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### **The Imperative for Strategy Implementation**

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The Oxford Handbook of Strategy Implementation: Managing Strategic Resources

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### **Abstract and Keywords**

Most of the research and writing in strategic management focuses on the formulation of the most appropriate strategies. Selecting the best strategy for firms to follow is very important to achieve and maintain a competitive advantage. However, many strategies fail not because they are improperly formulated, but because they are poorly implemented. Despite the importance of effectively implementing strategies, there is little research strategy implementation. Outside of the implementation of specific strategy types, such as mergers and acquisitions, perhaps the most prominent focus of strategy implementation research has been on matching the organizational structure to the strategy chosen. This handbook contributes to our understanding of strategy implementation and identifies considerable opportunities for future research on this important process, with a focus on resources, governance, human capital, and accounting-based control systems.

Keywords: strategy implementation, resources, accounting-based control systems, managing resources, financial assets, human capital, innovation, entrepreneurship

Most of the research and writing in strategic management focuses on the formulation of the most appropriate strategies. Certainly, selecting the best strategy for firms to follow is very important to achieve and maintain a competitive advantage. However, many strategies fail not because they are improperly formulated, but rather because they are poorly implemented. Despite the importance of effectively implementing strategies, little attention has been paid to strategy implementation in the scholarly literature and research.

The major textbooks on strategic management frequently have a section on strategy implementation that commonly comprises 20 percent or less of the book. The primary foci

in the chapters on strategy implementation are organizational structure, control, and governance. In a few of these textbooks, a chapter on strategic leadership is also included. And the research on each of these topics for implementation purposes is also limited.

Although there is little research available on how to effectively implement strategies, several recent surveys of top executives suggested that strategy implementation was among the most important and most challenging issues with which they must deal (Barrows, 2014). Furthermore, top executives report that they often accomplish about 40 percent less than they expect in the returns on their strategy (Knowledge@Wharton, 2005). This appears to suggest the critical nature of strategy implementation for identifying why some firms perform better than others, a basic question in most strategic management research. Therefore, a greater understanding of the critical dimensions of strategy implementation is needed.

## What Do We Know About Strategy Implementation?

Much of the research on corporate governance and on strategic leadership has focused on monitoring managers to ensure that they select appropriate strategies (e.g., Dalton, Hitt, Certo, & Dalton, 2007) or on understanding how different strategic leadership approaches (e.g., heterogeneous top management team decision-making) lead to the choice of specific types of strategy (Finkelstein, Hambrick, & Cannella, 2009). Outside of the implementation of specific strategy types, such as mergers and acquisitions, perhaps the most prominent focus of strategy implementation research has been on matching the organizational structure to the strategy chosen.

The research on strategies and structures has focused primarily on corporate diversification strategies. Hill, Hitt, and Hoskisson (1991) summarized much of this research. They suggested that firms often tried to implement a highly unrelated diversification strategy (sometimes referred to as a *conglomerate strategy*) using a decentralized structure in which the managers of the various businesses competing in unrelated markets had considerable autonomy to make decisions. The rationale for this approach was that it is the best way to manage the significant heterogeneity present in the different markets in which the businesses compete. Given this heterogeneity, the corporate office could not have adequate knowledge of the varied competitive landscapes and demands in all of its markets. Thus, the managers of these businesses were evaluated not on the strategies they employed but rather on the financial results they achieved. The

corporate office (CEO, CFO, and other top executives) allocated resources to these divisions on a competitive basis (i.e., where they felt they could gain the highest return on the resources allocated). Thus, Hill et al. (1991) referred to these cases as using a *competitive structure* (i.e., decentralized, with competition for resource allocations).

Alternatively, corporations follow a related diversification strategy and depend on the various businesses to share resources to gain economies of scope. Given that the businesses are related in some way, they may be able to share resources, thus creating some economies. For example, if two businesses' products differ but are sold to the same customers, they may be able to share a sales force. It is also possible for one of the businesses to provide some outputs used by another business within the corporation. In either case, the two businesses must cooperate to ensure that they are able to share resources and maximize returns across the two businesses. Hill et al. (1991) refer to the structure required to best implement a related diversified strategy as *cooperative*. Often, the cooperation is facilitated by a liaison position, and rewards for managers are based on joint achievement of goals.

Although the structure can facilitate the implementation of a strategy, effective strategy implementation is much more complex. Hrebiniak (2005) argued that strategy implementation is actually more complex and challenging than designing a good strategy. And implementing business-level strategies is also very important, as shown by a recent study by Lee and Puranam (2016) who suggest that it is important to effectively implement even imperfect strategies. No matter how perfectly a strategy is designed, it must be implemented effectively to produce returns.

