take an active role in their own professional development, assuming responsibility for keeping their skills and expertise up-to-date and in sync with the company’s needs.

**From Competencies and Capabilities to Competitive Advantage**

While strong core competencies and competitive capabilities are a major assist in executing strategy, they are an equally important 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 successful strategy features, making it difficult or impossible to outstrategize rivals and beat them in the marketplace with a superior strategy, the chief way to achieve lasting competitive advantage is to outexecute them (beat them by performing certain value chain activities in a superior fashion). Building core competencies and competitive capabilities that are very difficult or costly for rivals to emulate and that push a company closer to true operating excellence promotes very proficient strategy execution. Moreover, because cutting-edge core competencies and competitive capabilities represent resource strengths that are often time-consuming and expensive for rivals to match or trump, any competitive edge they produce tends to be sustainable and pave the way for above-average company performance.

It is easy to cite instances where companies have gained a competitive edge based on superior competencies and capabilities. Toyota’s production capabilities (see Illustration Capsule 11.2) have given it a decided market edge over such rivals as General Motors, Ford, DaimlerChrysler, and Volkswagen. Dell’s competitors have spent years and millions of dollars in what so far is a futile effort to match Dell’s cost-efficient supply chain management capabilities. FedEx has unmatched capabilities in reliable overnight delivery of documents and small parcels. Various business news media have been unable to match the competence of Dow-Jones in gathering and reporting business news via *The Wall Street Journal*.

**EXECUTION-RELATED ASPECTS OF ORGANIZING THE WORK EFFORT**

There are few hard-and-fast rules for organizing the work effort to support good strategy execution. 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 value chain activities. But some organizational considerations are common to all companies. These are summarized in Figure 11.3 and discussed in turn in the following sections.

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

The advantages of a company having an outsourcing component in its strategy were discussed in Chapter 6 (pp. 160–193), but there is also a need to consider the role of outsourcing in executing the strategy. Aside from the fact than 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, outsourcing can also have several organization-related benefits. Managers too often spend inordinate amounts of time, mental energy, and resources haggling with functional support groups and other internal bureaucracies over needed services, leaving less time for them to devote to performing strategy-critical activities in the most proficient manner. One way to reduce such distractions is to outsource the performance of assorted administrative support functions and perhaps even selected core or primary value chain activities to outside vendors, thereby enabling the company to heighten its strategic focus and concentrate its full energies and resources on even more competently performing those value chain activities that are 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. A number of personal computer (PC) makers outsource the mundane and highly specialized task of PC assembly, concentrating their energies instead on product design, sales and marketing, and distribution.

When a company uses outsourcing to zero in on ever better performance of those truly strategy-critical activities where its expertise is most needed, then it may be able to realize three very positive benefits:

1. 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

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**Figure 11.3  Structuring the Work Effort to Promote Successful Strategy Execution**

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

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An Organization Structure Matched to the Requirements of Successful Strategy Execution
value chain activities should meaningfully strengthen the company’s existing core competences and promote more innovative performance of those activities—either of which could lower costs or materially improve competitive capabilities. Eastman Kodak, Ford, Exxon Mobil, Merrill Lynch, and Chevron have outsourced their data processing activities to computer service firms, believing that outside specialists can perform the needed services at lower costs and equal or better quality. A relatively large number of companies outsource the operation of their Web sites to Web design and hosting enterprises. Many businesses that get a lot of inquiries from customers or that have to provide 24/7 technical support to users of their products across the world have found that it is considerably less expensive to outsource these functions to specialists (often located in foreign countries where skilled personnel are readily available and worker compensation costs are much lower) than to operate their own call centers.

2. 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. In consumer electronics, where advancing technology drives new product innovation, organizing the work effort in a manner that expedites getting next-generation products to market ahead of rivals is a critical competitive capability. Motor vehicle manufacturers have found that they can shorten the cycle time for new models, improve the quality and performance of those models, and lower overall production costs by outsourcing the big majority of their parts and components from independent suppliers and then working closely with their vendors to advance the design and functioning of the items being supplied, to swiftly incorporate new technology, and to better integrate individual parts and components to form engine cooling systems, transmission systems, and electrical systems.

