chapter 10
Building an Organization Capable of Good Strategy Execution

Strategies most often fail because they aren't executed well.
—Larry Bossidy, former CEO Honeywell International, and Ram Charan, author and consultant

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

Any strategy, however brilliant, needs to be implemented properly if it is to deliver the desired results.
—Costas Markides, professor

People are not your most important asset. The right people are.
—Jim Collins, professor and author

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*

Once managers have decided on a strategy, the emphasis turns to converting it into actions and good results. Putting the strategy into place and getting the organization to execute it well require different sets of managerial skills compared to crafting strategy. Whereas crafting strategy is largely an analysis-driven activity focused on market conditions and the company's resources and competitiveness, implementing and executing strategy are primarily operations-driven activities revolving around the management of people and day-to-day operations, business processes, and organizational structure. Whereas successful strategy making depends on business vision, solid industry and competitive analysis, and shrewd entrepreneurship, successful strategy execution depends on doing a good job of working with and through others, building and strengthening competitive capabilities, motivating and rewarding people in a strategy-supportive manner, and instilling a discipline of getting things done. Executing strategy is an action-oriented, make-things-happen task that tests a manager's ability to direct organizational change, achieve improvements in day-to-day operations, create and nurture a culture that supports good strategy execution, and meet or beat performance targets.

Experienced managers are well aware that it is a whole lot easier to develop a sound strategic plan than it is to execute the plan and achieve targeted outcomes. A recent study of 400 CEOs in the United States, Europe, and Asia found that executional excellence was the number one challenge facing their companies.[1] According to one executive, "It's been rather easy for us to decide where we wanted to go. The hard part is to get the organization to act on the new priorities."[2] It takes adept managerial leadership to convincingly communicate a new strategy and the reasons for it, overcome pockets of doubt and disagreement, secure the commitment and enthusiasm of concerned parties, identify and build consensus on all the hows of implementation and execution, and move forward to get all the pieces into place and deliver results. Company personnel must understand—in their heads and hearts—why a new strategic direction is necessary and where the new strategy is taking them.[3] *Just because senior managers announce a new strategy doesn't mean that organizational members will agree with it and move forward enthusiastically to implement it.* Hence one of the big leadership challenges for senior managers in implementing strategy is to communicate the case for strategic and organizational change so clearly and persuasively to organizational members that a determined commitment takes hold throughout the ranks to institute the operating practices conducive to good daily strategy execution and to meeting performance targets. Instituting change is, of course, easier when problems with an underperforming strategy have become obvious and/or the company's performance is eroding. But what really makes executing strategy a tougher, more time-consuming management challenge than crafting strategy is the wide array of managerial activities that must be attended to, the many ways to put new strategic initiatives in place and keep their implementation moving forward, and the number of bedeviling issues that always crop up and have to be resolved. It takes first-rate "managerial smarts" to zero in on what exactly needs to be done and how to get good results in a timely manner. Excellent people-management skills and perseverance are needed to get a variety of initiatives underway and integrate the efforts of many different work groups into a smoothly functioning whole. Depending on how much consensus building and organizational change is involved, the process of implementing strategy changes can take several months to several years. And executing the strategy with *real proficiency* takes even longer.

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

Like crafting strategy, *executing strategy is a job for a company's whole management team, not just a few senior managers.* While the chief executive officer and the heads of major units (business divisions, functional departments, and key operating units) are ultimately responsible for seeing that strategy is executed successfully, the process typically affects every part of the firm—all value chain activities and all work groups. Top-level managers must rely on the active support and cooperation of middle and lower managers to institute whatever new and different operating practices are needed in the various functional areas and operating units to achieve proficient strategy execution. Middle and lower-level managers must ensure that frontline employees become proficient in performing strategy-critical value chain activities and produce operating results that allow company performance targets to be met. Consequently, *all company personnel are actively involved in the strategy execution process in one way or another.*

CORE CONCEPT

Good strategy execution requires a *team effort*. All managers have strategy-executing responsibility in their areas of authority, and all employees are active participants in the strategy execution process.

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 company's situation. Making minor changes in an existing strategy differs from implementing radical strategy changes. The hot buttons for successfully executing a low-cost provider strategy are different from those in executing a high-end differentiation strategy. Implementing and executing a new strategy for a struggling company in the midst of a financial crisis is a different job from improving strategy execution in a company where the execution is already good. Moreover, some managers are more adept than others at using this or that approach to achieving the desired kinds of organizational changes. Hence, there's no definitive managerial recipe for successful strategy execution that cuts across all company situations and all strategies or that works for all managers. Rather, the "to-do list" that constitutes management's agenda for implementing and executing a given strategy always represents management's judgment about how best to proceed in light of the prevailing circumstances.

The Principal Managerial Components of the Strategy Execution Process

Despite the need to tailor a company's strategy-executing approaches to the situation at hand, certain managerial bases must be covered no matter what the circumstances. Eight managerial tasks crop up repeatedly in company efforts to execute strategy (see Figure 10.1).

1. Staffing the organization and developing the resources, capabilities, competencies, and organizational structure to execute strategy successfully.
2. Allocating the needed financial and organizational resources to execution-critical value chain activities.
3. Ensuring that policies and procedures facilitate rather than impede strategy execution.
4. Adopting best practices and employing process management tools to drive 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. Tying rewards and incentives directly to the achievement of strategic and financial performance targets.
7. Instilling a corporate culture that promotes good strategy execution.
8. Exercising strong leadership to drive the execution process forward and attain companywide operating excellence as rapidly as feasible.

How well managers perform these eight tasks has a decisive impact on whether the outcome is a spectacular success, a colossal failure, or something in between.

Figure 10.1 The Eight Components of the Strategy Execution Process

In devising an action agenda for implementing and executing strategy, the place for managers to start is with *a probing assessment of what the organization must do differently and better to execute the strategy proficiently.* 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 timely fashion?" It is then incumbent on every manager to determine *precisely how to make the necessary internal changes*. Successful strategy implementers have a knack for diagnosing what their organizations need to do to execute the chosen strategy well and figuring out how to get these things done cost efficiently and with all deliberate speed. They are masters in promoting results-oriented behaviors in company personnel and following through on making the right things happen to achieve the target outcomes.[4]

When strategies fail, it is often because of *poor execution*—needed actions are overlooked, lax oversight allows important details to slip through the cracks, key implementation approaches turn out to be ill chosen or mismanaged, or there is deficient motivation or slack effort on the part of company personnel to achieve the desired results.

The role of the CEO and other senior executives in implementing and executing a company's strategy differs according to the size of the organization and the extent to which its operations are geographically scattered. In small organizations, top-level managers can deal directly with frontline managers and employees, personally orchestrating the action steps and implementation sequence, observing firsthand how implementation is progressing, and deciding how hard and how fast to push the process along. But as an organization's size increases and/or its operating units become more geographically dispersed, senior executives increasingly come to depend on the cooperation and implementing skills of managers in all the various operating units to undertake needed changes and help move the whole organization along the road to successful strategy implementation and execution. When large organizational size and widespread operations make it impractical for a CEO and other members of the senior-executive team to personally direct all the different strategy-implementing activities, observe firsthand how well things are going, and initiate on-the-scene corrective actions, the role of senior executives in leading the process of implementing and executing a company's strategy shifts more to one of communicating the case for organizational change, providing guidance and general prescriptions for how to proceed, establishing deadlines and measures of progress, making sure that capable managers are in place to move the process forward in key organizational units, directing resources to the right places, and rewarding those who achieve implementation milestones. In such instances, the speed with which the implementation/execution process moves along and the degree of success that is achieved hinges on whether company personnel down through the organization step up to the plate and produce the desired results.

