

14th Edition

# Crafting and Executing Strategy

The Quest for Competitive Advantage

CONCEPTS AND CASES

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Arthur A. Thompson Jr.

A.J. Strickland

John E. Gamble

# **Building Resource Strengths and Organizational Capabilities**

Screen graphics created by:

Jana F. Kuzmicki, Ph.D.

Troy State University-Florida and Western Region

**“The best game plan in  
the world never blocked  
or tackled anybody.”**

Vince Lombardi

**“Strategies most often fail  
because they aren’t  
executed well.”**

Larry Bossidy and Ram Charan



# Chapter Roadmap

- ◆ A Framework for Executing Strategy
- ◆ The Principal Managerial Components of the Strategy Execution Process
- ◆ Building a Capable Organization
- ◆ Staffing the Organization
- ◆ Building Core Competencies and Competitive Capabilities
- ◆ Matching Organization Structure to Strategy
- ◆ Organizational Structures of the Future

# Crafting vs. Executing Strategy

## Crafting the Strategy

- ◆ Primarily a *market-driven* activity
- ◆ Successful strategy making depends on
  - Business vision
  - Perceptive analysis of market conditions and company resources and capabilities
  - Attracting and pleasing customers
  - Outcompeting rivals
  - Using company resources and capabilities to forge a competitive advantage

## Executing the Strategy

- ◆ Primarily an *operations-driven* activity
- ◆ Successful strategy execution depends on
  - Good organization-building and people management
  - Creating a strategy-supportive culture
  - Continuous improvement
  - Getting things done and delivering good results

# Executing the Strategy

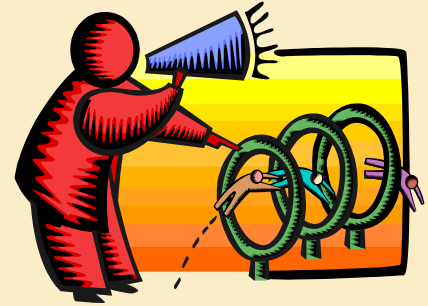
- ◆ An *action-oriented, make-things happen task* involving management's ability to
  - ➔ Direct organizational change
  - ➔ Achieve continuous improvement in operations and business processes
    - **Move toward operating excellence**
  - ➔ Create and nurture a strategy-supportive culture
  - ➔ Consistently meet or beat performance targets
- ◆ Tougher and more time-consuming than crafting strategy





# Why Executing Strategy Is a Tough Management Job

- ◆ The demanding variety of managerial activities 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





# Who Are the Strategy Implementers?

- ◆ Implementing and executing strategy involves a company's *whole management team* and *all employees*
  - ➔ Just as every part of a watch plays a role in making the watch function properly, it takes all pieces of an organization working cohesively for a strategy to be well-executed
- ◆ Top-level managers must lead the process and orchestrate major initiatives
  - ➔ *But* they must rely on the cooperation of
    - Middle and lower-level managers to see that things go well in the various parts of the organization and
    - Employees to perform their roles competently on a daily basis



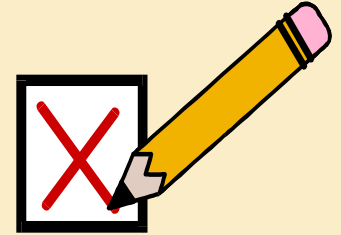
# What Are the Goals of the Strategy Implementing-Executing Process?

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



# Characteristics of the Strategy Implementation Process

- ◆ Every manager has an active role
- ◆ No proven “formula” for implementing particular types of strategies
- ◆ There are guidelines, but no absolute rules and “must do it this way” rules
- ◆ Many ways to proceed that are capable of working
- ◆ Cuts across many aspects of “how to manage”

