



The role of operations executives in strategy making



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ABSTRACT

Creating competitive advantage based on operations capabilities is likely to require much analysis and communication within the operations function. At the same time, much communication and joint strategizing with the top and other functional executives is likely to be needed as well. Hence, given that operations executives have limited time and also have to perform many other routine tasks, they need to manage two tradeoffs. The first one is between the time spent on strategy making and the time spent on everything else. The other is within strategy making, between the time spent on “functional deliberation” within the operations function and “top-level communication” with other executives. Using a survey of 134 operations executives, we find that an increase in the time the operations executive spends on strategy making is positively associated with performance in complex and hostile environments and when the relative strength of the operations function within the firm is low. Within the operations executive’s strategy making, an increased emphasis on top-level communication is positively associated with performance in environments that are complex, stable (less uncertain), or hostile.

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1. Introduction

It is well established that operations executives (OEs) contribute to competitive advantage when they play an active role in strategy making (Brown et al., 2007; Papke-Shields and Malhotra, 2001; Swamidass and Newell, 1987; Wheelwright and Hayes, 1985). The types of decisions made in this role are also well known from descriptions of the process of operations strategy (Skinner, 1969; Fine and Hax, 1985; Hill, 1989; Menda and Dilts, 1997). What is not well understood, though, is how and to what extent various internal and external contingencies affect the optimal involvement of the OE in strategy making. For example, Clancy and Kieff (2004) found that increased communication with other functional executives was necessary to formulate successful strategies in an industry facing a threat of commoditization. A different need was suggested by reports on the retail industry’s response to the emergence of the Internet. Here, a number of OEs fell short in developing newly needed logistics capabilities (e.g. Wall Street Journal, 1999), implying that these OEs may have failed to devote sufficient time to the analysis, planning, and execution *within* their function. How OEs

can best adjust their involvement in strategy making as the context changes is the question we address in this paper.

We define the OE as the person in charge of the operations function and responsible for the resources and processes used in the production and delivery of a firm’s goods and services. The OE’s job entails a number of monitoring, coordination, and other tasks (e.g. Fayol, 1949) beside what we refer to as strategy making, that is, the involvement in the analysis and formulation of business level and operations strategies as well as in the analysis and planning of how to best implement them. Importantly, like everyone else, OEs have limited time, attention, and ability to process and communicate information at their disposal (Simon, 1947), and these limitations, in turn, imply that OEs have to prioritize and balance their numerous tasks. Moreover, these priorities and balances probably need periodic reevaluation and adjustment.

In this paper, we focus on two broad tradeoffs, or balances, in the OE’s job. The first is between strategy making and all other tasks. The second occurs within strategy making, between what we call *functional deliberation* and *top-level communication*. We define functional deliberation (FD) as the analysis and communication with subordinates in the operations function and external parties. In contrast to the functional focus of FD, top-level communication (TLC) is inherently cross-functional and consists of various engagements with the CEO and senior executives of other functions such as marketing, research and development, finance, etc. In essence, the second tradeoff corresponds to a tradeoff between strengthening

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operations resources and tightening the strategic linkages between operations and the rest of the firm.

To understand these tradeoffs and their impact on competitive advantage, we synthesize insights from operations strategy (e.g. Skinner, 1969, 1974, 1985; Hayes and Wheelwright, 1979, 1984; Ferdows and De Meyer, 1990; Miller and Roth, 1994), competitive strategy including the influential resource-based view (RBV) of the firm (e.g. Barney, 1986, 1989; Dierickx and Cool, 1989; Porter, 1980, 1996), and more recent studies that seek to integrate these two literatures (Paiva et al., 2008; Schroeder et al., 2002). We then hypothesize about how these tradeoffs are likely to be affected by the complexity, uncertainty, and hostility of the firm's environment, three external variables which are most commonly used in the literature on strategic planning (e.g., Dess and Beard, 1984; Tushman and Nadler, 1978; Miller and Friesen, 1983). In addition, we hypothesize about the impact of the relative strength of the operations function within the firm as an internal context variable (Wheelwright and Hayes, 1985).

We test our hypotheses using responses from multiple surveys with respondents from a range of different industries. We find support for 6 out of the 8 hypotheses. Specifically, an increase in the time the OE spends on strategy making is positively associated with performance in complex and hostile environments and when the relative strength of the operations function within the firm is perceived as low. We also find that within the OE's strategy making, an increased emphasis on TLC is positively associated with performance in environments that are complex, stable (less uncertain), or hostile.