Most believe that strategy development and strategy implementation begin at the top of the organization. This is evidenced in recent research by Barrick, Thurgood, Smith, and Courtright (2015) who argued and found support for the fact that top management teams initiated implementation of firms' strategy by creating goals (and then subgoals) and setting in motion the actions needed to ensure that the goals would be achieved. One major step is to delegate part of the implementation responsibilities to middle (and lower) managers. In fact, those managers have the most responsibility for meeting the goals established in the implementation of the strategy. To meet the goals, these managers will have to garner and shape the resources needed to implement the strategy.

Managers at all levels are involved in managing the firm's resources, which is depicted in the origins of the resource-based view of the firm (e.g., Penrose, 1959) as acquiring high-quality resources (e.g., those that are rare, valuable, difficult to imitate, and nonsubstitutable; Barney, 1991). Yet there is much more required to implement a strategy. Owning or having access to resources with these characteristics is insufficient to effectively implement a strategy. Managers must actively manage the firms' resource

portfolio, and doing so involves acquiring and developing quality resources. These various resources must then be combined to create the capabilities needed to implement a strategy (Sirmon, Hitt, & Ireland, 2007). For example, many firms pursuing a differentiation strategy desire to implement it by developing and taking to the market innovative new products (different from those provided by competitors). To do so usually requires a strong research and development (R&D) function. Depending on the type of business, the R&D unit commonly has scientists, engineers, and high-technology laboratories. The managers have to recruit and hire the best scientists and engineers and acquire the technology needed in these laboratories. And they need effective managers of new technology development teams.

Yet strategy implementation is a complex and challenging process, as noted earlier, and much more research is needed. This handbook is designed to provide a deeper understanding of topics important for the implementation of strategy. There are three major sections of the book: Resources and Governance, Managing Human Capital, and Accounting-Based Control Systems. In the following paragraphs, we briefly introduce these sections and provide summary comments about the chapters within each.

## Resources and Governance

As noted earlier, resources must be acquired, developed, and configured to create the capabilities needed for implementing a firm's strategy (Sirmon et al., 2007). Some capabilities become routinized over time because the knowledge is internalized and translated into organizational routines. Such routines can be highly efficient if the strategy remains constant over time and/or there is little need to change the implementation process. However, because of the dynamic competitive landscapes in which most firms operate, strategies and the capabilities needed to implement them frequently change. In these cases, the portfolio of resources and capabilities must be continuously updated and changed. This dynamic process places pressure on managerial abilities to bundle resources to refresh existing resources and create new ones (Yi, Li, Hitt, Liu, & Wei, 2016).

Importantly, these competitive pressures require a constant renewal of the firm's current resource stock. However, most firms will not have all of the needed resources internally so they must seek to access or acquire external resources to combine with their internal resources. External knowledge—which is often an especially important resource—can be acquired through alliances and/or acquisitions. Other capabilities-based resources that may be important for the implementation of strategies include effective marketing that

produces brand equity and customer satisfaction, significant manufacturing capabilities, and efficient inventory management systems as a part of managing the supply chain.

Although accounting-based control systems can be important for controlling the costs of strategy implementation and for guiding investments in the appropriate assets, other types of governance are also important for implementation purposes. Corporate governance actions not only guide the formulation of appropriate strategies but also can ensure that the proper actions are taken to implement those strategies. Thus, those involved in governance (e.g., prominent owners, board of directors) must be knowledgeable about the company's most important stakeholders and their relationships with the firm. Key stakeholders can help them identify the boundaries of the firm's activities and the level of legitimacy the firm has with those stakeholders. As such, those monitoring corporate actions can identify the strategic actions that help the firm best serve its markets and satisfy stakeholders' interests. For example, important stakeholders (e.g., venture capitalists) play a key role in the success of firms' initial public offerings (IPOs). Board composition and processes may need to change over firms' life cycles because the strategic challenges evolve as firms pass from start-up through growth and maturity to eventual decline and the need to restructure (Zahra, Filatotchev, & Wright, 2009). In particular, the nature of board members' human and social capital may need to vary depending on the balance of board roles during a particular stage—for example, helping to formulate and implement strategy at an early stage and later monitoring how well strategy has been formulated and implemented. Failure to address these issues can lead to conflicts between stakeholders and tradeoffs in the efficiency of strategy implementation (Filatotchev, 2006). Furthermore, effecting the requisite changes to board composition and processes as the firm moves across the threshold of different lifecycle phases is challenging in the presence of resistance by incumbents and can therefore exacerbate problems in strategy implementation (Zahra et al., 2009).