3. Outsourcing the performance of certain value chain activities to able suppliers can add to a company’s arsenal of capabilities and contribute to better strategy execution. By building, continually improving, and then leveraging its partnerships with able suppliers, a company enhances its overall organizational capabilities and builds resource strengths—strengths that deliver value to customers and consequently pave the way for competitive success. Soft-drink and beer manufacturers all cultivate their relationships with their bottlers and distributors to strengthen access to local markets and build the loyalty, support, and commitment for corporate marketing programs, without which their own sales and growth are weakened. Similarly, fast-food enterprises like McDonald’s and Taco Bell find it essential to work hand-in-hand with franchisees on outlet cleanliness, consistency of product quality, in-store ambiance, courtesy and friendliness of store personnel, and other aspects of store operations. Unless franchisees continuously deliver sufficient customer satisfaction to attract repeat business, a fast-food chain’s sales and competitive standing will suffer quickly. Companies like Boeing, Aerospatiale, Verizon Communications, and Dell have learned that their central R&D groups cannot begin to match the innovative capabilities of a well-managed network of supply chain partners having the ability to advance the technology, lead the development of next-generation parts and components, and supply them at a relatively low price.

As a general rule, companies refrain from outsourcing those value chain activities over which they need direct strategic and operating control in order to build core competencies, achieve competitive advantage, and effectively manage key customer–supplier–distributor relationships. It is the strategically less important activities—like handling customer inquiries and providing technical support, doing the payroll,
Part 1 Concepts and Techniques for Crafting and Executing Strategy

Core Concept
Wisely choosing which activities to perform internally and which to outsource can lead to several strategy-executing advantages—lower costs, heightened strategic focus, less internal bureaucracy, speedier decision making, and a better arsenal of competencies and capabilities.

administering employee benefit programs, providing corporate security, managing stockholder relations, maintaining fleet vehicles, operating the company’s Web site, conducting employee training, and managing an assortment of information and data processing functions—where outsourcing is most used.

Even so, a number of companies have found ways to successfully rely on outside vendors to perform strategically significant value chain activities. Broadcom, a global leader in chips for broadband communications systems, outsources the manufacture of its chips to Taiwan Semiconductor, thus freeing company personnel to focus their full energies on R&D, new chip design, and marketing. For years Polaroid Corporation bought its film from Eastman Kodak, its electronics from Texas Instruments, and its cameras from Timex and others, while it concentrated on producing its unique self-developing film packets and designing its next-generation cameras and films. Nike concentrates on design, marketing, and distribution to retailers, while outsourcing virtually all production of its shoes and sporting apparel. Cisco Systems outsources virtually all manufacturing of its routers, switches, and other Internet gear, yet it protects its market position by retaining tight internal control over product design and closely monitors the daily operations of its manufacturing vendors. Large numbers of electronics companies outsource the design, engineering, manufacturing, and shipping of their products to such companies as Flextronics and Solectron, both of which have built huge businesses as providers of such services to companies worldwide. So while performing core value chain activities in-house normally makes good sense, there can be times when outsourcing some of them works to good advantage.

The Dangers of Excessive Outsourcing Critics contend that a company can go overboard on outsourcing and so hollow out its knowledge base and capabilities as to leave itself at the mercy of outside suppliers and short of the resource strengths to be a master of its own destiny. The point is well taken, but most companies appear alert to the danger of taking outsourcing to an extreme or failing to maintain control of the work performed by specialist vendors or offshore suppliers. Many companies refuse to source key components from a single supplier, opting to use two or three suppliers as a way of avoiding single supplier dependence or giving one supplier too much bargaining power. Moreover, they regularly evaluate their suppliers, looking not only at the supplier’s overall performance but also at whether they should switch to another supplier or even bring the activity back in-house. To avoid loss of control, companies typically work closely with key suppliers, meeting often and setting up online systems to share data and information, collaborate on work in progress, monitor performance, and otherwise document that suppliers’ activities are closely integrated with their own requirements and expectations. Indeed, sophisticated online systems permit companies to work in “real time” with suppliers 10,000 miles away, making rapid response possible whenever concerns or problems arise. Hence the real debate surrounding outsourcing is not about whether too much outsourcing risks loss of control, but about how to use outsourcing in a manner that produces greater competitiveness.

