



BUILDING RESOURCE CAPABILITIES AND ORGANIZING THE WORK EFFORT



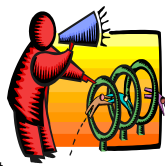
Implementing and Executing Strategy

- **Action-oriented, operations-driven activity** revolving around managing people and business processes
- Tougher and more time-consuming than crafting strategy
- Success depends on doing a good job of
 - Leading
 - Motivating
 - Working with others
 - Creating **fits** between requirements for good strategy and how organization conducts its business



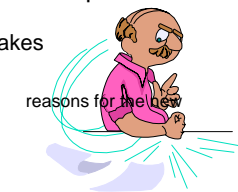
Why Implementing and Executing Strategy is a Tough Management Job

- Demanding variety of managerial activities that have to be performed
- Numerous ways to tackle each activity
- Requires good people management skills
- Requires launching and managing a variety of initiatives simultaneously
- Number of bedeviling issues to be worked out
- Battling resistance to change
- Hard to integrate efforts of many different work groups into a smoothly-functioning whole




Implementing a Newly Chosen Strategy Requires Adept Leadership

- Implementing a **new strategy** takes adept leadership to
 - Convincingly communicate reasons for the new strategy
 - Overcome pockets of doubt
 - Build consensus and enthusiasm
 - Secure commitment of concerned parties
 - Get all implementation pieces in place and coordinated



Characteristics of the Strategy Implementation Process


- Every manager has an active role
- No 10-step checklists
- Few concrete guidelines
- Least charted, most open-ended part of strategic management
- Cuts across many aspects of "how to manage"



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Characteristics of the Strategy Implementation Process (continued)

- Each implementation situation occurs in different context, affected by differing
 - Business practices and competitive situations
 - Work environments and cultures
 - Policies
 - Compensation incentives
 - Mix of personalities and firm histories
- Approach to implementation has be customized to fit the situation
- People implement strategies - Not companies!




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What are the Goals of the Strategy Implementing-Executing Process?

- Unite total organization behind strategy
- See that activities are done in a manner tightly matching first-rate strategy execution
- Generate commitment so an enthusiastic crusade emerges to carry out strategy
- Fit how the organization conducts its operations to the requirements of strategy



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Who are the Strategy Implementers?

- Implementation involves a company's **whole management team**
 - **Every organization unit** and **all employees** have a role in the strategy implementing and executing process
- CEO, senior executives, and heads of departments must lead the process and orchestrate major initiatives
 - **But** they must rely on middle and lower-level managers to do things on the front line, seeing that strategy is well-executed on a daily basis



Ways to Lead the Implementation and Execution Process

- Take active, visible role **or** low-key, behind the scenes role
- Make decisions authoritatively based on consensus
- Delegate much **or** little
- Be personally involved in details **or** coach others to carry day-to-day burden
- Proceed swiftly to achieve results **or** move deliberately, content with gradual progress

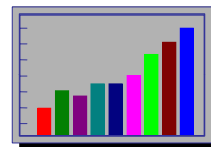


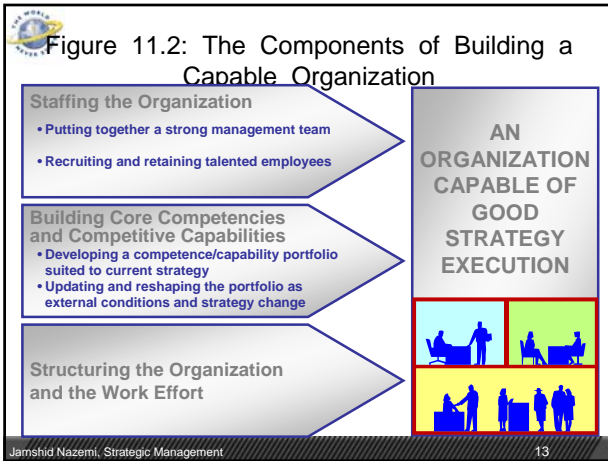
Factors Shaping How Managers Lead the Implementation Process

- Experience and knowledge of business
- New to job or seasoned?
- Network of personal relationships
- Diagnostic, administrative, interpersonal, and problem-solving skills
- How much authority they have
- Leadership style most comfortable with
- How they view their role in getting things done
- The organization's situation



BUILDING A CAPABLE ORGANIZATION—WHAT IS INVOLVED?