Agency theory, which focuses attention on asymmetrically distributed information between principals and agents, is often used to guide the design of the governance process. Yet governance is enacted by individuals and is influenced by their capability to understand others' (e.g., executives) behaviors and the motivations underlying them. Middle- and lower-level managers enact the decisions made by top executives with the intent of achieving the goals through their implementation actions (Sull, Homkes, & Sull, 2015). Thus, human actors play multiple roles in the implementation of strategies.

The chapter by Tallman and Phene explores the importance and sources of external knowledge. They argue that external knowledge has become more critical for firms as they enter new international markets and thus must compete in many different and unique environments. Yet they also note that having operations in many markets across the globe provides access to a rich network of knowledge that can be valuable to firms.

Tallman and Phene explain the various means of access to external knowledge, such as operating in industry clusters, engaging in alliances, and making acquisitions. The external knowledge gained through such tactics is critical for firms as they strive to implement their international strategies and market-based competitive strategies. Because of the many different markets with unique institutions and sets of competitors, external knowledge is required to combine with internal knowledge to create the capabilities needed to compete effectively in each market. Tallman and Phene end their chapter with discussions of the needs for research on the reasons for choosing particular mechanisms and the implications of using them to enhance firm performance.

The chapter by Chabowski and Hult explores the performance effects of capabilities. They denote the special value of intangible capabilities. For example, they examine how capabilities targeting customers and suppliers influence innovation and performance. They report the results of a longitudinal study over 12 years that shows the importance of resources in the creation of strategic assets. These resources include investments in marketing, attentiveness to sourcing, building production capacity, and innovation. The outcomes of these investments are capabilities (e.g., marketing expertise) that help to implement the firm's strategy. When the strategy is successfully implemented, customers are better satisfied and brand equity is enhanced.

The chapter by Filatotchev, Wright, and Bruton focuses on entrepreneurial firms implementing a strategy of an IPO. They argue that the corporate governance of the firm is critical for successfully implementing the IPO strategy because effective governance signals to investors that they do not have to be concerned about agency problems. Filatotchev et al. examine three governance mechanisms: boards of directors, executive compensation, and ownership concentration. In particular, they demonstrate the influence of venture capitalists and the institutional environment of these firms. When venture capitalists are investors, and when the firm operates in a country with strong institutions, it is more likely to have better governance. With respect to executive remuneration, long-term incentives are especially important in convincing investors that executives will implement strategies to accomplish goals that align the interests of managers and outside investors. Concentrated ownership by venture capitalists can ensure clear and active monitoring of the implementation of the firm's strategy. Filatotchev et al. note that more research is needed to better understand the collective effectiveness of bundles of governance mechanisms in different types of firms at different stages in their life cycles. Such research would allow us to better understand how the governance system in a firm influences its strategy implementation and resulting performance.

Although most formal governance mechanisms are designed to prevent agency problems, Linder, Foss, and Stea argue in their chapter that agency theory is inadequate to explain

human behavior. They suggest that agency theory makes asymmetrical assumptions about the knowledge of principals and agents. Furthermore, they argue that to predict human behavior requires understanding individual differences and the capability to identify and evaluate people's desires, intentions, knowledge, and beliefs. Thus, they conclude that agency theory can only be effective when it accounts for bounded human capacity. This conclusion is very important for designing governance systems that facilitate effective implementation of strategies. It is also important for managers at all levels to understand the human capital in the organization and to guide the workforce to implement the firm's strategy in a manner that best achieves strategic goals and gains a competitive advantage (as designed by the strategy).

Haynes and Ireland in their chapter develop a model to explain the boundaries between official and unofficial economies. They use the concepts of legality and legitimacy to explain these boundaries. Essentially, activities in the unofficial economy are illegal yet they can be legitimate (socially acceptable) or illegitimate (not socially accepted). Alternatively, activities in the official economy are legal yet also can be either legitimate or illegitimate. A good number of firms try to compete only in the official economy and strive to ensure that their actions are socially acceptable. However, when multinational enterprises compete in emerging and developing economies, they may find it difficult to obtain legitimacy and to avoid the unofficial economies present in many developing countries. The work of Haynes and Ireland demonstrates the complexities and challenges faced by executives trying to design actions that implement a firm's strategy in situations where unofficial economies are prevalent. Specifically, managers must design socially acceptable actions that implement the strategy as desired and compete with firms that operate in either (or both) the official and unofficial economies.

