Re-thinking or re-doing
The role of strategy design versus strategy implementation in reaction to crisis

*By Nenad Filipović, Academic Director, IEDC-Bled School of Management**

Introduction

When trying to understand the patterns, which appear in the reactions of senior executives to the change of economic conditions in which their companies operate, one can look at an endless combination of factors. If the ambition is to link that understanding to the notion of strategy, traditional academic approach would call for a decision: should we focus on the strategy design in response to the new setting, or to the actions taken, i.e. the strategy implementation? While in the past these two dimensions were most often explored separately (Hirsch & Friedman, 1986), looking at them from a holistic perspective (Vollmann, 1996; Filipović, 2004) may reveal more about the observed patterns and their effectiveness in a given situation.

A more holistic approach requires that we first make an attempt to interpret the context in which the strategic response to a new situation is formed and implemented. That is why we shall first look at some of the characteristics of the current economic situation and try to link them with the nature of reactions predicted by research model, as well as the patterns of reactions actually observed through two separate studies (Filipović, 2009; Barrington, Hexter & Mitchell, 2008). Then we shall look more closely at the patterns observed in the study of executive reactions to crisis in Slovenia and search for possible explanations for major differences found in comparison with 'global' responses and draft some conclusions.

Is the nature of the crisis implying the nature of reactions?

The obvious answer to the question above is: yes. The less obvious answer is: the reaction depends not that much on the true nature of the crisis, but more on the way the crisis is perceived by the (group of) executive(s) reacting to it (Filipović, 2004). Three basic reactions to the changes in the business environment in South East Europe were detected in the previous study:

a. Executives were starting the internal changes if they saw the external changes as 'life-threatening' even though they did not have the positive attitude towards the needed changes, but the changes they started were mostly defensive, aimed at the company survival, focusing on cash flow, cost control and business efficiency, downsizing, centralizing the decision making, not significantly changing the approach to core business, not investing into learning and innovation.
b. In case that the executives had positive attitude towards the needed changes, they tended to be more proactive and aspiring, the principal goals were related to significant increase of competitiveness, typically through some innovation of the business model, with major investments in new competences and in

particular in learning and human capital, with more decentralized decision making used in the process.

c. In case that the executives had negative attitude towards the needed changes and did not perceive immediate danger for company survival, they would tend to avoid major changes.