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

In any business, some activities in the value chain are always more critical to strategic success and competitive advantage than others. For instance, hotel/motel enterprises
have to be good at fast check-in/check-out, housekeeping and facilities maintenance, food service, and the creation of a pleasant ambience. For a manufacturer of chocolate bars, buying quality cocoa beans at low prices is vital and reducing production costs by a fraction of a cent per bar can mean a seven-figure improvement in the bottom line. In discount stock brokerage, the strategy-critical activities are fast access to information, accurate order execution, efficient record keeping and transactions processing, and good customer service. In specialty chemicals, the critical activities are R&D, product innovation, getting new products onto the market quickly, effective marketing, and expertise in assisting customers. Where such is the case, it is important for management to build its organization structure around proficient performance of these activities, making them the centerpieces or main building blocks on the organization chart.

The rationale for making strategy-critical activities the main building blocks in structuring a business is compelling: if activities crucial to strategic success are to have the resources, decision-making influence, and organizational impact they need, they have to be centerpieces in the organizational scheme. Plainly, implementing a new or changed strategy is likely to entail new or different key activities, competencies, or capabilities and therefore to require new or different organizational arrangements. If workable organizational adjustments are not forthcoming, the resulting mismatch between strategy and structure can open the door to execution and performance problems. Hence, attempting to carry out a new strategy with an old organization structure is usually unwise.

What Types of Organization Structures Fit Which Strategies? 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). The primary organizational building blocks within a business are usually traditional functional departments (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 Web site). 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 hotel may have a functional organization based on front-desk operations, housekeeping, building maintenance, food service, convention services and special events, guest services, personnel and training, and accounting. A discount retailer may organize around such functional units as purchasing, warehousing and distribution, store operations, advertising, merchandising and promotion, customer service, and corporate administrative services.

In enterprises with operations in various countries around the world (or with geographically scattered organizational units within a country), the basic building blocks may also include geographic organizational units, 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 support functions for all of its business units. But a divisional business-unit structure can present problems to a company pursuing related diversification.

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

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 (the CEO and a few close lieutenants) or to **decentralize decision making** by giving managers and employees considerable decision-making latitude in their areas of responsibility. As shown in Table 11.1, 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

