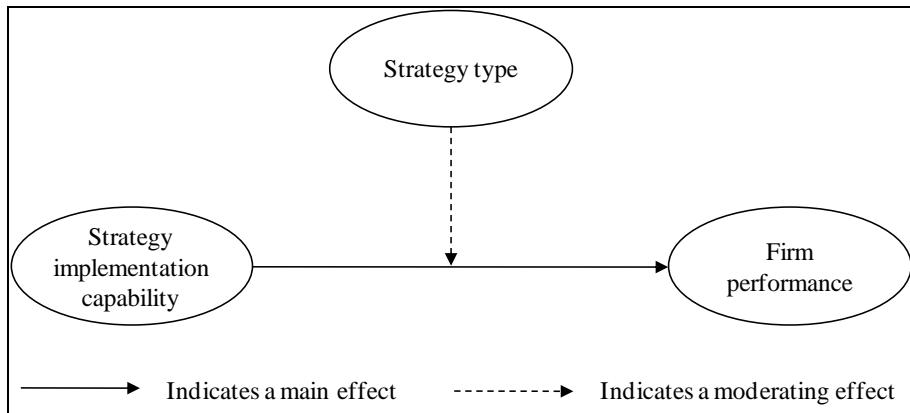


Figure 2: Moderating effect of strategy type on the relationship between strategy implementation and firm performance

Consulting involvement in the strategy formulation process is a widely spread approach to support the strategy formulation process. It can be hypothesized that involvement of consulting firms only in the strategy formulation process and not in the strategy implementation process has a negative effect on the relationship between strategy implementation and firm performance.

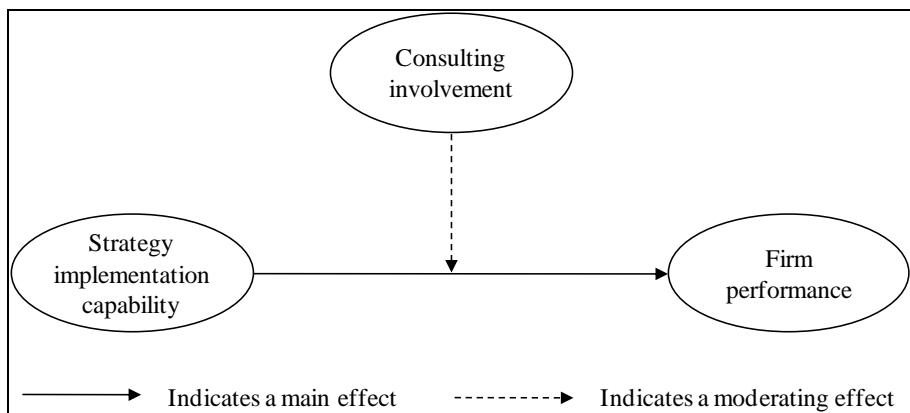


Figure 3: Moderating effect of consulting involvement in the strategy formulation process on the relationship between strategy implementation and firm performance

A vast of literature has been published on the topic of the involvement of middle management in the strategy formulation process (Floyd, and Wooldridge, 1990, and 1992). Even though it is evidently proven that the involvement has a positive effect on the strategy implementation and in succession on firm performance it is interesting to test the effect with a rather broad approach of strategy implementation dimensions compared to existing empirical studies.

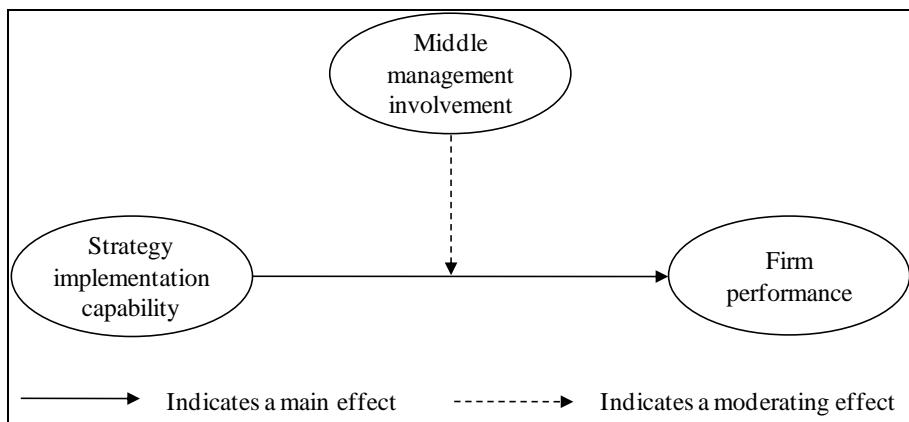


Figure 4: Moderating effect of middle management involvement in the strategy formulation process on the relationship between strategy implementation and firm performance

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