These results resonate with the evidence from the literature, business press, and our contacts with executives. Regarding the above examples, commoditization of an industry is likely to increase the hostility and complexity of the environment, resulting in the need for an increase in strategy making and especially TLC. On the other hand, the rise of the Internet caused a great deal of uncertainty for the retail industry, suggesting the need for more FD. More recently, in China, many shopping mall operators started to underperform as their industry moved from the munificent and relatively simple (in terms of the recipe for success) environment of rapid growth to the one characterized by overcapacity and new competition from online retailers such as Alibaba. OE's who were once busy managing the construction of new and routine operations of the existing shopping malls had to rethink the more complex model of mixed online and physical retail in a more saturated market. An OE of a major international developer told us: "While we were building shopping malls, Alibaba and other online retailers were developing a new business model. We need to spend much more time on redesigning and running the malls differently in order to create more of a special experience. We also need to interact more with our colleagues and partners to understand the nature of online sales, and how we can align the way we run the malls with it." In other words, complexity and hostility seem linked to a need for more strategy making by the OE and especially more TLC.

While contingency theories for the process of operations strategy have been proposed before (e.g. Wheelwright and Hayes, 1985; Mills et al., 1995), we provide a different approach by distinguishing between FD and TLC, and we test our hypotheses empirically. Our results also help interpret insights from the literature on strategic planning in the context of the process of operations strategy.

Finally, our analysis could also be relevant to other functional executives because they tend to face similar tradeoffs. Essentially, we unpack strategy making and the role of a specific functional executive in it to derive and test specific contingency-based hypotheses. By doing so, we further explore strategy making as a dynamic capability (e.g. Eisenhardt and Martin, 2000), that is, a process that can be purposefully designed to help a firm select and accumulate resources that create and sustain competitive

advantage (Teece et al., 1997). Specifically, our analysis raises the question whether this process could benefit from mechanisms to adjust itself and become more decentralized and functionally focused in some contexts and more collaborative and cross-functional in others. Perhaps it is not surprising that this exploration of the strategy making process should come from an investigation of the role of executives in operations, as the investments in equipment, people, and technology are typically so big and important that the fields of competitive and operations strategy are natural candidates for co-evolution and cross-pollination.

The rest of the paper is structured as follows: Section 2 reviews the relevant literatures and Section 3 synthesizes these literatures to develop eight hypotheses regarding the impact of external and internal context on the balance between different components of the OE's role. Section 4 describes the data and the measures, and Section 5 presents the results. Section 6 concludes the paper with a discussion of the results and their implications.

2. The role of operations executives in strategy making: insights from the literature

The notion that businesses face tradeoffs in what they can do and hence need to choose how to compete has been a cornerstone of competitive and operations strategy since the early days (e.g. Skinner, 1969, 1974; Porter, 1980; Hayes and Wheelwright, 1979, 1984). At the level of operations, typical tradeoffs involve cost, quality, variety, responsiveness, etc. and result in the need to select specific priorities or a "manufacturing task" that should subsequently guide facilities, capacity, technology, quality management, and other important choices (Hayes and Wheelwright, 1979, 1984; Skinner, 1969, 1974, 1985). The conception of operations strategy as a pursuit of coherent and mutually reinforcing operational choices in support of the overall firm strategy has entered the mainstream of managerial thinking and practice (e.g., Fine and Hax, 1985; Hill, 1989; Miller and Roth, 1994). Importantly, this conception also implies a top-down approach in which competitive priorities for the operations function stem from the overarching business level strategy (Porter, 1980; Hayes and Wheelwright, 1984).

This classical view of strategy as positioning on tradeoffs – implicitly assumed to be static – was supplemented over time with more dynamic views. Barney (1986, 1989) proposed that firms pursuing an attractive position may compete away their profits as they try to acquire necessary resources in the so-called "strategic factor markets." Firms can hence earn rents only if they are lucky, act faster or based on superior information, or if they pursue opportunities for which they already have some resources that other firms do not have. A closely related view proposes that only resources and capabilities that are assembled over time and cannot be bought in strategic factor markets can be a source of sustained rents (Dierickx and Cool, 1989; Teece et al., 1997). The two views are referred to as the resource-picking and capability-building perspectives within the resource-based view (RBV) in strategy (Makadok, 2001).

Mirroring the capability-building perspective, Ferdows and De Meyer (1990) have documented the cumulative nature of some operations capabilities. Motivated by the success of Japanese manufacturers which seemed to defy operational tradeoffs in the last decades of the 20th century, some researchers have proposed that the general excellence-based approach to operations strategy may be an alternative or even superior to the one based on positioning (Hayes and Wheelwright, 1984; Nakane and Hall, 1991; Womack et al., 1990; Corbett and Van Wassenhove, 1993). These so-called "world-class" operations capabilities have also been found to contribute to firm performance in empirical studies (e.g., Rosenzweig et al., 2003; Rosenzweig and Easton, 2010).

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