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## Strategy development and implementation – process and factors influencing the result: Case study of Latvian organizations

Arturs Zeps<sup>a</sup>, Leonids Ribickis<sup>b,\*</sup>

<sup>a,b</sup> Riga Technical University, 1 Kalku Street, Riga, LV-1658, Latvia

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### Abstract

Paper presents analysis of the management survey data, identifying the factors that influence strategy development and implementation. Paper describes significance of employee involvement in the strategy development process, defining incentives for employees, creation of activity plan, regular overview of achieved results and necessity of revision of the strategy - contrasting the usage of such approaches to overall success of the strategy implementation. Analytical part provides a management-performed self-evaluation of strategy implementation process and by the help of performed factor analysis and GLM ANOVA analysis indicates such key factors as – creation of activity plan for strategy implementation; regular overview of the strategic plans; making strategy accessible to employees and motivation of management to cascade the tasks - that influence efficient strategy implementation process.

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### Introduction

Strategy defines a path for organizational development. The major goals are included in the core strategy document, but wider explanation can be defined in the activity plan (Kaplan & Norton, 2008). Many authors have looked into the question on how to create a strategy development process more efficiently and achieve better results in strategy implementation phase. Radomska (2014) indicates that elements such as internal processes, systems, people and the environment should be taken into account when strategy is developed to secure its successful

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\* Corresponding author. Tel.: +371 6789300; fax: +371 6789302  
E-mail address: [leonids.ribickis@rtu.lv](mailto:leonids.ribickis@rtu.lv)

implementation. While careful and planned strategy implementation is a success factor to organizations, however, many organizations fail on it (Blahová & Knápková, 2011). There are many approaches that recommend using such practices as involving employees in strategy development and creating financial incentives for units and employees to achieve better results during strategy implementation phase. Research that is done by Rapert, Velliquette, and Garretson (2002) reveals that reaching internal consensus allows organizations to achieve better financial results and increase efficiency. Higgins (2005) reveals that one of important factors ensuring efficient strategy execution is constantly monitored strategic performance. Desroches, Hatch and Lawson (2014) outlines that one of prior tasks for management is to set up an appropriate communication style within the organization for employees to understand the targets set by management. Additionally many authors define that management is responsible for creating a strong bond between themselves and employees to ensure implementation of strategic settings (Mowbray & Ingley, 2013).

The tasks defined for this research to examine deeper strategy development and implementation process are:

- To determine the most important factors, which have the impact on strategy implementation, and factors utilized during strategy development and implementation
- Define nowadays trends in Latvia in strategy creation and implementation

To implement the set tasks authors created a survey and disseminated it across the Latvian organizations to gain responses on most common practices of strategy creation and implementation nowadays. Latvian organizations were chosen as an object of research, because prior to economic crisis in Latvia - until year 2008 - organizations in Latvia tended to change their business directions rapidly, entering the industries that promised the higher returns. Many organizations invested heavily in real estate thus losing a lot during the crisis. This indicated that organizations had no long-term strategy and tried to get as much as possible out of current economic situation. After the crisis organizations started thinking more long-term and began to develop strategies on how to implement their activities much smarter in certain fields they want to focus on. Authors based on the survey analyse nowadays trends in Latvia in strategy creation and implementation, thus gaining lessons on how to help Latvian organizations to improve their long-term strategic planning.

## **1. Survey of Latvian organizations on strategy development and implementation**

The research is based on the survey implemented through the January-April, 2015. Survey was made to gain the experience from the higher and middle management of Latvian companies regarding the process of creation and implementation of the strategy. Total number of respondents that participated in the survey constituted 263 persons.

Research allowed analyzing factors that influence the creation process of a strategy contrasting the usage of such approaches to overall success of the strategy implementation. Based on the management-performed self-evaluation of strategy implementation process, research identified the key elements that influence reaching the desired goals set in strategy.

The survey was divided in to two parts – the first part allowed to receive answers regarding the structure of the strategy, its implementation and overview process while the second part defined the factors that promote or hinder the strategy implementation.

Prior the creation of survey an analysis of strategy creation process was done by applying focus group discussion and expert method. This allowed gaining expertise regarding the strategy development and commonly used practices in improving the strategy implementation process. Additionally prior analysis allowed defining the questions for the survey and potential answers regarding the factors that promote or hinder successful strategy creation and implementation process.

Survey allows defining various strategy creation and implementation elements used by different types of organizations. First questions allow identifying sector of activity and size of the organization. Based on the answers received it can be concluded that the industries participants represent are - information and communication (12%) and wholesale and retail trade (12%) sectors, while other largest sectors represented are manufacturing and other services (11%) and education sector (10%). Additionally it could be concluded that majority (63%) of all participants represent large (with more than 250 employees and turnover >50 million EUR) and medium (with from 50 to 249 employees and turnover ≤50 million EUR) size companies. The following question provides a division of respondents based on the management level – showing that 63% of the respondents are higher-level managers, 31%

– middle-level managers, while 6% – first-level managers. These data enable a possibility of various analyses of received data in future.