Regardless of the organization's size and whether implementation involves sweeping or minor changes, effective leadership of the implementation/execution process requires a keen grasp of what to do and how to do it in light of the organization's circumstances. *Management's handling of the process of implementing and executing a company's strategy can be considered successful if the company meets or beats its performance targets and learns to perform strategy-critical value chain activities with real proficiency.* Ideally, a company's approach to strategy execution aims at achieving operating excellence in all of its activities.[5]

What's Covered in Chapters 10, 11, and 12 In the remainder of this chapter and the next two chapters, we will discuss what is involved in performing the eight key managerial tasks (shown in Figure 10.1) that shape the process of implementing and executing strategy. This chapter explores the tasks of staffing the organization and developing the resources, competencies, capabilities, and organizational structure needed to execute the strategy successfully. Chapter 11 concerns the tasks of allocating resources, instituting strategy-facilitating policies and procedures, adopting best practices and striving for continuous operating improvements, installing information and operating systems needed for good strategy execution, and tying rewards to the achievement of good results. Chapter 12 deals with instilling a corporate culture conducive to good strategy execution and exercising the leadership needed to drive the execution process forward and move toward operating excellence.

CORE CONCEPT

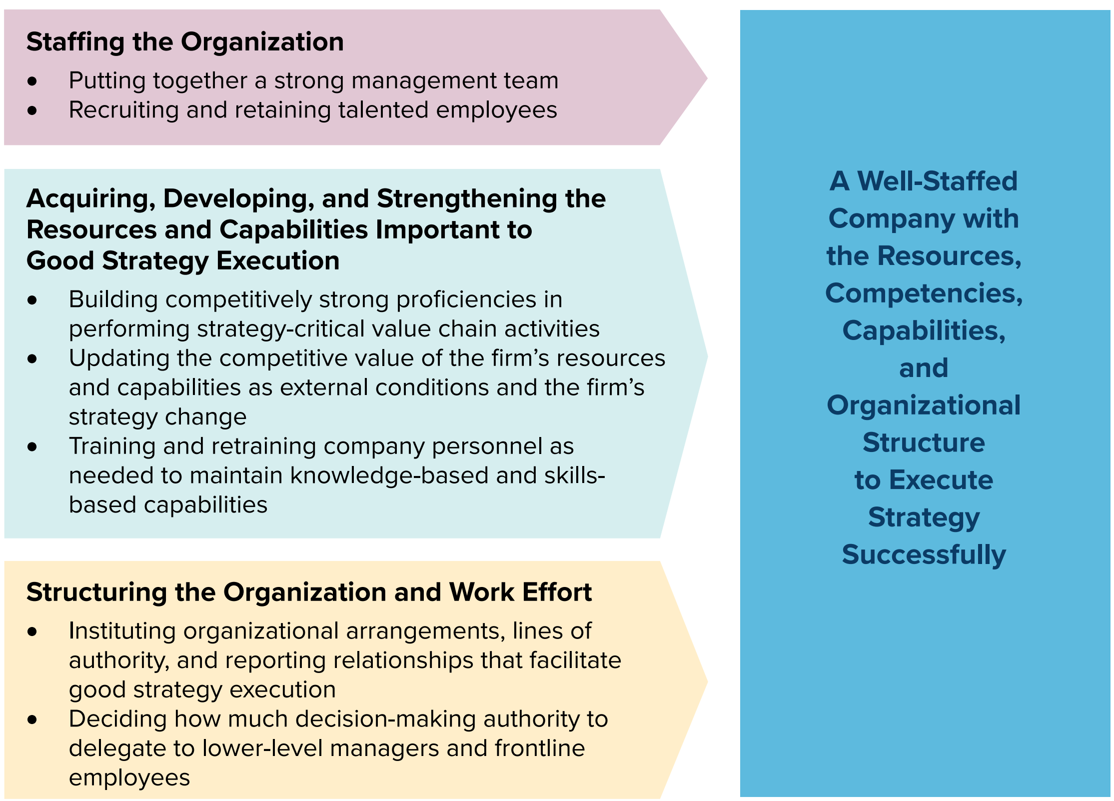
The two best signs of good strategy execution are whether a company is meeting or beating its performance targets and whether it has attained real proficiency in performing strategy-critical value chain activities.

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

Proficient strategy execution depends heavily on competent personnel, better-than-adequate capabilities and competencies, and effective internal organization. Building an execution-capable organization is thus always a top priority. As shown in Figure 10.2, three types of organization-building actions are paramount:

- *Staffing the organization*—putting together a strong management team, and recruiting and retaining employees with the needed experience, technical skills, and intellectual capital.
- *Acquiring, developing, and strengthening the resources and capabilities important to good strategy execution*—accumulating the required resources, developing competitively strong proficiencies in performing strategy-critical value chain activities, and updating the company's resources and capabilities to match changing market and competitive conditions.
- *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.

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



Staffing the Organization

No company can hope to perform the activities required for successful strategy execution without attracting and retaining talented managers and employees with suitable skills and *intellectual capital.*

Putting Together a Strong Management Team

Assembling a capable management team is a cornerstone of the organization-building task.[6] While different strategies and company circumstances often call for different mixes of backgrounds, experiences, values, beliefs, management styles, and know-how, *the most important consideration is to fill key managerial slots with smart people who are clear thinkers, good at figuring out what needs to be done, skilled in managing people and getting things done, and accomplished in delivering good results.*[7] The task of implementing challenging strategic initiatives must be assigned to executives who have the skills and talents to handle them and who can be counted on to turn their decisions and actions into results that meet or beat the established performance targets. It helps enormously when a company's top management team has several people who are particularly good change agents—true believers who champion change, know how to trigger change and keep change initiatives moving along, and love every second of the process.[8] 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.[9] Weak executives are serious impediments to getting optimal results because they are unable to differentiate between ideas and approaches that have merit and those that are misguided—the caliber of work done under their supervision suffers.[10] In contrast, managers with strong strategy-implementing capabilities have a talent for asking tough incisive questions. They know enough about the details of the business to be able to challenge and ensure the soundness of the approaches and decisions of the people around them, and they can discern whether the resources people are asking for to put the strategy in place make sense. They are good at getting things done through others, typically by making sure they have the right people under them and that these people are put in the right jobs.[11] They consistently follow through on issues, monitor progress carefully, make adjustments when needed, and don't let important details slip through the cracks. In short, they understand how to drive organizational change, and they know how to motivate and lead a company down the path to first-rate strategy execution.

CORE CONCEPT

Putting together a talented management team with the right mix of experiences, skills, and abilities to get things done is one of the first steps to take in launching the strategy execution process.