Putting Together a Strong Management Team

- Determine kind of core management team needed to execute the strategy
- Find the right people to fill each slot
 - Existing management team may be suitable
 - Core executive group may need strengthening
 - Promote from within
 - Bring in skilled outsiders

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Selecting the Management Team: Key Considerations

- Determine mix of
 - Backgrounds
 - Experiences and know-how
 - Beliefs and values
 - Styles of managing and personalities
- Personal chemistry must be right
- Talent base needs to be appropriate
- Picking a solid management team needs to be acted on early in implementation process

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Recruiting and Retaining Talented Employees: Implementation Issues

- Assemble the needed human resources and knowledge base for effective strategy execution
- Biggest challenge facing companies future in the Internet Economy
 - How to recruit and retain the best with strong skill sets and management potential
- Intellectual capital, not tangible assets, is increasingly being viewed as the most important investment
 - Talented people are a prime source of competitive advantage

building a and brightest talent sets and management potential assets, as the most source of competitive

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Key Human Resource Practices to Attract and Retain Talented Employees

- Spend considerable effort in screening job applicants, selecting only those with
 - Suitable skill sets
 - Energy and initiative
 - Judgment and aptitudes for learning
 - Ability to adapt to firm's work environment/culture
- Put employees through training programs throughout their careers
- Give employees challenging, interesting, and skills-stretching assignments



Key Human Resource Practices to Attract and Retain Talented Employees (continued)

- Rotate employees through jobs with great content, spanning functional and geographic boundaries
- Encourage employees to
 - Be creative and innovative
 - Challenge existing ways of doing things and offer better ways
 - Submit ideas for new products or businesses
- Foster a stimulating and engaging work environment
- Exert efforts to retain high-potential, high performing employees with excellent salary and benefits

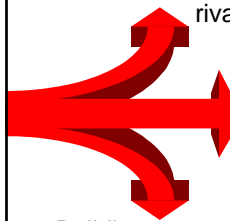


Key Organization-Building Objectives

- Staff organizational units with the specialized talents, skills, and technical expertise needed to develop and build **core competencies**
- Build competitively **organizational capabilities**



Power of Unique Competencies and Capabilities
When it is **difficult** to **outstrategize** rivals with a superior strategy . . .



. . . Best avenue to **industry leadership** is to **out-compete** rivals with **superior strategy execution!**

Building **competencies and capabilities** rivals can't match is one of the best ways to out-compete them!



Strategically-Relevant Core or Distinctive Competencies

- Greater proficiency in product development
- Better manufacturing know-how
- Capability to provide better after-sale service
- Faster response to changing customer needs
- Superior cost-cutting skills
- Capacity to speed new products to market
- Superior inventory management systems
- Better marketing and merchandising skills
- Specialized depth in unique technologies
- Greater effectiveness in promoting union-managemen cooperation



Strategic Management Principle

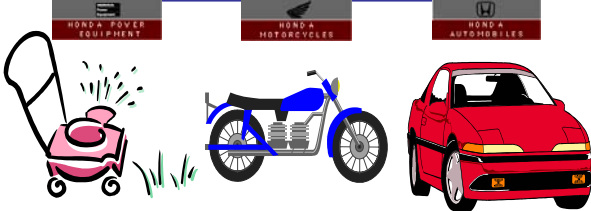
Building core competencies, resource strengths, and organizational capabilities that rivals can't match is a sound foundation for sustainable competitive advantage !



