Implementing strategies: Functional level issues

Learning outcomes

At the end of this module you should be able to:
- select appropriate functional strategies and activities in support of the overall corporate strategic plan of a maritime organisation;
- develop operational plans for selected functional strategies;
- explain the use of standing plans and single use plans;
- clarify the role of policies in successful implementation;
- explain the importance of resource allocation; and
- explain the role of budgeting in implementation.

Topics

8.1 Operational planning
   8.1.1 Selecting functional strategies
   8.1.2 Policies
8.2 Resource allocation
   8.2.1 Budgeting
   8.2.2 Procedures for allocating budgets
8.3 Global issues for the 21st century

Quotes of note

You want the people to run the business as if it were their own.
William Fulmer

It is only human nature to think wisely and to act in an absurd fashion.
Antole France
**Introduction**

At the heart of strategic decision-making at the functional level is the implementation of functional strategies. Essentially this involves operational planning: that is, transforming strategic plans formulated at the corporate and business levels into operational plans that each functional area of a business can effectively carry out; selecting the appropriate functional strategy or strategies for each functional area, and allocating the requisite resources to set everything into motion. It is about setting annual objectives at the functional level and polices needed to make the strategy work. This is essentially about decision-making at the functional level to facilitate the ‘corporate’ or ‘higher’ strategy.

Figure 8.1 illustrates the interrelationship between these three aspects.

**Implementing functional strategies**

**Process**
- Transform strategic plans to operational plans:
  - standing plans
  - single-use plans
  - budgets
- Make sure all operational plans provide strong support to selected functional strategies.

**Content**
- See Module 6 for specific strategies appropriate at the functional level.
- The choice of functional strategy will depend on the requirements of the functional area.

**Figure 8.1 Decision making at the functional level**

Successful matching also requires knowledge and understanding of various business functions, particularly as they relate to the maritime industry. Here, the subjects that make up your course (finance, operations, marketing, technology, law, and general management), coupled with your personal and professional experience in the maritime industry, should be able to provide you with good guidance.

Do not get too bogged down with the specifics as you go through this module and readings. What is important is that you get a good idea of how you can judiciously apply your knowledge of specific business functions (like finance, operations, marketing and so on) when choosing functional strategies and activities.
8.1 Operational planning

So far we have only talked about the general attributes of the implementation process. Now it is time to get into the specifics of implementation.

At the front end of strategic implementation is operational planning. Essentially, this means translating grand designs into specific courses of action that each business unit and its functional (also called operational) areas can realistically carry out in support of higher level objectives and strategies.

As you will see in your next reading, the act of translating grand designs into specific courses of action can result in various types of plans. Do not be put off by the age of the reading – the author’s work is concise and practical. Note in particular their use of two new concepts, standing plans and single-use plans. Make sure that you are able to clearly distinguish the one from the other.

Reading (In the library on closed reserve)


Figure 8.2 provides an overview of the main thrusts of a business unit’s (shipping) operational plans. Study this example carefully and then try the following activities.
## Diversified shipping company

<table>
<thead>
<tr>
<th>Aviation</th>
<th>Terminals and Stevedoring</th>
<th>Shipping</th>
<th>Investment Property</th>
<th>Industrial trading</th>
</tr>
</thead>
</table>

### Objectives

**Finance**
- Increase profit by 12%

**Personnel**
- Improve productivity by 10%
- Reduce absenteeism by 5 days per year per employee

**Commercial operations**
- Increase freight revenue volumes by 15%

**Technical operations**
- Decrease offshore breakdown periods by 5%
- Increase the use of advanced technology to raise economies of scale to 10% more than present level

**Marketing**
- Increase customer awareness
- Respond to customer complaints within 24 hours

### Standing plans (annual)

- Increase debt/equity ratio by 20%
- Maintain liquidity position
- As a policy, all new projects must achieve a 10% return on all investment
- Provide 15% more funds to technical operations, commercial operations and marketing
- Institute new cost cutting measures
- Increase training courses to 5 per year per employee
- Establish an employee motivation scheme
- Initiate a recruitment strategy
- Increase time chartering of new tonnage for 25 ships per year
- Use BIFFEX market to hedge against increased freight rates
- Increase maintenance budgets by 25%
- As a policy, ship masters should provide a monthly report of vessel conditions
- Increase promotions budget by 15%
- Establish a special customer complaint hotline
- Provide a monthly report to all departments on customer complaints
- Ensure that each sales rep visits all major customers at least once every 6 weeks