The chapter by Sokol examines the issue of compliance with antitrust laws. Although laws regarding antitrust are generally specific, their enforcement and compliance are complex and often in dispute. Furthermore, while complex in a domestic context, antitrust compliance becomes even more challenging in an international context given varying laws and norms of compliance across country borders. Although antitrust laws apply to any actions interpreted to be "in restraint of trade," they perhaps become most relevant to strategies such as growth or international market entry that are implemented by acquisitions. There are multiple means by which governments and firms seek compliance with the laws, and these differ among countries. As one example of how such differences among countries can create major challenges for multinational firms, an acquisition may be approved by one country but disallowed in another country where the two merging firms operate. Thus, laws of this type and enforcement of them create considerable challenges for firms seeking to implement growth strategies through acquisitions.

## Managing Human Capital

Perhaps the most important resource for implementing strategy is human capital. All of the capabilities mentioned earlier require high-quality human capital for them to be enacted successfully. Thus, the firm must engage in highly effective human resource management (HRM) practices that attract, motivate, develop, and retain the highest quality human talent available. As a result, effective workforce management is essential to successful strategy implementation. Among the key workforce issues for most firms in developed economies are the rapidly aging workforce and the persistent underrepresentation of women in top-level executive positions.

As people age, they experience a variety of changes that can have work-related implications. Consistent relationships between age and declining physical abilities and health are well-known. However, although some cognitive abilities also decline with age, these often are offset by improvements in other cognitive abilities. Finally, sometimes subtle changes in personality also occur as people age, and such changes can sometimes be beneficial to older workers. In addition to real changes that occur throughout the life span are changes in how older workers are perceived and treated by others. A variety of age-based stereotypes generally cast older workers in a more negative light compared to younger workers, and such stereotypes often result in biased and discriminatory employment decisions.

Changing workforce demographics present challenges to workers, their employers, and policy-makers. With people in industrialized countries working until later in life while at the same time birth rates are declining, the coming decades will see fewer younger workers relative to retirees. The challenges of managing a more age-diverse workforce in which older and younger people work side by side and of finding solutions to the growing need to provide financial support to the large population of older workers represent a major strategic issues for firms operating in most developed economies.

In their chapter, Truxillo, Cadiz, and Rineer describe many of the challenges facing firms as they strive to effectively manage an aging workforce, and discuss how management practices such as recruitment and selection, training, career development, performance management, job design, and workplace safety and health programs can help keep employees productive and healthy as they continue to work even into old age. Their discussion focuses on how well-designed practices can be used to accommodate and leverage age differences and includes suggestions for the new research needed to ensure that firms are able to leverage the full range of human capital available to them. Among the many questions to be addressed in the future, a few of the more urgent ones include: What attracts older workers to apply for employment in a particular firm? What types of

work and work conditions are particularly suitable for older workers? How can firms leverage the increasing age diversity of their workforce? How can training be used effectively to reduce age-related biases? How can organizations effectively help workers make the transition from employment to retirement? What are the implications of changing technologies for effective utilization of workers across the entire age spectrum? And finally, how might the answers to each of these questions be shaped by the larger cultural and organizational changes that are occurring simultaneously with changes in workforce demographics? The answers to these questions are critical to effectively implementing a firm's strategy. For example, because people implement strategies through the completion of their job tasks and achievement of their job-related goals, acquiring, developing, and having a motivated work force is critical. Thus, careful attention must be paid to the use of older workers in order to fully leverage their human capital to effectively implement strategy.

After decades of concern about the slow advancement of women in business organizations, an international agenda now exists to increase women's representation at top organizational levels. Evidence showing that women are surprisingly absent at the executive level is clear and consistent. Despite several decades of women gaining higher levels of education and moving into a wide variety of occupations, there are surprisingly few women in senior-level roles, including serving on boards of directors, as CEOs, or in executive positions that report to the CEO. This situation is disconcerting to those interested in workplace and economic fairness, and such concerns have led some governments to impose legislative mandates to increase the representation of women at the top corporate levels. In addition, much of the attention focusing on workplace gender issues is driven partly by financial considerations. Some experts have argued that companies with more women in leadership positions outperform competitors with fewer women in top-level jobs. If true, then for decades firms have underutilized their human capital, and their performance has suffered as a result. In the chapter by Kulik and Metz, the evidence addressing such claims is reviewed and critiqued.

Several decades of research comparing women to men as leaders reveal small but possibly important behavioral differences in decision-making and management styles, and some of these differences can be beneficial for organizations. In addition, the gender composition of a company's top leadership group can send signals to various stakeholders—including customers, investors, and potential future employees—and thus in subtle and indirect ways influence the ability of an organization to effectively implement its chosen strategy. Based on their extensive review of research that examines the relationship between female representation at the level of boards, CEOs, and senior leadership, Kulik and Metz draw three broad conclusions.

