The E-Strategy Case: Closing the Gap Between Strategy Formulation and Strategy Implementation

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ABSTRACT: *This case and accompanying class exercise emphasize the implementation component of the strategy process and are suited for a strategic management class at the undergraduate level.*

LEARNING OBJECTIVES

Upon completion of this exercise, students should be able to: (1) discuss why strategic plans fail to be put into action; (2) explain the importance of understanding the positive and negative forces affecting implementation of a new strategy; (3) describe the characteristics of goal statements best suited for implementation purposes; (4) describe the relationship between organizational structure and the implementation of strategy; and (5) discuss the role of leadership in determining the success or failure of strategy implementation.

INTRODUCTION

Nearly two years ago, Suburban Bank completed a very productive strategic planning process. The process was one in which there had been broad participation from employees at all levels, and the result of the process was a document that was widely viewed as providing an energizing vision for the company. Now, over a year later, despite the changes pointed to by the strategic plan, almost no progress has been made toward achieving the plan's new strategic direction.

THE NEW BANKING RELATIONSHIP

In the strategy formulation phase of the planning process, Suburban Bank concluded that in a very short time, the concept of a "primary banking" relationship between the institution and its customers will be outdated. The idea of a primary banking relationship is one where customers handle all of their banking needs at one institution. For this business model, some products are sold at low or negative margins in order to acquire and build relationships. Other products are then cross-sold at high margins to extract value from relationships that have been established.

This relationship will change as a result of a key technological environmental trend, which is the widespread use of the Internet for transactions among buyers and sellers. For the banking industry, this means more than simply setting up a Web site that gives basic information about products and points of contact. It will require the development of specialized software to support home banking by customers and free electronic transactions. In fact, companies such as Microsoft (Money) and Intuit (Quicken) already offer personal financial software that enables consumers to manage their checkbooks and integrate their personal financial affairs at home.

Also, it is expected that as software is developed to draw information from the Web about products and services offered at banks across the country, the Internet will be transformed into a giant primary banking institution (Evans and Wurster, 2000). More and more, the presentation of bills, brokerage transactions, and the soliciting and comparison of bids for credit cards and loans and other financial services will take place on line. When that happens, customers will be able to contact any financial institution for any kind of service or information (McAdam, 2005). They will be able to compare alternative product offerings from as many banks as they want, move funds automatically between accounts at different institutions, and post their requirements for a loan, for example, and accept and compare bids from banks that respond to the inquiry.

In the world of Internet banking, the old competitive value of one-stop shopping and established relationships that banks enjoyed will decline. The winner in any contest for a consumer's business is less likely to be the primary bank and more likely to be the organization that provides the best offer for that particular product or service.

THE E-STRATEGY

Through its strategic planning process, Suburban Bank concluded that banks will not become obsolete, but their current business definitions will. The smartest institutions will transform themselves into navigators or facilitating agents. The business of banking will be the business of helping customers to navigate the Internet to get the best deal possible on products and services to meet their financial needs.
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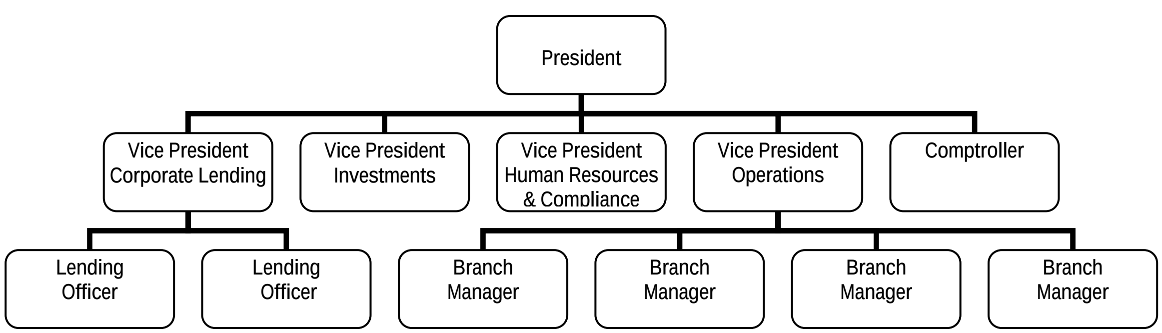
It was this analysis that persuaded Suburban Bank planners that a new strategic direction was necessary to ensure long-term growth and profitability for Suburban Bank. The new direction was labeled the E-Strategy, and it symbolized a change from the type of growth that the bank achieved through building and acquiring branches to one where new business would come from the bank's role as an Internet financial navigator. Since this involved completely new thinking, the planning group recommended that responsibility for the new direction be placed with an E-Strategy committee made up of managers and staff from all areas of the organization.

