STRATEGY: Core Concepts and Analytical Approaches

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CHAPTER 10

Building an Organization Capable of Good Strategy Execution

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Chapter 10 Learning Objectives

1. Become familiar with the managerial tasks that crop up repeatedly in company efforts to execute strategy.
2. Understand why good strategy execution requires astute managerial actions to staff the organization and build strong competencies and competitive capabilities.
3. Learn what issues to consider in organizing the work effort and why strategy-critical activities should be the main building blocks of the organizational structure.
4. Become aware of the pros and cons of centralized and decentralized decision making in implementing and executing the chosen strategy.

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Chapter 10 Roadmap

- A Framework for Executing Strategy
- Building an Organization Capable of Good Strategy Execution: Three Key Actions
- Staffing the Organization
- Developing and Strengthening Core Competencies and Competitive Capabilities
- Execution-Related Aspects of Organizing the Work Effort

 10–7

Crafting versus Executing Strategy

Crafting the Strategy

- Is a ***market-driven*** activity
- Successful strategy making depends on:
  - Business vision
  - Perceptive analysis of market conditions and the firm's capabilities
  - Shrewd market positioning
  - Outcompeting rivals
  - Creating and deploying resources and capabilities to forge a competitive advantage

Executing the Strategy

- Is an ***operations-driven*** activity
- Successful strategy execution depends on:
  - Doing a good job of organization-building and people management
  - Achieving continuous improvements in how activities are performed
  - Motivating/rewarding people in ways that support good execution
  - Creating and nurturing a strategy-supportive culture
  - Instilling a discipline of getting things done

 10–8

Strategy Execution Is Tougher Than Strategy-Making

- It is a whole lot easier to develop a sound strategic plan than it is to execute the plan and achieve the desired outcomes.
  - A wide array of managerial activities must be attended to
  - There are many ways to put new strategic initiatives in place and keep things moving—which paths to take?
  - Bedeviling issues crop up and have to be resolved

- It tests the ability of company managers to:
  - Direct organizational change
  - Build and strengthen competitive capabilities
  - Achieve continuous improvement in operations and business processes
  - Marshal organization-wide support and enthusiasm for executing the strategy as proficiently as possible
  - Consistently meet or beat performance targets

Ideally, senior managers need to create a company-wide crusade to implement and execute the chosen strategy as fast and effectively as possible.

 10–9

Executing Strategy Is a Team Effort

- Implementing and executing strategy involves a firm's whole management team and all employees—***all are in one way or another actively involved in the strategy execution process***
  - Much as every part of a watch has a role in making the watch function properly, ***it takes all pieces of an organization working cohesively for a strategy to be well-executed***
- ***Top-level managers*** must ***lead*** the process and orchestrate big initiatives
  - ***But*** they must rely on cooperation of
    - Middle and lower-level managers to see things go well in various parts of an organization and
    - Employees to perform their roles competently

The strategy execution process involves every part of the enterprise—all value chain activities and all work groups

 10–10

Core Concept

Good strategy execution requires a *team effort*.

- All managers have strategy-executing responsibility in their areas of authority
- All employees are active participants in the strategy execution process.

All company personnel in one way or another are actively involved in the strategy execution process.

 10–11

Implementing a New Strategy Requires Adept Leadership

- Just because senior managers announce a new strategy doesn't mean that organizational members will agree with it or enthusiastically move forward in implementing it
- It takes adept managerial leadership to:
  - Convincingly communicate reasons for the new strategy
  - Overcome pockets of doubt
  - Secure commitment of concerned parties
  - Build consensus and enthusiasm
  - Get all implementation pieces in place and coordinated

Ideally, senior managers need to create a companywide crusade to implement and execute the chosen strategy as fast and effectively as possible.

 10–12

A Framework for Executing Strategy

- The specific ***hows*** of executing a strategy—the exact items to be placed on management's action agenda—***always need to be customized*** to fit the particulars of a firm's situation
- Making minor changes in an existing strategy differs from implementing radical strategy changes
- Some managers are more adept at using this or that approach to achieving desired organizational changes.

There's no definitive managerial recipe for strategy execution that works for all situations or all types of strategies or all managers.