First, contrary to the concerns expressed by some, it is clear that having women in senior roles is not associated with negative outcomes. Rather, female leaders deliver results that compare favorably to those of male leaders despite the fact that women are frequently disadvantaged by leadership assignments in high-risk situations and in operational rather than strategic roles. Furthermore, a second conclusion is that having more women in leadership roles often results in more positive outcomes for organizations, including heightened attention to corporate social responsibility and diversity, as well as the adoption of participative and family-friendly workplace practices. Finally, tempering the conclusion that increasing the representation of female leaders is likely to lead to positive outcomes, it is clear that a more complete understanding of such effects requires a consideration of the contextual situation because it appears that the potential benefits that accrue to organizations with more women in leadership roles are more likely to be realized when the embedding culture is more inclusive and for particular types of business strategies. Female leaders commonly engage workers, allowing them to participate; thus, women are likely to be more effective than other leaders because engaged workers are more motivated to perform highly and thus to implement the firm's strategy. The participative approach is also likely to identify effective means to implement strategies by shining a light on potential problems and roadblocks to strategy implementation and designing ways to resolve them.

In addition to understanding how workforce demographics can affect successful strategy implementation, a second important question addressed by research on human capital addresses of how best to design HRM systems that support a chosen strategy (Schuler & Jackson, 1987, 2014). During the past three decades, scholars have made great strides in understanding how effective HRM can facilitate strategy implementation. Much of this work has focused on how treatment of employees contributes to bottom-line financial performance because human capital is widely viewed as a strategic resource.

Since its inception, resource-based theory has asserted that the heterogeneity of strategic resources such as human capital explains performance differences among firms. Theory on resource management suggests specifically that managers increase performance by structuring (e.g., acquiring) and bundling (e.g., developing) resources and by leveraging resources that already exist (as noted earlier herein). These processes must be "synchronized" (i.e., aligned) for maximum effect. In their chapter, Ketchen, Crook, Todd, Combs, and Woehr test the argument that variances in human capital and the way in which human capital is managed across firms is a major contributor to performance differences across these firms. Based on the results of a meta-analysis of 158 studies of human capital, Ketchen et al. conclude that whereas individual human resource practices enhance human capital, a system of coordinated (i.e., synchronized) human resources practices had larger effects by enhancing human capital and providing support for implementing the firm's strategy. More specifically, it appears that individual

practices can improve performance mostly by enhancing human capital, whereas synchronized systems of practices impact performance both indirectly by enhancing human capital and directly by leveraging existing resources in the implementation of the firm's strategy.

Recently, many management scholars have acknowledged that organizational effectiveness requires satisfying the concerns of a broad array of stakeholders. The importance of considering effectiveness criteria beyond the financial bottom line is easily illustrated by ongoing research in the health care industry, where mortality is the most extreme of potential outcomes that must be addressed. Moreover, examining the role of HRM in this particular industry can lead to consideration of a wide range of research issues, including those associated with managing a workforce that is highly professionalized, occupationally diverse, and rather hierarchical in terms of service user-worker relations.

Research on the relationship between HRM systems and performance within the health care industry illustrates the value of adopting an industry-level focus to understand how to effectively manage the firm's human capital. In his chapter describing such research, Kessler highlights the high-stakes outcomes for health care organizations and their "customers"—namely, all of us. Even as new medical technologies change how health care services are delivered, effective human interactions are essential to the assessment, diagnosis, and treatment of health issues, regardless of whether those interactions involve physician specialists, the general nursing workforce, and/or paramedical and nonclinical support workers.

Recognizing the varied institutional contexts that shape health care delivery around the world, Kessler begins by offering readers a brief historical account of this evolving industry, particularly within Europe, for it is within the European context that most relevant research has been carried out. Kessler reviews several streams of such research. For example, one robust stream of research examines the relationship between adopting a bundle of "progressive" HRM practices and a variety of organizational performance outcomes, as well as specific employee attitudes and behaviors. Another stream of work examines the HRM practices that support participative management approaches, enhance staff involvement in decision-making, and promote greater employee engagement. Such approaches have been linked to lower employee absenteeism, reduced patient mortality, and higher patient satisfaction.

Another somewhat separate line of research on managing human capital within the health care industry addresses the question of how best to staff such organizations. Questions here include determining appropriate staffing levels for various occupational groups, the most effective staff-to-patient ratios, and the most effective skill mix.