Sometimes a company's existing management team is up to the task. At other times, it may need to be strengthened or expanded by promoting qualified people from within or by bringing in outsiders whose experiences, talents, and leadership styles better suit the situation. In turnaround and rapid-growth situations, and in instances when a company does not have insiders with the requisite know-how, filling key management slots from the outside is a standard organization-building approach. In addition, it is important to ferret out and replace managers who believe activities in their area of responsibility are already being done properly or who lack the creativity to find ways to do things better and more cost efficiently.[12]

The overriding aim in building a management team should be to assemble a *critical mass* of talented managers who can function as agents of change and further the cause of excellent strategy execution. Every manager's success is enhanced (or limited) by the quality of their managerial colleagues and the degree to which they freely exchange ideas, debate ways to make operating improvements, and join forces to tackle issues and solve problems.[13] When a first-rate manager enjoys the help and support of other first-rate managers, it's possible to create a managerial whole that is greater than the sum of individual efforts—talented managers who work well together as a team can produce organizational results that are dramatically better than what one or two star managers acting individually can achieve. The chief lesson here is that *a company 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.*[14]

Recruiting, Training, and Retaining Capable Employees

Assembling a capable management team is not enough. Staffing the organization with the right kinds of people must extend to all kinds of company personnel in order for value chain activities to be performed competently. *The caliber of an organization's people is always an essential ingredient of successful strategy execution—knowledgeable, engaged employees are a company's best source of creative ideas for the nuts-and-bolts operating improvements that lead to operating excellence.* Microsoft makes a point of hiring the brightest and most talented programmers it can find and motivating them with good monetary incentives and the challenge of working on cutting-edge software design projects. McKinsey & Company, one of the world's premier management consulting firms, recruits only cream-of-the-crop MBAs at the nation's top 10 business schools; such talent is essential to McKinsey's strategy of performing high-level consulting for the world's top corporations. The leading global accounting firms screen candidates not only on the basis of their accounting expertise but also on whether they possess the people skills needed to relate well to clients and colleagues. Southwest Airlines goes to considerable lengths to hire people who can have fun and be fun on the job. It uses special interviewing and screening methods to gauge whether applicants for customer-contact jobs have outgoing personality traits that match its strategy of creating a high-spirited, fun-loving, in-flight atmosphere for passengers. It is so selective that only about three percent of the people who apply are offered jobs.

CORE CONCEPT

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

In instances where a talented and energetic workforce greatly aids good strategy execution, companies have instituted a number of practices aimed at staffing jobs with the best people they can find and then retaining them:

- Spending considerable effort in screening and evaluating job applicants, selecting only those with suitable skill sets, energy, initiative, judgment, and aptitudes for learning and adaptability to the company'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. Providing people with opportunities to gain experience in a variety of international settings is increasingly considered an essential part of career development in multinational or global companies.
- Encouraging employees to challenge existing ways of doing things, to be creative and innovative in proposing better ways of operating, and to push their ideas for new products or businesses. Progressive companies work hard at creating an environment in which ideas and suggestions bubble up from below and employees are made to feel their views and suggestions count.
- Making the work environment stimulating and engaging so employees will consider the company a great place to work.
- Striving to retain talented, high-performing employees via promotions, salary increases, performance bonuses, stock options and equity ownership, fringe benefit packages, and other perks.
- Coaching average performers to improve their skills and capabilities, while weeding out underperformers and benchwarmers.

The best companies strive hard to make the company's entire workforce (managers and rank-and-file employees) a genuine resource strength.

The Strategic Role of Employee Training Newly-hired employees typically attend orientation and training programs in the first days or weeks before beginning their first job assignment; the nature and extent of this training varies with their qualifications, experience, and readiness for performing the duties associated with their initial job assignment. Many companies have employees attend additional competence-building programs in the ensuing months and years. They also reimburse employees for tuition and other expenses associated with obtaining additional college education, attending professional development courses, and earning professional certifications of one kind or another.

Employee training and retraining become *strategically* important when a company shifts to a strategy requiring different skills, competitive capabilities, and operating practices. Training/retraining is also strategically important in organizational efforts to build and enhance skills-based competencies and meld them into competitively valuable capabilities and to implement newly-discovered best practices in particular value chain activities. And training is a key and continuous activity in businesses where technical know-how is changing so rapidly that a company loses its ability to compete unless its skilled people have cutting-edge knowledge and expertise. Successful strategy implementers see to it that the training function is both adequately funded and effective. If better execution of the chosen strategy calls for new or better skills, deeper technological capability, greater use of best practices, or building and using new capabilities, training efforts should be placed near the top of the action agenda.

The strategic importance of training has not gone unnoticed. Roughly 8,000 companies across the world have established internal "universities" to lead their training effort, facilitate continuous organizational learning, make greater use of best practices in performing value chain activities, and upgrade their company's knowledge resources.[15] Many companies have developed online training courses that are available to employees around the clock. Increasingly, companies are expecting employees at all levels to take an active role in their own professional development and assume responsibility for keeping their skills up to date and in sync with the company's needs.

Developing and Strengthening Execution-Critical Resources and Capabilities

High among the organization-building priorities in the strategy-executing process is the need to develop and strengthen the company's portfolio of resources and capabilities in order to proficiently perform all of the value chain activities that are crucial to successful strategy execution and meeting or beating performance targets. As explained in Chapter 4, a company's ability to perform value chain activities in a manner that enables competitive success in the marketplace depends on having the right resources and capabilities. In the course of crafting strategy, managers may well have identified the strategy-critical resources and capabilities it needs. But getting the strategy execution process underway requires acquiring and developing these resources and capabilities, putting them into place, improving and upgrading their proficiency in performing value chain activities, and then modifying these resources and capabilities as needed to keep them well-matched to evolving market and competitive conditions.

If the strategy being implemented has important new elements, company managers may have to acquire new resources, significantly broaden or deepen certain capabilities, or even develop entirely new capabilities in order to put the new strategic initiatives in place and achieve real proficiency in performing the associated value chain activities. But even when a company's strategy has not changed materially, good strategy execution still involves ongoing efforts to polish and upgrade the firm's resources and capabilities, thereby moving the company's performance of value chain activities ever closer to a standard of operating excellence.

Building competitively valuable resources and capabilities and keeping them finely honed is a time-consuming, managerially challenging exercise. While some assist can be gotten from discovering how best-in-industry or best-in-world companies perform a particular activity, trying to replicate and then improve on the capabilities of others is easier said than done—for the same reasons that one is unlikely to ever become a really good golfer just by studying what the world's best professional golfers do. However, with carefully managed organizational actions and ongoing practices, it is possible for a firm to overcome the difficulties and become proficient at capability building.

The most common approaches to capability building include (1) developing and strengthening capabilities internally, (2) acquiring needed capabilities through mergers and acquisitions, and (3) developing new capabilities via collaborative partnerships.