 10–13

The Principal Managerial Components of the Strategy Execution Process

- Eight managerial tasks crop up repeatedly in company efforts to execute strategy:
  1. Developing the competencies, capabilities, and organizational structure to execute strategy successfully.
  2. Marshaling sufficient money and people behind the drive for strategy execution.
  3. Instituting policies and procedures that facilitate strategy execution.
  4. Adopting best practices and pushing for continuous improvement in how value chain activities are performed.
  5. Installing information and operating systems that enable company personnel to carry out their strategic roles proficiently.
  6. Using rewards and incentives to promote good strategy execution and the achievement of strategic and financial targets.
  7. Instilling a corporate culture that promotes good strategy execution.
  8. Exercising strong leadership to improve execution, make corrective adjustments, and move toward companywide operating excellence as rapidly as feasible.

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Figure 10.1 Components of the Strategy Execution Process

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Devising an Action Agenda to Implement and Execute a Strategy

- The place to start is with a probing assessment of what the organization must do differently and better to execute the strategy with a high degree of proficiency and meet or beat performance targets
- Every manger must ask the question:
  - "What needs to be done in my area of responsibility to implement our part of the company's chosen strategy and what should I do to get these things accomplished in a manner that enables good strategy execution and produces the desired results?"
- It is then incumbent on every manager to determine *precisely how to make the necessary internal changes*.

 10–16

What Are the Signs of Good Strategy Execution?

- The two best signs of good strategy execution are whether a company is:
  - Meeting or beating its performance targets
  - Performing value chain activities in a manner conducive to companywide operating excellence

When strategies fail, it is often because of poor execution: certain things important to successful strategy execution slip through the cracks.

 10–17

Building an Organization Capable of Good Strategy Execution: Three Key Actions

- Proficient strategy execution depends heavily on three types of organization-building actions:
  - ***Staffing the organization***—Putting together a strong management team, and recruiting and retaining employees with the needed experience, technical skills, and intellectual capital
  - ***Developing and strengthening core competencies and competitive capabilities***—Building proficiencies in performing strategy-critical value chain activities and updating them to match changing market conditions and customer expectations
  - ***Structuring the organization and work effort***—Organizing value chain activities and business processes and deciding how much decision-making authority to push down to lower-level managers and frontline employees

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Figure 10.2 The Three Components of Building an Organization Capable of Successful Strategy Execution

Staffing the Organization
- Putting together a strong management team
- Recruiting and retaining talented employees

Developing and Strengthening Core Competencies and Competitive Capabilities
- Developing a set of competencies and capabilities suited to the current strategy
- Updating and revising this set as external conditions and strategy change
- Training and retraining company personnel as needed to maintain skills-based competencies

Structuring the Organization and Work Effort
- Instituting organizational arrangements that facilitate good strategy execution
- Deciding how much decision-making authority to push down to lower-level managers and frontline employees

A Company with the Competences Capabilities, and Organizational Structure to Execute Strategy Successfully

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Putting Together a Strong Management Team

- One of the key organization-building tasks is filling managerial slots with smart people who are:
  - Clear thinkers
  - Good at figuring out what needs to be done
  - Skilled in "making it happen" and delivering good results

Without a smart, capable, results-oriented management team, the implementation-execution process ends up being hampered by missed deadlines, misdirected or wasteful efforts, and/or managerial ineptness.

 10–20

Putting Together a Strong Management Team (cont'd)

- Sometimes a firm's existing management team is suitable
- At other times it may need to be strengthened or expanded by:
  - Promoting qualified people from within and/or
  - Bringing in outsiders whose experiences, talents, and leadership styles better suit the situation

- Overriding aim is to assemble ***a critical mass of talented managers*** who can function as ***agents of change*** and further the cause of first-rate strategy execution

A firm needs to get the right executives on the bus—and the wrong executives off the bus—before trying to drive the bus in the desired direction.

 10–21

Recruiting and Retaining Capable Employees

- The quality of an organization's people is always an essential ingredient of successful strategy execution
  - Knowledgeable, engaged employees are a firm's best source of creative ideas for the nuts-and-bolts operating improvements that lead to operating excellence
- The firm's entire workforce (managers and rank-and-file employees) needs to be ***a genuine resource strength***

 10–22

Core Concept

It is very difficult for a firm to competently execute its strategy and achieve operating excellence without recruiting and retaining a large band of very capable, actively engaged, high-achieving employees.

The best firms strive hard to make their entire workforce (both managers and rank-and-file employees) a genuine resource strength.