### Single-use plans

- Purchase a new computing system
- Hire consultants to appraise staff profile
- Hire 5 new staff for the new MIS system in marketing
- Initiate a quality assurance audit system on all new ships that are chartered
- Order 2 new technically advanced ships
- Re-engine 1 ship
- Purchase an MIS system to improve market research efforts

Note: This overview is a highly abbreviated version of each area’s operational plans. A full-blown version should provide as much specific information (including, for instance, a time frame) as possible.

**Figure 8.2** An overview of a business unit’s operational plans
8.1.1 Selecting functional strategies

However well-conceived, operational plans will not be of much strategic use (and indeed can even do damage) unless the functional strategy upon which they are based is appropriate for the job.

If you go back to Figure 6.4 in Module 6, you will note that functional strategies are not classified into generic typologies as corporate and business ones are: rather, they are drawn from a common pool of specific strategies that can be used across the board. When choosing an appropriate functional strategy therefore, the criterion should be how well the strategy matches the function that it is intended to support.

Now for a practical illustration on how a maritime organisation converts its business strategies into functional strategies.
An example: the MSB Sydney Ports Authority

The MSB Sydney Ports Authority is responsible for managing the ports of Sydney Harbour and Botany Bay. For both ports it has chosen a cost-focus business strategy; and to carry out this strategy it has decided to implement a number of functional strategies. These are summarised in Table 8.1.

Table 8.1  Functional strategies of MSB Sydney Ports authority

<table>
<thead>
<tr>
<th>Functional strategy</th>
<th>Functional area</th>
<th>Target date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepare a plan for the future needs of passenger vessels in Sydney Harbour.</td>
<td>Marketing</td>
<td>Dec 2003</td>
</tr>
<tr>
<td>Investigate single booking point for provision of vessel movement services (pilot, tugs).</td>
<td>Operations &amp; Technical</td>
<td>Dec 2003</td>
</tr>
<tr>
<td>Make a decision regarding the privatisation of pilotage services for Botany Bay and Sydney Harbour.</td>
<td>Administration</td>
<td>Dec 2003</td>
</tr>
<tr>
<td>Undertake a detailed review of functions currently under-taken by the Authority and examine the interrelationship between the Authority’ s Branch outputs and the requirements of ports users.</td>
<td>Administration</td>
<td>Dec 2003</td>
</tr>
<tr>
<td>Transfer the timber trade from Rozelle Bay.</td>
<td>Operations</td>
<td>Dec 2003</td>
</tr>
<tr>
<td>Promote actions to reduce truck demurrage costs at container terminals.</td>
<td>Administration &amp; Operations &amp; Technical</td>
<td>June 2003</td>
</tr>
<tr>
<td>Continue to restructure lease and berth management agreements to encourage port efficiency.</td>
<td>Administration</td>
<td>June 2003</td>
</tr>
<tr>
<td>Design and develop a communication mix for the Authority to promote its corporate identity as well as its services and facilities (benefits) in a more commercially oriented manner.</td>
<td>Marketing</td>
<td>June 2003</td>
</tr>
<tr>
<td>Undertake detailed studies on:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- the effect of proposed third runway on the scope of future port development in Botany Bay</td>
<td>Marketing &amp; Technical</td>
<td>June 2003</td>
</tr>
<tr>
<td>- the number and area of berths and methods of utilisation required to meet forecast levels of cargo throughput in Sydney Harbour.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensure adequate funding is available for future capital works and port expansion.</td>
<td>Finance</td>
<td>June 2003</td>
</tr>
</tbody>
</table>
Consider this

Everybody pitches in

Does your company value fluid, cross-functional teamwork? Do those values emanate from the top – from the CEO and other executives? Does everyone in your company understand and strive to further its vision of what it’s doing in the world? Are there company anecdotes you could tell a stranger to illustrate your commitment to unconstrained co-operation? To unconstrained thinking? In your own work group? In other work groups?


