Structure, Evaluation System, and Employee Resistance: Impediments to Horizontal Strategy Implementation in Diversified Corporations

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***Abstract:** In the organization, there is huge difference between the formulation and implementation of strategy. Implementation of strategy is a process that demands a great deal of attention to make it work. Managing the diversified corporation is very challenging. Horizontal strategy plays a crucial role in managing the diversified corporation. Moreover, horizontal strategy is a powerful business tool that enhances firm's capabilities and increases its corporate value. Horizontal strategy does not tend to emerge spontaneously. To explore this paradox, this study sought to determine which barriers act as hurdles to horizontal strategy implementation in diversified corporations. The aim of this paper is to outline the challenges and problems that can arise and hinder successful horizontal strategy implementation. In addition, the study looks closely at the internal barriers of strategy execution viz. structure of business units, evaluation system, and resistance to change.*

***Key words:** Horizontal strategy, diversified corporations, internal barriers, and strategy implementation*

I. INTRODUCTION

In general, horizontal strategy is regarded by business management as quite difficult to implement. Strategy implementation is a process or paths that entails converting a company's strategic plan into actions that are aimed at achieving desired objectives [1]. Horizontal strategy as a way to achieve competitive advantage in diversified corporations [2]. Moreover, diversified corporation means a company that runs businesses in multiple industries simultaneously [4]. Diversified corporations that run multiple businesses have opportunities to differentiate themselves by implementing horizontal strategies, but horizontal strategy never happens spontaneously. There is no generalized or standardized methods for developing and implementing a horizontal strategy in diversified corporation. Based on these findings, this study try to investigate the factors which makes hurdles to implement or developing horizontal strategy. Although numerous studies acknowledge that strategies frequently fail not because of inadequate strategy formulation, but because of insufficient implementation, strategy implementation has received less research attention than strategy formulation [3].

In addition, from various studies found that the planning and implementation of strategy are two separate things. Most of the time we see that strategy execution or implementation is more difficult than planning. Because managers or top management are always engage to plan and thing strategically, while execution left to the operational level employees. Because of these findings, organization demonstrate that it faces lot of problems or issue to strategy implementation.

Although, there are numerous research papers available which certify the barriers of strategy implementation. Relatively very less attention has been paid to horizontal strategy and their problems related to execution in diversified corporation. There are few literature available on horizontal strategy. Based on the available literature survey, we are trying to explore specifically, the issues regarding the horizontal strategy implementation.

Takaoka [4] sees that execution of horizontal strategy from the view point of process, execution system, and leaderships. According to Olson et al. [5] once the firm's or individual business unit's strategy is determined, management's focus shifts to implementing that strategy.

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Organizational structure and strategic behavior are considered critical dimensions for strategy implementation. Moreover, successful strategy execution depends greatly on good internal organization and individuals. Olson et al. [5] clearly mention in their study that firm performance is strongly influenced by how well a firm's business strategy is matched to its organizational structure and the behavioral norms of its employees. From this statement, we realize that organization structure and employee behavior are two critical factors for strategy implementation. In addition, there are also some other challenge to strategy horizontal strategy implementation which will be discussed in next part of this paper.

II. LITERATURE REVIEW

The literature review is divided into two sections; one is strategy implementation and second is horizontal strategy. This literature review is an attempt to investigate the challenges in implementation of horizontal strategy.

A. Strategy implementation

There is no universally accepted definition of "strategy implementation". Li et al. [3] define strategy implementation in three different approach as process prospective, behavior prospective and hybrid prospective. In process prospective, strategy implementation is an iterative process of implementing strategies, policies, programs and action plans that allow a firm to utilize its resources to take advantage of opportunities in the competitive environment. In behavior prospective, strategy implementation is a series of interventions concerning organizational structures, key personnel actions, and control systems designed to control performance with respect to desired ends. Last in hybrid prospective, strategy implementation is viewed as an action-oriented process that requires administration and control. In other words, strategy implementation is "the process of allocating resources to support the chosen strategies in the organization". According to Steiner [6], "the implementation process covers the entire managerial activities including such matters as motivation, compensation, management appraisal, and control processes".

