

# The Impact of Business Units on Strategy

## Introduction

This chapter explores the role of business units in shaping and implementing corporate strategy. It also covers the methods and best practices for ensuring effective collaboration. This chapter covers coordination across these units.

Businesses often have many units, each focused on a specific product, market, or region. This setup lets them specialize and adapt. However, it also creates challenges in aligning and executing strategy. It's important to know how business units impact strategy. First, they are closest to customers and rivals, enabling them to spot trends, opportunities, and threats. Second, the corporate strategy's success relies heavily on their effective implementation. Finally, when business unit priorities clash with corporate goals, performance can suffer.

This chapter covers business units' roles in making and carrying out strategy. They give input during planning and turn goals into actionable plans. They drive innovation too. The chapter also explores balancing unit freedom with coordination needs. It discusses corporate leadership's critical role in unit success.

## The Role of Business Units in Strategy Formulation

Business units play a vital role in shaping corporate strategy by providing valuable input throughout the planning process. As the front lines of the organization, business units have direct exposure to customers, competitors, and market dynamics. This gives them a unique perspective on opportunities and challenges facing the company. Actively engaging business unit leaders in strategy formulation ensures plans are grounded in reality.

One effective way to involve business units in strategy is through structured strategy sessions or workshops. These forums let unit leaders share views. They talk about industry trends, customer needs, and competition. They can also identify potential strategic initiatives or investments. Bringing together leaders from across the organization fosters cross-functional collaboration and knowledge sharing. This helps break down silos and ensure a more holistic approach to strategy.

Another important channel for business unit input is through regular strategy reviews and planning cycles. Many organizations have processes for business units to submit strategic plans and budgets. Business units complete these on an annual or quarterly basis. The plans outline key objectives, initiatives, and resource requirements. They serve as valuable input into the overall corporate strategy. This helps identify areas of alignment or potential conflict. This process also ensures that the company allocates resources to support its overarching goals.

Involving business units in strategy formulation is not just a one-way street. Corporate leaders also have a responsibility to provide clear guidance and direction to business units. They must communicate the company's overall vision, priorities, and performance

expectations. This helps ensure business unit goals and plans are in harmony with the organization's broader strategy.

To be effective, the engagement of business units in strategy formulation must be an ongoing, iterative process. Regular communication and feedback loops are essential to ensure business unit insights are continuously captured. This may involve establishing dedicated strategy teams or roles within each business unit. It may also involve creating formal channels for business units to provide input and feedback.

In the end, the goal of involving business units in strategy formulation is to create a more agile, responsive organization. By leveraging the diverse perspectives and expertise of business unit leaders, companies can develop better-aligned strategies. These strategies are more likely to drive growth and competitive advantage.

## Business Unit Alignment and Strategy Execution

Once a corporate strategy has been developed, the real work begins in translating it into action. Aligning business units with the overall strategy is critical to ensure everyone is working towards the same objectives. It also ensures resources are being deployed effectively. Without clear alignment, business units may pursue their own agendas. They may also prioritize short-term goals over long-term strategic interests. This leads to suboptimal performance and missed opportunities.

## Strategy Communication and Cascading

One key challenge in achieving business unit alignment is effectively communicating the strategy throughout the organization. While corporate leaders may have a clear vision, this message can easily get lost or diluted. To overcome this challenge, organizations need to invest in robust communication and cascading processes. These ensure every employee understands how their work contributes to the larger strategic goals.

Effective strategy communication starts with a clear and compelling narrative. This narrative articulates the company's vision, priorities, and performance expectations in a way that resonates with employees. This may involve using various channels and formats to reach different audiences and learning styles. The goal is to make the strategy come alive for employees. It helps them see how their individual roles fit into the bigger picture.

Once the high-level strategy has been communicated, the next step is translating it into specific objectives, metrics, and initiatives. This process, known as strategy cascading, involves breaking down the overall strategy into more granular, actionable components. These components can be owned and executed by individual teams. By creating a logical line of sight between corporate strategy and business unit goals, cascading helps ensure alignment.

