CHAPTER 12

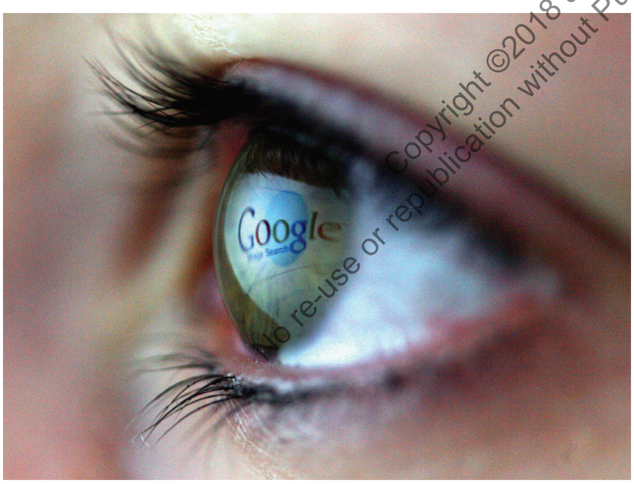
Implementing Strategy

LEARNING OBJECTIVES

Studying this chapter should provide you with the knowledge to:

1. Describe how the 7 S model can be used to determine the level of alignment within a company and between the company and its environment.
2. Evaluate a strategic change effort and explain the underlying reasons why the effort succeeded or failed.
3. Discuss how creating effective line-of-sight measures can assist managers in the strategy implementation process.

Alphabet: Reorganizing to Create Value at Google



Google's stock has always been a high flyer. Since the company went public in the summer of 2004 until the close of 2016, its shares generated a total return of 1,440%, a 23.4% compound annual growth rate.[1] Even for a company with such strong share price appreciation, the gains surrounding the announcement on July 16, 2015 of Google's second quarter earnings stand out. During the next two trading days, Google's shares rose a little more than 20%, a gain not seen since the earliest days of Google as a public company. On that July day, Google announced solid, but not spectacular, revenue growth of 11% (year over year), and earnings of $6.99 per share, which topped expectations of $6.75.[2] Investors liked top line and bottom line growth, but what lit a fire under the shares was buried in the mid-section of the income statement: Google's newfound ability to control costs.[3] Cost control had never been a high priority at Google; however, with its search business maturing, a system that kept costs in line would only become more valuable.

The person behind that system was new CFO Ruth Porat. Porat, the daughter of a Stanford physics professor and a psychologist, had been taught to aim high her entire life. Her academic pedigree lists degrees from Stanford, Wharton, and the London School of Economics. She went to work for Morgan Stanley and rose to become the CFO in 2010, where she would earn the moniker "the most powerful woman on Wall Street."

What did Porat bring to Google? First, a wealth of experience in helping tech companies deal with the financial world, based on her experiences as the lead banker on the IPOs of tech startups Amazon, eBay, Netscape, and Priceline. Second, a deep knowledge of accounting, finance, and investor relations—and how to drive financial change—in a large company environment. Third, she brought the caché of a seasoned Wall Street veteran, including a stint advising the US Treasury department during the financial crisis.[4]

In hiring Porat, Google CEO Larry Page outlined her role: "We're tremendously fortunate to have found such a creative, experienced, and operationally strong executive. . . . I look forward to learning from Ruth as we continue to innovate in our core—from search and ads, to Android, Chrome, and YouTube—as well as invest in a thoughtful, disciplined way in our next generation of big bets."[5] Google had become two businesses: a revenue- and profit-producing search business and a set of revenue- and profit-consuming businesses, including projects such as a self-driving car and wearable "Google glasses" that would allow users a unique Internet experience. Google executives hoped that Porat could help the company balance the need for fiscal discipline in the core while investing prudently in new and exciting product categories.

Less than a month after issuing its earnings report, Google restructured the company. Announced as "G is for Google," Google unveiled a new corporate parent, Alphabet, that would act as an umbrella for all of Google's varied businesses, from Android to the X lab, home of many moonshot products.[6] Each unit of Alphabet would report its own financial performance, which pleased investors hungry for more transparency in the company's investment strategy. Investors drove up Google's shares another 4% on the day of the announcement. Alphabet aimed to improve performance in another way: By separating business units that had different strategic imperatives, Alphabet hoped to create strategic ambidexterity across business units.[7] Mature businesses, such as Search and YouTube, would need to focus on current business performance and had to be managed by a different set of rules than the "big bets" about which Page spoke. Revenues and costs mattered in the core, but the logic of potential and investment would determine which of the big bets paid off in future growth.