The success factors for strategy implementation grew over time through different researchers and diverse approaches. But very few studies try to investigate that challenges and problems of strategy implementation in organization. From this literature we attempt to investigate challenges of strategy implementation. Based on the literature review of strategy implementation we are trying to specifically analyzing the threats of horizontal strategy implementation in diversified corporation. Today, the success of the organizations is depend upon the successful implementation of strategies [1]. Beer & Eisenstat [7] propose three essential factors for successful strategy implementation regarding change process. First, the change process should be systemic, second the change process should encourage the open discussion of barriers to effective strategy implementation and adaptation; and last the change process should develop a partnership among all relevant stakeholders. According to Karami et al. [8] leadership, structure and human resource play a significant part in strategy implementation.

According to Brinkschroder [9] strategy implementation is influenced by the structure and, behavior and strategy itself. He says that the strategy shall be in accordance to structure and behavior of the organization to match it. He identified the three key factors for strategy implementation i.e. strategy, structure and behavior; these factors are interrelated to each other. Under these factors, there are also various sub factors which is described in table 1. In addition, according to David [10], successful strategy implementation requires support, discipline, motivation and hard work from all managers and employees.

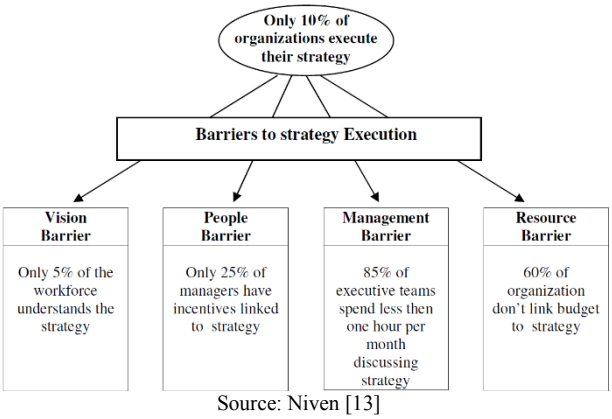
Table 1: key factors of strategy implementation

Strategy	Structure	Behavior
Formulation & planning	Cross-functional coordination	Commitment of workforce
Strategic Consensus	Resource allocation	Leadership of managers
	Control by management	Cultural context
	Communication	

The effective execution of strategy is not depend on a single entity, while it based on the strategist itself, managers, employees, and staff. For instance, managers should consider analysis of organizational structures and systems before strategy implementation, as well as analysis of culture, power and conflict [11]. Employees in the organization also play a more vital role in strategic implementation than managers because employees concern the day to day operations in the organization.

The above literature review is all about the success factors of strategy execution. But on the other hand recent research also indicates that considerable proportions (over 65%) of organizational strategies fail to get implemented

effectively [10, 12]. There are numerous problems/challenges in strategy execution. There are few numbers of researchers who identified the various challenges to strategy execution. Niven [13] explained the four types of barriers occurred in organization to strategy implementation i.e. vision, people, management, and resource barrier. Once the strategy is formulated then it is implemented through the different organizational changes, these changes might be with respect to leadership, structure, information and control systems, and human resources [14]. Moreover, Burners [15] defines politics, resistance to change, structure, culture, leadership, policies, and reward & ownership roadblocks to strategy execution. In addition, Beer & Eisenstat [16] also define the inhibiting factors to strategy implementation and learning viz. either a top-down or laissez-faire management style, unclear strategy and conflicting priorities, an ineffective senior management team, poor vertical communication, poor coordination across functions, plus inadequate down-the-line leadership skills and development. Moreover, Owen [17] investigate the four problems related to strategy implementation i.e. structure of business units, ineffective control mechanism, uncertainty and risk, and management system.



Source: Niven [13]

Fig. 1: The Barriers to Implementing Strategy

Table 2 Factors related to strategy implementation issues

Authors and work (chronological order)	**Time**	**Organization structure**	**Organization culture**	**Resources**	**Leadership**	**Uncontrollable external factors**
Waterman et al. [20]: Structure Is not organization		✓		✓	✓	
Wernham [21]: Bridging the Awful Gap between Strategy and Action		✓		✓		
Alexander [22]: Successfully implementing strategic decision	✓	✓		✓	✓	✓
Eisenstat [23]: Implementing strategy: developing a partnership for change		✓		✓	✓	
Wessel [24]: The strategic human resource management process in practice		✓		✓	✓	
Schmidt [25]: The case of the sales-driven company		✓				
Sandelands [26]: All talk and no action? Perish the thought	✓					
Miller [27]: Implementing Strategic Decisions: Four key Success Factors		✓	✓	✓		
Al-Ghamdi [28]: Obstacles to successful implementation of strategic decisions	✓	✓		✓		✓
Beer and Eisenstat [16]: The silent killers of strategy implementation and learning		✓		✓	✓	
Allio [29]: A short, practical guide to implementing strategy		✓		✓		
Hrebiniak [34]: Obstacles to effective strategy implementation	✓	✓	✓	✓		
Kalali et al. [30]: Why does strategic plans implementation fail? A study in the health service sector of Iran		✓	✓	✓		✓