THE IMPLEMENTATION COMMMITTEE

The E-Strategy committee was formed with a lot of fanfare, and the President of Suburban Bank hosted an all-employee reception to show his support for the bank's new direction. An employee representative from each department, as shown in the bank's current organizational chart in Figure 1, joined the newly formed committee; and the group began its job of E-Strategy implementation with great enthusiasm.

Figure 1: Suburban Bank Organizational Structure



Committee meetings were scheduled every Friday at noon. Employees brought their lunches and discussed how to implement the new strategy. The committee began its work by first trying to decide the particular approach the bank should take in becoming an Internet navigator bank or a facilitating agent. From the beginning, many of the members of the committee had great difficulty understanding how a bank might operate without its "bricks and mortar" – the branches. "People come to us because of where we're located," was a typical comment. "A lot of our older customers don't even have computers."

There were also members of the committee who seemed unwilling to accept any suggestion that might require substantial changes in how their particular department or area might be required to operate. These individuals were careful, however, not to position themselves as opposing the new direction. Thus, comments like "I think we have to move in the new direction; I just think we have to be careful not to change the things that don't need changing," were not uncommon. Other members of the committee disagreed with this view, a few becoming frustrated with what they saw as "foot dragging" by those who seemed afraid to move the bank into the 21st century. For these few, the new E-Strategy was exactly the right direction, but they were in the minority.

Some members commented privately that they thought the committee had the wrong people on it. One observed, "The President wants every area and branch represented, but that means putting all of this in the hands of the ones with the most to lose with the kind of change this will take. Another member commented, "We need everyone's buy-in and ideas, but we're supposed to design a whole new way of doing business, and we're expecting the people who are good at the old way--and who like things the way they are--to be the designers. Does that really make sense?"

To make matters worse, attendance at the committee meetings was often a problem. More than a few of the committee members reported having difficulty leaving their regular work to attend the meetings. "It's not like somebody else is doing the work on my desk while I come to these meetings." To which another member responded, "At least you're the manager in your area. I get a dirty look from my boss every time I leave to come down here. And I'm using my own lunch hour, which I don't think any of us should have to do." On that point, everyone in the group was in agreement.

Finally, more than a few committee members were clearly not convinced that the president was serious about this new direction. "Wait and see," seemed to be their attitude, "There's no reason to put too much effort into this. This plan will end up on the shelf similar to every other plan that's been rolled out around here for the past twenty years."

For all of these reasons, several months' discussion resulted in virtually no progress relative to deciding what Internet navigator might mean for Suburban Bank. Hoping to re-establish at least some momentum, the committee decided to place that discussion on hold, and shift its attention to preparing a job description for the new Webmaster.

As a consequence of having put on hold the decision regarding the approach Suburban would take to become an Internet financial navigator, the committee could only come up with a fairly general job description for the Webmaster's position. Basically, it indicated that the new position would be responsible for revising the bank's current static home page to one that included links to a wide range of data bases and search engines. These links would provide access to information on the Internet about banking products and services. The person filling the position would also be responsible for creating the bank's proprietary software that customers would be given to allow them to conduct all of their banking-related transactions over the Internet. Based on this admittedly very general description, the position was filled. However, in less than three months, the new Webmaster resigned. While the public explanation was that the individual had decided to pursue an exceptional opportunity outside the area, it was fairly common knowledge that this individual had become increasingly frustrated with the fact that no one at the bank – president, senior executives, committee members – seemed to be able to agree on just what the bank meant by Internet financial navigator.

So now, nearly a year after its creation, the E-Strategy Committee had nothing to show for its efforts. There was still no agreement on what the bank's specific approach would be to becoming an Internet financial navigator for its customers, and the Webmaster position was again vacant. The process that had begun with such great energy and promise was quietly slowing to a halt.

THE GAP BETWEEN FORMULATION AND IMPLEMENTATION

Despite these problems, the President was more intent than ever on pursuing the new direction described in the strategic plan. He reassured the Board of Directors at their annual meeting that initial progress was always slow for changes as major as this, and at the all-employee holiday party, he reaffirmed his commitment to the E-Strategy. "Our vision is clear, we've done some work, but there's a lot of work still to be done. We will do this together, but I will not impose my ideas, my solutions on you. These must come from you. My job is to support and enable all of you as you give meaning and definition to the exciting new directions pointed to in our strategic plan. My job is to remove whatever barriers might prevent you from seizing this opportunity to put your mark on the future of this bank."