**Table 11.1 Advantages and Disadvantages of Centralized versus Decentralized Decision Making**

<table>
<thead>
<tr>
<th>Centralized Organizational Structures</th>
<th>Decentralized Organizational Structures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic tenets</strong></td>
<td></td>
</tr>
<tr>
<td>• 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.</td>
<td>• Decision-making authority should be put in the hands of the people closest to and most familiar with the situation and these people should be trained to exercise good judgment.</td>
</tr>
<tr>
<td>• Frontline supervisors and rank-and-file employees can’t be relied on to make the right decisions—because they seldom know what is best for the organization and because they do not have the time or the inclination to properly manage the tasks they are performing (letting them decide “what to do” is thus risky).</td>
<td>• A company that draws on the combined intellectual capital of all its employees can outperform a command-and-control company.</td>
</tr>
<tr>
<td><strong>Chief advantage</strong></td>
<td><strong>Chief advantages</strong></td>
</tr>
<tr>
<td>• Fixes accountability.</td>
<td>• Encourages lower level managers and rank-and-file employees to exercise initiative and act responsibly.</td>
</tr>
<tr>
<td><strong>Primary disadvantages</strong></td>
<td>• Promotes greater motivation and involvement in the business on the part of more company personnel.</td>
</tr>
<tr>
<td>• Lengthens response times because management bureaucracy must decide on a course of action.</td>
<td>• Spurs new ideas and creative thinking.</td>
</tr>
<tr>
<td>• Does not encourage responsibility among lower level managers and rank-and-file employees.</td>
<td>• Allows fast response times.</td>
</tr>
<tr>
<td>• Discourages lower level managers and rank-and-file employees from exercising any initiative—they are expected to wait to be told what to do.</td>
<td>• Entails fewer layers of management.</td>
</tr>
<tr>
<td><strong>Primary disadvantages</strong></td>
<td><strong>Primary disadvantages</strong></td>
</tr>
<tr>
<td>• Puts the organization at risk if many bad decisions are made at lower levels—top management lacks full control.</td>
<td>• Impedes cross-business coordination and capture of strategic fits in diversified companies.</td>
</tr>
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</table>
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 structures is based on the underlying assumption that frontline personnel have neither the time nor the inclination to direct and properly control the work they are performing, and that they lack the knowledge and judgment to make wise decisions about how best to do it—hence the need for managerially prescribed policies and procedures, close supervision, and tight control. 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 an authoritarian structure is tight control by the manager in charge—it is easy to know who is accountable when things do not go well. But there are some serious disadvantages. Hierarchical 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. 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 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 has to 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. Decentralized decision making means that the managers of each organizational unit are delegated lead responsibility for deciding how best to execute strategy (as well as some role in shaping the strategy for the units they head). Decentralization thus requires selecting strong managers to head each organizational unit and holding them accountable for crafting and executing appropriate strategies for their units. Managers who consistently produce unsatisfactory results have to be weeded out.

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. Decentralized decision making means, for example, that in a diversified company the various business-unit heads have broad authority to execute the agreed-on business strategy with comparatively little interference from corporate headquarters; moreover, the business-unit heads delegate considerable decision-making latitude to functional and process department heads and the heads of the various operating units (plants, distribution centers, sales offices) in implementing and executing their pieces of the strategy. In turn, work teams may be empowered to manage and improve their assigned value chain activity, and employees with customer contact may be empowered to do what it takes to please customers.
At Starbucks, for example, employees are encouraged to exercise initiative in promoting customer satisfaction—there’s the story of a store employee who, when the computerized cash register system went offline, enthusiastically offered free coffee to waiting customers. With decentralized decision making, top management maintains control by limiting empowered managers’ and employees’ discretionary authority and holding people accountable for the decisions they make.

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 middle and lower-level managers 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 managers are needed because deciding how to do things becomes part of each person’s or team’s job. Further, today’s online communication systems 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 intranet), readily check with superiors or co-workers 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. Decentralized decision making not only can shorten organizational response times but also can spur new ideas, creative thinking, innovation, and greater involvement on the part of subordinate managers and employees.

The past decade has seen a growing shift from authoritarian, multilayered hierarchical structures to flatter, more decentralized structures that stress employee empowerment. There’s 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 and resides in the knowledge and capabilities of its employees. Many companies have therefore begun empowering lower-level managers and employees throughout their organizations, giving them greater discretionary authority to make strategic adjustments in their areas of responsibility and to decide what needs to be done to put new strategic initiatives into place and execute them proficiently.

Maintaining Control in a Decentralized Organization Structure

Pushing decision-making authority deep down into the organization structure and empowering employees presents its own organizing challenge: how to exercise adequate control over the actions of empowered employees so that the business is not put at risk at the same time that the benefits of empowerment are realized. Maintaining adequate organizational control over empowered employees is generally accomplished 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’s strong peer pressure on individuals to act responsibly.

**Capturing Strategic Fits in a Decentralized Structure** Diversified companies striving to capture cross-business strategic fits have to beware of giving business heads full rein to operate independently when cross-business collaboration is essential in order to gain strategic fit benefits. Cross-business strategic fits typically have to be captured either by enforcing close cross-business collaboration or by centralizing performance of functions having strategic fits at the corporate level. For example, if businesses with overlapping process and product technologies have their own independent R&D departments—each pursuing their 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, the best solution is usually to centralize the R&D function and have a coordinated corporate R&D effort that serves both the interests of individual businesses and the company as a whole. Likewise, centralizing the related activities of separate businesses makes sense when there are opportunities to share a common sales force, use common distribution channels, rely on a common field service organization to handle customer requests or provide maintenance and repair services, use common e-commerce systems and approaches, and so on.