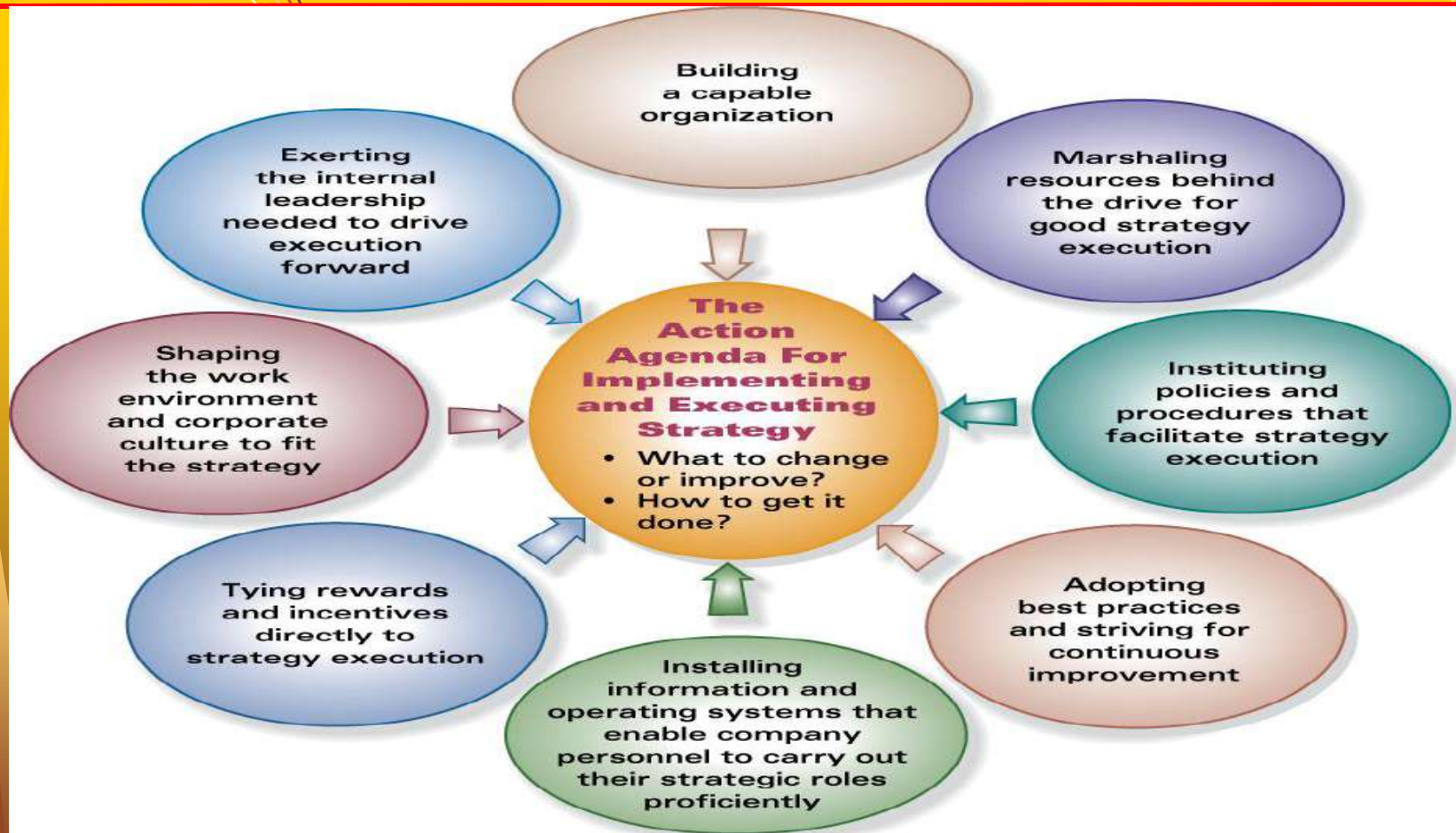


# Characteristics of the Strategy Implementation Process (continued)

- ◆ Each implementation situation occurs in a 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/execution has be customized to fit the situation*
- ◆ People implement strategies - Not companies!



# Fig. 11.1: The Eight Actions of Implementing and Executing Strategy



# What Top Executives Have to Do in Leading the Implementation Process

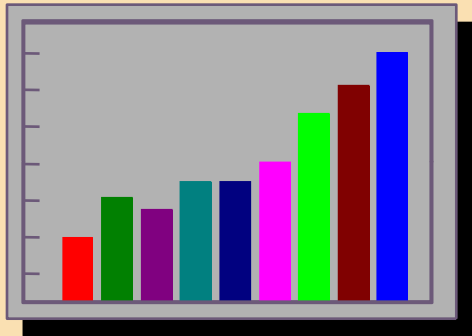
- ◆ Communicate the case for change
- ◆ Build consensus on how to proceed
- ◆ Install strong allies in areas where they can push implementation along in key business units
- ◆ Empower subordinates to keep process moving
- ◆ Establish measures of progress and deadlines
- ◆ Reward those who achieve implementation milestones
- ◆ Direct resources to the right places
- ◆ Personally lead the strategic change process and the drive for operating excellence