That was the President's public message to the Board and to the employees. Privately, however, he was worried that bank employees may not respond to the challenge he had placed before them. He knew the old "bank with branches" model was already becoming less profitable as more and more people were moving to Internet banking, and that the competition was already moving toward greater emphasis on Internet banking. And he knew the Board of Directors would not be patient much longer with such slow progress in implementing the E-Strategy. He was also convinced, however, that the bank already had the talent necessary to make the strategy work, and costs for the necessary technology could be covered. He realized now that what was missing was an implementation plan. He knew the bank's strategic plan was solid; what was needed was a plan to ensure that the E-Strategy did, in fact, move from the realm of ideas in the strategic plan to the realm of action and reality. And he knew that time was running out.

DISCUSSION QUESTIONS

Appendix A outlines an optional strategy implementation guide and Appendix B contains worksheet charts for students to complete the discussion questions.

1. What are the forces working in favor of effective implementation of the E-Strategy and those working against effective implementation?
2. What goals should be set for the bank in terms of E-Strategy implementation?
3. How should the bank restructure to help implement the new strategy?
4. What leadership style is the most appropriate in this situation? Indicate and explain the rationale for any changes in policy and incentives that would facilitate the implementation process.

APPENDIX A: OPTIONAL STRATEGY IMPLEMENTATION GUIDE

Shown below is a two-part process for developing an implementation plan. The first part focuses on identifying the forces working towards and against implementation of the new strategy. The second part involves the integration of three key dimensions that must be considered in developing a successful implementation plan. These three components are goals, organizational structure, and leadership.

Part I. Identification of Forces Affecting Strategy Implementation

The purpose of outlining these forces is to fully recognize the broad range of factors and forces operating in a change situation. This enables the organization to make effective use of the positive forces affecting the change associated with strategy implementation, while at the same time seeking to eliminate or minimize the negative forces (Lewin, 1951). Figure 2 shows examples of forces typically included in this analysis.

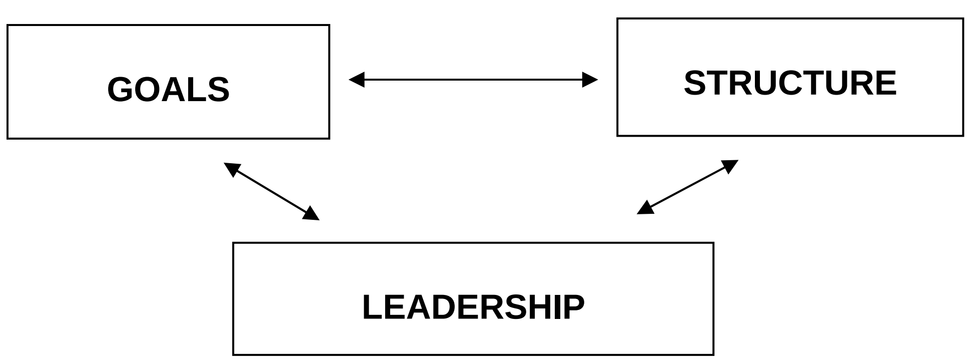
Figure 2: Forces Working Towards and Against Strategy Implementation

Positive Forces	Negative Forces
These include factors that work towards implementation of the strategy, such as the following: • Environmental changes that represent an opportunity for the organization. • Key individuals and groups within the organization who are in favor of and support the change. • The availability of training, technology, and other resources necessary for implementation to be effective. • Information or experiences that make clear what will happen if the organization does not implement the strategy.	These include factors that work against implementation of the strategy, such as the following: • Opposition from key individuals and groups. • Lack of available training and resources needed to implement the new strategy. • Negative information or experiences relative to the new strategy.

Part II. Integration of Key Elements for Strategy Implementation

The fields of organizational behavior and organization theory include a wide range of elements that affect any organizational change process. Figure 3 is a simplified model that includes some of the most frequently cited variables important to the strategy implementation process.

Figure 3: Key Elements for Strategy Implementation



Goals. The definition of a goal is a statement that sets forth a specific, desired performance result or outcome with a time frame. Goals should reflect key dimensions of performance for which specific measures can be developed. Often, these measures fall into the categories of *customers, internal operations, human resources, and finance* (Kaplan and Norton, 1996). *Customer* measures may consist of customer satisfaction levels, customer retention statistics, market share of customer segments, and the number of new customers. *Internal operation* measures are concerned with technology usage, rates of improvement in terms of processing customer accounts, and the efficiency of business processes, for example. *Human resources* assess the employee dimension. Measures consist of goals related to employee skills, education and training, morale, and turnover statistics, to name a few. Finally, *financial* measures deal with revenue, profit, and other financial goals.