Andrew Lihalo [18] explain the internal and external sources of barriers within an organization. Systematic and behavior barriers exist under the internal source; and economic factors is exist under the external source of barriers to strategy implementation. Furthermore, lack of consensus, understanding and transparency regarding mission and vision, lack of relation between strategic content and strategic process, lack of coherence between strategic planning and resource allocation, lack of strategic feedback, inflexible formal structure due to IT, Lack of involvement of the organization's management are barriers to strategy implementation [19]. In the table 2 there are number of researchers who worked in issues regarding the strategy implementation; and they focused on different factors of strategy implementation in his study.

B. Horizontal strategy

Corporates strategy has two concepts portfolio strategy and horizontal strategy. Horizontal strategy, this is concept of corporate strategy which comes in 1985 by Porter [31]. Corporate strategies designed to encourage resources sharing between business units that can create synergy and competitive advantage [31]. Synergy can also to be achieved through the interrelationship between the business units in diversified firms [2]. So, there is two concept one is interrelationship and another is horizontal strategy which is required to sharing and coordination among the business units in firms.

Figure 2 Corporate strategy and Competitive advantage

Interrelationship refers to: sharing of resources or skills in activities that have relatedness to achieve synergy. Horizontal strategy refers to: developing those interrelationships that create value to achieve competitive advantage. The diagrammatic representation of this is shows as in the figure 1.

Interelationships and horizotal strategy

	Activity	Choice	Goal
Interrelationships	**Sharing** of resource or skills	That have **relatedness**	To achieve **synergy**
Horizontal strategy	Developing **interrelationships**	That create **value**	To achieve **competitive advantage**

Figure 3: Ensign View of horizontal strategy and interrelationships

Horizontal strategy is a way to identify and develop those interrelationships that can create value [2]. Moreover, it involves adding values beyond the simple sum of independent business contribution [32] or adding value to the firm's collection of the business units and shared-service units [33]. It can also be defined as combining different but related businesses to create value [31]. In addition, adding values beyond the simple sum of independent but related business units and shared service units by combining their asset and capabilities [4].

Without effective implementation, no business strategy can succeed [34]. In the previous section of literature review we discuss the issues of strategy implementation. Based on this review we are try to investigate that challenge to implementation of horizontal strategy. Takaoka [4] describes three ways to execute the horizontal strategy i.e. process, evaluation system, and leadership. He describes the effective evaluation system and leadership are key factors for horizontal strategy execution. Furthermore, well-designed organization and strong leadership are absolute requirements for carrying out horizontal strategy. In the process prospective of execution of horizontal strategy, the main steps are to identifying the interrelationships and configure the organization, so the main issue may be here the lack of or misallocation of resources and structural issues. Moreover, Hax and Majluf [32] believe that configuration of value chain and coordination of value activities are critical for horizontal strategy. In addition, ineffective evaluation system and leaderships are also barriers of horizontal strategy implementation.

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C. Diversified Corporation

The relationship between the strategy and the diversified large corporations has been subject of intensive research and debate since Chandler [49] work in strategy. Diversified corporation means a company that runs businesses in multiple industries simultaneously [4]. Now the diversified corporation have focused on the coherence of the corporation [47], [48]. Diversified corporation engaged in varied business operations not directly related to one another [50]. A salient attribute of diversification is that, firms over time add activities that relate to some aspect of existing activities. In other words, we can say that diversification is also a phenomenon that can expand and contract [47]. Economy of scale, dispersion of risk, and economy of growth, these are the three main reason to diversify a company (p. 93) [36]. Porter [31] observes: "Without horizontal strategy, there is no convincing rationale for the existence of a diversified firm because it is little more than a mutual fund" (p. 319). From this statement, we draw an attention towards diversified corporation need horizontal strategy to achieve competitive advantage and generate firm value.