Practices the Best Companies Use to Attract and Retain Talented Employees

- Spending considerable effort in screening and evaluating job applicants, selecting only those with:
  - Suitable skill sets
  - Energy, initiative, and judgment
  - Aptitudes for learning and adaptability to the firm's work environment and culture
- Putting employees through training programs that continue throughout their careers
- Providing promising employees with challenging, interesting, and skill-stretching assignments
- Rotating people through jobs that not only have great content but also span functional and geographic boundaries

Practices the Best Companies Use to Attract and Retain Talented Employees (cont'd)

- Encouraging employees to:
  - Challenge existing ways of doing things and propose better ways
  - Be creative and innovative
  - Push their ideas for new products or businesses
- Making the work environment stimulating and engaging
- Striving to retain high-potential employees with attractive compensation and benefits
- Coaching average performers to improve their skills

Developing and Strengthening Core Competencies and Competitive Capabilities

- Good strategy execution requires:
  - ***Developing*** the desired ***competencies and capabilities*** and putting them in place
  - **Upgrading and strengthening** them as needed
  - ***Modifying*** them as market and competitive conditions evolve

Creating dynamic and competitively valuable competencies and capabilities is an important organization-building priority

Creating Dynamic and Competitively Valuable Competencies and Capabilities

Building competencies and capabilities is ***a three-stage process*** that occurs ***over a period of months and years***:

- ***Stage 1***—Develop the ability to do something, however imperfectly or inefficiently, by molding the efforts and work products of individuals into a collaborative effort
- ***Stage 2***—As experience grows and personnel learn how to perform the activity ***consistently well*** and ***at an acceptable cost via repetition***, the ability evolves into a ***tried-and-true competence*** or ***capability***. If the competence is a key part of executing the company's strategy, then it qualifies as a ***core competence***.
- ***Stage 3***—Should company personnel continue to polish and refine know-how and sharpen performance such that the firm eventually becomes exceptionally good at performing the activity (ideally, better than rivals!), ***the competence or capability may provide a path to competitive advantage.***

Some Important Traits of the Process of Building Competencies and Capabilities

- Organizational capabilities emerge from a process of consciously knitting together the efforts of different work groups, departments, and external allies
  - It takes a series of deliberate and well-orchestrated organizational steps to achieve mounting proficiency in performing an activity
- Building competencies and capabilities is not something that can be accomplished overnight
- Many firms are able to get through stages 1 and 2 in performing a strategy-critical activity, but comparatively few achieve sufficient proficiency in performing strategy-critical activities to qualify for the third stage

Important Traits of the Process of Building Competencies and Capabilities (cont'd)

- The key to building a distinctive competence (or competitively superior capability) is ***concentrating more talent/effort than rivals on strengthening the competence/capability****, so as to achieve the dominance needed for competitive advantage.*
  - This does ***not*** require outspending rivals on building a competence or capability
  - But it does mean consciously focusing more talent on them and striving for best-in-industry, if not best-in-world, status.

Core Concept

A firm's competencies and competitive capabilities must be *continually refreshed and recalibrated* to remain aligned with changing customer expectations, ever-evolving competitive conditions, the efforts of rivals to strengthen their competencies and capabilities, and a firm's own strategic initiatives to outcompete rivals

- This refreshment and recalibration is what is meant by the term "dynamic capabilities"

Ongoing managerial efforts to build a dynamic set of competencies and capabilities is why it is appropriate to view a firm as a "bundle of evolving competencies and capabilities"

Keeping Competencies and Capabilities Updated and Remodeled

- Competencies and capabilities grow stale unless they are refreshed, modified, or even phased out and replaced
- It takes freshly honed, cutting-edge competencies and competitive capabilities to:
  - Stay abreast of ongoing changes in customer needs and expectations
  - Combat competitors' newly launched offensives to win bigger sales and market shares (which can include efforts to strengthen their own competencies and capabilities)
  - Keep the firm's resource portfolio in step with changes in its strategy
  - Build a more durable resource-based competitive edge over rivals

A firm's competencies and competitive capabilities must be dynamic, always evolving and being recalibrated to remain in step with evolving conditions and competitive circumstances.