Think about this basic principle: Everyone has specific responsibilities, but there are low fences between jobs. People will hop over fences to help others out, but nobody can blame another for his or her failures.

8.1.2 Policies

Consider this

Can you remember the difference between a policy and a rule?

Changes in strategy generally call for some changes in work practices. Questions are likely to arise over what activities need to be done in a rigidly prescribed fashion and where there ought to be leeway for independent action.

An example: the first rule is to change the rules

‘Do you and your executives understand today’s rules and regulations well enough to spearhead change? Are the changes you’d like to bring about motivated by the knowledge that your customers will benefit? Are the people in your organisation committed to supporting a political fight for a needed change? Does your company have mechanisms for enlisting the support of your employees, your customers, your suppliers, the business community, and the general public?’

When Smith (of the well-known FedEx Corporation) convinced the U.S. Congress to deregulate the air-express business, competitors shared the benefits, and industry revenues jumped tenfold. FedEx shook the package-delivery business when it discarded Postal Code-inspired zone-and-volume pricing systems in favour of fixed pricing. Confusion over charges all but disappeared. The change not only simplified processes at FedEx, but also allowed customers to project their shipping costs with accuracy.


8.2 Resource allocation

All organisations have financial resources, physical resources, human resources and technological resources. Once developed, plans raise hopes and expectations: but nothing really happens until resources, mainly through budgets, are committed.
There are six common factors that can inhibit effective resource allocation, and as a strategic manager it will always be your unenviable task to limit the effect of (or if possible, eliminate) these factors. They are:

- too much emphasis on short run financial criteria and day-to-day operations;
- too much emphasis on organisational politics;
- vague objectives which provide poor targets for the implementation process;
- reluctance to change and/or take calculated risks;
- overprotection of departmental budgets; and
- lack of sufficient knowledge, mainly concerning the proposed business strategy and the real nature and purpose of the business.

As limited financial resources are a key issue in successful strategy implementation we will now cover budgeting in greater detail

### 8.2.1 Budgeting

Like it or not, this makes the budgeting process a highly political event. As the saying goes, ‘money is power’.

When allocating resources you will find that there will almost always be a limited budget to contend with, with need far outstripping supply. There are plenty of contenders all demanding to be fed.

In allocating budgets to implement functional strategies, the primary criterion is the degree of importance. Functional strategies should be prioritised according to their ability to meet strategic goals and objectives; the more critical a strategy is to an organisation’s success, the higher its priority should be.

Allocating resources to functional strategies can be greatly facilitated by assessing strategies according to three criteria:
- resource identification
- fit with existing resources
- fit between required resources.

The relationship between these three criteria is illustrated in Figure 8.3.

![Figure 8.3 Bases for assessing competing strategies](image)

By addressing these central issues, you should be able to prioritise competing bids from ‘most important’ to ‘least important’. The difficulty arises when you have strategies of equal merit but you do not have enough funds to fully support them all, or when trade-offs between advantages and disadvantages must be made. For instance, if you have a strategy that is economically attractive but which may draw unwelcome political heat, what would you do?

There are no magic formulae to resolve dilemmas such as this, despite what many would have us believe. Economists may give us such tools as opportunity costs criteria, marginal analysis, utility analysis and so on. Their advice would be fine if all that mattered were economics. Often though, it is not – and neither should it be. We must try to find a balance that is both economically and politically acceptable. Only experience and good judgement will really help here. You have to know what you can and cannot push through the organisation without creating too much instability.

### 8.2.2 Procedures for allocating budgets

Against this context, we will now see how budgets take shape. Following is an easy five-step approach to the budget process:
Step 1: Determine exactly what resources are currently available and are feasible to acquire (loans, debentures, proceeds of sales). This will establish the volume in the resource pool.

Step 2: Determine what resources each functional area requires to implement its respective strategies. Functional managers usually submit this information.