The point here is that efforts to decentralize decision making and give organizational units leeway in conducting operations have to 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. There are numerous instances when decision-making authority must be retained at high levels in the organization and ample cross-unit coordination strictly enforced.

**Providing for Internal Cross-Unit Coordination**

The classic way to coordinate the activities of organizational units is to position them in the hierarchy so that the most closely related ones report to a single person (a functional department head, a process manager, a geographic area head, a senior executive). Managers higher up in the ranks generally have the clout to coordinate, integrate, and arrange for the cooperation of units under their supervision. In such structures, the chief executive officer, chief operating officer, and business-level managers end up as central points of coordination because of their positions of authority over the whole unit. When a firm is pursuing a related diversification strategy, coordinating the related activities of independent business units often requires the centralizing authority of a single corporate-level officer. Also, diversified companies commonly centralize such staff support functions as public relations, finance and accounting, employee benefits, and information technology at the corporate level both to contain the costs of support activities and to facilitate uniform and coordinated performance of such functions within each business unit.

However, close cross-unit collaboration is usually needed to build core competencies and competitive capabilities in strategically important activities—such as speeding new products to market and providing superior customer service—that involve
employees scattered across several internal organization units (and perhaps the employees of outside strategic partners or specialty vendors). A big weakness of traditional functionally organized structures is that pieces of strategically relevant activities and capabilities often end up scattered across many departments, with the result that no one group or manager is accountable. Consider, for example, how the following strategy-critical activities cut across different functions:

- **Filling customer orders accurately and promptly**—a process that involves personnel from sales (which wins the order); finance (which may have to check credit terms or approve special financing); production (which must produce the goods and replenish warehouse inventories as needed); warehousing (which has to verify whether the items are in stock, pick the order from the warehouse, and package it for shipping); and shipping (which has to choose a carrier to deliver the goods and release the goods to the carrier).26
- **Fast, ongoing introduction of new products**—a cross-functional process involving personnel in R&D, design and engineering, purchasing, manufacturing, and sales and marketing.
- **Improving product quality**—a process that entails the collaboration of personnel in R&D, design and engineering, purchasing, in-house components production, manufacturing, and assembly.
- **Supply chain management**—a collaborative process that cuts across such functional areas as purchasing, inventory management, manufacturing and assembly, and warehousing and shipping.
- **Building the capability to conduct business via the Internet**—a process that involves personnel in information technology, supply chain management, production, sales and marketing, warehousing and shipping, customer service, finance, and accounting.
- **Obtaining feedback from customers and making product modifications to meet their needs**—a process that involves personnel in customer service and after-sale support, R&D, design and engineering, purchasing, manufacturing and assembly, and marketing research.

Handoffs from one department to another lengthen completion time and frequently drive up administrative costs, since coordinating the fragmented pieces can soak up hours of effort on the parts of many people.27 This is not a fatal flaw of functional organization—organizing around specific functions normally works to good advantage in support activities like finance and accounting, human resource management, and engineering, and in such primary activities as R&D, manufacturing, and marketing. But the tendency for pieces of a strategy-critical activity to be scattered across several functional departments is an important weakness of functional organization and accounts for why a company’s competencies and capabilities are typically cross-functional.

Many companies have found that rather than continuing to scatter related pieces of a strategy-critical business process across several functional departments and scrambling to integrate their efforts, it is better to reengineer the work effort and pull the people who performed the pieces in functional departments into a group that works together to perform the whole process, thus creating process departments (like customer service or new product development or supply chain management). And sometimes the coordinating mechanisms involve the use of cross-functional task forces, dual reporting relationships, informal organizational networking, voluntary
cooperation, incentive compensation tied to measures of group performance, and
strong executive-level insistence on teamwork and cross-department cooperation
(including removal of recalcitrant managers who stonewall collaborative efforts). At
one European-based company, a top executive promptly replaced the managers of
several plants who were not fully committed to collaborating closely on eliminating
duplication in product development and production efforts among plants in several
different countries. Earlier, the executive, noting that negotiations among the man-
gers had stalled on which labs and plants to close, had met with all the managers,
asked them to cooperate to find a solution, discussed with them which options were
unacceptable, and given them a deadline to find a solution. When the asked-for
teamwork wasn’t forthcoming, several managers were replaced.