Example: Honda's Core Competency

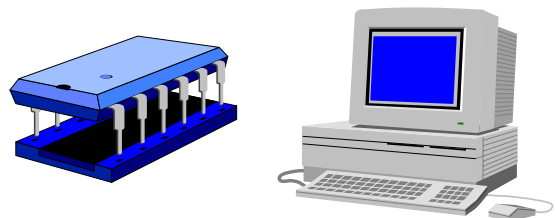
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Expertise in gasoline engine technology and small engine design



Example: Intel's Core Competence

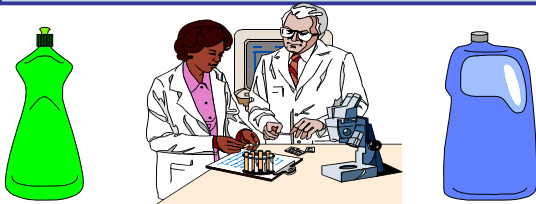
Design of complex chips for personal computers intel





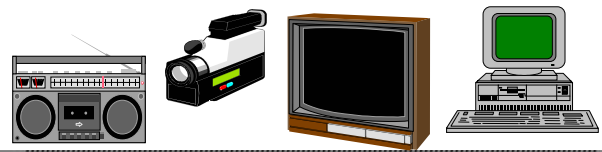
Example: Procter & Gamble's Core Competencies

Superb marketing-distribution skills and R&D capabilities in five core technologies - fats, oils, skin chemistry, surfactants, emulsifiers



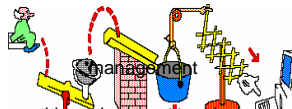
Example: Sony's Core Competence

Expertise in electronic technology and ability to translate the expertise into innovative products—miniaturized radios and video cameras, TVs and VCRs with unique features, attractively designed PCs



Key Traits to Building Core Competencies

1. Rarely grounded in **skills** or **know-how** of a **single department**
2. Typically emerge from **collaborative efforts** of different work groups, requiring senior oversight
3. Leveraging competencies into competitive advantage requires **concentrating more effort** and **talent** than rivals on **strengthening competencies** to create valuable organizational capabilities
4. Sustaining competitive advantage requires **adapting competencies to new conditions**



Developing Competitively Valuable Competencies

- Involves
 - **Managing** human skills, knowledge bases, and intellect
 - **Coordinating** efforts of related work groups
 - **Collaborative networking** among internal groups and with external partners
 - Achieving **dominating depth**
- **Senior managers** have to **guide** the process
- **Ongoing challenge:** Broaden, deepen, or modify competencies and capabilities in response to market changes

Building Competencies: Keys to Success

- Selecting superior employees
- Training
- Cultural influences
- Cooperation and collaboration
- Motivation
- Empowerment
- Attractive incentives
- Organizational flexibility
- Short deadlines
- Good databases




✓ LEADERSHIP
✓ MOTIVATION
SKILLS

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The Most Valuable Organizational Capabilities


- Contribute heavily to **better strategy execution**
- Provide **a differentiating factor** customers can see and value
- **Difficult for rivals to match**
 - Time consuming to build
 - Difficult to purchase
 - Hard to replicate or imitate



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Process of Building Organizational Capabilities

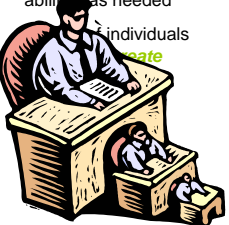
1. Develop **ability** to do something
 - Select people with relevant skills/experience
 - Upgrade individual abilities as needed
 - Mold work of employees into cooperative effort
2. As **experience builds, ability** can translate into a **competence** and/or **capability**
3. Capability becomes a **distinctive competitive potential** resulting in a competitive advantage



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Process of Building Organizational Capabilities: Step 1

- Develop **ability** to do something
 - Select people with relevant skills/experience
 - Broaden or deepen individual ability as needed
 - Mold efforts and work into a cooperative group **organizational ability**