Developing and Strengthening Capabilities Internally

Internal efforts to create or upgrade capabilities into core competencies and perhaps even distinctive competencies is an evolutionary process that[16] entails a series of deliberate and well-orchestrated organizational steps to achieve mounting proficiency in performing an activity. The process has three stages:

Stage 1—This stage begins when managers set an objective of developing a particular capability and organize activity around that objective.[17] The first thing that has to be accomplished is to develop the *ability* to do something, however imperfectly or inefficiently. This entails selecting people with the requisite skills and experience, upgrading or expanding individual abilities as needed, and then molding the efforts and work products of individuals and/or teams into *a collaborative effort* to create organizational ability. This ability to do something can be the result of individuals and teams working collaboratively within a single department or organizational unit; these can managed by the head of the organizational unit. Often, however, developing a competitively valuable ability is a slow, complex process that entails coordinated efforts on the part of multiple departments and cross-functional work groups performing their respective pieces of the activity at different places in the firm's value chain and perhaps at different geographic locations. For instance, developing an ability to speed new products to market requires the collaborative efforts of personnel in R&D, engineering and design, purchasing, production, marketing, and distribution. Similarly, the ability to provide superior customer service entails a team effort among people in customer call centers (where orders are taken and inquiries are answered), shipping and delivery, billing and accounts receivable, and after-sale support. Efforts to develop a valuable ability that entails the collaboration of cross-functional groups and multiple departments are best orchestrated by senior managers who not only appreciate the strategy-executing significance of developing strong capabilities but also have the clout to enforce the necessary cooperation and coordination among individuals, groups, and departments.

Initially gaining the ability to do something can prove time-consuming, and progress tends to be irregular, coming in bursts with stalls of varying length in-between. The process entails experimenting with alternative approaches, learning through trial and error, working with bundles of skills, know-how, resources, and at some juncture forging the collaboration and coordination that results in the ability to perform the activity with some degree of success. The process can be accelerated by making learning a more deliberate endeavor and providing attractive incentives to motivate company personnel to achieve the desired ends.[18]

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 *capability* or proven *competence*. Building greater proficiency to migrate from ability to capability or competence requires task repetition and the resulting *learning by doing* of individuals and teams—as the saying goes, practice makes perfect.[19] If the capability or competence is a key part of executing the company's strategy, then the capability qualifies as a *core competence* and *competitively valuable capability.*

Stage 3—The third stage involves an ongoing effort to polish, refine, and otherwise sharpen the performance of a capability or competence, aiming not just for incremental improvements but, ultimately, for *best-in-industry* or *best-in-world proficiency*. From an organization-wide perspective, a company should continuously strive to *strengthen all of its capabilities and competencies.* But the ultimate capability-building goal is to become proficient in performing at least one deliberately targeted strategy-critical and competitively valuable activity *better than rivals*, so that a core competence evolves into a *distinctive competence*. Such high-level proficiency transforms a competence into a competitively superior competence, thus providing a path to competitive advantage.

Many companies are able to get through stages 1 and 2 in performing a competitively important value chain activity, but comparatively few achieve sufficient proficiency to reach the ultimate stage 3 goal of performing even one, much less two strategy-critical activities *better than rivals* so that it has legitimate claim to having one or two distinctive competencies. The key to leveraging a core competence into a distinctive competence (or a competitively valuable capability into a competitively superior capability) is *concentrating more effort and talent than rivals on deepening and strengthening the competence or capability to achieve the dominance needed for competitive advantage.* This does not necessarily mean spending more money than competitors on such activities, but it does mean consciously focusing more talent on them and unleashing dedicated, indeed relentless, efforts to achieve best-in-industry, if not best-in-world, status. The process can usually be accelerated by top-level managerial insistence that learning and improvement occur and by providing incentives to motivate company personnel to go all out to reach higher levels of proficiency. Toyota, en route to overtaking General Motors as the global leader in motor vehicles, aggressively upgraded its capabilities in fuel-efficient engine technology and constantly finetuned its famed Toyota Production System to further enhance its already proficient capabilities in manufacturing top quality vehicles at low costs. Disney left no stone unturned in bringing the full force of its considerable organizational resources and talent to bear on the task of transforming its core competence in operating theme parks into a distinctive competence.

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.

Developing and Strengthening Capabilities via Acquisition or Merger

Sometimes the best way for a company to upgrade its portfolio of resources and capabilities is by acquiring (or merging with) another company with resources and capabilities that give it added competitive strength.[20] An acquisition aimed at building a competitively stronger collection of resources and capabilities can be every bit as valuable as an acquisition aimed at adding new products or services to the company's lineup of offerings to customers. The advantage of acquiring another company to obtain important technological expertise, manufacturing or marketing know-how, or other desirable capabilities is primarily one of speed, since trying to develop such expertise and competencies internally can, at best, take many years of effort and, at worst, come too late or never reach the desired level of expertise. Capabilities-motivated acquisitions are essential (1) when a market opportunity can slip by faster than a needed capability can be created internally and (2) when industry conditions, technology, or competitors are moving at such a rapid clip that time is of the essence.

Accessing Needed Capabilities via Collaborative Partnerships

A third way of obtaining valuable resources, capabilities, and competencies is to form collaborative partnerships with suppliers or other companies having the expertise or capabilities the company lacks internally. There are three basic ways to obtain needed capabilities via collaboration with outsiders:

1. *Outsource a capability-deficient function to a key supplier or another provider having attractively strong capabilities.* Outsourcing may be a good choice for firms that are too small and resource constrained to execute all the parts of their strategy internally—small online retailers, for example, often outsource inventory stocking and order fulfillment activities to outside vendors that specialize in filling orders and handling packages and shipping functions for small enterprises. Outsourcing can also be a good

option when the function is not strategy critical and it allows the firm to concentrate its full energies on proficient performance of those activities central to its financial and competitive success. However, outsourcing a strategy-critical activity is risky when it puts a firm's long-term well-being in the hands of outsiders or when maintaining tight internal control over the activity is important.

2. *Work collaboratively with key suppliers to achieve such valuable and mutually beneficial capabilities as just-in-time inventory management, speedy design and delivery of parts and components for new products, and defect-free or more durable parts and components.* In the past 15 years, close collaboration with suppliers to achieve mutually beneficial outcomes has become a common approach to building important supply chain capabilities.

3. *Establish a collaborative partnership with a firm outside the industry having the desired capability the company needs to build and develop for its own internal use.* Such collaborative partnerships can be a viable method when the two partners each have a capability the other partner can benefit from acquiring. Such partnerships involve on-site visits and meetings with key personnel to learn each partner's methods of performing the capability-related activities—the collaborative outcome for each partner needs to be to learn enough about how the partner does things to be able to internalize its methods (often with modifications to better fit its circumstances), and thereby acquire the desired capability. In racing to develop motor vehicles with self-driving capability, most all vehicle manufacturers are supplementing their own internal efforts with collaborative partnerships with one or more of the growing numbers of hardware and software firms operating in the driverless vehicle space—those developing self-driving software (Alphabet's Waymo, Aurora Innovation, Tesla, Oxbotica, Zoox), makers of the two competing radar systems to spot road obstacles and read traffic signs and signals, computing platforms (Nvidia, Qualcomm, Intel), and driverless car technology systems (Mobileye, Bosch, Aptiv). Nike entered into a strategic partnership with Swiss company Bluesign Technologies for the purpose of making two innovative Bluesign tools available to the hundreds of textile manufacturers supplying Nike's 50-country network of 800 contract factories making Nike products; the two tools enable the textile manufacturers to access more than 30,000 materials produced with chemicals that have undergone rigorous assessment for safe use in apparel products. Sometimes the collaborative efforts involve common sharing of resources and capabilities or working together to achieve a capability-related outcome beneficial to all the partners. For example, firms sometimes enter into collaborative marketing arrangements whereby each partner is granted access to the other's dealer network for the purpose of expanding sales in geographic areas where they lack dealers.