Various tools and frameworks can support effective strategy cascading, such as the Balanced Scorecard, OKRs, or Hoshin Kanri. Regardless of the specific approach, the goal is creating a structured process for translating high-level objectives. This may

involve setting targets for KPIs, such as revenue growth or customer satisfaction. It may also involve defining initiatives and actions required to achieve those targets.

Strategy cascading should be an iterative process. It involves ongoing dialogue and collaboration. These happen between leaders, managers, and front-line employees. Regular check-ins and progress reviews are critical to ensure alignment and address any issues. Creating a culture of transparency, accountability, and improvement is key. It ensures strategy cascading drives actual results.

## Aligning Incentives and Performance Management

Besides communication and cascading, another important factor is proper incentive alignment. A company may have a brilliant strategy on paper but fail to turn it into daily behaviors and decisions. This can create a gap between what a company says it values and what the company actually rewards.

To overcome this challenge, organizations need to examine their incentive structures and performance management processes. They must ensure they are driving the right behaviors and outcomes. This may involve tying bonuses, promotions, or other rewards directly to achieving strategic objectives. Overcoming this challenge may also involve incorporating strategic goals into individual performance reviews and development plans. By making strategy a core part of performance management, organizations can create a clear line of sight between individual actions and business results.

Aligning incentives is not just about financial rewards. It also involves creating a culture that celebrates and recognizes strategic successes. This may include public recognition programs. Aligning incentives could also include informal thanks from managers and peers. By emphasizing the importance of strategic alignment and execution, organizations can create shared purpose and motivation.

Matching incentives with performance is an ongoing task. It needs constant checks and adjustments. When the business environment shifts, new priorities arise. As a result, organizations might need to update incentives and targets. This process could involve seeking employee feedback. It may also mean comparing with industry standards and trying new strategies.

The ultimate aim of aligning incentives and performance management is to foster a culture of accountability and ownership. By tying individual success to the success of the organization, companies can unleash their workforce's full potential. While this process may require significant effort, the payoff in terms of increased alignment, engagement, and results can be worth the investment.

## Balancing Business Unit Autonomy and Strategic Coordination

One significant challenge in managing business units is striking the right balance between autonomy and coordination. Giving business units freedom to make their own decisions can promote innovation, agility, and customer responsiveness. However, too much autonomy can lead to duplication of effort, conflicting priorities, and lack of strategic coherence.

To navigate this tension, organizations need to establish clear governance structures and processes. These enable strategic coordination while still allowing for local adaptation and experimentation. This may involve creating formal decision-making bodies. These bodies would bring together leaders from different business units. They would meet to agree on key issues. It may also involve setting enterprise-wide standards or platforms. These ensure consistency across units.

At the same time, organizations need to be careful not to overly constrain business units. This may require giving them greater autonomy in areas such as product development, pricing, or marketing. It may also involve creating formal channels for business units to provide input on corporate policies and decisions.

## Platforms for Cross-Unit Collaboration

One important way to enable coordination across business units is through cross-functional teams. Knowledge-sharing platforms can also be used. These structures bring together people from different parts of the organization. They collaborate on specific projects. These platforms can help break down silos. They do this by fostering more communication, trust, and alignment between units.

Cross-functional teams can take many forms, depending on the specific needs and context of the organization. Some companies may create temporary project teams to tackle specific strategic initiatives. Others may establish more permanent structures that provide ongoing support to multiple business units.

Regardless of the specific form, the key to effective cross-functional collaboration is ensuring teams have clear objectives, roles, and accountabilities. This may involve establishing formal charters or project plans that outline scope, timeline, and deliverables. This clarity may also involve providing training and support to help team members develop the necessary skills.

Another important factor in enabling cross-unit collaboration is the role of executive sponsors. These senior leaders provide guidance, resources, and political support to cross-functional teams. They help ensure teams have the visibility and influence needed. So that they can drive change across the organization.

## Conflict Resolution and Issue Escalation

Even with the best intentions and structures in place, conflicts and issues can arise between business units. These tensions can quickly escalate and undermine strategic alignment if not addressed proactively.

To reduce these risks, organizations need clear processes. These processes should identify, escalate, and resolve conflicts between business units. This may involve making formal issue-resolution procedures. They would outline steps and criteria for solving disputes. Process improvement may also involve training leaders and employees. They would learn effective communication, negotiation, and problem-solving.