Step 3: Determine the match between what is needed by each functional area and what is available. This matching process will tell you the magnitude of the shortfall (or surplus, if you are fortunate enough!).

If you have a shortfall (and this is the most likely scenario), evaluate the level of resources which each functional area merits based on how well it is able to implement the desired business strategy. As we have previously stated, this can be the most difficult and contentious area, and one that may involve complex choices.

Step 4: Having decided on how much to allocate to whom, the next step it to decide what appropriate action may be needed to overcome any political or behavioural impediments to the desired resource allocation.

This step is often put to one side, with management taking a ‘like it or lump it’ attitude. However, if you believe in strategic management you ought to think twice before adopting a similar stance. Remember, to turn the strategy into action requires the support of all organisational levels, including the functional areas. In many cases, all it takes is for senior management to take the time to explain to their functional managers why certain choices have been made and how such choices can benefit the whole organisation.

Step 5: This is the final step, and the easiest. If you survive all the gruelling work in steps 1 to 4, you can now allocate a resource budget to each functional area.

Many people find it useful to apply step 3 using some kind of checklist or comparison table. Presented in Figure 8.4 is one such example that is well used in the maritime industry.
### Strategy implementation worksheet

Business objectives:

Business strategies:

Strategy implementation: evaluation of alternatives

<table>
<thead>
<tr>
<th>Functional area objectives &amp; strategies</th>
<th>Action required to implement</th>
<th>Potential impact on business strategies</th>
<th>Estimated financial costs</th>
<th>Non functional resources required</th>
<th>Time frame for implementing</th>
</tr>
</thead>
</table>

*Figure 8.4  Strategy implementation worksheet*
8.3  Global issues for the 21st century

- Even though shifting costly functions to developing countries (either through outsourcing or transferring operations) has become an accepted way to reduce human resource costs, such a functional strategy is creating some problems. The United Nations enacted a convention in 1973 that called on nations to set 15 as the basic minimum work age, with 13 being the minimum for light work and 18 the minimum for hazardous work. Although many countries have ratified some parts of the agreement, some developing nations are ignoring it. Citing that as many as 250 million children between the ages of 5 and 14 work in low-paying jobs, the International Labor Organisation is working to outlaw the practice beginning in 2000.

- Just as a competitive strategy may need to vary from one region of the world to another, functional strategies may need to vary from region to region. An example follows:

  When Mr Donut expanded into Japan, for example, it had to market donuts not as breakfast, but as snack food (because the Japanese had no breakfast coffee and donut custom). Restaurants were thus located near railroad stations and supermarkets. All signs were in English to appeal to the Western interests of the Japanese.

- Given the importance of technology in global business, companies will need to spend more time and money hiring skilled labour and training these employees to deal with emerging technologies.

An aside: Quality and strategy

Our discussions so far have noted that quality can be used strategically to compete. Discussion of quality cannot be complete without the mention of safety and training. The chairman of a large transport organization writes:

‘The objectives of our ship management are:
To meet customer requirements consistently at the lowest long term cost.
To maintain and preserve our ships to sail economically and safely …’

Company culture must include safety. This is what allows a carrier to provide a safe service. Safety is often seen as a cost imposed by regulation. A reminder of Bhopal, Chernobyl and Exxon Valdez will serve to enforce the point that accidents are expensive. Safety needs to be planned into the management system with clear lines of communications and actions in specified emergencies laid out.

Discipline is the bedrock of safety. This comes through regular practice of dealing with foreseen emergencies, knowledge of the hazards from and to the consignment/environment, applicable regulations, location of operations, and prevailing circumstances. The following examples are from real life industry experience but the source cannot be divulged because of confidentiality reasons.

The first took place in an area where safety awareness is high and involved the units of two companies that are leading names in western chemical production and transport.
A chemical tanker, loaded with various toxic and hazardous chemicals, came into a port in NW Europe to discharge some parcels at a terminal owned by a leading chemical producer with a high reputation for safety and quality. It was winter, cold, windy, wet, and 0200 hours at night. Owing to the conditions, berthing was slow. In a hurry to get on with the work, the following happened:

A terminal worker jumped on to the deck of the ship before she was safely tied up. He then, without permission from any responsible ship’s staff, proceeded to open the ship’s cargo manifold connection so that he could connect the shore reception system. Owing to bad weather at sea, cargo had found its way past the tank valves and into the manifold. The result was a spray of chemical that could have resulted in serious injury or accident. Ship’s staff had to rush from their proper stations for mooring the vessel, and stop the flow.

