LESSON 32:
FUNCTIONAL IMPLEMENTATION

Learning Objectives
On completion of this chapter you should be able to:

• You will understand the concept of functional policies and plans.
• You will be able to differentiate between policy and procedure.
• You will understand the role of functional policies and plans in strategy implementation.
• The importance of integration of functional plans and policies.

Functional Implementation deals with the development of policies and plans in different areas of functions, which an organisation undertakes. Every business organisation is built around two basic functions: production and marketing; to be in business, every organisation has to produce goods or services and sell these to the customers. The resources that are used to perform and pay for these two basic functions constitute two other significant functions-finance and personnel. Thus, an organisation has to formulate policies and plans in these functions to implement its strategy successfully.

Functional Policies and Plans
Integrated strategic planning system has significant dimension that coordinates the various plans from the top level of the organisation down through the lower levels. Such plans are coordinated at different levels so that planning efforts at a lower level contribute to the higher-level efforts. Thus, integration of various functions, their plans and efforts leads to effective implementation of strategy. The integration can be achieved if various functional plans are derived directly from strategic plans and that too at the level of their formulation. However, this may not always happen, particularly in the absence of proper guidelines. For, an organisation is a growing concern whose operational patterns have already been established which may not contribute to the type of integration needed at various levels. Further, the functional plans are prepared by almost at any level of the organisation. For example, the marketing manager develops overall marketing objectives, policies, action programs, budget, etc. His subordinates, in turn, develop supporting marketing plans covering each area of marketing operation-distribution, sales promotion, marketing plan-which are incorporated into overall plan of the organisation. Similar exercises are done in other functional areas which are incorporated into master plan for implementation. At all these levels, coordination is necessary which is not achieved automatically but through the development of policies.

Policies are guides to action. They are in the form of specific statements or general understanding which provide guidance in decision making to members in respect of any course of action. They indicate how the task assigned to the organisation might be accomplished and provide a basis for lower level managers on which to make decisions about the use of resources which have been allocated. But a policy does not tell the managers how to handle a specific activity; it is only a general guide to action. It limits the choices of managers in most cases but it does not limit them entirely.

Difference between Policy and Procedure
Before we proceed to the discussion of development of functional policies, it is desirable to make a comparison of policy and procedure. A procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished. Thus, a procedure provides guidelines to organisational members about how to accomplish a work. A policy also provides guidelines for actions. Thus, there is a likelihood that confusion arises between policy and procedure as both provide guidelines for future course of action. However, this guiding aspect is different in policy and procedure. The major difference between the two can be identified as follows:

1. Policy provides guidance for managerial thinking as well as action. As a result, it does not tell a manager, how to do the things; it merely channels his decision-making along a particular line by eliminating his span of consideration. On the other hand, a procedure simply provides guidelines to the action by prescribing how an action can be performed step by step.

2. A policy is more flexible as compared to a procedure. Policy is more flexible because it prescribes the areas of discretion to managers, while procedure prescribes the exact sequence of the activities without scope of any variation. This difference between policy and procedure may be understood by an example. An organisation may have a policy of granting vacation to its employees. For implementing this policy, certain procedure may be followed through which an employee may get leave and related benefits. A manager can refuse the leave to the employee concerned depending on the organisational situation. But the employee will have to follow certain procedure of applying for leave, completion of certain formalities to avail the benefits if leave is granted.

3. Policy is more pronounced at higher levels while procedures are more prevalent at lower levels. At higher levels, managers are more concerned with looking into the totality of the organisational functioning and, therefore, they should prescribe policies so that uniformity is maintained for particular action. People at lower levels are engaged mostly in routine work which can be better accomplished if the set standards are prescribed without leaving any scope of discretion. Since external situations play more important role in policy formulation and its implementation, managers at higher levels have to make many decisions which are not
similar to the previous ones. Therefore, they have authority to vary an action according to the needs. At lower levels, no such problems arise.