First part of the survey indicates the answers to the following questions – does an organization have a written strategy, is it accessible to employees and partners; what are the elements organization include in their strategy; has organization created an action plan; what is the period of strategy and how often is strategy overviewed; does organization involve employees in strategy development process; has organization introduced incentives to improve strategy's implementation process.

The final question of the first part – “How efficient based on your opinion is your organization's development strategy implemented in the real life (from 1 to 4)?” allows evaluating what are the elements and practices used by the most efficient organizations. Additionally this question allows defining what are the factors that promote or hinder successful implementation of the strategy based on the answers gained from the responses of survey's second part. The second part of the survey included such questions as:

- Which factors promote implementation of the strategy and set targets and tasks the most?
- Which factors hinder the implementation of the strategy, set targets and tasks the most?
- How employees should be informed regarding targets and tasks set in the development strategy?

## 2. Analysis of the survey results

Survey data were analyzed based on three methods – statistical data analysis, Factor analysis and General linear model ANOVA analysis. While statistical data analysis allows defining the responses to each separate question, Factor analysis and General linear model ANOVA analysis enable to determine the most important factors and their impact on strategy implementation (Field, 2005).

### 2.1. Descriptive statistics

Based on the descriptive statistics of the survey it can be concluded that 91% of all organizations have a written strategy. Regarding the accessibility of strategy organizations in Latvia tend to inform their employees on their strategic aims rather widely - for 82% of all organizations strategy is accessible to employees, but regarding partners and clients organizations tend to reveal strategy only partly – only for 46% of all organizations strategy is accessible to clients and partners and it is available only partly. 51% of organizations organize yearly strategic management retreats, while 38% tend to discuss strategic aims during management meetings. 61% of organizations financially stimulate units and employees for achieving targets and tasks set the strategy action plan, while majority – 48% have linked targets and tasks defined in strategy with organization performance management and compensation system.

64% of all organizations create an Activity plan with detailed description of strategic targets and tasks for all structural units. Organizations tend to overview the results set in activity plan once a year (60% of all organizations).

The average length for strategic planning in Latvia is 3-5 years, but majority of organizations tend to overview strategic plans during the period they are in force. 35% of organizations overview strategic plans regularly, but 40% of organizations review strategic plans only in case change of external forces is observed. 51% of organizations involve employees in the strategy development process, while 21% of organizations involve employees in strategy development only partly. And for 9% of all organizations strategy is developed by outside consultants based on management-defined settings.

Majority of Latvian organizations tend to evaluate their organization's development strategy implementation in the real life as efficient (29%) and as an average efficient (59%). Organizations have defined the factors that promote implementation of the strategy and set targets the most are:

- Precise formulation of mission, vision and targets (for 63%);
- Regular control of targets and tasks set in the strategy action plan (52%);
- Development of detailed strategy action plan (45%).

While factors that hinder the implementation of the strategy and set targets the most are:

- Change of external factors in the period of strategy development (45%);

- Unclear formulation of mission, vision and targets (41%);
- Lack of detailed strategy action plan with set targets, tasks and terms for the units (38%).

To explore more hidden interactions between the results gained through the survey, the factor analysis and ANOVA based on GLM procedure are performed.

2.2. Factor analysis

To perform the factor analysis all questions were encoded and several of them were separated into sub-questions (subgroups) just to analyze the common relationship of the corresponding part of the question. The factor extraction method is based on the Principal Component Analysis and the factor rotation method was chosen as Varimax. This method is a useful statistical technique that is a common technique for finding patterns in data of high dimension (Smith, 2002).

Based on the statistics of Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test of Sphericity after excluding insignificant questions (see in the Figure 1), the authors' conclusion is that there are correlative relationships in the remained data because Sig. (p-value) = 0.000 and the factor analysis can be implemented for these data with the corresponding level of adequacy (Cerny & Kaiser, 1977).

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,500
Approx. Chi-Square		1128,322
Bartlett's Test of Sphericity	Df	496
	Sig.	,000

Fig. 1. KMO and Bartlett's Test

The factor analysis showed that all remained questions can be merged into 13 components (factors) which explain 73,770% of total variance (see in the figure 2).

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4,698	14,680	14,680	4,698	14,680	14,680	3,374	10,543	10,543
...									
13	1,116	3,488	73,770	1,116	3,488	73,770	1,241	3,878	73,770
14	,916	2,862	76,632						
..	...	....							
32	,100	,313	100,000						

Fig. 2. Number of total variance explained

Analyzing the structure of each factor the authors found that more important and interesting questions Q8, Q5, Q6, Q13 and Q15 are grouped into one common factor (component 1) (see in the Figure 3).

Rotated Component Matrix				
	Component			
	1	2	3	...
Q8	,824			
Q5	,755			
Q6	,745			
Q13	,707			
Q15	,674			
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.				

Fig. 3. Rotated Component Matrix

The structure of the first factor indicates some specific conclusions. Efficiency of strategy implementation is strongly correlated with the following features (or activities) in an organization:

- Activity for strategy implementation with detailed tasks for the units, clearly defined achievable results and terms;
- Regularity of strategy revision and reevaluation;
- Strategy accessibility for the employees;
- Strategy accessibility for partners and clients.