Google's activities during the spring and summer of 2015, and investors' positive reaction, highlight the reality that how a company delivers its unique value—our third fundamental question of strategy—contributes to its ability to earn superior returns. From July to December 2015, Google (Alphabet) shares appreciated 44%, but the company introduced no new products of note, nor did it acquire another company that fueled growth. The company created shareholder value by acquiring the human capital it needed to manage in the rapidly changing world of technology, and because it aligned its organization and processes with the emerging demands of its strategy. Put simply, Google's executive team focused on strategy implementation, which proved to be just as valuable as strategy formulation. A primary objective of this chapter is to introduce you to three important skills strategists must possess if they hope to implement strategies: *Forging alignment* between the key elements of the organization and its strategy*, leading effective change* to accomplish that alignment, and *creating measurement systems* to refine the strategy and ensure its implementation.

At one level, implementation is about action, or execution. The successful execution of a strategy requires a process that translates broad strategic objectives into clearly definable, everyday actions that make the strategy real, and then creates systems where people take those actions. Executive Larry Bossidy learned how to execute strategy working for General Electric's CEO Jack Welch. Bossidy ran GE's capital division and guided that business through a flurry of acquisitions. He then went on to successfully run Allied Signal and eventually Honeywell. Bossidy was known for his ability to execute. His recipe for execution—outlined in his book *The Discipline of Getting Things Done*—involves four steps: (1) Create a set of clear goals for people to follow; (2) find ways to accurately measure performance; (3) hold people accountable for their performance; and (4) richly reward those who perform well.[8]

Ruth Porat came to Google with a clear objective for change: help Google, now Alphabet, control costs in a world where search became a mature business and to provide greater transparency to Wall Street. The way she executed on those goals, at least in the early stages, centered around the firm's accounting and financial reporting systems—the essence of measurable performance in any organization. With clear budget targets and rules for managing the different business units that make up Alphabet, Porat and other executives could hold individual managers accountable for business performance. Finally, Google had always rewarded high performers, and Porat's own compensation package proved that Alphabet would continue to reward those who executed well.[9]

Many strategies fail because people in organizations just don't execute well. The strategy doesn't translate into a clear set of measurable goals and, for whatever reason, people either don't have to answer for their actions or receive no rewards, or punishments, for excellent, or poor, performance.

Alignment: The 7 S Model

Execution matters, but as you saw in the opening case, effective implementation requires forging alignment among the external environment, the strategy, and the internal elements of the firm. Most strategy researchers focus on strategy formulation, what you've spent most of this course learning about. Little attention typically gets paid to implementation, as it seems to be a matter of execution.[10] Implementation is as much a matter of alignment as it is of execution. **Alignment** means that the important elements of the organization are in the proper relationship with each other—which means they fit well together and reinforce each other. In an aligned organization all the elements support the strategy. This raises the question: Which elements?

alignment A condition where organizational elements fit together and reinforce each other.

A strategist can answer this question in many different ways. The authors' experience with the 7 S model of organizational alignment leads us to recommend this model. Introduced by consultants at McKinsey and Company in the early 1980s, the model provides a broad yet succinct way to capture the key strategic elements of an organization.[11] The model identifies seven important organizational elements that must be aligned in order to ensure effective implementation of the firm's strategy. The seven Ss are: *strategy, structure, systems, staffing, skills, style,* and *shared values*.[12] Figure 12.1 displays each S.

Strategy

Strategy is the plan, process, and related activities that create and sustain a competitive advantage for a firm in its target markets. Strategy represents the most important *S*. The ultimate goal of any organization is excellent performance, whether it is a business, government, or not-for-profit. Strategy enables an organization to perform well by guiding resource allocation decisions that result in competitive advantage. Google's original strategy focused on creating software to facilitate Internet searches, and moved into related applications such as Google Maps and Gmail. Google's strategy shifted over time to include hardware as well as software with investments in activities and products such as a self-driving vehicle.

strategy The plan or process that creates and sustains a competitive advantage for a firm.

Structure

Structure answers two critical questions for an organization: Who does what? Who reports to whom? **Structure** divides labor and tasks within the organization into separate units and, by doing so, defines the reporting or authority structure of the firm. This is important because it assigns accountability for particular tasks and allows for the measurement of performance by a particular organizational unit. Managers can use structure to help align goals, skills, and environmental needs.[13]

structure The set of organizational arrangements that divide labor and tasks. Structure also defines reporting or authority relationships.

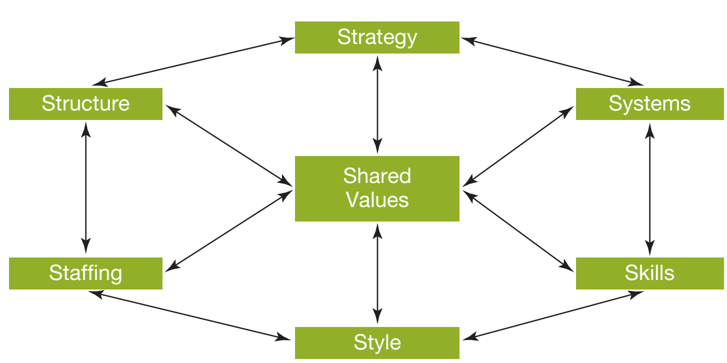


FIGURE 12.1 **The 7 S Model**