Upon safe mooring, the loading master, the terminal designate in-charge of operations ashore, came on board, having climbed down the side of the quay. He was told of the dangers of what one of his team had just done and he promised to look into the matter. Meanwhile, his prime aim in coming on board was to complete the ship-shore safety checklist and agree transfer of cargo operations. Among the first questions on the safety check list is: Is there safe access between the ship and shore? He was asked whether he considered the means of access he had used as safe. He left the ship in a huff, saying ‘I will only come back when everything is safe.’

One of the dangers to the drive to quality working comes from reactions to accidents. Blaming the persons responsible can be counter-productive because it can make them resentful and not ready to share all the information about the incident, from which important lessons may be learnt. The air transport industry has provided a positive lead in this area by encouraging the reporting of accidents and near misses. A progressive approach would be to look at the shortcomings of the system that allowed the accident to take place. The influences of management such as time pressure, improper working practices, inadequate labour for the work being undertaken, etc. can all be scrutinised.

Thanks to D. Grewal for his contribution to this example.

### Conclusion

Implementation involves the development of operational plans which must be based on, and provide strong support for, selected functional strategies. Such plans can take many forms, for example, standing plans (policies, standard operating procedures, rules and regulations); single-use plans (specific programs and projects); and budgets.

To give teeth to plans, resources must be allocated to specific functional areas. When it comes to financial resources, how much each area gets must be assessed according to that area’s strategic importance to the company. Assessing these bids according to three criteria can facilitate allocating resources among competing bids:
resource identification
fit with existing resources
fix between required resources.

Skim read through:

Reading


Quick check: can you briefly explain the following?:

- budgets
- standing plans
- single use plan
- policies
- resources allocation
- rules
- annual objectives

References


Implementing strategies through plans, functional strategies and budgets. In Strategic Management: A Choice Approach, Chicago: The Dryden Press, pp. 163-171. Figure 8.2 provides an overview of the main thrusts of a business unit’s (shipping) operational plans. Study this example carefully and then try the following activities. Module 8: Implementing strategies: Functional level issues 3. Diversified shipping company. Aviation Terminals and Shipping Investment Industrial. Strategy formulation and strategy implementation are two sides of a coin. Successful implementation of strategy depends on; resolving several issues, creating sound organization structure, managing organizational change. When a company embarks on implementing a new competitive strategy, the senior managers should undertake a comprehensive review of the company’s existing policies and procedures. They have to proactively revise the policies if there is a need. The policies that are incompatible with the present requirements should be discarded. PDF | The implementation of strategy, directly or indirectly, relates to all facets of management. Therefore, it is essential to follow a holistic approach. Find, read and cite all the research you need on ResearchGate. Implementing a strategy or strategic decision. Some frameworks combine several different levels of management and functional areas. The potential impact of the new strategy on informal networks, politics and key positions. Strategic measurement can help in implementing the strategic plan. Appropriate measures show the strategy is important to the leaders, provide motivation, and allow for follow-through and sustained attention. By acting as operational definitions of the plan, measures can increase the focus of the strategy, aligning the workforce around specific issues. Macro-organizational issues are large-scale, system-wide issues that affect many people within the organization. Galbraith and Kazanjian argue that there are several major internal subsystems of the organization that must be coordinated to successfully implement a new organization strategy. These subsystems include technology, reward systems, decision processes, and structure. Functional strategies in strategic management are usually a part of overall corporate strategy prepared for various functional areas of its organizational structure (i.e. production, marketing, sales). It helps managers in focusing company’s activities to its major functional areas of activity (so called: key success factors). Most common functional strategies used in management are: financial strategy, marketing strategy, production strategy, human resources strategy (personnel strategy) and research.