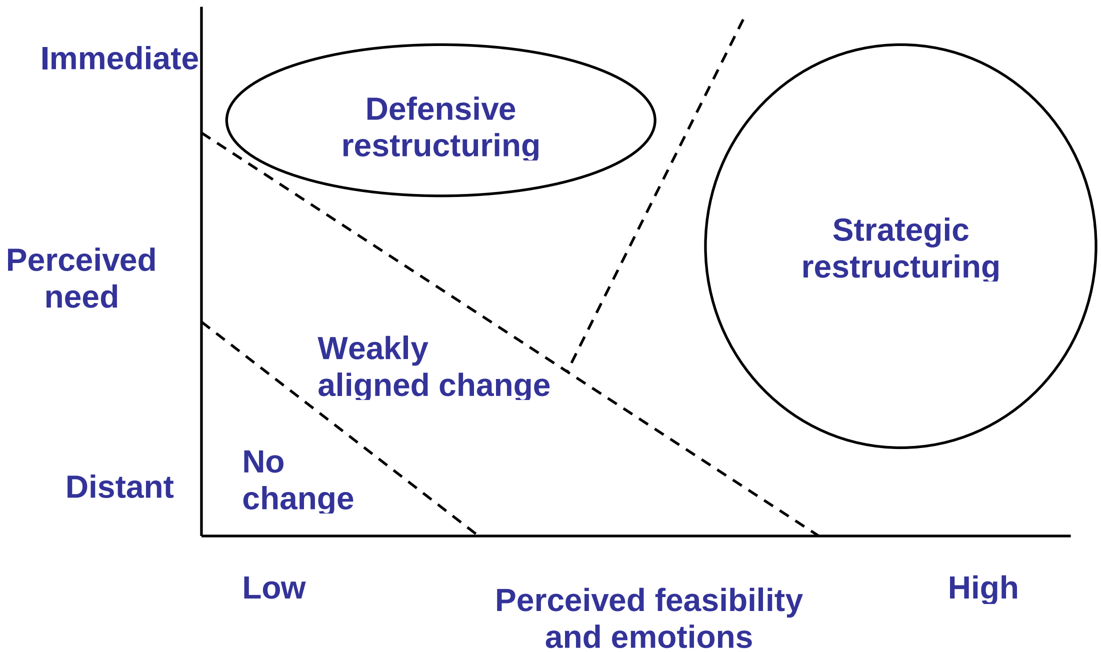

Figure 1: Model of executive reactions to changes in environment

Dimension	Characteristics
• Organizational template	• Asset restructuring used as downsizing tool • Focus on downsizing, soft downsizing gives better results than hard • Focus on various forms of cost-cutting • Centralization • Reorganization to achieve better transparency of performance and focus on core business • No significant change in business model of core business
• Key resources	• Available financial resources used for restructuring • Efficient control system • Basic competence needed within existing

	business model, including competent employees • Trust in leader and in survival of the company
• Leadership interventions	• Top-down decision making • Intensive communication with major stakeholders and in particular employees, aimed at building trust • Use of coercion to speed up execution and introduce process discipline • Use of external consultants to secure cost-cutting and process improvements

Table 1: Characteristics of defensive restructuring

Dimension	**Characteristics**
• Organizational template	• Clear definition of strategic position and sources of competitive advantage • Focus on building critical competences • Organizational learning from global sources • (Appropriate level of) decentralization
• Key resources	• Financial resources committed to restructuring, in particular competence-building • Focus on market- and customer-intimacy-related competences • Trust in leader • Flexible reaction to changes and in particular new product development • Avoidance of opportunistic behavior • Active stakeholder relationship management • Substantial time available for restructuring
• Leadership interventions	• Top-down decision making • Top-down communication focused on strategic positioning and trust-building • Use of external consultants and formal improvement projects to build bottom-up support for change • Pressure on middle management to perform and change the way they work • Commitment to culture change, in particular to becoming more international and initiative-taking

Table 2: Characteristics of strategic restructuring

We define strategy design as a clearly identifiable set of activities that link the considerations about the external context and the internal workings of the organization with the strategic actions to be taken. If present and strong, it secures that the activities on strategy implementation are well aligned. Filipović (2004) concluded that strategy design is strongly present in 'case b', less strongly present in 'case a' and typically absent or only marginally present in 'case c'.

According to practically all of the sources, including Barrington, Hexter & Mitchell (2008), the first warning signals about the imminent crisis became widespread among West European executives much earlier than among their North American counterparts. While the latter were taken by surprise upon the financial melt-down in autumn 2008, West Europeans were concerned with the sustainability of global economic growth already in early summer of 2008. The North American managers in the first period after the start of the acute crisis focused mostly on its financial background. Most of the political and business circles looked for external solutions first, i.e. keeping the financial markets liquid and ensuring that the companies would have access to needed short-term financing. Only in the second period the perception of crisis had changed and its complex implications were to some degree recognized, with the professed solution being (artificially stimulated) growth of domestic demand.

The understanding of the crisis among West European managers differed from the above primarily on the grounds of earlier consensus about its broader systemic nature. The managers acknowledged the economic, rather than solely the financial background of the crisis, its global character and its strong ties with politics. However, mostly they also agreed about the reason for crisis being outside their scope of influence, as well as about the life-threatening dimensions of the crisis (e.g. many companies in the first few months reported drop of demand by 40% or more, which was widely publicized in the media).

The situation in Central and Eastern Europe was slightly different from both described cases. First of all, the region enjoyed a prolonged period of extremely strong growth, in most countries lasting at least eight years with at least 5 to 8 percent annual GDP growth, several index points above the EU averages in the period. Secondly, executives from the region were in many cases having relatively fresh memories of big crises (in companies strongly linked to Russian market the last one was in 1998, in others from 1991 to 1993). Because neither their companies nor most of the regional banks had major exposure to the crisis of real-estate based lending in US, while they were perceiving the crisis as primarily financial and primarily US driven they did not see the crisis as immediately life-threatening. Also, many political leaders from the region in their early reactions downplayed the importance of the crisis. For example, Putin as late as in late 2008 spoke about 'western' crisis not having any impact on Russia.

