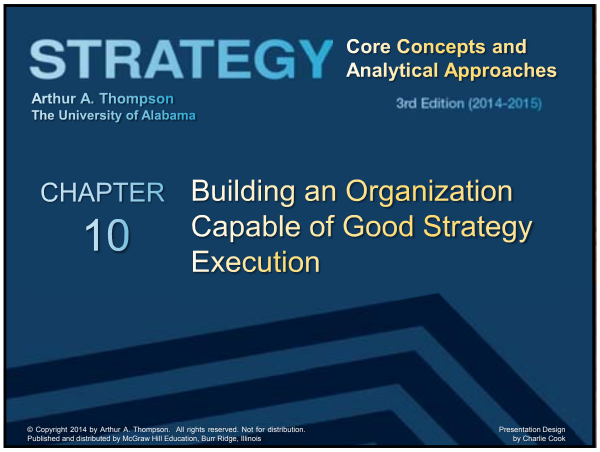
STRATEGY
Core Concepts and Analytical Approaches
Arthur A. Thompson
The University of Alabama
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CHAPTER 10
Building an Organization Capable of Good Strategy Execution
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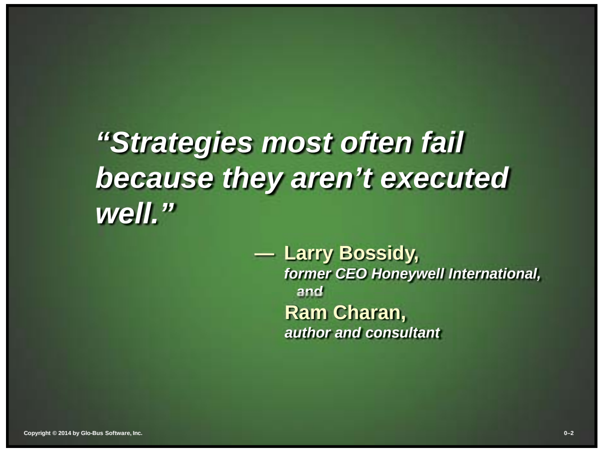
"Strategies most often fail because they aren't executed well."
— Larry Bossidy,
former CEO Honeywell International,
and
Ram Charan,
author and consultant
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"A second-rate strategy perfectly executed will beat a first-rate strategy poorly executed every time."
— Richard M. Kovacevich,
former Chairman and CEO,
Wells Fargo
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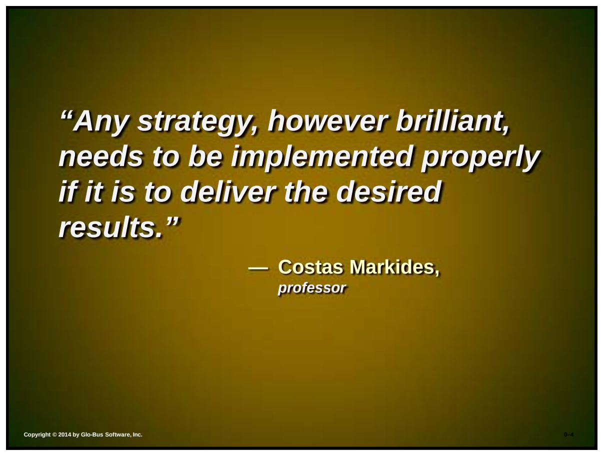
"Any strategy, however brilliant, needs to be implemented properly if it is to deliver the desired results."
— Costas Markides,
professor
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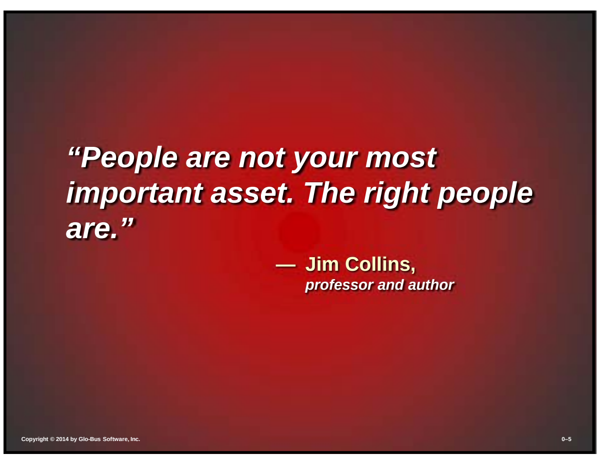
"People are not your most important asset. The right people are."
— Jim Collins,
professor and author
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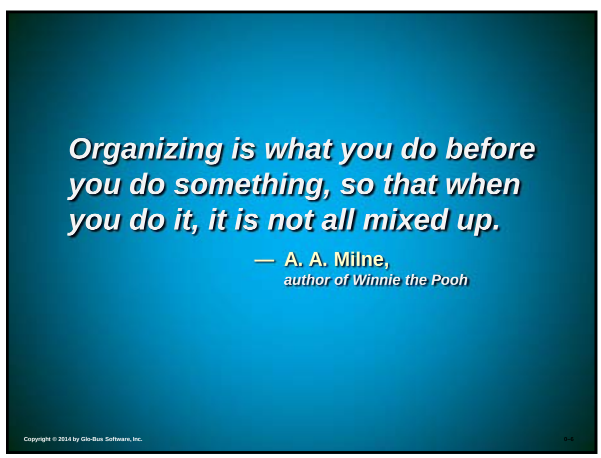
Organizing is what you do before you do something, so that when you do it, it is not all mixed up.
— A. A. Milne,
author of Winnie the Pooh
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Chapter Learning Objectives