# BUILDING A CAPABLE ORGANIZATION — WHAT IS INVOLVED?



# Fig. 11.2: The Three Components of Building a Capable Organization

## Staffing the Organization

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

## Building Core Competencies and Competitive Capabilities

- Developing a set of competencies and capabilities suited to the current strategy
- Updating and revising this set as external conditions and strategy change
- Training and retraining employees as needed to maintain skills-based competencies

## Matching the Organization Structure to Strategy

- Designing an organization structure that facilitates good strategy execution
- Deciding how much decision-making authority to push down to lower-level managers and front line employees

**A Company with the Organizational Capability Needed for Proficient Strategy Execution**

# Putting Together a Strong Management Team

- ◆ Assembling a capable management team is a cornerstone of the organization-building task
- ◆ 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



# 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



# Recruiting and Retaining Talented Employees: Implementation Issues

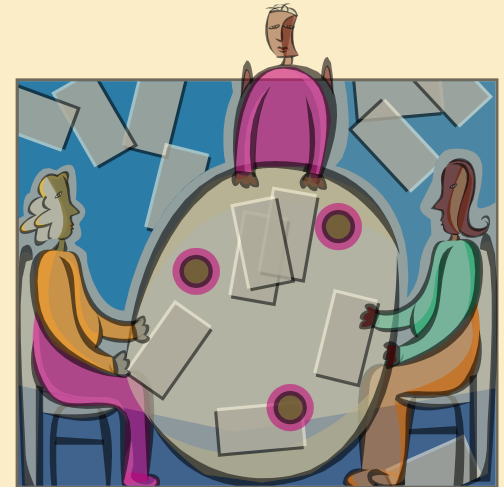
- ◆ Assemble needed human resources and knowledge base for effective strategy execution
- ◆ Biggest challenge facing companies
  - ➔ How to recruit and retain the best and brightest talent with strong skill sets and management potential
- ◆ Intellectual capital, not tangible assets, is increasingly being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





# 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 and culture
- ◆ Put employees through training programs throughout their careers
- ◆ Give promising employees challenging, interesting, and skills-stretching assignments





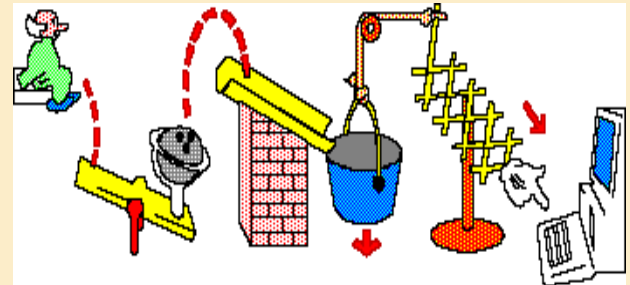
# Key Human Resource Practices to Attract and Retain Talented Employees (continued)

- ◆ 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 work environment
- ◆ Exert efforts to retain high-potential employees with excellent salary and benefits
- ◆ Coach average employees to improve their skills



# Building Core Competences and Competitive Capabilities

- ◆ *Crafting* the *strategy* involves
  - ➔ *Identifying* the desired *competences* and *capabilities* to build into the strategy and help achieve competitive advantage
- ◆ Good *strategy execution* requires
  - ➔ *Putting* desired *competences* and *capabilities in place*,
  - ➔ *Upgrading* them as needed, *and*
  - ➔ *Modifying* them as market conditions evolve



# Strategically-Relevant Competences

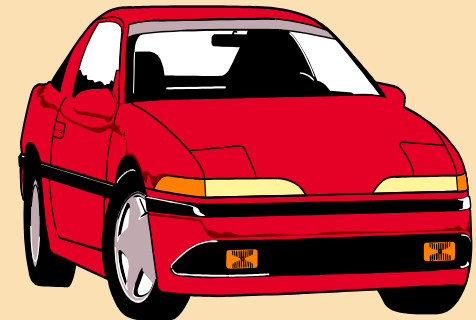
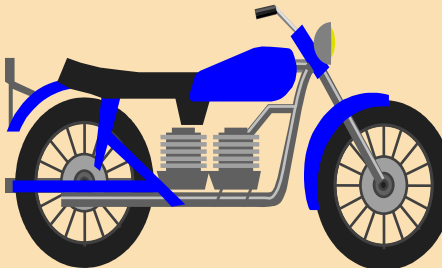
- ◆ Greater proficiency in product development
- ◆ Better manufacturing know-how
- ◆ Capability to provide better after-sale service
- ◆ Faster response to changing customer needs
- ◆ Superior cost-cutting skills
- ◆ Capacity to speed new products to market
- ◆ Superior inventory management systems
-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