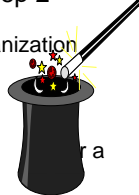


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Process of Building Organizational Capabilities: Step 2

- As experience builds, such that the organization learns to accomplish the activity consistently well and at acceptable cost, the **“ability”** begins to translate into a **competence capability**
- Capabilities emerge from establishing and nurturing collaborative working relationships between individuals and groups in departments and between a company and its external allies



Process of Building Organizational Capabilities: Step 3

- If mastery is achieved to the point where the organization has the capability to **perform the activity better than rivals**, the “capability” becomes a **distinctive competence** and holds potential for competitive advantage
The optimal outcome of the capability-building process !



Updating Competencies and Capabilities as Conditions Change

- Competencies and capabilities must continuously be modified and perhaps even replaced with new ones due to
 - New strategic requirements
 - Evolving market conditions
 - Changing customer expectations
- Ongoing efforts to keep core competencies up-to-date can provide a basis for sustaining both
 - Effective strategy execution and
 - Competitive advantage




Strategic Role of Employee Training

- Plays a critical role in implementation when a firm shifts to a strategy requiring different
 - Skills-based competencies
 - Competitive capabilities
 - Managerial approaches
 - Operating methods
- Types of training approaches
 - Internal “universities”
 - Orientation sessions for new employees
 - Tuition reimbursement programs
 - Online training courses



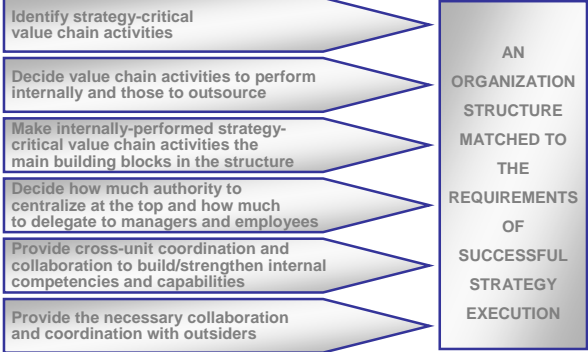
Matching Organization Structure to Strategy

- Few hard and fast rules for organizing
 - The One Big Rule: The role and purpose of the organization structure is to support and facilitate good strategy execution!**
- Each firm's structure is idiosyncratic, reflecting
 - Prior arrangements and internal politics
 - Executive judgments and preferences about how to arrange reporting relationships
 - How best to integrate and coordinate work effort of different work groups and departments



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Figure 11-3: Structuring the Organization to Promote Successful Strategy Execution




- Identify strategy-critical value chain activities
- Decide value chain activities to perform internally and those to outsource
- Make internally-performed strategy-critical value chain activities the main building blocks in the structure
- Decide how much authority to centralize at the top and how much to delegate to managers and employees
- Provide cross-unit coordination and collaboration to build/strengthen internal competencies and capabilities
- Provide the necessary collaboration and coordination with outsiders

AN ORGANIZATION STRUCTURE MATCHED TO THE REQUIREMENTS OF SUCCESSFUL STRATEGY EXECUTION

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Step 1: Identify Strategy-Critical Activities

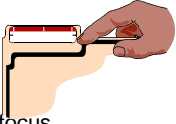
- Which activities are strategy-critical depends on
 - Particulars of a firm's strategy
 - Value-chain make-up
 - Competitive requirements
 - External market conditions
- Identify strategy-critical activities
 - What business processes have to be performed extra well or in timely fashion to achieve competitive advantage?
 - In what value-chain activities would poor work performance impair strategic success?



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Step 2: Potential Advantages of Outsourcing Non-Critical Activities

- Decrease internal bureaucracies
- Flatten organization structure
- Speed decision-making
- Provide firm with heightened strategic focus
- Improve a firm's innovative capacity
- Increase competitive responsiveness



Outsourcing makes strategic sense when outsiders can perform certain activities at a lower cost and/or with higher value-added.