**Role of Functional Policies and Plans**

Functional policies play important role in strategy implementation. A functional policy is formulated basically to control and reinforce implementation of functional strategies and also the corporate strategy. Control and reinforcement of strategy implementation are facilitated by functional policies in the following ways:

1. Through the functional policies, top management can ensure that strategy is implemented by all parts of the organisation as policies cover almost entire activities of the organisation.
2. Policies specify the manner in which things can be done and limit discretion for managerial action. Thus, the top management of the organisation can rest assured that all personnel of the organisation will direct their efforts in a way relevant for strategy implementation.
3. Policies provide guidelines for managerial decisions. This aspect of the policies serves the strategy implementation in two ways. First, there will be uniformity throughout the organisation in managerial action. Second, there will be considerable timesavings in decision making as managers are well aware what kind of actions are required in a given situation.
4. Functional policies provide basis for control in respective areas as policies lead to consistent pattern of behaviors: This, in turn, acts as basis for controlling.
5. Policies provide coordination across different functions. Coordination among different functions is very important for strategy implementation.

All functions of an organisation are interdependent and interrelated. Therefore, what is happening in one function has its relevance for other functions. All functions can contribute positively when they are performed in a coordinated way.

**Development Of Functional Policies and Plans**

Managers develop policies, which are decision guides and make the strategy work. Therefore, the critical element involved in analytical exercise for policy making is the ability to factor the grand strategy into policies that are compatible, workable and just theoretically sound. It is not enough for the managers to decide to change the strategy. What comes next is equally important: How do we get there? Where? and How efficiently? A manager answers these questions by preparing policies to implement the strategy. For example, if an organisation chooses to go for diversification, the policy maker has to decide what to diversify into, where to diversify, how much money will be needed, from where the money will come and what changes are needed in various functions of the organisation. The decisions on all these aspects are much easier if proper policies have been formulated.

The amount of policy making in the formal sense will vary with the size and complexity of the organisation. If the organisation is small one with simple business, only a few policies will be sufficient. Moreover, the policies are generally understood and verbal. However, in large and complex organisations, large number of policies are needed. In whatever forms, the policies are developed, they must be judged on the following criteria:

1. Do they exist in the areas critical to the success of the organisation?
2. Do they reflect present or desired organisational practices and behavior?
3. Are they clear, definite, and explicit leaving no scope for misinterpretation?
4. Are they consistent with one another and do they reflect the timing needed to accomplish the goals?
5. Are they practical in given existing or expected situations?

**Integration of Functional Policies**

When various functional policies have been developed for implementation of the strategy, implementation is not necessarily complete; if these policies are not properly integrated, they may not contribute properly towards strategy implementation. Integration in functional policies is necessary because they are interdependent; a particular policy affects other policies and, in turn, is affected by other policies. Functional policies may be considered like horses in a chariot. A chariot may have very good horses but it may not move forward even by an inch if some of the horses are pulling it forward and others are pulling it backward. The chariot may move forward at a high speed if all horses pull it forward at the same time. The considerations that guide strategists in the integration of functional policies may be as follows:

1. need for internal consistency;
2. relevance to developing organisational capabilities;
3. making trade-off decisions;
4. intensity of linkages; and
5. Timing of implementation of policies.

**Internal Consistency**

There is a need to be sure that there is internal consistency in the policies developed for various functions. Since various functions are interdependent, a decision for functionally dependent factors cannot be made without regard to their impact on other areas of business. Otherwise, sub-optimization is likely to result. For example, a major production decision variable is that of plant capacity. This decision depends heavily on, besides other things long-range sales forecast and the structure of distribution channel (marketing function), cost of capital and sources of funds (finance function) and availability of relevant human resources (personnel function). Thus, plant capacity decision cannot be made in isolation of other factors.

**Relevance to Organisational Capabilities**

Integration of various functional policies should focus on developer organisational capabilities to implement the strategy effectively. For synergistic effects occur across functional areas and distinctive competence emerges as a result of deploying resources to the areas where the organisation wishes to build up .its strategic advantages. This can be observed in the case of companies, which intend to be a market leader, low cost
producer, or technologically superior competitor, or the largest organisation. In all these alternative cases or a combination of integration of various functional policies would be necessary, though there may be difference in emphasis. For instance, the company, which wants to become a market leader, would have to offer products of the best possible quality at competitive prices through an efficient distribution system supported by aggressive promotional efforts, as is the case with Hindustan Lever. For Reliance Industries which is to be the largest company in petrochemical sector, the emphasis has to be on high technology, mobilization of large resources but not necessarily emphasizing distribution and promotion. Thus, integration of policies should aim at developing competencies relevant to the company’s objectives as defined through strategy formulation.