Answering these questions is critical to strategy implementation in health care organizations. For example, having an adequate number of staff, such as nurses, with the right skill mix to care for patients at any given time is where “the rubber meets the road” in implementing strategy. A substantial body of evidence addressing these questions suggests that higher levels of nurse staffing, lower patient-to-nurse ratios, and a richer skill mix are all associated with more positive employee and patient outcomes. Still needed, however, is more research on occupational groups other than nurses, as well as an improved understanding of how to responsibly translate research evidence into effective public policy.

Given clear evidence that an appropriately designed HRM system promotes organizational effectiveness broadly defined (e.g., see Jackson, Schuler, & Jiang, 2014), a pressing question to be answered is how best to encourage the spread of such practices across industries and firms. One approach to improving workforce management practices that is currently under discussion is the development of formal standards that can be used as guides to HRM system design. Such standards could promote the adoption of specific HRM practices and/or HRM metrics. As pressure mounts for such standards, the importance of grounding such standards in empirical evidence is essential. In their chapter on this topic, Cascio and Boudreau summarize these ongoing discussions and debates. Among the important issues that have surfaced through these conversations are (a) the recognition that the types of HRM systems that are realistic and feasible to build in large companies may not be realistic or practical for the thousands of small and medium-sized companies that employ the vast majority of workers, and (b) the fact that scholarly research on human capital issues is typically designed to produce new knowledge and extend theoretical development rather than promote the dissemination of effective management practices. With the goal of encouraging fruitful discussions that will advance ongoing discussions about human resources standards, Cascio and Boudreau first clarify the distinctions between (a) practice standards versus measurement standards, (b) predictive standards versus feasibility standards, and (c) human resources standards versus human resources certifications. They then review the history and current status of human resources standards, including a description of how such standards are or could be used. Finally, after briefly summarizing relevant empirical research that could inform the development of human resources standards, the authors offer a framework with some examples that illustrate where the empirical evidence and human resources standards initiatives do, do not, and possibly could intersect. Hopefully, conversations between communities of scholars and practitioners will inform the development of human resources standards and provide new ideas for future human resources research. And the application of valid human resources standards can enhance the effectiveness of strategy implementation through more effective utilization of human capital to accomplish strategic goals.

Finally, goal-setting is essential for effective strategy implementation. Research has indicated that top management teams' effective use of goals and subgoals can facilitate strategy implementation (Barrick et al., 2015). Furthermore, considering what specific actions are necessary to achieve goals is highly important for strategy implementation. Because top management teams typically delegate part of their implementation of strategy to middle and lower level managers, those managers also become responsible for meeting the firm's goals through the implementation of the firm's strategy. Therefore, a thorough understanding of how goals can be most effectively achieved is a critical element in a firm's strategy implementation.

In their chapter, Locke and Latham summarize goal-setting theory, which is an inductive-based motivational theory that was developed in 1990 using a significant amount of research evidence in its development. Goal-setting theory is widely considered to be one of the most well-validated theories of its time. As Locke and Latham explain, goal-setting research has resulted in the identification of critical mediators that explain why goal-setting is effective (e.g., persistence) and situational moderators (e.g., goal commitment) that clarify when goal-setting is likely to be most or least effective. Locke and Latham also discuss updates to goal-setting theory based on subsequent research findings since the theory was originally developed. Specifically, they highlight the economic value of goal-setting, the use of stretch goals, and goal determinants. They also discuss what we know about how people respond when pursuing multiple goals, the effectiveness of specific types of goals (e.g., learning and team goals), and the long-term effects of goal-setting. Finally, they focus on how goal-setting has been used to examine a variety of different content areas, such as creativity, entrepreneurship, and health, among others. Although the use of goal-setting can be highly effective for increasing productivity, as they end their chapter, Locke and Latham acknowledge that potential problems could occur with the use of goal-setting. However, of the thousands of studies conducted on goal-setting, only a relatively small number have reported pitfalls in goal-setting. Nonetheless, Locke and Latham suggest ways to actively avoid these potential problems.

## Accounting-Based Control Systems

Managing assets and controlling managerial behavior play critical roles in the implementation of strategies. Assets can be managed and managerial behavior controlled using accounting-based data. For example, accounting reports that demonstrate the existence and use of assets and how they are being managed (e.g., cash flows) are especially valuable. However, stakeholders' concerns over the environment have broadened the scope of accounting systems, heightening managers' sensitivity to the

effects of strategy implementation actions on sustainability. Recent research has highlighted the potential value of integrated reporting to provide information to key stakeholders regarding such important issues as environmental impacts.