Slovenia was quite representative of the region, on macro-economic level being among the most positive examples due to excellent heritage from the first round of economic and political transformation in the period from 1990 to 2008. Slovenian

economy was consistently outperforming the EU growth, achieving solid productivity growth and increasing the share of exports in the overall economy to the level of more than 60%. Throughout 2008 Slovenian government and media kept repeating that excellent economic performance of most of the companies and regional focus of Slovenian banks meant that Slovenia was safe from recession. When Slovenian banks were cut off from regular international sources of short-term financing, producing sharp credit crunch in October 2008, the government focused its reactions on two issues: keeping the liquidity of the banking sector and tightening the social safety network in the country, which would decrease the economic distress of the poorest segments of population. The Slovenian government only in April 2009 corrected its annual budget for 2009, admitting that the country is, instead of previously planned small growth of GDP, facing 4% drop of GDP.

Looking at some responses of the global companies to the new situation, one cannot but notice some of the patterns described in the model presented in Figure 1 and Table 1. Probably the best reported case is the one of the car industry, in particular the three major US players. Although not in identical position, they all delayed their responses beyond the point allowing for proactive dealing with the crisis. Increased level of financial distress combined with dramatically falling demand then pushed the executives into action, with most of the company reactions focused on cost reductions (e.g. temporary or permanent plant closures) and a few actions targeting the consumers (e.g. discounts and promotional campaigns underlining company stability). At the same time these measures yielded only partial results. On short run, drop of revenues seemed to be too big to be compensated with cost cutting (except in case of dramatic restructuring done through a bankruptcy procedure). On long run, market position of players like GM seemed to be significantly weakened and in a mature industry like automotive is one could hardly expect that such shifts in market shares could be reversed under 'business as usual' conditions. One could argue that car makers should have avoided the current situation with a more proactive behavior in the past. Also, it doesn’t seem likely that sustainable level of industry and company performance could be reached by following the 'old' business model, without searching for (breakthrough) innovation either on product and technology side and/or in the way automotive industry interacts with broader social and economic issues.

Findings from two surveys of executive reactions to current crisis

Although the behavior described above fits well with the expectations from the research model (Filipović, 2005), in order not to stay at the level of an isolated anecdote, let us look at the conclusions from Barrington et al. (2008). The conclusions were based on the answers from 190 CEOs, chairmen and company presidents from different parts of the world (35% from Europe), who rated the importance of 94 challenges for their personal 'executive agenda'. This survey is being conducted annually and the responses were comparable with the responses from the same individuals from the previous period.

The principal conclusions the authors came to was that *'the crisis has led CEOs to focus on 'bread and butter' survival issues, while longer-term challenges, especially in talent management, are de-emphasized'*. The survey detected some regional differences. Three out of top ten most important issue for European CEOs, including the top ranking one, 'Global economic performance', were placed between eleventh

and twentieth issue on the US rankings. However, overall ranking differences were not dramatic, indicating that to a large degree the executives responded to the current crisis by developing similar action priorities.

According to the research model, executive reaction to the crisis of this nature would likely include focus on cost cutting and operational efficiencies. Indeed, top three global executive priorities reflect that: 'Excellence in execution', 'Consistent execution of strategy by top management' and 'Speed, flexibility, adaptability to change'. Two more from the same group are among top ten priorities: 'Financial risk, including liquidity, volatility, and credit risk', as well as 'Improving productivity'. One can easily see that these issues focus on the implementation, rather than (re)design of the strategy. Focus is on doing things more efficiently within the existing strategic framework and existing business model, rather than rethinking the fundamentals of the way we do the business.

Another interesting observation is that the importance of growth (both in terms of revenues and profit) was significantly decreased in comparison with the previous surveys, where it was a dominating priority for a number of years. The most obvious interpretation is that executives changed the mood of their 'view of the world' and see significantly more problems than opportunities in the current business environment. The only factor related to markets and customers that appears in top ten global executive priorities is 'Customer loyalty/retention', not surprisingly given significant drop of demand, where every defecting customer adds to the financial distress of the company. Thus, this priority also fits as part of the defensive mindset.

The two remaining among top ten global executive priorities are related to 'Global economic performance' and 'Business confidence', external factors which are outside of the executive scope of influence but, apparently, are seen as important to be monitored in order to signal the right course of daily actions.

Finally, out of twenty people related priorities only two increased their importance compared to previous surveys, both directly related to cost focus: 'Cost of employee benefits' and 'Employee efficiency'. All the other issues related to innovation, learning, talent attraction and management, management development and executive succession are obviously being put to hold, completely matching the pattern of defensive reaction to external crisis as described in Filipović (2004).

As noted before, European executives started reporting their concerns about the global economy even before the crisis. One interesting difference between European and global list of executive priorities is that Europeans tend to rank higher some of the priorities which are obviously outside of their scope of immediate influence. On the one hand side, this might speak of their broadness and concern for issues linking business and other aspects of society, but on the other hand side it may also point towards European lack of pragmatism.