One key principle in resolving conflicts between business units is to focus on finding win-win solutions. Rather than taking a zero-sum approach, effective conflict resolution involves looking for creative ways to expand the pie. This may involve reframing issues in a broader strategic context or exploring alternative options.

Senior leadership plays a vital role in conflict management by setting the right tone. When executives prioritize open communication, feedback, and respect, their actions speak volumes. In contrast, unproductive behaviors by leaders can harm trust and strategic alignment.

The right path to balancing autonomy and coordination is to foster a collaborative culture. This involves clear decision-making, cross-team work, and managing conflicts. This balance helps to bring diverse skills and viewpoints together.

## Leveraging Business Unit Insights for Strategic Agility

In today's fast-paced business world, speed is key to staying ahead. Business units, as the front lines of the organization, play a crucial role in providing insights and agility. By capturing and using the knowledge and experiences of business units, organizations can improve how they make and carry out plans.

One important way business units contribute to strategic agility is by serving as early warning systems for market shifts. Because they are closest to customers, competitors, and other stakeholders, business units are often the first to pick up on emerging trends. By proactively identifying and communicating these signals, business units can help leaders anticipate and respond more quickly.

To leverage these insights effectively, organizations need processes and platforms for systematically capturing, analyzing, and sharing business unit knowledge. This may involve establishing formal feedback loops where business units can share their perspectives with senior leaders. It may also involve investing in analytics and reporting capabilities to help surface insights from vast amounts of data.

## Business Unit Experimentation and Innovation

Another effective way business units contribute to strategic agility is through their ability to experiment and innovate at a local level. Because they are closer to the action, business units are often better positioned to try out new ideas and adapt. By fostering a culture of experimentation and risk-taking within business units, organizations can generate a pipeline of new insights and innovations.

Organizations must encourage creativity, learning, and risk-taking in their business units. They might allocate resources for unit pilots and projects. Also, they should set clear risk and experiment guidelines.

One relevant factor in enabling business unit innovation is the role of leadership in setting the right tone. When leaders communicate a clear vision for innovation while providing autonomy and support, it can unleash creativity and entrepreneurial spirit. Conversely,

when leaders are overly risk averse or focused on short-term results, this can stifle innovation.

## Integrating Business Unit Perspectives into Strategic Reviews

To fully leverage the insights and experiences of business units, organizations need to integrate their perspectives into strategic planning. This requires more than just soliciting input or feedback from business units on an ad hoc basis. Rather, this integration requires creating formal mechanisms for business units to take part in strategy development.

One common approach is to establish a regular cadence of strategic reviews. In these reviews, business unit leaders come together with senior executives to assess performance and identify opportunities and challenges. These reviews can be structured around specific strategic themes or objectives to ensure discussions are focused and actionable. They can also involve a mix of quantitative and qualitative data to provide a holistic view.

Another key aspect of integrating business unit perspectives into strategic reviews is assessing their readiness to execute the strategy. This may involve conducting regular assessments of business unit talent, processes, and infrastructure to identify strengths and gaps. Improving readiness may also involve providing targeted development and support to business unit leaders and teams.

The goal is to include business unit views in strategic reviews, making the organization agile and responsive. By tapping into their insights, an organization can react to change more effectively.

## Measuring Business Unit Strategic Performance

Business units must execute corporate strategy well. They must drive desired outcomes. To do this, organizations need clear performance metrics and accountability. This involves defining specific goals for each business unit. The goals must be measurable and time-bound. They must be in tune with the organization's overall objectives. It also involves creating regular performance review processes, where business unit leaders are held accountable for delivering on their commitments.

One common approach to measuring business unit strategic performance is through strategic performance indicators and dashboards. These tools provide a high-level view of important metrics and trends related to business unit performance. By tracking these indicators over time and comparing them to established targets, organizations can quickly identify areas of strength or weakness.

- To be effective, performance indicators must be carefully chosen and defined. This way, they match the organization's goals. Then, share them with business units and teams. Common indicators include revenue growth, market share, customer satisfaction, employee engagement, innovation, and efficiency.