The traditional approach to control systems suggests that they are designed to constrain actions. Accordingly, financial controls help manage the expenses of activities used to implement a strategy. These controls are helpful to ensure that managers maintain costs within budgets and other guidelines, and they hopefully lead to profitable outcomes. In addition to this traditional view, controls also can be used to motivate and facilitate activities. Almost 30 years ago, Hoskisson and Hitt (1988) argued for and found empirical support for the value of strategic controls that encourage managers to think strategically and to take actions to implement those strategies that have longer term payoffs. In particular, they suggested that strategic control systems promoted managerial actions that produced greater innovation. More recent research in accounting challenges the traditional approach to control systems design and provides empirical evidence in support of the notion that careful design of such systems results in more innovation and creative activity.

A related issue that influences the strategies employed and/or their implementation is what has been referred to as *managerial short-termism*. The heavy emphasis on meeting short-term forecasts of earnings (e.g., company and analysts' forecasts) exerts pressures on managers to take actions that are more short-term-oriented in order to meet market expectations. For example, most firms have important growth goals. These goals can be accomplished through organic growth (e.g., introducing innovative new products to the market) or through external acquisitive growth. Commonly, acquisitions produce faster growth, but research shows that they rarely produce the desired value. And a heavy use of acquisitions to achieve a firm's strategic goals frequently reduces its innovative capabilities and outputs (Hitt, Hoskisson, Johnson, & Moesel, 1996). Another potential outcome of market pressures to meet shareholder expectations is an attempt by executives to manage earnings. Although such management can be done with positive outcomes, some attempts at manipulations can result in inappropriate activities. Research in accounting on accrual-based earnings management can be helpful for identifying inappropriate behaviors and in promoting positive managerial actions to achieve desired financial outcomes.

In their chapter, Davila and Ditillo engage with research examining the relationship between strategic control systems and innovation (e.g., Hoskisson & Hitt, 1988). In particular, they address the contention that management control systems are detrimental to creativity and suggest that research on diagnostic and interactive controls, coercive and enabling systems, and inspirational and directional systems provide a valid framework for examining whether management control systems encourage creativity.

Furthermore, empirical research in this area examines several industries (e.g., professional service firms, financial sector, fashions) and finds that management control systems may be instrumental for promoting experimentation and the exploration of new ideas. Such findings suggest that management control systems can help firms implement innovation strategies. The relationship between management control systems and creativity is a new, fast-growing research area, and Davila and Ditillo make useful suggestions for further investigations.

The chapter by Potter and Soderstrom addresses integrated reporting, a well-known, comprehensive reporting framework that was developed in response to stakeholders' demands for broader measures of company performance. With integrated reporting, which is led by a council formed by some of the world's largest companies (e.g., Microsoft, KPMG), firms report on six forms of capital: financial, manufactured, intellectual, human, social and relationship, and natural. To examine the specifics of integrated reporting, Potter and Soderstrom focus on four interrelated dimensions: its intended users, standards of compliance, enforcement criteria (e.g., voluntary vs. mandatory), and the assurance process. Potter and Soderstrom point to the assurance process (e.g., scope, costs) as a potential obstacle to global adoption of integrated reporting. These broader measures of performance are more precise and thereby help managers identify the effectiveness of their strategy implementation process. And it also helps them to identify problems and to design corrective actions to implement the strategy in ways that better achieve the firm's strategic goals.

In their chapter, Van Lent and Hofmann review research examining the relationship between organizational design and control choices. They note that recent research in management accounting has drawn on organizational economics to suggest that incentive contracts and performance measurement choices complement structural arrangements in firms. Furthermore, while research in management accounting has successfully used nonarchival research methods and evidence from the field, the authors call for further research using a broader mix of research methods. Van Lent and Hofmann suggest that expanding empirical research methods used to include, for example, data from capital markets and drawing on formal economic theory could produce a substantive body of knowledge. To promote such work, they suggest several areas for further research. As noted at the beginning of this chapter, organizational structures are sometimes used to help implement certain strategies (e.g., diversification strategies). And research in strategy has demonstrated how incentive compensation practices have been used to guide managerial efforts to formulate the right strategies and to implement them effectively. The integration of research in managerial accounting and in strategic management highlights the importance of managerial accounting practices, especially control systems, for strategy implementation.