Another interesting paradox is that Europeans followed the global trend of significantly downgrading the importance of the growth of revenues, but at the same time kept the profit growth very high among their priorities. This may be the result of true pressures from less realistic owners or just the perception of the executives, but it certainly leads to even stronger focus on cost cutting as the only possible

source of improved profits in case that the revenues are expected to stagnate or fall. It is also interesting to notice that, along with the shift of focus from external opportunities to internal necessities, focus on 'promising' markets (e.g. China, India and Central and Eastern Europe) was significantly diluted and these markets are primarily seen as risky. Finally, European executives follow the global suit in dropping the innovation and talent management topics, which, in their case, is even stronger shift in behavior since these topics were even more prominent in Europe in the previous periods.

Overall, with minor differences in 'accents', European executives, as much as their colleagues from other parts of the world, reacted well in accordance with predictions: they see the world around them as threatening, are not positive about the change process and prefer to use the proven approaches to business. After all, cost cutting might be more painful, but is faster and more predictable than attempts to innovate. Whether it can resolve the current issues and global business challenges is a question that the executives prefer not to post. To quote one of the most experienced former CEOs in Central Europe: 'In crisis we would need a dictator' (and not a visionary, as the CEO explains in the interview; Kovačič, 2009).

With the above findings confirming the model predictions, we decided to check the model on another set of data, this time coming from a survey of Slovenian executives performed in March and April 2009 (Filipović, 2009). Along with enquiring about the executive priorities in response to the current situation, this survey also looked at the process through which the priorities were formulated.

Vast majority of the surveyed executives described the process leading to the formulation of priorities as 'highly regular', including significant level of strategic review, rather than 'spontaneous' or aiming at fast responses to external pressures. This indicates that the appropriateness of the response was seen as important enough to justify the time taken for defining it, as well as that the external pressures were not seen as so immediate as to require only immediate responses. Most of the executives also indicated multilevel reactions: while some of the actions were taken without hesitation at the first signs of changes in the environment (some mentioned late 2007 as the time when they already started with preventive actions), others were prepared only after significant amount of strategic discussion took place. This type of the process creates an interesting angle at the notion of 'perceived urgency' of external changes. While the most common view of crisis is as the time in which short-term priorities dominate over long-term ones, multilevel reactions speak about the willingness to balance the short-term and long-term priorities, which creates space for actually engaging in two different modes of reaction at the same time.

The same was true when we looked at the contents of executive priorities obtained through the survey. In almost all cases tight cash flow management, cost control and activities aimed at cost decreasing were among the top priorities, but only in about 10% of answers all or some of them were named the top priority. In many instances, however, executives clearly conditioned the cost containment related activities: they were performed only if not jeopardizing success of the other two major groups of activities. To quote one of the answers: 'We are very careful not to cut the wrong cost and lose a critical competence needed in the future'.

The most frequently mentioned group of activities was related to 'fight for the top line'. These activities included strengthened sales efforts, investment of time and resources into improved customer relationships, as well as the adjustment of the offering (and in particular focus on fast new product development as well as launch of services making part of wider product-service bundles) in pursuit of new market opportunities. It was interesting to see that the markets labeled by West European executives as risky were seen by most of the surveyed Slovenian executives as requiring caution but with opportunities generally outweighing the risks. Overall, increase of market share figured very prominently among the market related objectives. Quite a few executives mentioned that they focus on gaining the market share at expense of weaker players, which is why they saw the crisis as an opportunity.

The third large group of top priorities of the surveyed Slovenian executives included focus on innovation and people related issues. As opposed to their global counterparts, these executives were speaking about the need to use people related competences as the key source of competitive advantage in future, which is why they were not willing to stop investing their time and company resources in this area. While this behavior has been identified in the past (e.g., George, 2007), it is almost entirely missing from the responses given by global executives in current crisis.

Possible explanation of the differences in findings

The first question we asked ourselves was what can explain the apparent difference in the process of response formulation, which in case of European executives seems to be much more linear and immediate than for their Slovenian colleagues. We offer two possible explanations, one related to the perception of the external situation and the other related to the recent experience in dealing with such priorities. Then we looked at the difference in the priority list, which seem to be much more dispersed in case of Slovenian executives. Same set of explanations can apply, with the third one offering additional insight.