Maximizing the Competitive Power of Capabilities and Competencies: The Challenge of Dynamically Managing a Company's Resource Pool

Managers cannot relax just because a company happens to currently have a good set of competitively valuable capabilities. Competencies and capabilities grow stale unless they are refreshed, modified, or even phased out and replaced in order to stay abreast of ongoing changes in customer needs and expectations, successfully combat competitors' newly launched offensives, keep the company's resource/capability portfolio in step with changes in the company's own strategy, and help secure a sustainable competitive edge over rivals because of their competitively superior collection of resources and capabilities. Indeed, the imperatives of keeping a company's capabilities matched to ongoing changes in both market conditions and its own circumstances, coupled with the normal capability-enhancing buildup of experience and know-how over time, make it appropriate to view a company as *a bundle of evolving resources and capabilities.*

CORE CONCEPT

A company's capabilities and competencies 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.

It is generally much easier and less time-consuming to update and remodel a company's existing capabilities as external conditions and company strategy change than it is to create them from scratch. Maintaining capabilities in top form may simply require exercising them continually and keeping them fine-tuned. Similarly, augmenting a capability may require less effort if it involves the recombination of well-established company capabilities and draws on the skills and talents of people and groups who have experience working together and know how to tap into existing company resources that can prove useful.

Successfully confronting the challenge of building *a dynamically evolving set of capabilities and competencies with maximum competitive power in the marketplace* entails two managerial actions:

1. Making capability-building a companywide priority, where senior executives hold all operating-level managers responsible and accountable for routinely pushing to improve the performance of value chain activities, most especially those deemed critical to competitive success. When there are clear expectations that overseeing the performance of value chain activities requires ongoing efforts to strengthen the associated capabilities, then it becomes increasingly feasible for companies to become proficient at capability-building. The added experience and know-how that comes from focused, ongoing managerial efforts to strengthen a company's resource-capability portfolio tends to make its management team *highly capable in dynamically managing* the firm's resources and capabilities in ways that keep them updated and competitively valuable.

2. Apart from routinely refreshing and recalibrating existing resources and capabilities, a big difference-maker is having the acumen/foresight (or spotting opportunities) to develop new or innovatively-enhanced resources and capabilities. *Being first to develop and deploy a new resource or capability that is especially competitively valuable provides a clear path to gaining a competitive advantage over rivals that may prove sustainable*. Why? Because it is time-consuming (and perhaps costly) for rivals to either copy the resource/capability or develop an offsetting resource/capability.

The momentum that comes from astute and timely managerial efforts to create and maintain a competitively formidable portfolio of resources and capabilities is often sufficient to keep a company's sales and profit performance humming—this alone constitutes a strong case for making ongoing efforts to strengthen a company's resource-capability portfolio a key element of a company's approach to strategy execution.

Translating Resources and Capabilities into Competitive Advantage

While competitively valuable resources and capabilities are plainly a major assist in executing strategy, they are also the *only* avenue for securing a competitive edge over rivals *in situations where it is relatively easy for rivals to copy smart strategies.* Any time rivals can readily duplicate the successful features of a company's product or quickly imitate its maneuvers in the marketplace to boost sales, making it difficult or impossible to outstrategize rivals and beat them in the marketplace with a superior strategy, the only dependable path to durable competitive advantage is to *out-execute them (beat them by performing certain value chain activities <u>in superior fashion</u>)*. Out-executing copycat rivals requires developing a collection of resources and capabilities that enables the company to perform certain important value chain activities either with *greater cost efficiency* or with *greater differentiating effectiveness*. Greater cost efficiency lays the foundation for delivering more value to customers via lower prices. Greater differentiating effectiveness lays the foundation for delivering more value to customers via a more appealing product offering. Either outcome results in competitive advantage. Superior strategy execution can also take the form of faster internal ability to recognize and respond to changing buyer needs and expectations, thus consistently beating rivals to the market with new products and

> A superior capability to execute strategy better than rivals is the only path to sustainable competitive advantage when rivals can readily copy the successful features of a company's product and its actions to attract customers.

services. A *competitive advantage* that stems directly from the power of a company's resources and capabilities to competently *execute* a strategy aimed at lower costs or better differentiation or quicker response to market change and new opportunities provides a durable basis for outcompeting rivals employing copycat strategies and is *potentially sustainable* over the long-term. Not only will it take time for rivals to learn what the company is doing to execute its strategy in superior fashion but it also will take more time, expense, and know-how for rivals to develop matching or offsetting strategy-executing capabilities. In the meantime, the company can enjoy the added profits and performance afforded by its strategy-execution advantage. And if the company does not complacently rest on its laurels and, instead, presses forward to further improve its strategy-executing capabilities to achieve lower costs or better differentiation or quick market response, then rivals may never catch up.

When company managers deliberately strive to develop a portfolio of resources and capabilities that enable *superior strategy execution*, the door is open to creating a *sustainable competitive advantage* over rivals.

Structuring the Organization and Work Effort

Other than creating organizational arrangements that are well-matched to the requirements of competently executing the company's strategy, there are few hard-and-fast rules for organizing the work effort. Every firm's organization chart is partly a product of its particular situation, reflecting prior organizational patterns, varying internal circumstances, executive judgments about reporting relationships, and the politics of who gets which assignments. Moreover, every strategy is grounded in its own set of key success factors and execution-critical value chain activities. But some considerations in organizing the work effort to achieve good strategy execution are common to all companies. These are summarized in Figure 10.3 and discussed in the following sections.

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

Aside from the fact that an outsider, because of its expertise and specialized know-how, may be able to perform certain value chain activities better or cheaper than a company can perform them internally (as discussed in Chapter 6), outsourcing can also sometimes contribute to better strategy execution. Outsourcing the performance of assorted administrative support functions and perhaps even selected core or primary value chain activities to outside vendors enables a company to *heighten its strategic focus and 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.* For example, E. & J. Gallo Winery outsources 95 percent of its grape production, letting farmers take on the weather and other grape-growing risks while it concentrates its full energies on wine production and sales.[21] Broadcom, a global leader in designing, developing, and supplying a broad range of semiconductor devices, outsources a majority of its manufacturing and some of its corporate infrastructure functions, thus freeing company personnel to focus their full energies on R&D, new product design, and marketing. Nike concentrates on design, marketing, and distribution to retailers, while outsourcing virtually all production of its shoes and sporting apparel to contract manufacturers.

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, and a better arsenal of competencies and capabilities.

Figure 10.3 Structuring the Work Effort to Promote Successful Strategy Execution

Such heightened focus on performing strategy-critical activities can yield three important execution-related benefits:

- *The company improves its chances for outclassing rivals in the performance of strategy-critical activities and turning a core competence into a distinctive competence.* At the very least, the heightened focus on performing a select few value chain activities serves to meaningfully strengthen the company's existing core competencies and promote more innovative performance of those activities—either of which could lower costs or materially improve competitive capabilities.
- *The streamlining of internal operations that flows from outsourcing often acts to decrease internal bureaucracies, flatten the organization structure, speed internal decision making, and shorten the time it takes to respond to changing market conditions.*[22]
- *Partnerships with outside vendors can add to a company's arsenal of capabilities and contribute to better strategy execution.* Outsourcing activities to vendors with first-rate capabilities can become a valuable resource strength, enabling a firm to concentrate on strengthening its own complementary internal capabilities and assemble a more powerful package of overall capabilities that it can draw upon to deliver greater customer value and achieve greater competitive success. Companies like Boeing, Dell, and Apple have learned that they can better perform their new product R&D activities by closely collaborating with supply chain partners having strong capabilities to design and produce state-of-the-art parts and components needed for the new products they have under development.