Making Trade-off Decisions
In integrating various functional policies, the organisation faces the situation of trade-off decisions because of the inherent nature of each organisational function. The demand for optimizing a particular function may be in one way, for another function, in another way, which may be conflicting to each other. For example, production function’s optimization may lie in the most modern technology, a costly affair; finance function’s optimization may be least cost technology. Both are contradictory. Similar contradictions may be observed in other functional areas also. Therefore, there has to be a trade-off among various functional areas, which may sub-optimize some functional areas but may optimize the organisation. It is based on the maxim ‘if you want to get something, you have to lose something.’ In applying this maxim in trade-off decision, the principle is what you get is more important than what you lose. This is true in the case of integration of policies.

Intensity of Linkages
All functions of an organisation are interdependent and interlinked; some directly, others indirectly. Types of linkage determine the level of integration of various functions. For instance, if the strategy is built on offering newer products, there would be greater linkage between R&D and production function; if the strategy is built on low-cost mass consumption items, there would be close linkage between production and marketing. Thus, intensity of linkages is not constant but moves according to the strategy.

Timing of Implementation of Policies
There should be integration in timing in putting different policies into action. This may bring better result for the organisation as a whole. For instance, if a company is facing resource crunch, it may be better to put off those plans and actions which may have long-term effect on it like R&D. Similarly, if the company is moving into high-tech area, more emphasis has to be placed on training and development.

Functional Implementation at EI Hotels
Example of EI Hotels Limited shows how it has chalked out its various functional policies and plans and how they contribute positively to each other and the organisation as whole.

The company is the owner of famous Oberoi chain of hotels in India and abroad. With a very humble beginning in the hotel business, the company has the largest hotel chain in the country and the largest Indian hotel chain abroad. The company has followed continuous growth strategy through expansion since the very beginning. In order to achieve this feat, the company has implemented its strategy by taking integrated actions. Such actions include the various areas of hotel management namely construction and acquisition of hotels, interior decoration, foods and beverages, servicing, pricing, financing, marketing, manpower management, and delegation of authority. It can be seen that in hotel management, many of these are quite unique in the sense that they require different approach as compared to their counterparts in industrial organizations. A discussion of these will show how EI Hotels Limited has successfully implemented its strategy of growth.

1. Construction and Acquisition of Hotels. The company expanded its hotel business through the construction and acquisition of hotels. It concentrated on hotel of top category with 300-500 rooms either for construction or for acquisition. The idea was that bigger than this size of hotel may lose its charm by becoming overcrowded while smaller than this size may not create much impact. The company also located its hotels in the central places of the cities, which might have initial higher costs but have various other advantages. It may be mentioned that location is an important factor in hotel business. Thus, the company has its hotels in all the major cities of the country, which can afford five-star hotels. It also opened hotels in Middle East, West Asia, Europe, Africa and Australia wherever opportunities existed. Overseas hotels have been opened through acquisition and marketing tie up. In negotiating hotel acquisition, the company emphasized on personal service and key personnel were reputed for the purpose so that deal could be struck within shortest possible time. In fact, in many cases, the chairman himself entered into the deals. The idea was that owners and the government with whom the deals were taking place should be impressed that they were dealing with persons who had sufficient authority to make decisions of vital importance. This resulted into quick acquisition of hotels or fixing of marketing tie.

2. Architecture and Interior Decoration. The company has emphasized on architecture and interior decoration to an extent that each hotel looks unique. Each hotel has individuality, which reflects the ambition, the culture, the magnificence, and the dreams of the people who go to these hotels. The graphics, the staff uniforms, the lighting, air-conditioning, the plumbing, the maintenance, etc. have been of high grades. The hotel management works continuously with all associated with construction and maintenance of hotels. Thus, every minute details are worked out in constructing and maintaining a hotel. So much attention is given to maintenance that general managers of each hotel have been authorized to spend 7 to 8 per cent of sales on maintenance and refurbishment. Ever: hotel has good shopping arcade which caters to the needs of foreign tourists specifically and attract them.
3. Foods and Beverages. E I Hotels tries to ensure that best quality foods and beverages are served in all the hotels so that customers are attracted. These are supposed to be fresh. Quality and variety are maintained. Menu is changed quite frequently and every day some special dish is offered. The foods are prepared with right blending and foods and beverages are served at right temperature. Since the hotel tries to attract foreign tourists, it has also recruited foreign chefs. It is the policy of the company that at least one foreign chef is attached to every hotel to ensure good quality of international foods and beverages. It is the responsibility of every hotel manager to monitor the trained kitchen staff performance, guide them, and inspire them to perfection in their food preparation.