III. Theoretical framework and propositions

The purpose of this study is to investigate the challenges of horizontal strategy when it is trying to implement. In addition, it also concentrate that how to overcome these challenges.

Barriers to implementation of horizontal strategy:
Barriers are those factors that obstruct, prevent, block or hinder in the process of strategy implementation [18]. Noble [35] in turn speaks of barriers to effective implementation. Noble [35] defines three barriers of strategy implementation i.e. physical, personality and communication barriers. Based on the literature, finally we come to three horizontal strategic issues such as: structure of business units, evaluation system, and resistance to change.

A. Structure of business unit

Although strategy needs to be developed around the business units (SBUs), of the corporation, these units often do not correspond to parts of the organizations structure [17]. From this statement, means when the organization is going to implement their strategy then strategy must be align with the structure of organization and business units. As we already discussed in the literature review section, horizontal strategy is a way to develop interrelationships among the different business units that can create value to the organization. From these findings, it strikes two concept of horizontal strategy; first strategy must be match with structure of business units; second supportive structural dimension that can help to sharing the resources, activities and skills.
Porter [31] states, “A business unit can potentially share any value activity with another business unit in the firm, including both primary and supporting activities”. Adding on this, a business unit also share any type of know-how with another business unit that can utilized both business units. This type of sharing of resources and skills between the business units are known as tangible and intangible resources, or we can say that tangible and intangible interrelationships among the business units. For instance, if one business unit is ready to collaborate with another business unit, here the fruitfulness of collaboration depends upon two prospective, first both business units have get their own benefits and second is another business unit has willingness to sharing their resources and skills. Adding in the second concept, sharing of resources and activities are possible when business units are in the same ground in terms of their culture, structure, employee attributes, and control system. For instance, if one business unit has high formalization, centralization and specialization in terms of structural dimensions; and if we try to implement here prospector strategy, then it would be very difficult to get success because mismatch between the strategy and structure. Adding on this, interrelationships between the two business units are very hard unless both business units have some supportive or similar structural characteristics. From these findings, we can say inadequate structure of business units is enormous issue for horizontal strategy implementation. Mismatch strategy, structure; and unsupportive structure of business unit are restrict the sharing of activities, resources and skills among the business units. Consequently, limits the horizontal strategy implementation.
Moreover, Porter [31] says that horizontal organization structure is relevant for horizontal strategy, because this structure cut the across unit lines, such as grouping of business units, partial centralization, and interdivisional task forces. Horizontal organization structure focuses on the group structure, integration, cross-functional teams, and collaboration. It is the lubricant that facilitate the developing the interrelationships. While some structural dimensions viz. formalization, centralization and specialization are limits the horizontal strategy implementation.

B. Ineffective evaluation system

According to Takaoka [4] an appropriate evaluation system is a necessary part of horizontal strategy, because fair evaluation system is a foundation of better incentive plans [36]. Consequently, in business units managers and employees motivate to collaborate with other business units from the better incentive plans. For instance, if lack of an appropriate and fair system for evaluation employees in the organization, then organization meets a conflict between the performance of business units and the corporation. According to the McKnight [37], one of barriers in strategy implementation is the "No measurement system in place." Here measuring means that measure the progress towards changes, and employee and managers work. In horizontal organization, top management engage to design proper evaluation system that can motivate people in the horizontal strategy. As a result, mangers are ready to sharing their resources, activities and skills to another business units. Proper evaluation system that satisfies employee's evaluating incentive is a key factor in a successful horizontal strategy [4].

In horizontal strategy execution, the first and most important step is develop the interrelationships among the business units. While Porter [35] says that interrelationships are often resisted by some business units because the benefits are or appear to be **asymmetric**. Here, **asymmetric benefits** means one business unit gets benefits from the sharing resources and skills, but another business unit is not get benefits. Unless if both business units are not get benefits, then they are not ready to sharing resources and collaboration. For overcoming in this situation, organizations try to motivate managers and employees through better incentive plans. From these findings, we found that the perfect evaluation system designed to motivate managers and employees for sharing the resources and skills to another business units. But unfortunately in the organization found a **biased incentive systems** that can hurdle to strategy execution.

In addition, incentives are another big part of the people side of strategy implementation [38]. Unless employees will not get their real incentive, they will not commit to it and consequently, strategy will probably fail. So, the organization have to very careful about employee's incentive with respect to achieve their goals. In other words, we can say that organization needs to intensive care to design evaluation system.