The numbers shown in the Figure 3 can be interpreted as correlation coefficients. Because these values are very high, the authors can make a conclusion that the more effective is the implementation of the strategic plan in an organization the more attention of high management representatives should be paid to four activities mentioned above.

### 2.3. GLM ANOVA analysis

To explore the impact of each question and sub-question on the evaluated efficiency of the implementation of a strategic plan in an organization the authors performed ANOVA based on the general linear model. General linear model ANOVA is used to find out how the average value of a numerical variable - called the dependent variable - varies across a set of conditions that have all been tested within the same experiment (Miller & Haden, 2006). For this method of analysis question 15 “How efficient based on your opinion is your organization’s development strategy implemented in the real life (from 1 to 4)?” was set as a dependent variable and all other questions were defined as fixed variables.

Based on the analysis performed it was possible to conclude that all variables with Sig.<0.1 are statistically significant at 90% probability level (see in the Figure 4) and have a significant impact on the dependent variable (efficiency of the implementation of a strategic plan). Detailed results of ANOVA analysis are illustrated in the Figure 4.

Based on GLM ANOVA analysis it is possible to define that certain variables of strategy creation process correlate (in other words have an impact) with efficient implementation of the strategy:

- Existence of a written strategy document in an organization (Q4);
- Accessibility of the strategy for the employees (Q5);
- Definition of a clear mission (Q7\_6);
- Involvement of employees in strategy creation process (Q11 and Q18\_1);
- Regular overview of the strategic tasks and targets (Q13).

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.	Partial Eta Squared	Noncent. Parameter	Observed Powerb
Corrected Model	43,482	87	,500	2,383	,026	,928	207,363	,934
Intercept	,322	1	,322	1,537	,233	,088	1,537	,214
Q4	,952	1	,952	4,541	,049	,221	4,541	,517
Q5	,735	1	,735	3,504	,080	,180	3,504	,421
Q7_6	1,967	1	1,967	9,381	,007	,370	9,381	,820
Q11	3,249	4	,812	3,873	,022	,492	15,493	,786
Q13	1,884	3	,628	2,996	,062	,360	8,987	,593
Q17_3	,951	1	,951	4,534	,049	,221	4,534	,516
Q17_5	,674	1	,674	3,214	,092	,167	3,214	,392
Q17_8	2,548	1	2,548	12,151	,003	,432	12,151	,905
Q17_11	1,270	1	1,270	6,057	,026	,275	6,057	,637
Q18_1	,628	1	,628	2,996	,103	,158	2,996	,370
Error	3,355	16	,210					
Total	1075,000	104						
Corrected Total	46,837	103						

Fig. 4. Results of General linear model ANOVA analysis (only statistically significant variables)

Additionally, based on GLM ANOVA analysis it is possible to conclude that the factors that promote the strategy implementation are:

- Creation of a detailed activity plan with clear tasks and deadlines for all units (Q17\_3);
- Motivation of a management to cascade the tasks to the lower units (Q17\_5);
- Avoidance of too frequent change of strategic targets (Q17\_8).

## Conclusions

The research allows concluding which are the nowadays trends in Latvia in strategy creation and implementation. Majority of Latvian organizations perform strategic planning and have created a written strategy. Organizations tend to utilize such practices that help implementing the strategy as – provide financial stimulus for units and employees for achieving tasks set by the strategy; create an activity plan with detailed description of strategic targets and tasks for all structural units and involve employees in strategy creation process to ensure greater motivation during the strategy implementation phase. Majority of Latvian organizations tend to create strategy and activity plan for period of 3-5 years and perform regular review of the set targets during the implementation phase.

Research indicates the most important factors, which have the impact on strategy creation and implementation. Focus group discussions indicated the following factors that promote implementation of the strategy and set targets - precise formulation of mission, vision and targets; regular control of targets and tasks set in the strategy action plan; organization structure set accordingly to the strategy and precisely set internal procedures.

Based on factor analysis and GLM ANOVA analysis it was possible to determine the most statistically significant factors that influence the most efficient implementation of strategy in organizations. Factor analysis showed that most important questions could be grouped in one common factor, and it means that the greatest effect is achieved if organizations create activity plan; regularly overview the strategic plans and make strategy accessible to employees and partly to clients and partners. GLM ANOVA analysis showed that additionally significance should be devoted to clear definition of mission statement; involvement of employees in strategy creation process and regular overview of the strategic tasks and targets. Additionally GLM ANOVA analysis indicated that during strategy implementation important factors are - creation of a detailed activity plan with clear tasks and deadlines for all units; motivation of a management to cascade the tasks to the lower units and avoidance of too frequent change of strategic targets.

Gained data from this research can be used for further research by categorizing the received answers according the sectors organizations work in and based on the organization size, thus gaining the differences in strategy creation and implementation in various fields and organizations. Additionally survey results can be compared with research

data from other Baltic countries, which have experienced similar economic trends in the past. That would allow analyzing how does strategy development and implementation process differ in all three neighboring countries.

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