1. Learn the eight managerial tasks that underpin successful strategy execution.
2. Gain command of the three types of organization-building efforts critical to good strategy execution.
3. Understand the hows and whys of acquiring, developing, and upgrading the resources, competencies, and capabilities needed to execute strategy successfully.
4. Recognize what issues to consider in organizing the work effort and why strategy-critical activities should be the main building blocks of the organizational structure.
5. Become aware of the pros and cons of centralized and decentralized decision making in implementing and executing the chosen strategy.

 10–7

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

 10–8

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
  - Continuously improving 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

 10–9

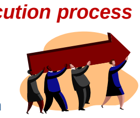
Strategy Execution Is Tougher Than Strategy-Making

- It is much easier to develop a sound strategic plan than it is to execute the plan and achieve its desired outcomes because:
  - 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
- Executing strategy tests the ability of managers to:
  - Direct organizational change to achieve continuous improvement in operations and business processes that builds and strengthens competitive capabilities
  - Marshal organization-wide support and enthusiasm for executing the strategy as proficiently as possible
  - Consistently meet or beat performance targets

 10–10

Executing Strategy Is a Team Effort

- Implementing and executing strategy requires that a firm's ***whole*** management team and all employees ***be actively involved in the strategy execution process***
  - Top-level managers must lead the process and orchestrate the big initiatives
  - Middle and lower-level managers must see that all goes well in their areas of the organization
  - Employees must perform their individual roles competently



The strategy execution process involves every part of the enterprise—all value chain activities, all organizational units, and all company personnel.

 10–11

Core Concept

Good strategy execution requires a total 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.

 10–12

Implementing a New Strategy Requires Adept Leadership

- 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.

A Framework for Executing Strategy

- The managerial approach to implementing and executing a strategy always has to ***be customized*** to fit the particulars of a firm's situation.
  - Making minor changes in an existing strategy differs greatly from implementing radical strategy changes
  - Some managers are more adept at using this or that approach to achieving desired organizational changes.

There is no one managerial recipe for strategy execution for all situations or all types of strategies or all managers.

The Principal Managerial Components of the Strategy Execution Process

1. Staffing the organization and developing the resources, competencies, capabilities, and organizational structure to execute strategy successfully
2. Steering the needed resources to execution-critical value chain activities
3. Ensuring that policies and procedures facilitate rather than impede 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 needed adjustments, and move toward companywide operating excellence as rapidly as feasible

FIGURE 10.1 The Eight Components of the Strategy Execution Process

Devising an Action Agenda to Implement and Execute a Strategy

- First assess what the organization must do differently and better to execute the strategy with a high degree of proficiency and meet or beat the targeted levels of financial and strategic performance
  - Each manager needs to 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*

What Are the Signs of Good Strategy Execution?