4. Servicing. Hotelier is primarily a service industry and there is very high significance of services offered in hotels. The company has adopted the policy of personalized services. Every customer, either coming to stay in the hotel or to dine in the restaurant is treated as valued guest. He is given an impression that the hotel wants his business. Such service is provided while the guest stays at hotels or he takes his food in restaurant. An attempt is made to take note of likings and disliking of the persons who visit the hotel so that when they visit next time, commensurate comforts are offered to them. Staff members have been instructed to say ‘our hotel’ instead of ‘my hotel’ while talking to the customers. This creates feeling of belongingness in the mind of customers.

5. Pricing. It is the policy of the company to offer the most expensive rooms in the cities in which it operates its hotels. However, at the same time, an attempt is made to provide the most value for money in terms of comforts, service, and status. When the prices are raised, these are not just adjusted for the rate of prevailing inflation but they commensurate with the comforts. The company adopts a customer mix to keep the occupancy rate high in which 70-80 per cent rooms are sold to groups at a lower price and 20-30 per cent at the higher prices. Attempt is made to attract foreign customers to the extent of 90 per cent so that high rates are ensured and at the same time, international status is maintained.

6. Marketing. E - I Hotels adopts comprehensive marketing strategy in order to achieve its objectives. In its marketing and promotional aspect, emphasis is put on the chain of Oberoi hotels rather than a particular Oberoi hotel so that chain is advertised and each hotel can gain from others. To sell the chain means selling the image of Oberoi. In order to achieve this, the company performs following activities. First, it utilizes the opportunities for editorial coverage of its hotels and their various facilities. This provides ample opportunities for hotels publicity with due credibility. Second, in advertisement copies, the fact is emphasized that seven hotels of Oberoi group are listed in the 300 world’s best hotels. Third, company concentrates on travel agents and sells them the chain for a group. Fourth, it concentrates on network representation. Fifth, attempt is made to attract individual travelers for repeat business and word of mouth publicity:

7. Financing. The company is very rigid in taking loans from financial institutions so that it does not get involved with them. It has the policy to work with its own money and then to work with public money through deposits, as these do not require any guarantee except the confidence in the company. This is the reason for high share capital of the company (Rs. 10.88 crore as compared to Rs. 6.64 crore of Indian Hotels Limited operating Taj group of hotels). It believes in fast collection of dues but at the same time, pays fast so that interest burden is reduced and the parties are kept satisfied.

8. Manpower. Manpower management is very strong aspect of the company. It believes in excellence of work and, therefore, requires people of very high caliber. Manpower planning is taken on long-term basis to find out what kind of people will be required at what time. The recruitment and selection process is very scientific and the candidates for various positions are selected after a very rigorous exercise. Most of the people are taken as management trainees. They are provided very rigorous training. Training emphasizes manual work and an aptitude to work so that trained personnel can render personalized service. They see the hotel life as it really is shorn of its glamour. The level of discipline is very high almost soldierly. Since the company pays high money apart from so many perks, it has been able to attract and retain most capable persons.

9. Authority Delegation. The company has adopted the policy of decentralization of authority. For major corporate functions, there are vice presidents at the corporate office. A general manager who enjoys considerable authority, even the financial authority, heads each hotel. Each hotel is treated as independent unit and general managers can make any decisions within the framework of the guidelines provided by the corporate office. For example, they are free to spend 7-8 per cent of their revenue on refurbishment of the hotel. Similarly they can make any decision to improve the image of their hotels. Delegation of authority not only provides opportunities to implement plans speedy but also provides training and motivation for employees.