C. Resistance to change

In the organization, management of resistance to change is very challenging. Very often this is the main reason to fail strategy execution, because employees are not ready to accept the changes in the organization. Consequently, late assignments, forgotten commitments, missing meetings and absenteeism, such type of behavior takes place in the organization through employees. In other words, Kreitner [44] compares change to a stone tossed into a still pond, which causes ripples to radiate in all directions with unpredictable consequences.

When organization try to implement any action/strategy then it is obvious thing that there is a number of changes will occur in terms of working condition, working style, job/work, supervision, employee position, structure, resources, and using technology. Because of these changes, employees are not ready to accept the changes. Baker [39] says that inept management strategies can often cause the normal unease associated with a change to accelerate into more severe problems. While, according to Fine [40] "human beings tend to resist change, even when change represents growth and development ... [and will lead to] greater efficiency and productivity. [Since] changes in an organization affect the individuals within that organization, and individuals...have the power to facilitate or thwart the implementation of an innovation.

Surprise, inertia, misunderstanding, emotional side effects, lack of trust, fear of failure, personality conflicts, poor training, threat to job status/security, work group breakup, fear of poor outcome, faults of change, and uncertainty theses are causes of resistance to changes [42-46]. As we all know the resistance to change is directly related to the employees (human resource). So, in strategy implementation, HR is exceptionally valuable thing which is positively contributes to the firm. In addition, strategy implementation is inherently a human issue; HR by its very title has deep responsibilities in this territory [37]. Lawler and Mohrman [41] claim that "the HR function should be positioned and designed as a strategic business partner that participates in both strategy formulation and implementation." From this findings, we can say that supportive employee behavior is most important in horizontal strategy implementation. For this, we have to manage the resistance to change in organization.

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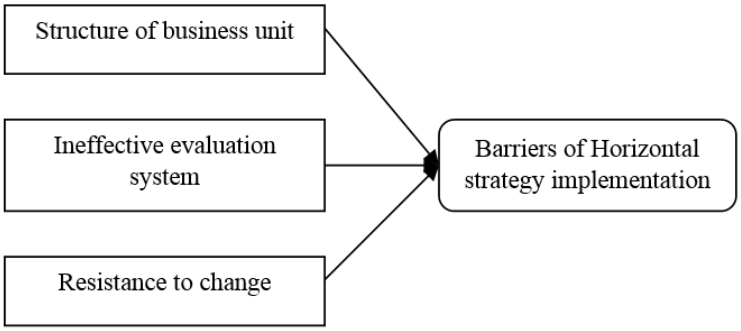

Figure 4 Theoretical Framework

From the above theory and discussion we conclude the following three propositions are posited

***P*$_1$**: *High formalization, centralization, and specialization these structural dimensions are detrimental to implementation of horizontal strategy.*

***P*$_2$**: *Ineffective evaluation system is detrimental to implementation of horizontal strategy.*

***P*$_3$**: *Resistance to change is detrimental to implementation of horizontal strategy.*

IV. Conclusions and Discussions

Strategy is the main direction of an organization, which set at the top and has major importance for the survival of an organization [9]. Very often managers used to think that how to formulate a strategy rather than how to successfully implement it in the organization; because of this reason often in a large proportion, firms fail to implement their strategy. The same finding is applicable in the implementation of horizontal strategy. As we already discussed in previous section that horizontal strategy is not implement spontaneously. Execution of such strategy is very difficult in real world. Organization faces many challenges when try to developing or implementing horizontal strategy in diversified corporation. Takaoka [4] identified appropriate evaluation systems and strong leaderships are two basic things for horizontal strategy implementation. Apart from these factors we recommend that structure of business units and employee resistance are also key factors to implement horizontal strategy. Because organization structure plays a critical role to implement strategy, and on the other hand sometimes inappropriate structure snag to implement strategy. Moreover, positive human behavior always necessary to organization growth. If evaluation system, structure, and employee resistance are in positive manner then it helps in implementing strategy. On the contrary of this, if organization has irrelevant evaluation system, structure, and employee resistance then it act as impediments to horizontal strategy implementation.

In addition, the study sought to determine the barriers to horizontal strategy implementation. The barriers are discussed here in terms of micro environment to the organization. The major barriers are extracted from the literature that is structure of business unit, ineffective evaluation system, and resistance to change. These barriers are limit to developing the interrelationships among the business units.

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