However, as emphasized in Chapter 6, a company must guard against going overboard on outsourcing and becoming overly dependent on outside suppliers. A company 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.[23] Thus, with the exception of parts/components supply, the most frequently outsourced activities are those deemed to be strategically less important—like handling customer inquiries and requests for technical support, doing the payroll, administering employee benefit programs, providing corporate security, maintaining fleet vehicles, operating the company's website, conducting employee training, and performing assorted information and data processing functions.

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. For instance, the strategy-critical activities for discount stockbrokers like TD Ameritrade and Charles Schwab are quick access to information, accurate and fast order execution, cost-efficient record keeping and transaction processing, and full-featured customer service. A ski apparel company must be good at styling and design, marketing and distribution (convincing an attractively large number of retailers to stock and promote the company's brand and shipping retailers' orders in timely fashion), and brand-building advertising (to generate buzz among ski enthusiasts and spur sales).

Whenever proficient performance of certain value chain activities is execution critical, the best organizational structure is one that makes the organizational units performing these activities the main building blocks in the enterprise's organizational scheme. The rationale is compelling: If organizational units that perform important value chain activities are to have the resources, decision-making influence, and organizational visibility they need to execute their piece of the strategy capably, they must be centerpieces in the enterprise's organizational structure. Making them the central building blocks puts them in close proximity to top-level management, facilitating the ability of senior executives to monitor these activities closely and initiate corrective adjustments when needed. Moreover, when a company is implementing a new or changed strategy that entails new or altered value chain activities, resources, or capabilities, different main building blocks organizational arrangements may be needed to better facilitate performance of the new or modified value chain activities.[24]

What Types of Organization Structures Fit Which Strategies? Organizational structures can be classified into a limited number of standard types. Which type makes the most sense for a given firm depends largely on its size and business makeup, but not so much on the specifics of its strategy.

It is generally agreed that some type of functional structure is the best organizational arrangement when a company is in just one particular business (irrespective of which of the five competitive strategies it opts to pursue). In such cases, the primary organizational building blocks are usually *functional departments* that perform important value chain activities that comprise the business (such as R&D, engineering and design, production and operations, sales and marketing, information technology, finance and accounting, and human resources), and *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, customer service, quality control, or selling direct to customers via the company's website). For instance, a technical instruments manufacturer may be organized around research and development, engineering, supply chain management, assembly, quality control, marketing, technical services, and corporate administration. A discount retailer may organize around such functions as purchasing, warehousing and distribution logistics, store operations, advertising, merchandising and promotion, and corporate administrative services. Each functional and process unit is typically managed by a department head who reports to the CEO and works collaboratively with other corporate-level administrators. Typically, department heads have lead responsibility for developing their unit's strategy and supervising the performance of the associated value chain activities. The role of the CEO (and sometimes other corporate staff) is to provide direction, allocate resources, and ensure that the strategies and operating activities of the functional and process managers are coordinated and integrated. The chief disadvantage of functional/process-centered organization is that department boundaries can inhibit cross-departmental information flows and collaboration, forcing intervention from higher-level managers to achieve the desired coordination.

In single-business 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,* each of which has profit/loss responsibility for its assigned geographic area. 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)—each division in the value chain may operate as a profit center for performance measurement purposes.

The typical building blocks of a diversified company are its *individual businesses,* with each business unit usually operating as an independent profit center and with corporate headquarters performing assorted parenting and support functions for all the business units. Individual business units are generally organized internally along functional and process lines. Business heads have primary responsibility for crafting and executing the strategies for their business unit (with guidance and review by corporate executives), leaving corporate-level managers with responsibility for corporate strategy and parenting activities.

The chief disadvantage of a multi-division business unit structure concerns companies pursuing related diversification. Having independent business units—each pursuing its own strategy and operating agenda and each responsible for its own profitability and performance—inhibits cross-business collaboration to capture cross-business strategic fits that are essential to maximize the overall competitive success of a related diversification strategy. To remedy this problem, corporate executives often create another organizational layer by putting those individual businesses with common types of strategic fit into a "business group" and giving the heads of each business group the authority to enforce the needed cross-business collaboration to capture strategic fit benefits.

Determining How Much Authority to Delegate

Under any organizational structure, there is room for considerable variation in how much authority top-level executives retain and how much is delegated to down-the-line managers and employees. In executing the strategy and conducting daily operations, companies must decide how much authority to delegate to the managers of each organization unit—especially the heads of business subsidiaries, functional and process departments, and plants, sales offices, distribution centers, and other operating units—and how much decision-making latitude to give individual employees in performing their jobs. The two extremes are to *centralize decision making* at the top or to *decentralize decision making* by giving managers and employees at all ranks considerable decision-making latitude in their areas of responsibility. As shown in Table 10.1, the two approaches are based on sharply different underlying principles and beliefs, with each having its pros and cons.

Centralized Decision Making: Pros and Cons *In a highly-centralized organization structure, top executives retain authority for most strategic and operating decisions and keep a tight rein on business unit heads, department heads, and the managers of key operating units; comparatively little discretionary authority is granted to frontline supervisors and rank-and-file employees.* The command-and-control paradigm of centralized decision making is based on the underlying assumptions that rank-and-file employees have neither the temperament, managerial know-how, or judgement to direct and properly control the work they are performing and thus can't be counted on to make wise decisions about how best to do it—hence the need for prescribed policies and procedures for a wide range of activities, close supervision, and tight control by top executives. The thesis underlying 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.

The big advantage of centralized decision making, with tight control by the manager in charge, is that it is easy to know who is accountable when things do not go well. Other advantages include facilitating strong leadership from the top in a crisis situation and reducing the potential for conflicting decisions and actions among lower-level managers who may have differing perspectives and ideas about how to tackle certain tasks or resolve particular issues. *But there are some serious disadvantages as well.* Hierarchical command-and-control structures do not encourage responsibility and initiative on the part of lower-level managers and employees and they 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. Furthermore, to work well, centralized decision making requires top-level managers to gather and process whatever information is relevant to the decision. When the relevant knowledge resides at lower organizational levels (or is technical, detailed, or hard to express in words), it is difficult and time-consuming to

There are important disadvantages to having a small number of top-level managers micromanage the business either by personally making decisions or by requiring lower-level subordinates to gain approval before taking action.

get all of the facts and nuances in front of a high-level executive located far from the scene of the action—full understanding of the situation cannot be readily copied from one mind to another. Hence, centralized decision making is often impractical—the larger the company and the more scattered its operations, the more that decision-making authority must be delegated to managers closer 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. The case for empowering down-the-line managers and employees to make decisions related to daily operations and executing the strategy is based on the belief that a company that draws on the combined intellectual capital of all its employees can outperform a command-and-control company.[25] With decentralized decision making, 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, and creating a corporate culture where there is strong peer pressure on individuals to act responsibly.[26]

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

Centralized Organizational Structures	Decentralized Organizational Structures
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. • Frontline employees have neither the temperament, managerial know-how, or judgment to direct and properly control the work they are performing and, thus, cannot be counted upon to make wise decisions about how to perform it. Hence, giving them the authority to decide "what to do" in performing their assigned tasks is risky.	**Basic Tenets** • 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 • Makes higher-level executives accountable for outcomes since they decide (or approve) what actions to take. • Facilitates strong top management leadership in crisis situations. • Reduces potential for conflicting actions and decisions on the part of lower-level personnel.	**Chief Advantages** • 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 • Lengthens response times by those closest to the situation because they must go up the chain of command and allow higher-level managers to decide (or at least approve) what actions to take. • Does not encourage lower-level managers and rank-and-file employees to exercise any initiative or take on any responsibility. They are expected to wait to be told what to do.	**Primary Disadvantages** • 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 at lower levels in the organization happen to make "bad" decisions. • Can impair cross-unit collaboration since empowered employees in different organizational units can act independently and decide what to do and when to do it.