One possible reason for more complex process and structure of responses in Slovenia could be the lack of clarity of views. Is it possible that Slovenian managers do not understand the nature of the crisis and are therefore taking more time to formulate the answers, which are also less focused then needed? Although not impossible, this answer seems to be highly improbable. In-depth interviews with Slovenian executives showed that they were well aware of the situation, but had deliberate preference for the approach taken.

Second possible explanation for the difference might be in very different nature of the survey sample. However, that would imply a paradox, since the response of Slovenian executives was more sophisticated than the response of their European counterparts, while the comparison of companies in the sample does not allow for such conclusion.

European sample includes industry leaders in practically all of the industries present in the Slovenian sample, but it also includes companies, which are not better performers than the Slovenian ones.

One argument that seems to be more plausible is the way Slovenian executives perceive the current situation. From their reactions it looks that they are at the same time seeing the threats and are trying to neutralize them, primarily through cost-cutting and related defensive actions. On the other hand side, they seem to have positive stance towards the change and its outcomes, since they also heavily engage in actions seen only in cases of strategic restructuring. Not unusual for Slovenian cultural stereotype, they focus on issues within their scope of influence, but at the same time they engage in somewhat broader thinking about the company vision.

Why are Slovenian executives having positive attitude towards feasibility of needed changes in the situation where this is not shared across Europe? One of the likely explanations is in relatively fresh memories of two crises of similar magnitudes, disintegration of former Yugoslavia and collapse of Eastern Block in 1991, as well as the Russian crisis in 1998. In both cases many companies experienced huge drops of demand over a very short period of time. Although the situations cannot be directly compared and actions taken to fight for revenues and improve competitiveness in current crisis are not necessarily similar to those taken in the past, the positive experience from the past is extremely useful. Not only it gives hope, but it also tells the managers how important it is to be proactive, but also to be consistent in pursuing the chosen strategic alternatives, as well as how beneficial it is to maintain high market shares or even improve them. Examples of companies succeeding or failing in the past also serve as vivid warning of the danger of simplifications, as well as the need to balance the cost focus with the ability to keep creating new value for the customers.

Coming from the mindset and system favoring improvisation, Slovenian managers have only in the past few years adopted more systematic processes of strategic review and strategy formulation. While they have still not lost the feeling for strategy implementation, many of them are 'recent converts' when it comes to the need for systematic strategy formulation. This not only additionally explains why the process was a relatively meticulous one, but also explains surprisingly robust strategies, which were reportedly put to work without many changes over the last six months. Needless to say, the 'improvisation in implementation' competence serves well even when operating within a well planned scenario, since it allows for fast adaptations to unpredictable situations.

Finally, although managerial profession is under attack by public media, in majority of the surveyed companies executives had excellent track record in the last few years. One can always debate was it because of their competences or it was the byproduct of favorable external conditions. Whatever was the reason, one of the effects was quite high level of trust of the owners, the employees and the customers, as three main stakeholders. With lack of trust being one of the critical factors contributing to the seriousness of current situation on global scale, high trust level significantly contributed to the positive attitude which the surveyed executives held towards the needed changes.

In conclusion, we state that the model presented in Figure 1 explains the behaviors of both the European and the Slovenian executives, although the behaviors are different, since they are influenced by different recent development paths. The presented considerations also show something which was not clearly identified in the

previous research yielding the presented model (Filipović, 2004), but was noted by other authors dealing with strategic paradoxes (Abell, 1993; De Wit & Meyer, 1998): managers can and
sometimes must pursue seemingly incompatible courses of action like cost cutting and innovation in order to achieve both the short-term survival under crisis conditions and long-term competitive advantage over players focusing only on execution of defensive strategies during the times of crisis.

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About the author:

**Prof. dr. Nenad Filipović is academic director and professor of General Management at IEDC – Bled School of Management, one of the leading business schools in Central and Eastern Europe. After obtaining a degree in computer sciences he spent 15 years in business, ending his executive career as a senior vice-president of a large international manufacturing company. Since 1991 he is with IEDC, where he teaches General Management and Business Ethics. He keeps close contact with business practices through his work as Director of EMBA Projects (in which capacity he supervised more than 200 consulting projects), as well as his advisory services to a*

number of international companies. He has acted as personal mentor of a dozen CEOs in Central Europe. He is the author or co-author of five books and more than thirty case studies. Dr. Filipović is also active in the programs for business school faculty development and has strong interest in topics related to the quality of management education.