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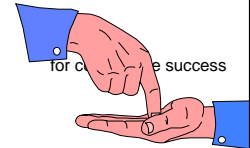
Appeal of Outsourcing

- Outsourcing non-critical activities allows a firm to concentrate its energies and resources on those value-chain activities where it
 - Can create unique value
 - Can be best in the industry
 - Needs strategic control to
 - Build core competencies
 - Achieve competitive advantage
 - Manage key customer-supplier-distributor relationships



Potential Advantages of Partnering

- By building, improving, and then leveraging partnerships, a firm enhances its overall capabilities and builds resource strengths that
 - Deliver value to customers
 - Rivals can't quite match
 - Consequently pave the way

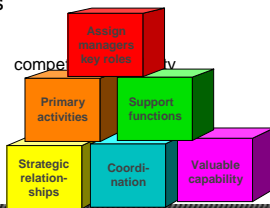


Partnering makes *strategic sense* when the result is to enhance organizational capabilities.



Step 3: Make Strategy-Critical Activities the Main Building Blocks

- Assign managers of strategy-critical activities a visible, influential position
- Avoid fragmenting responsibility for strategy-critical activities across many departments
- Provide coordinating linkages between related work groups
 - Meld into a valuable



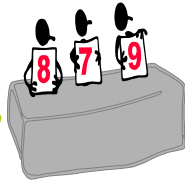
Strategic Management Principle

Matching structure to strategy requires making strategy-critical activities and organizational units the main building blocks in the organization structure!



Why Structure Follows Strategy

- **Changes in strategy** typically require a **new structure**
 - New strategy often involves different key activities, different staffing and organizational requirements
 - Hence, a new strategy signals a need to reassess the organization structure
- How work is structured is a **means to end in itself!**



Guard Against Functional Designs That Fragment Activities

- **Scattering** pieces of critical business processes across several specialized departments results in
 - Many **hand-offs** which
 - Lengthens **completion time**
 - Increases coordination and overhead costs
 - Increases risk of details falling through the cracks
 - Obsession with **activity** rather than **result**
- **Solution** → **Business process reengineering**
 - Involves **pulling strategy-critical processes** from functional sites to create **process-complete** departments or **cross-functional** work groups



Example: Fragmented Strategy-Critical Activities in a Functional Structure

- Filling customer orders
- Speeding new products to market
- Improving product quality
- Supply chain management
- Building capability to conduct business via the Internet
- Obtaining feedback from customers, making product modifications to meet their needs



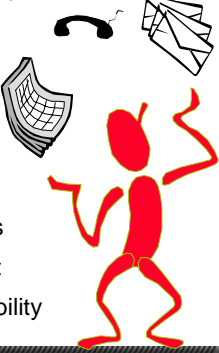
Step 4: Determine How Much Authority to Delegate to Whom

- In a **centralized structure**
 - Top managers retain authority for most decisions
- In a **decentralized structure**
 - Managers and employees are empowered to make decisions
- **Trend in most companies**
 - Shift from authoritarian to decentralized structures stressing empowerment



Advantages of Decentralized Decision-Making and Empowerment


- Fewer management layers
- Less bureaucracy
- Shorter response times
- More creativity and new ideas
- Better motivation of employees
- Greater employee involvement
- Increased organizational capability



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Principles Underlying the Global Trend Toward Decentralization and Empowerment


1. As the world economy moves into the **Internet Age**, traditional **hierarchical structures** must undergo radical **surgery** to **capitalize** on
 - External market **and**
 - Internal operating potential of e-commerce
2. **Decisions** are **best made** at the **lowest organizational level** capable to make timely, informed, competent decisions
3. **Empowering** employees to exercise judgment on job-related matters **improves motivation and job performance**



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Step 5: Reporting Relationships and Cross-Unit Coordination