Decentralized organization sTructures have much to recommend them. Delegating greater authority to subordinate managers and employees creates a more horizontal organization structure with fewer management layers. Whereas in a centralized vertical structure managers and workers have to go up the ladder of authority for an answer, in a decentralized horizontal structure they develop their own answers and action plans—making decisions in their areas of responsibility and being accountable for results is an integral part of their job. Pushing decision-making authority down to the heads of business units, departments, and operating units (plants, distribution centers, regional and local offices) and then further on to work teams and individual employees shortens organizational response times and spurs new ideas, creative thinking, innovation, and greater involvement on the part of subordinate managers and employees. In worker-empowered structures, jobs can be defined more broadly, several tasks can be integrated into a single job, and people can direct their own work. Fewer supervisory personnel are needed because deciding how to do things becomes part of each person's or team's job. Further, today's online systems and smart phones make it easy and relatively inexpensive for people at all organizational levels to have direct access to data, other employees, managers, suppliers, and customers. They can access information quickly (via the Internet or company's wireless network), readily check with superiors or whomever else as needed, and take responsible action. Typically, there are genuine gains in morale and productivity when people are provided with the tools and information they need to operate in a self-directed way.

But decentralization has some disadvantages. Top managers lose an element of control over what goes on (since empowered subordinates have authority to act on their own) and may thus be unaware of actions taken by 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. Moreover, because decentralization gives organizational units the authority to act independently, there is risk of too little collaboration and coordination between different organizational units.

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.

Many companies have concluded that the advantages of decentralization outweigh the disadvantages. Over the past several decades, there has been a decided shift from authoritarian multilayered hierarchical structures to flatter, more decentralized structures that stress employee empowerment. This shift reflects a strong and growing consensus that authoritarian, hierarchical organization structures are not well suited to implementing and executing strategies in an era when extensive information and instant communication are the norm and when a big fraction of the organization's most valuable assets consists of intellectual capital that resides in its employees' knowledge and capabilities.

Capturing Strategic Fits in a Decentralized Structure Diversified companies striving to capture cross-business strategic fits should refrain from giving business heads full rein to operate independently when cross-business collaboration is essential to gain strategic fit benefits. Cross-business strategic fits should typically be captured either by enforcing close cross-business collaboration or by centralizing performance of functions having strategic fits at the corporate level.[27] For example, if businesses with overlapping process and product technologies have their own independent R&D departments—each pursuing its own priorities, projects, and strategic agendas—it's hard for the corporate parent to prevent duplication of effort, capture either economies of scale or economies of scope, or broaden the company's R&D efforts to embrace new technological paths, product families, end-use applications, and customer groups. Where cross-business R&D fits exist for multiple businesses and business unit heads stonewall voluntary collaborative actions to capture the benefits, one solution is to combine their respective R&D activities into a single R&D unit that coordinates the R&D activities in ways that (1) enable capture of the strategic fit benefits and (2) meet the needs of the individual business units. A second and oft-used solution is to create business groups consisting of those business units where there are common strategic fit opportunities to make more efficient use of overlapping technologies, share a common sales force, use common distribution channels, and employ cross-business transfer of resources and capabilities. Here it necessary to give the *business group heads* ample authority to mandate the needed collaborative cross-business actions to capture strategic fit benefits and to block any stonewalling on the part of business unit heads to capture the full benefits of existing cross-business strategic fits.

In the case of strategic fits that are *common to all of a diversified company's business units*, the optimum organizational arrangement may be to centralize each activity with cross-business strategic fit at the corporate level and put the activity under the authority of a single executive charged with capturing the associated strategic benefits on behalf of the company as a whole, while also accommodating the needs and interests of each business unit. Centralizing the performance of administrative functions at the corporate level under the authority of a single executive—so as to cost-efficiently perform administrative activities for all business units—is commonplace.

Providing for Internal Cross-Unit Coordination

Close cross-unit collaboration is usually needed to build core competencies and valuable capabilities in such strategically important activities as speeding new products to market and providing superior customer service. This is because these activities involve collaboration among the efforts of company personnel that work in different departments or organizational units (and perhaps the employees of outside strategic partners or specialty vendors). For example, being first-to-market with new products involves coordinating the efforts of personnel in R&D (to develop a stream of new products with appealing attributes), design and engineering (to prepare a cost-efficient design and set of specifications), purchasing (to arrange for the delivery of needed parts and components from suppliers), manufacturing (to carry out all the production activities), and sales and marketing (to secure orders, arrange for introductory advertising and the distribution of product information, and get the products on retailers' shelves). Achieving the simple strategic objective of filling customer orders accurately and promptly involves personnel from sales (to win the order); finance (to check credit terms or approve special financing); production (to produce the goods and replenish warehouse inventories as needed); warehousing and shipping (to verify whether the items are in stock, pick the order from the warehouse, package it for shipping, and choose the best carrier to deliver the goods).[28]

To achieve tight coordination when pieces of execution-critical tasks are performed in multiple organizational units, company executives typically emphasize the necessity of cross-unit teamwork and cooperation and the importance of frequent back-and-forth communication among key people in the various related organizational units to resolve problems, avoid delays, and keep things moving along. The executives supervising the units performing parts of the execution-critical task typically make it clear that the relevant department heads and key personnel are all *expected to work closely together and coordinate their actions*. There are meetings to discuss schedules and set deadlines, often ending with the *verbal commitments of everyone involved to stick close to the agreed-upon schedule, coordinate their activities, and meet the established deadlines*. Gaining such commitments is almost always imperative. *Good execution requires that managers rely on colleagues in other functional areas and organizational units for commitments to effectively collaborate and coordinate their actions, and then they must hope that these other managers follow through and live up to their commitments.*

Normally, the supervising executives follow up, check on progress, and, in many cases, visit the different units to personally determine how well things are going and solicit the views of many different people about what problems exist and what they think should be done to resolve them. They seldom hesitate to intervene to make corrective adjustments and to reiterate their expectations of close communication, effective collaboration, and teamwork to resolve issues, avoid delays, and achieve the needed degree of cross-unit coordination. Such executive interventions, together with added executive pressure on the managers of units where close collaboration and coordinated action is lacking, may suffice. If it does, then all is well and good. But if such efforts fail, execution suffers and it becomes the responsibility of executives to determine the causes and take corrective action.

Getting managers of execution-critical activities to voluntarily but conscientiously live up to their promises and commitments to coordinate closely with sister organizational units turns out to be the *key* factor in achieving good internal cross-unit coordination.