Building Dynamic Capabilities: The Managerial Challenges

- The challenges of building a dynamic set of competencies and capabilities that delivers good results in the marketplace entail
  - Deciding ***when*** and ***how*** to remodel and refresh the firm's existing competencies and capabilities
  - Having the foresight or spotting opportunities to develop altogether ***new kinds of competitively valuable competencies and capabilities***
- It can also involve
  - ***Acquiring another firm with attractive resource capabilities***
  - ***Forming collaborative partnerships with suppliers or other companies having cutting-edge expertise***

The Benefits of Dynamic Capabilities

The organization momentum that comes from astute and timely managerial efforts to develop a formidable portfolio of dynamic capabilities often results in

- Greater ability to attract new customers
- Increases in sales revenues
- Higher profitability

Strategic Role of Employee Training

- Training and retraining are important when:
  - A firm shifts to a strategy requiring different skills, competitive capabilities, and operating methods
  - A firm is striving to build skills-based competencies
  - Technical know-how is changing so rapidly that a firm loses its ability to compete unless its skilled people have cutting-edge knowledge and expertise
  - **Better execution** of the chosen strategy calls for new skills, deeper technological capability, or building and using new capabilities

In all such instances, training should be placed near the top of management's action agenda.

Translating Competencies and Capabilities into a Resource-Based Competitive Advantage

- Strong core competencies and competitive capabilities are a major assist in securing a competitive edge over rivals in situations where it is relatively easy for rivals to copy smart strategies

When rivals can readily duplicate successful strategy features, the chief way to achieve lasting competitive advantage is to out-execute them (beat them by performing certain value chain activities in superior fashion).

- Because cutting-edge core competencies and competitive capabilities are often time-consuming and expensive for rivals to match or trump, any competitive edge they produce tends to be sustainable

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Execution-Related Aspects of Organizing the Work Effort

- There are few hard-and-fast rules for organizing a firm's work efforts
  - Each firm's organizational structure and organization chart is partly a product of its own situation, reflecting:
    - Prior organizational patterns and internal circumstances
    - Executive judgments about reporting relationships
    - The politics of who gets which assignments
  - Moreover, every strategy is grounded in its own set of key success factors and value chain activities
- But some organizational considerations are common to all firms

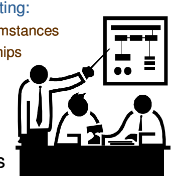

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Figure 10.3 Structuring the Work Effort to Promote Successful Strategy Execution

- Decide which value chain activities to perform internally and which ones to outsource
- Make internally performed strategy-critical activities the main building blocks in the organization structure
- Decide how much authority to centralize at the top and how much to delegate to down-the-line managers and employees
- Provide for cross-unit coordination
- Provide for necessary collaboration with suppliers and strategic allies

→ An Organization Structure Matched to the Requirements of Successful Strategy Execution

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Deciding Which Value Chain Activities to Perform Internally and Which to Outsource

- While outsourcing is often driven by the fact that outsiders, because of their expertise and specialized know-how, may be able to perform certain value chain activities better or cheaper than a company can perform them internally, ***outsourcing can also sometimes make a positive contribution to better strategy execution***.
- Outsourcing the performance of certain administrative support functions (and perhaps even selected primary value chain activities) to outside vendors enables a firm to:
  - Concentrate its full energies and resources on performing strategy-critical value chain activities ***even more competently***
  - Heighten its strategic focus

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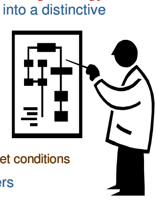
The Benefits of Astute Outsourcing

- The heightened strategic focus that results from outsourcing selected value chain activities can yield three execution-related benefits:
  1. Improved chances for ***outclassing rivals in performing strategy-critical activities*** and turning a core competence into a distinctive competence
  2. A ***streamlining of internal operations*** that often acts to
     - Decrease internal bureaucracies
     - Flatten the organization structure
     - Speed internal decision making
     - Shorten the time it takes to respond to changing market conditions
  3. Added ability to draw on partnerships with outsiders to ***add to a firm's arsenal of capabilities***



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Core Concept

Wisely choosing which activities to perform internally and which to outsource can lead to several strategy-executing advantages:

- Lower costs
- A heightened strategic focus
- Less internal bureaucracy
- Speedier decision making
- A better arsenal of competencies and capabilities.