Besides tracking strategic performance indicators, organizations also need to establish regular forums for reviewing business unit performance. This may involve quarterly or

annual business reviews, where business unit leaders present their results and plans. It may also involve more frequent check-ins and progress updates to ensure initiatives are on track.

During these performance reviews, it's important to focus not just on the numbers, but also on the underlying drivers of performance. This may involve discussing significant risks and opportunities, identifying best practices and lessons learned, and exploring ways to leverage unique strengths. It may also involve providing coaching and feedback to business unit leaders to help them develop the necessary skills.

The goal is to measure business unit strategic performance. This is to create a culture of accountability, transparency, and improvement. Setting clear expectations, tracking progress, and holding leaders responsible are fundamental. They ensure business units align with the overall strategy.

## The Role of Corporate Leadership in Enabling Business Unit Strategic Effectiveness

While business units play a critical role in executing corporate strategy, they cannot succeed in isolation. They require active support and engagement from senior corporate leaders to set the right context and create an enabling environment.

Corporate leaders support business units by clearly communicating the vision, strategy, and priorities. This helps business units be effective. This clear communication involves more than just sharing high-level goals. This requires translating the strategy into specific, actionable initiatives and metrics. Business units must be able to own and execute them. It also involves providing regular updates and reinforcement to ensure continued alignment.

Another important role of corporate leadership is to allocate resources and make decisions that support the organization's strategic priorities. This may involve making tough trade-offs and choices about where to invest based on potential impact and alignment. This can also include providing dedicated support and expertise to business units to help them build necessary capabilities.

Corporate leaders also play a crucial role in coaching and developing business unit leaders to become more effective. This may involve providing regular feedback and guidance on key performance indicators (KPIs). It may also involve investing in leadership development programs that help leaders build necessary skills and mindsets. Additionally, in creating opportunities for business unit leaders to share best practices and collaborate on initiatives.

Finally, corporate leaders need to model the behaviors and values they expect from business units and the organization. This involves showing a commitment to the strategy through their own actions and decisions. In addition, growing a culture of honesty, teamwork, and growth is involved. In this culture, everyone is encouraged to share ideas and learn.

By providing this kind of active support and engagement, corporate leaders can create the conditions for business unit success. While this process may require significant time and effort, the payoff in terms of increased alignment and performance can be worth the investment.

## Conclusion

In conclusion, business units play a critical role in shaping and executing corporate strategy. Their alignment and effectiveness can have a significant impact on overall organizational performance. They can do this by providing insights, driving innovation, and meeting relevant goals. These actions help organizations sense and respond to market changes.

To fully leverage the potential of business units, organizations need to create the right structures. They also need the right processes and culture. This involves setting clear decision-making rules and accountability structures. It requires enabling cross-team collaboration and knowledge sharing. Leveraging this potential also requires fostering a culture of trying new things and getting better. It also involves providing the needed resources, skills, and leadership. They help business units navigate complex challenges.

The core of a successful strategy for business units is finding the right mix of freedom and teamwork. It requires giving them power and holding them accountable. Also, balancing short-term results with long-term growth. By unifying everyone around a common goal and direction and offering flexibility and support, businesses can make their units thrive.

As we have seen throughout this chapter, many factors contribute to business unit strategic effectiveness. These include clear communication and the cascading of objectives. They also involve aligning incentives and performance management systems. They also include platforms for teamwork between units. These integrate business unit perspectives into strategic reviews. By addressing each area and refining their approach, organizations can create a virtuous cycle. This cycle links alignment, innovation, and performance.

The journey towards business unit strategic effectiveness is not always straightforward. It requires significant time, effort, and leadership commitment, as well as a willingness to challenge existing assumptions and ways of working. But for organizations that can harness the power of their business units, the rewards can be significant. This is true in terms of both financial performance and long-term competitive advantage.

Therefore, leaders at all levels have a crucial responsibility to prioritize business unit strategic effectiveness. By investing in the structures, processes, and culture needed to support business unit alignment and performance, leaders can create a more agile organization. By modeling the behaviors and values that enable strategic execution, they can position the company to thrive in an uncertain and rapidly changing world.