In many instances, the chief cause of ineffective cross-unit coordination in building capabilities rests with departmental-level managers and other key operating personnel who, for assorted reasons, don't or won't spend the time and effort needed to partner with other organizational units in the capability-building process. Indeed, in a recent study, managers reported that they were three times more likely to miss their performance targets because of insufficient support from sister organizational units than from their own teams' failure to deliver.[29] But it also has to be recognized that top-executive urging that departmental managers and their staff *voluntarily* place high priority on coordinating their respective activities *poses significant challenges* in achieving effective cross-unit coordination, even if senior executives threaten or actually decide to replace managers who resist collaborative efforts or otherwise prove unreliable in effectively partnering with other organizational units. This is especially true in decentralized organizational structures where department heads are delegated a high degree of decision-making authority in running their respective units and, thus, have a natural tendency to place a lower priority on cooperating closely with other organizational units than on ensuring that the activities under their direct supervision are done well. The weakness of heavily depending on the largely voluntary efforts and commitments of lower-level managers and key personnel to build and strengthen important cross-unit competitive capabilities has prompted many companies to supplement such efforts by forming cross-functional committees, project management teams, and centralized project management offices to forge better cross-unit working relationships in developing capabilities that entail the coordinated actions of multiple organizational units. These arrangements have proved helpful in a number of organizations, but only about 20 percent of managers believe they work well most of the time—many managers at the operating level express a need for more effective ways to manage cross-unit coordination that have teeth.[30] A few companies have created incentive compensation systems where the payouts are tied to effective group performance of cross-unit tasks.

Providing for Collaboration with External Partners and Strategic Allies

Someone or some group must be authorized to collaborate as needed with each major outside constituency involved in strategy execution. Forming alliances and cooperative relationships presents immediate opportunities and opens the door to future possibilities, but nothing valuable is realized until the relationship grows, develops, and blossoms. 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. For example, if distributor/dealer/franchisee relationships are important, someone must be assigned the task of nurturing the relationships with forward channel allies. If close collaboration with key suppliers is crucial, then designated people in the company's supply chain organization must be tasked with responsibility for (1) establishing routine communications with these key suppliers (via telephone, e-mail, instant messaging, online teleconferencing, and face-to-face meetings), (2) making sure that information flows freely both ways and in a timely manner, and (3) facilitating or personally coordinating all of the company's cooperative actions with these suppliers. Some companies have built organizational bridges with external partners and strategic allies by appointing "relationship managers" with responsibility for getting the right people together, promoting good rapport and information-sharing, nurturing interpersonal cooperation and communication, and ensuring effective coordination.[31]

> Organizational capabilities emerge from a process of consciously knitting together the efforts of different work groups, departments, and external allies.

Pervasive use of online systems, laptop or tablet PCs, and smart phones greatly facilitates collaboration, knocking down many of the barriers to communication and coordination between different vertical ranks, between functions and disciplines, between units in different geographic locations, and between a company and its suppliers, distributors/dealers, strategic allies, and customers.

Key Points

Executing strategy is an action-oriented, make-things-happen task that tests a manager's ability to direct organizational change, achieve continuous improvement in operations and business processes, create and nurture a strategy-supportive culture, and consistently meet or beat performance targets.

Good strategy execution requires a *team effort.* All managers have strategy-executing responsibility in their areas of authority, and all employees are active participants in the strategy execution process.

Eight managerial tasks crop up repeatedly in company efforts to execute strategy:

1. Staffing the organization and developing the resources, capabilities, competencies, and organizational structure to execute strategy successfully.
2. Steering the needed financial and organizational 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. Tying rewards and incentives directly to the achievement of strategic and financial performance targets.
7. Instilling a corporate culture that promotes good strategy execution.
8. Exercising strong leadership to drive the execution process forward and attain companywide operating excellence as rapidly as feasible.

The two best signs of good strategy execution are whether a company is meeting or beating its performance targets and the proficiency with which it is able to perform strategy-critical value chain activities.

Building an organization capable of good strategy execution entails three types of organization-building actions: (1) s*taffing the organization*—assembling a talented, can-do management team, and recruiting and retaining employees with the needed experience, technical skills, and intellectual capital; (2) a*cquiring, developing, and strengthening the resources and capabilities important to good strategy execution*—accumulating the necessary resources, building competitively strong proficiencies in performing strategy-critical value chain activities, and updating the company's resources and capabilities to match changing market conditions and customer expectations; and (3) s*tructuring 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.

Sometimes a company already has some semblance of the needed resources and capabilities, in which case managers can concentrate on strengthening and nurturing them to promote better strategy execution. More usually, however, company managers have to acquire additional resources, significantly broaden or deepen certain capabilities, or even add entirely new competencies or capabilities in order to put strategic initiatives in place and execute all aspects of the strategy proficiently.

Building and developing capabilities internally is a time-consuming, managerially challenging exercise that involves three stages: (1) developing 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 then molding individuals' efforts and work products into a collaborative group effort; (2) coordinating group efforts to learn how to perform the activity *consistently well and at an acceptable cost,* thereby transforming the ability into a tried-and-true *competence* or *capability* (a competence rises to the level of a *core competence* if the activity involves a key element of the company's strategy); and (3) continuing to polish and refine the organization's know-how and otherwise sharpen performance so it becomes *better than rivals* at performing the activity, thus raising the core competence (or capability) to the rank of a *distinctive competence* (or competitively superior capability) and opening an avenue to competitive advantage. Many companies manage 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 reach stage 3.

Sometimes the best way for a company to upgrade its portfolio of resources and capabilities is to forgo internal efforts and, instead, acquire (or merge with) another company with resources and capabilities that give it added competitive strength. Capabilities-motivated acquisitions are essential when (1) a market opportunity can slip by faster than a needed capability can be created internally and (2) industry conditions, technology, or competitors are moving at such a rapid clip that time is of the essence. A third way of accessing competitively valuable resources and capabilities that the company lacks internally is to form collaborative partnerships with suppliers or other companies having the desired expertise or capabilities and using that partnership as a means of learning the partner's capability-building methods so it can adopt (or adapt) these methods to its own operations and put the desired capability into place.

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. Consequently, capability-building activities need to be *a routine and ongoing part of a company's strategy execution effort*.

Any time rivals can readily duplicate the successful features of a company's product or quickly imitate its maneuvers in the marketplace to attract more customers, making it difficult or impossible to out-strategize rivals and beat them in the marketplace with a superior strategy, the only dependable path to durable competitive advantage is to *out-execute them (beat them by performing certain value chain activities in superior fashion)*. Out-executing copycat rivals requires developing a collection of resources and capabilities that enables the company to perform certain important value chain activities either with *greater cost efficiency* or with *greater differentiating effectiveness*. Superior strategy execution can also take the form of faster internal ability to recognize and respond to changing buyer needs and expectations, thus consistently beating rivals to the market with new products and services.

Structuring the organization and organizing the work effort in a strategy-supportive fashion has five aspects: (1) deciding which value chain activities to perform internally and which to outsource; (2) making internally performed strategy-critical activities the main building blocks in the organization structure; (3) deciding how much authority to centralize at the top and how much to delegate to down-the-line managers and employees; (4) providing for internal cross-unit coordination and collaboration to build and strengthen internal competencies/ capabilities; and (5) providing for the necessary collaboration and coordination with external partners and strategic allies.