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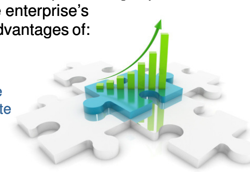
Guarding Against Outsourcing the Wrong Things

- Outsourcing works best for such ***strategically less important activities*** as:
  - Handling customer inquiries and providing technical support
  - Doing the payroll and administering employee benefit programs
  - Providing corporate security
  - Managing stockholder relations
  - Maintaining fleet vehicles
  - Operating the firm's web site
  - Conducting employee training
  - Handling certain information and data processing functions
- A firm cannot be the master of its own destiny unless ***it maintains expertise and resource depth in performing those value chain activities that underpin its long-term competitive success***

Making Strategy-Critical Value Chain Activities the Main Building Blocks of the Organization Structure

- In any business, ***some activities in the value chain are always more critical to successful strategy execution than others***
- It is generally wise to make those organizational units performing execution-critical value chain activities the main building blocks in the enterprise's organizational scheme
- Making organizational units charged with performing important value chain activities centerpieces in the enterprise's organizational structure has the advantages of:
  - Giving these organizational units decision-making influence
  - Increasing the likelihood they will be allocated ample resources to execute their piece of the strategy capably



What Types of Organization Structures Fit Which Strategies?

- The ***primary organizational building blocks*** within a business are usually
  - ***Traditional functional departments***
  - ***Process departments*** (where people in a single work unit have responsibility for all the aspects of a certain process like supply chain management, new product development, or customer service)
- ***In enterprises with operations in various countries*** around the world (or with geographically scattered organizational units within a country), the basic building blocks may also include ***geographic organizational units***
- ***In vertically integrated firms***, the major building blocks are ***divisional units performing one or more of the major processing steps along the value chain*** (raw materials production, components manufacture, assembly, wholesale distribution, retail store operations)
- The typical building blocks of a ***diversified firm*** are its ***individual businesses***

Determining the Degree of Authority and Independence to Give Each Unit and Each Employee

- Firms must decide:
  - How much authority to delegate to the managers of each organization unit
  - How much decision-making latitude to give individual employees in performing their jobs
- The two extremes are to:
  - ***Centralize decision making*** at the top (the CEO and a few close lieutenants)
  - ***Decentralize decision making*** by giving managers and employees considerable decision-making latitude in their areas of responsibility

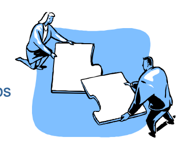


Table 10.1 Advantages and Disadvantages of Centralized vs. Decentralized Decision Making

Centralized Organizational Structures	Decentralized Organizational Structures
Basic Tenets	**Basic Tenets**
■ Decisions on most matters of importance should be pushed to managers up the line who have the experience, expertise, and judgment to decide what is the wisest or best course of action. ■ Front-line supervisors and rank-and-file employees can't be relied upon to make the right decisions because they seldom know what is best for the organization and because they do not have the time or inclination to properly manage the tasks they are performing (letting them decide "what to do" is thus risky).	■ Decision-making authority should be put in the hands of the people closest to, and most familiar with, the situation, and these people should be trained to exercise good judgment. ■ A company that draws on the combined intellectual capital of all its employees can outperform a command-and-control company.
Chief Advantages	**Chief Advantages**
■ Tight control from the top fixes accountability. ■ Facilitates strong top management leadership in crisis situations ■ Reduced potential for conflicting actions and decisions on the part of lower-level managers	■ Encourages company employees to exercise initiative and act responsibly. ■ Promotes greater motivation and involvement in the business on the part of more company personnel. ■ Spurs new ideas and creative thinking. ■ Allows fast response times. ■ Entails fewer layers of management.
Primary Disadvantages	**Primary Disadvantages**
■ Lengthens response times because management bureaucracy must decide on a course of action. ■ Does not encourage responsibility among lower-level managers and rank-and-file employees. ■ Discourages lower-level managers and rank-and-file employees from exercising any initiative. They are expected to wait to be told what to do.	■ Top management lacks "full control"—higher-level managers may be unaware of actions taken by empowered personnel under their supervision. ■ Puts the organization at risk if empowered employees happen to make "bad" decisions. ■ Can impair cross-unit collaboration.