Zarowin addresses earnings management. When managers are evaluated on financial results, they have incentives to manage earnings. Zarowin's chapter focuses on the use of discretionary accrual estimations to detect earnings management. In this context, earnings management refers to the choice of accounting policies to achieve a desired financial reporting result, whereas accruals are the difference between net income and cash flows. Accounting research in this area relies heavily on the Jones model to estimate discretionary accruals, and the literature has made helpful suggestions to improve detection and measurement of earnings management. In his chapter, Zarowin discusses the Jones model, notes its limitations, offers solutions proposed by recent research, and provides suggestions for future research. Two directions for future research are (a) focusing on the accrual model estimation and grouping while maintaining current deterministic linear models and (b) using stochastic modeling to improve detection, which in turn will require a deep understanding of the underlying economics of specific industries and how an industry's structure affects accruals. A better understanding of earnings management and how to detect and/or prevent it can be especially useful to more effective strategy implementation. For example, preventing earnings management encourages managers to invest significant effort in effectively implementing the firm's strategy to achieve earnings goals established for the firm (e.g., by the board of directors).

## Conclusion

Hrebiniak (2005) argued that implementing a strategy effectively is much more challenging than formulating a quality strategy. Yet the overwhelming amount of research in strategic management focuses on strategy formulation instead of strategy implementation. As noted earlier, this imbalance can also be observed in strategic management textbooks, where only about 20 percent of the content is focused on strategy implementation, with the rest of the chapters covering various topics on strategy formulation. This problem is relatively acute because top executives have reported their most significant challenge to be effectively implementing the firm's strategy (Knowledge@Wharton, 2005). This handbook begins the process of correcting this imbalance by drawing on research on human capital and accounting control systems in addition to research in strategic management of resources and governance.

The central research question addressed by most strategic management research is "why do some firms perform better than others?" This question cannot be answered solely by focusing on the formulation of effective strategies. Good strategies can fail because they are poorly implemented (Hickson, Miller, & Wilson, 2003). For example, research has

suggested that many acquisitions fail because of poor integration of the acquired firm's operations into the acquiring firm. In fact, recent research by Lee and Puranam (2016) suggests that even strategies that are merely adequate can produce good returns with effective implementation.

The work presented herein suggests that agency theory has not contributed to a full understanding of why and how managers behave as they do. Although in line with others who have made this argument (e.g., Dalton et al., 2007), Linder et al. effectively argued that to understand managerial behavior requires an examination of human motivation, capabilities, and individual differences. Their arguments support the research by Barrick et al. (2015) showing that organizational engagement (motivational properties) is important for the top management team's strategy implementation activities.

Too often, corporate governance has focused on ensuring that top managers select the most appropriate strategies. Although this is an important concern, the work presented in this handbook suggests the need to ensure effective implementation. Thus, boards of directors must monitor and evaluate managers' strategy implementation actions and processes. In fact, as noted herein, establishing effective control systems can produce a more systemic evaluation of the firm's performance and, interestingly, can facilitate the firm's efforts to produce more innovation. However, even governance systems designed to prevent undesirable behaviors can enhance implementation efforts. For example, establishment of control systems to prevent executives from "managing earnings statements" are likely to motivate those executives to invest more attention and effort to effectively implement the firm's strategy in order to legitimately achieve the earnings desired by the firm's stakeholders.

Research has shown that human capital is a strategic resource (Aryee, Walumbwa, Seidu, & Otaye, 2016; Hitt, Bierman, Shimizu, & Kochhar, 2001). For example, Hitt, Bierman, Uhlenbruck, and Shimizu (2006) found that a firm with quality human capital was better able to implement an international strategy and achieve higher firm performance as a result. Knowledge is a critical resource for the implementation of strategy, and perhaps the most valuable knowledge is held by the firm's human capital (Wang, Choi, Wan, & Dong, 2016). Interestingly, Hitt et al. also found that relational capital also facilitated the implementation of a firm's international strategy. Relational capital is derived from relationships developed by managers and key employees with external parties over time. Thus, human capital plays a critical role in the development of relational capital. And the research presented in this handbook suggests that the management of human resources plays a critical role in determining the effectiveness of strategy implementation.

For strategies to be implemented effectively, firms must have the right resources and capabilities available. However, while holding or having access to the resources is

necessary, it is not a sufficient condition for effective strategy implementation. Available resources must be integrated in ways that create the capabilities needed, and then those capabilities must be leveraged by effectively implementing the strategy in order to create and sustain a competitive advantage. The importance of integrating and leveraging the firm's capabilities was shown by Sirmon, Gove, and Hitt (2008) who found that the way managers of professional baseball teams bundled their human capital allowed them to win more baseball games, even sometimes against teams with superior talent. Additionally, Sirmon and Hitt (2009) found that matching a firm's capabilities with its strategies allowed the firm to implement those strategies and achieve higher performance than those firms with mismatches.

In summary, with a focus on resources, governance, human capital, and accounting-based control systems, this handbook contributes to our understanding of strategy implementation and identifies considerable opportunities for future research on this important process.

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