- Two best signs of good strategy execution are whether a firm is:
  - Meeting or beating its performance targets
  - Achieving overall operating excellence in the performance of its value chain activities

When strategies fail, it is often because of poor execution: important strategy execution tasks have slipped through the cracks.

CORE CONCEPT

The two best signs of ***good strategy execution*** are whether a firm is meeting or beating its performance targets and has attained real proficiency in performing strategy-critical value chain activities.

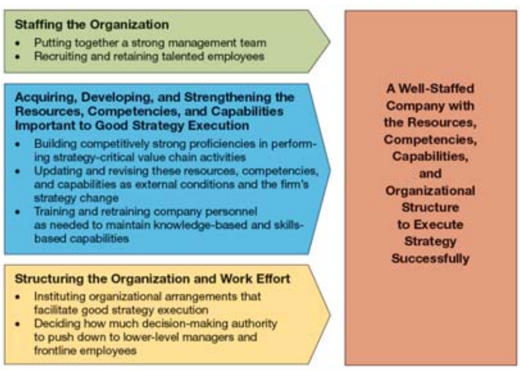
 10-19

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

- ***Staffing the organization***
  - Assembling a strong management team; employing workers with the required experience, technical skills, and intellectual capital
- ***Acquiring, 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

 10-20

FIGURE 10.2 Building an Organization Capable of Successful Strategy Execution: Three Key Actions



 10-21

Staffing: 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

A capable management team ensures that the implementation-execution process is not hampered by wasted time and effort or managerial ineptness.

 10-22

Staffing: Putting Together a Strong Management Team (cont'd)

- The management team can be strengthened by:
  - Promoting qualified people from within and/or
  - Bringing in outsiders whose experiences, talents, and leadership styles better suit the situation
- Overriding aim:
  - To assemble ***a critical mass of talented managers*** who will function as ***agents of change*** to 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.

 10-23

Recruiting and Retaining Capable Employees

- The quality of an organization's people is 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***

 10-24

Core Concept

It is 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.

 10–25

Best Practices to Attract and Retain Talented Employees

- Spend 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
- Put employees through training programs that continue throughout their careers
- Provide promising employees with challenging, interesting, and skill-stretching assignments
- Rotate people through jobs that have great content and span functional and geographic boundaries

 10–26

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

- Encourage employees to:
  - Challenge existing ways of doing things and propose better ways
  - Be creative and innovative
  - Push their ideas for new products or businesses
- Make the work environment stimulating and engaging
- Strive to retain high-potential employees with attractive compensation and benefits
- Coach average performers to improve their skills and weed out underperformers

 10–27

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

 10–28

Core Concept

Building competencies and capabilities is a three-stage process that occurs over a period of months and years. It is not accomplished overnight.

 10–29

Developing and Strengthening Capabilities Internally: Three Stages

- **Stage 1:** The company strives to develop the ***ability*** to do something—however imperfectly or inefficiently—by selecting people with the requisite skills and experience, upgrading or expanding individual abilities as needed, and molding the efforts and work products of individuals into a collaborative effort that in time results in organizational ability.
- **Stage 2:** As experience grows and company personnel learn how to perform the activity ***consistently well and at an acceptable cost***, the ability ***evolves*** into a tried-and-true ***competence*** or ***capability***. If the competence is a key part of executing the firm's strategy, then it qualifies as a ***core competence.***
- **Stage 3:** Should company personnel continue to polish and refine their know-how and otherwise sharpen their performance of an activity so the company eventually becomes *better than rivals at performing the activity*, ***the core competence rises to the rank of a distinctive competence***, ***thus providing a path to competitive advantage.***

 10–30

Important Traits of the Process of Building Competencies and Capabilities

- Many firms get through stages 1 and 2, but few achieve enough proficiency in performing strategy-critical activities to reach the third stage of dominating competitive advantage.
  - The key to building a distinctive competence (or competitively superior capability) is concentrating more talent/effort than rivals on strengthening the competence/capability needed for competitive advantage.
  - This does not require outspending rivals on building a competence or capability. It does mean consciously focusing more talent on strengthening the competence or capability and striving for best-in-industry, if not best-in-world, status.