To be effective in terms of providing direction and serving as a benchmark against which to evaluate the implementation of an organization's intended strategy, goals must be stated in specific and measurable terms. Generalities, such as "improve communication" or "adequate performance," should be avoided, since it is difficult to measure progress and take corrective action when goals are stated in such non-specific terms.

Organizational Structure. Companies often create organizational charts to show who reports to whom and how tasks are divided. How departments are set up is the organization's structure, and different structures are required to implement different strategies. For example, a company that chooses a diversification strategy would most likely change its structure to divisions, rather than be set up solely in departments by functions, such as marketing, finance, operations, and human resources. Or, if an emphasis is placed on customer service, a new department may be set up to drive the organization's efforts in that area.

Leadership. Top management leadership styles play a critical role in determining the success or failure of strategic implementation. Bourgeois and Brodwin (1984) described five fundamental approaches to implementing strategies that range from telling employees to implement the strategy to empowering employees who will develop and implement strategies on their own. In each approach the leader plays a somewhat different role and uses different methods of management, as noted in Figure 4.

Figure 4: Leadership Styles

Commander approach – The leader provides detailed, centralized direction to guide the implementation of the organization's strategy.
Change approach – The leader focuses on changing the structure, incentive compensation, and control systems of the organization to facilitate implementation of the new strategy.
Collaborative approach – The leader uses group decision making and negotiated outcomes to implement the new strategy.
Cultural approach – The leader focuses on infusing employees throughout the organization with a strong set of collective values, which allow broad-based participation in strategic implementation.
Crescive approach – The leader makes middle managers responsible for developing, championing, and implementing the new strategy. This approach, more than any of the others, shifts decision making and implementation authority to lower levels.

In addition to the approach taken, leadership also attempts to support and encourage change through modifications to policies and various incentives. Incentives may include non-financial elements, such as recognition programs and team celebrations, or compensation-based programs such as bonuses, profit-sharing, or other financial incentives.

APPENDIX B: STUDENT WORKSHEET

Steps:

1. Prepare the chart of forces working towards and against the implementation.
2. Identify four goals that are specific and include numeric measurement targets.
3. Outline a different organizational structure with new divisions or departments that will facilitate the new strategic direction.
4. Complete the table that shows a recommended leadership style, policy changes, and incentives.

Figure 5: Chart of Implementation Forces

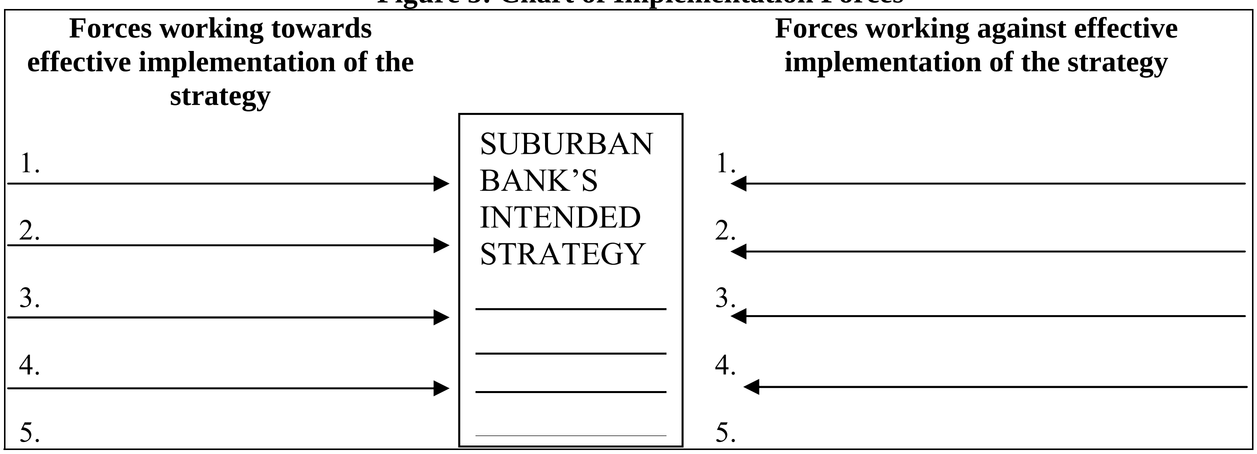


Figure 6: Chart of Goals

Goal (specific and measurable)	Time frame	Responsibility
1.		
2.		
3.		
4.		

Figure 7: Organizational Structure Chart

Figure 8: Chart of Leadership Style and Policies

Leadership style to enact strategy	Policy changes	Incentives

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Teaching Note/Instructor Manual available from the Journal of Business Cases and Applications.