Providing for Collaboration with Outside Suppliers 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 possibili-
ties, but nothing valuable is realized until the relationship grows, develops, and blos-
soms. Unless top management sees that constructive organizational bridge building
with strategic partners occurs and that productive working relationships emerge, the
value of alliances is lost and the company’s power to execute its strategy is weakened.
If close working relationships with suppliers are crucial, then supply chain manage-
ment must be given formal status on the company’s organization chart and a signifi-
cant position in the pecking order. If distributor/dealer/franchisee relationships are impor-
tant, someone must be assigned the task of nurturing the relationships with forward
channel allies. If working in parallel with providers of complementary products and
services contributes to enhanced organizational capability, then cooperative organiza-
tional arrangements have to be put in place and managed to good effect.

Building organizational bridges with external allies can be accomplished by ap-
pointing “relationship managers” with responsibility for making particular strategic
partnerships or alliances generate the intended benefits. Relationship managers have
many roles and functions: getting the right people together, promoting good rapport,
seeing that plans for specific activities are developed and carried out, helping adjust
internal organizational procedures and communication systems, ironing out operating
dissimilarities, and nurturing interpersonal cooperation. Multiple cross-organization

ties have to be established and kept open to ensure proper communication and coordi-
nation. There has to be enough information sharing to make the relationship work and
periodic frank discussions of conflicts, trouble spots, and changing situations.

CURRENT ORGANIZATIONAL TRENDS

Many of today’s companies are winding up the task of remodeling their traditional
hierarchical structures once built around functional specialization and centralized
authority. Much of the corporate downsizing movement in the late 1980s and early
1990s was aimed at recasting authoritarian, pyramidal organizational structures
into flatter, decentralized structures. The change was driven by growing realization
that command-and-control hierarchies were proving a liability in businesses where
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customer preferences were shifting from standardized products to custom orders and special features, product life cycles were growing shorter, custom mass-production methods were replacing standardized mass-production techniques, customers wanted to be treated as individuals, technological change was ongoing, and market conditions were fluid. Layered management hierarchies with lots of checks and controls that required people to look upward in the organizational structure for answers and approval were failing to deliver responsive customer service and timely adaptations to changing conditions.

The organizational adjustments and downsizing of companies in 2001–2005 brought further refinements and changes to streamline organizational activities and shake out inefficiencies. The goals have been to make companies leaner, flatter, and more responsive to change. Many companies are drawing on five tools of organizational design: (1) managers and workers empowered to act on their own judgments, (2) work process redesign (to achieve greater streamlining and tighter cohesion), (3) self-directed work teams, (4) rapid incorporation of Internet technology applications, and (5) networking with outsiders to improve existing organization capabilities and create new ones. Considerable management attention is being devoted to building a company capable of outcompeting rivals on the basis of superior resource strengths and competitive capabilities—capabilities that are increasingly based on intellectual capital and cross-unit collaboration.

Several other organizational characteristics are emerging:

- Extensive use of Internet technology and e-commerce business practices—real-time data and information systems; greater reliance on online systems for transacting business with suppliers and customers; and Internet-based communication and collaboration with suppliers, customers, and strategic partners.

- Fewer barriers between different vertical ranks, between functions and disciplines, between units in different geographic locations, and between the company and its suppliers, distributors/dealers, strategic allies, and customers—an outcome partly due to pervasive use of online systems.

- Rapid dissemination of information, rapid learning, and rapid response times—also an outcome partly due to pervasive use of online systems.

- Collaborative efforts among people in different functional specialties and geographic locations—essential to create organization competencies and capabilities.