 10–31

Developing and Strengthening Capabilities via Acquisition or Merger

- Acquisitions and mergers are often used to upgrade and/or build a stronger present portfolio of competencies and capabilities when speed is of critical importance because:
  - A market opportunity will slip by faster than a needed capability can be created or developed internally
  - Industry conditions, technology, or competitors are moving at such a rapid clip that time is of the essence

 10–32

Accessing Needed Capabilities via Collaborative Partnerships

- Firms can obtain needed capabilities via collaboration with outsiders through:
  - Outsourcing a capability-deficient function to a key supplier or provider that has the desired capabilities
  - Working in close collaboration with key suppliers to achieve valuable and mutually beneficial capabilities
  - Establishing relationships with firms to share information, learn how each other does things, share resources and capabilities, or to jointly contribute resources to mutual ventures

 10–33

Core Concept

A company's competencies and competitive capabilities must be continually refreshed and recalibrated to remain aligned with changing customer expectations, ever-evolving competitive conditions, and a company'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."*

 10–34

Dynamically Managed Capabilities: Keeping Competencies and Capabilities Fresh and on the Cutting Edge

- It takes freshly honed, cutting-edge competencies and competitive capabilities to:
  - Stay abreast of changes in customer needs and expectations
  - Combat competitors' offensives to win bigger sales and market shares and their efforts to strengthen their competencies and capabilities
  - Keep the firm's resource portfolio in step with strategy changes
  - Build a more durable resource-based competitive edge over rivals

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

 10–35

Building Dynamic Capabilities: The Managerial Challenges

- Building a dynamic set of competencies and capabilities entails:
  - Deciding when and how to remodel and refresh the firm's competencies and capabilities
  - Seizing opportunities to develop new kinds of competitively valuable competencies and capabilities
  - Acquiring firms with attractive resource capabilities
  - Forming collaborative partnerships with suppliers or other firms having cutting-edge expertise

 10–36

The Benefits of Dynamic Capabilities

The organizational 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

 10–37

The 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 must be placed near the top of management's action agenda.

 10–38

Translating Competencies and Capabilities into a Resource-Based Competitive Advantage

- **The Importance of Out-Executing Close Competitors**
  - Strong core competencies and competitive capabilities are key factors in securing a sustainable competitive edge over rivals when it is relatively easy for rivals to copy smart strategies.

When rivals can duplicate your strategy, achieving lasting competitive advantage requires out-executing them by performing certain value chain activities in superior fashion.

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

 10–39

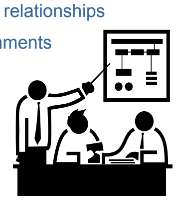
Core Concept

A superior capability to execute strategy better than rivals is the only path to sustainable competitive advantage when a company's strategy is easy for rivals to copy.

 10–40

Execution-Related Aspects of Organizing the Work Effort

- Each firm's organizational structure 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



 10–41

FIGURE 10.3 Structuring the Work Effort to Promote Successful Strategy Execution

 10–42

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

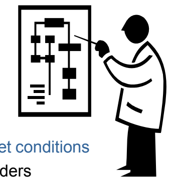
- Outsourcing the performance of assorted administrative support functions and perhaps even selected core or primary value chain activities to outside vendors offer the potential to improve strategy execution by enabling a company to
  - Heighten its strategic focus
  - Concentrate its full energies and resources on even more competently performing those value chain activities at the core of its strategy and for which it can create unique value

 10–43

Execution-Related Benefits of Astute Outsourcing

Heightened focus on performing strategy-critical activities can yield three important 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 acts to
   - Decrease internal bureaucracies
   - Flatten the organization structure
   - Speed internal decision making
   - Shorten the response time to changing market conditions
3. Added ability to draw on partnerships with outsiders to ***add to a firm's arsenal of capabilities***



 10–44

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

 10–45

Guarding Against Outsourcing the Wrong Things

- Outsourcing works best for *strategically less important activities*:
  - 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.

 10–46

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

- Making organizational units that perform important value chain activities centerpieces of the enterprise's organizational structure has the advantages of:
  - Helping ensure these organizational units have adequate decision-making influence
  - Increasing the likelihood they will be allocated ample resources to execute their piece of the strategy capably

 10–47

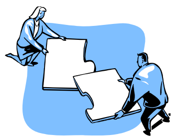
What Types of Organization Structures Fit Which Strategies?