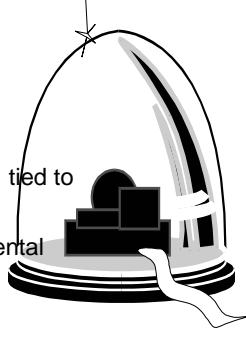
- **Classic method** of **coordinating** activities - Have **related units report** to **single manager**
 - Upper-level managers have clout to coordinate/unify efforts of their units
- **Support activities** should be **structure** in ways to
 - **Maximize performance** of **primary activities**
 - **Contain costs** of **support activities**
- **Formal reporting relationships** often need to be **supplemented**



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Options to Supplement the Basic Organization Structure

- Coordinating teams
- Cross-functional task forces
- Dual reporting relationships
- Informal networking
- Incentive compensation tied to group performance
- Teamwork and inter-departmental cooperation



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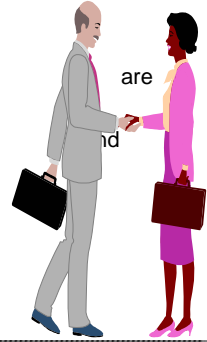
Step 6: Assign Responsibility for Collaboration With Outsiders

- Need **multiple ties at multiple levels** to ensure
 - Communication
 - Coordination and control
- Find ways to **produce efforts to enhance** firm's **capabilities** and **resource strengths**
- While collaborative relationships present opportunities, **nothing valuable is realized until the relationship develops into an engine for better organizational performance**



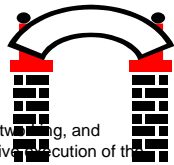
Roles of Relationship Managers With Strategic Partners

- Get the right people together
- Promote good rapport
- See that plans for specific activities developed and implemented
- Help adjust internal procedures communication systems to
 - Successfully link partners
 - Iron out operating dissimilarities
 - Nurture interpersonal ties



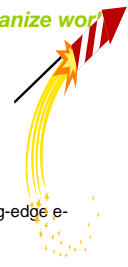
Perspectives on Organizing

- All basic **organization designs** have strategy-related **strengths** and **weaknesses**
- No **ideal** organization design exists
- To do a good job of **matching structure to strategy**
 - Pick a basic design
 - Modify as needed
 - Supplement with appropriate coordinating, networking, and communication mechanisms to support effective execution of the strategy



Organizational Structures of the Future: Overall Themes

- Revolutionary changes in **how** companies **organize work** have been triggered by
 - New strategic priorities
 - Rapidly shifting competitive conditions
- **Tools of organizational design** include
 - Empowered managers and workers
 - Reengineered work processes
 - Self-directed work teams
 - Rapid incorporation of Internet technologies and cutting-edge e-commerce infrastructure
 - Networking with outsiders



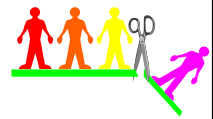
Organizational Structures of the Future: Overall Themes

- **Traditional, authoritarian structures** have often proved to be a **liability** where
 - Market conditions are fluid
 - Customer preferences shift from standardized to customized products
 - Product life-cycles grow shorter
 - Flexible manufacturing replaces mass production
 - Customers want to be treated as individuals
 - Pace of technological change accelerates



Organizational Structures of the Future: Requirements for Success

- Decentralized structures with fewer managers
- Small-scale business units
- Reengineering to decrease fragmentation
- Development of stronger and newer capabilities
- Collaborative partnerships with outsiders
- Empowerment and self-directed work teams
- Lean staffing of corporate support functions
- Electronic information systems
- Accountability for results
- Use of e-commerce in daily operations



Characteristics of Organizations of the Future

- Fewer boundaries between
 - Different vertical ranks
 - Functions and disciplines
 - Units in different geographic locations
 - Firm and its suppliers, distributors, customers
- Capacity for change and learning
- Collaborative efforts among people in functions and geographic locations
- Extensive use of e-commerce Internet business practices