Centralized Decision Making: Pros and Cons

- In a highly centralized organization structure, top executives retain authority for most strategic and operating decisions by:
  - Keeping a tight rein on business-unit heads, department heads, and the managers of key operating units
  - Granting little discretionary authority to frontline supervisors and rank-and-file employees.
- The thesis underlying ***command-and-control authoritarian structures*** is that strict enforcement of detailed procedures backed by rigorous managerial oversight is the most reliable way to keep the daily execution of strategy on track
  - Tight control by the manager in charge makes it easy to know who is accountable when things do not go well.
- But there are weaknesses:
  - Command-and-control structures make an ***organization sluggish in responding to changing conditions*** because of the time it takes for the review/approval process to run up all the layers of the management bureaucracy
  - It is ***difficult for high-level executives*** located far from the scene of the action ***to have full understanding of the situation*** and make wise decisions
  - Gives top mangers ***too much room to micromanage activities*** that are best delegated to personnel close to the scene of the action

Decentralized Decision Making: Pros and Cons

- In a highly decentralized organization, ***decision-making authority is pushed down to the lowest organizational level capable of making timely, informed, competent decisions.***
  - The objective is to put adequate decision-making authority in the hands of the people closest to and most familiar with the situation and train them to weigh all the factors and exercise good judgment.
- ***Top management maintains control by***
  - ***Placing limits on the authority*** that empowered personnel can exercise
  - ***Holding people accountable*** for their decisions
  - Instituting compensation incentives that ***reward people for doing their jobs in a manner that contributes to good company performance***
  - Creating a corporate culture where there is ***strong peer pressure on individuals to act responsibly***

Decentralized Decision Making: Pros and Cons (cont'd)

Decentralizing decision-making has much to recommend:

- Delegating greater authority to subordinate managers and employees creates a horizontal organization structure with few management layers
  - Managers and workers have latitude to develop their own answers and action plans, rather than having to go up the ladder of authority for an answer
- Pushing decision-making authority down to the heads of business units, departments, and operating units and then further on to work teams and individual employees
  - Shortens organizational response times
  - Spurs new ideas, creative thinking, innovation, and greater involvement on the part of subordinate managers and employees
  - Promotes higher employee morale and productivity
- Fewer managers are needed because deciding how to do things becomes part of each person's or team's job
  - Fewer layers of management and less management bureaucracy

Maintaining Control When Employees Are Empowered

Efforts to decentralize decision making and give company personnel some leeway in conducting operations must be tempered with the need to maintain adequate control and cross-unit coordination. Decentralization doesn't mean delegating authority in ways that allow organization units and individuals to do their own thing.

Lack of adequate control can put a company at risk in the event that empowered employees happen to make some unwise decisions.

Capturing Strategic Fits in a Decentralized Structure

- Diversified firms striving to capture cross-business strategic fits should refrain from ***giving business heads total authority*** to operate independently when cross-business collaboration is essential in order to gain strategic fit benefits
- Cross-business strategic fits typically have to be captured by:
  - Enforcing close cross-business collaboration or
  - Centralizing performance of functions having strategic fits at the corporate level

Providing for Internal Cross-Unit Coordination

- Close cross-unit collaboration is usually needed to ***build core competencies and competitive capabilities in activities which involve employees scattered across several internal organization units*** (and perhaps the employees of outside strategic partners or specialty vendors)
- A big weakness of traditional functionally-organized structures is that pieces of strategically relevant activities and capabilities often end up scattered across many departments, with the result that no one group or manager is accountable
- In such cases, it is often best to achieve coordination by reengineering the work effort and pulling the people who performed the pieces in functional departments into a group that works together to perform the whole process, thus creating ***process departments*** (like customer service or new product development or supply chain management)
- Other coordinating mechanisms include
  - Strong executive-level insistence on teamwork and cross-department cooperation (including removal of recalcitrant managers who stonewall collaborative efforts)
  - The use of cross-functional task forces
  - Incentive compensation tied to group performance of cross-unit tasks

Providing for Collaboration with Outside Suppliers and Strategic Allies

- Building organizational bridges with strategic partners and external allies is often best accomplished by appointing "relationship managers" who have responsibility and authority for:
  - Getting the right people together
  - Promoting good rapport and information-sharing
  - Nurturing interpersonal cooperation and communication
  - Ensuring effective coordination

Unless management engages in constructive organizational bridge-building with strategic partners occurs and ensures that productive working relationships emerge, the value of alliances is lost and the firm's power to execute its strategy is weakened.