- A single business is usually organized around one of two types of organizational building blocks:
  - Traditional functional departments
  - Process departments (a work unit with full responsibility for a performing all aspects of a particular process)
- In firms with global operations (or with geographically scattered organizational units within a country), the basic building blocks often include geographic organizational units
- In vertically integrated firms, the major building blocks are divisional units performing the major processing steps along the value chain
- The typical building blocks of a diversified firm are its individual businesses

 10–48

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 options for organizing decision-making authority are to:
  - ***Centralize decision making*** at the top (the CEO and a few other top managers)
  - ***Decentralize decision making*** by giving mid- and lower-level managers and employees considerable decision-making latitude in their areas of responsibility



 10–49

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. • All people who are given decision-making authority should be trained to exercise good judgment and held accountable for their actions. • 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.

 10–50

Centralized Decision Making: The Advantages

- 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.
- There is reduced potential for conflicting actions and decisions on the part of lower-level managers

 10–51

Centralized Decision-Making: The Disadvantages

- Centralized decision-making has important 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—long response times can be problematic
  - 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
  - Top managers have ***too much room to micromanage activities*** that are best delegated to personnel close to the scene of the action
  - Lower-level managers and rank-and-file employees are discouraged from exercising any initiative. They are expected to wait to be told what to do.
  - Command-and-control from above does not encourage lower-level managers and rank-and-file employees to be responsible or accountable for their actions or to exercise any initiative for improving things.

 10–52

Decentralized Decision Making: The Advantages

- ***Decision-making authority is pushed down to the lowest organizational level capable of making timely, informed, competent decisions.***
  - Puts decision-making authority in the hands of the people closest to and most familiar with the situation and trains them to weigh all the factors and exercise good judgment
- ***Top management maintains adequate 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***

 10–53

Decentralized Decision Making: The Advantages (cont'd)

- Delegating greater authority to managers and employees creates a horizontal organization structure with fewer management layers and less management bureaucracy:
  - Employees have latitude to develop their own answers and action plans because deciding how to do things is part of each person's or team's job, 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

 10–54

Decentralized Decision-Making: The Disadvantages

- Higher-level managers lack "**full** control" to the extent they may be unaware of actions taken by empowered personnel under their supervision
  - Such lack of control can put a company at risk in the event that empowered employees happen to make some unwise decisions
- Cross-unit collaboration can be impaired if decentralization gives organizational units too much authority to act *independently*, with no obligation to coordinate or cooperate with other organizational units

Capturing Strategic Fits in a Decentralized Structure

- Diversified firms striving to capture cross-business strategic fits must not ***give business heads total authority*** to operate independently when cross-business collaboration is essential to capturing strategic-fit benefits
- Cross-business strategic fits typically must be captured by:
  - Enforcing and rewarding close cross-business collaboration
  - Centralizing performance of business-level functions and activities with strategic fits at the corporate level
  - For example, centralizing the related activities of separate businesses makes sense when there are opportunities to share a common sales force, use common distribution centers, rely on a common field service organization to provide maintenance and repair services, use common e-commerce systems and approaches, and economize on administrative costs by utilizing a common administrative infrastructure to perform support activities for each business unit

Providing for Internal Cross-Unit Coordination

- Close cross-unit collaboration
  - Builds core competencies and competitive capabilities into activities that involve employees scattered across several internal organization units and, in some instances, employees of outside strategic partners or specialty vendors.
  - Requires reengineering the organizational structure to pull the pieces together into process departments (like customer service)
- Other coordinating mechanisms include
  - Strong executive-level insistence on teamwork and cross-department cooperation (including removal of managers who resist collaborative efforts)
  - The use of cross-functional task forces
  - Incentive compensation tied to performance of cross-unit tasks

Strategy-Critical Activities that Cut Across Different Functions

- Filling customer orders accurately and promptly.
- Fast, ongoing introduction of new products.
- Improving product quality.
- Supply chain management.
- Building the capability to conduct business via the Internet.
- Obtaining feedback from customers and making product modifications to meet their needs.

Providing for Collaboration with Outside Suppliers and Strategic Allies

- Building organizational bridges with strategic partners and external allies is 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 top management sees that constructive organizational bridge-building with external partners occurs and that productive working relationships emerge, the value of partnerships and alliances is lost and the company's power to execute its strategy is weakened.