Key Points

Implementing and executing strategy is an operation-driven activity revolving around the management of people and business processes. The managerial emphasis is on converting strategic plans into actions and good results. Management’s handling of the process of implementing and executing the chosen strategy can be considered successful if and when the company achieves the targeted strategic and financial performance and shows good progress in making its strategic vision a reality. Shortfalls in performance signal weak strategy, weak execution, or both.

The place for managers to start in implementing and executing a new or different strategy is with a probing assessment of what the organization must do differently and
better to carry out the strategy successfully. They should then consider precisely how to make the necessary internal changes as rapidly as possible.

Like crafting strategy, executing strategy is a job for a company’s whole management team, not just a few senior managers. Top-level managers have to rely on the active support and cooperation of middle and lower managers to push strategy changes into functional areas and operating units and to see that the organization actually operates in accordance with the strategy on a daily basis.

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

1. Building an organization with the competencies, capabilities, and resource strengths to execute strategy successfully.
2. Marshaling sufficient money and people behind the drive for strategy execution.
3. Instituting policies and procedures that 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 directly to the achievement of strategic and financial targets and to good strategy execution.
7. Shaping the work environment and corporate culture to fit the strategy.
8. Exercising strong leadership to drive execution forward, keep improving on the details of execution, and achieve operating excellence as rapidly as feasible.

Building an organization capable of good strategy execution entails three types of organization-building actions: (1) staffing the organization—assembling a talented, can-do management team, and recruiting and retaining employees with the needed experience, technical skills, and intellectual capital; (2) building core competencies and competitive capabilities that will enable good strategy execution and updating them as strategy and external conditions change; and (3) 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.

Building core competencies and competitive capabilities 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 the efforts and work products of individuals 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; and (3) continuing to polish and refine the organization’s know-how and otherwise sharpen performance such that 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 qualify for the third stage.
Strong core competencies and competitive capabilities are an important 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 successful strategy features, making it difficult or impossible to *outstrategize* rivals and beat them in the marketplace with a superior strategy, the chief way to achieve lasting competitive advantage is to *outexecute* them (beat them by performing certain value chain activities in superior fashion). Building core competencies and competitive capabilities that are very difficult or costly for rivals to emulate and that push a company closer to true operating excellence is one of the best and most reliable ways to achieve a durable competitive edge.

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 ones 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 suppliers and strategic allies.

**Exercises**

1. As the new owner of a local ice cream store located in a strip mall adjacent to a university campus, you are contemplating how to organize your business—whether to make your ice cream in-house or outsource its production to a nearby ice cream manufacturer whose brand is in most of the local supermarkets, and how much authority to delegate to the two assistant store managers and to employees working the counter and the cash register. You plan to sell 20 flavors of ice cream.
   a. What are the pros and cons of contracting with the local company to custom-produce your product line?
   b. Since you do not plan to be in the store during all of the hours it is open, what specific decision-making authority would you delegate to the two assistant store managers?
   c. To what extent, if any, should store employees—many of whom will be university students working part-time—be empowered to make decisions relating to store operations (opening and closing, keeping the premises clean and attractive, keeping the work area behind the counter stocked with adequate supplies of cups, cones, napkins, and so on)?
   d. Should you create a policies and procedures manual for the assistant managers and employees, or should you just give oral instructions and have them learn their duties and responsibilities on the job?
   e. How can you maintain control during the times you are not in the store?
2. Go to Home Depot’s corporate home page (www.homedepot.com/corporate) and review the information under the headings About The Home Depot, Investor Relations, and Careers. How does Home Depot go about building core competencies and competitive capabilities? Would any of Home Depot’s competencies qualify as a distinctive competence? Please use the chapter’s discussion of building core competencies and competitive capabilities as a guide for preparing your answer.

3. Using Google Scholar or your access to EBSCO, InfoTrac, or other online database of journal articles and research in your university’s library, do a search for recent writings on self-directed or empowered work teams. According to the articles you found in the various management journals, what are the conditions for the effective use of such teams? Also, how should such teams be organized or structured to better ensure their success?