# Example: Honda's Core Competence

## HONDA

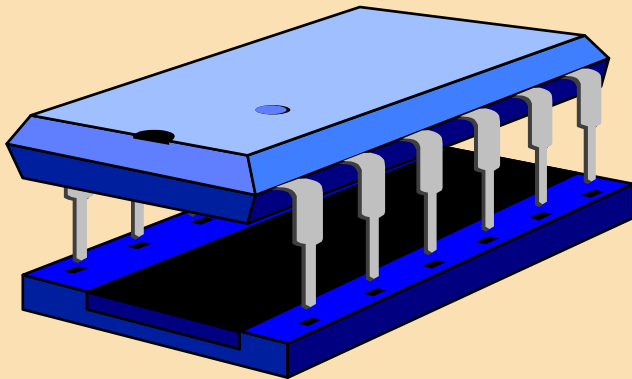
**Expertise in gasoline engine technology and small engine design**



# Example: Intel's Core Competence

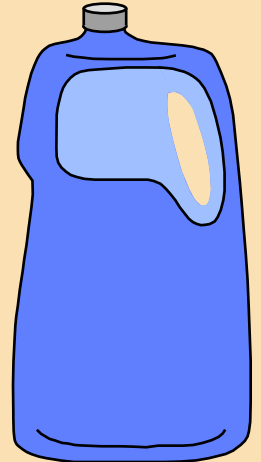
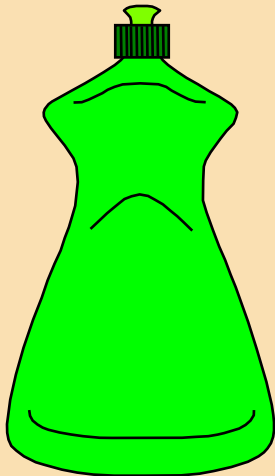
**intel.**

**Design of complex chips  
for personal computers**



# Example: Procter & Gamble's Core Competences

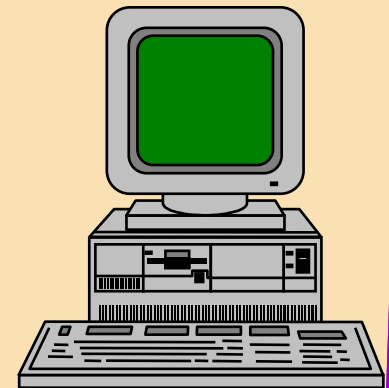
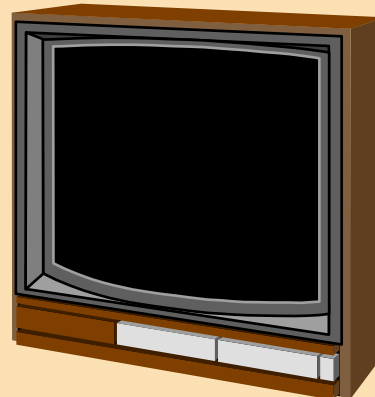
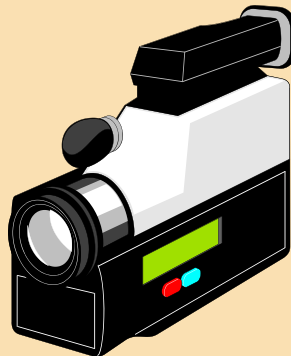
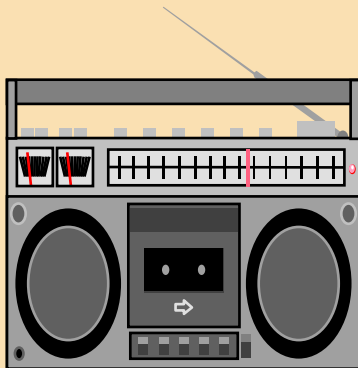
**Superb marketing-distribution skills and R&D capabilities in five core technologies - fats, oils, skin chemistry, surfactants, emulsifiers**





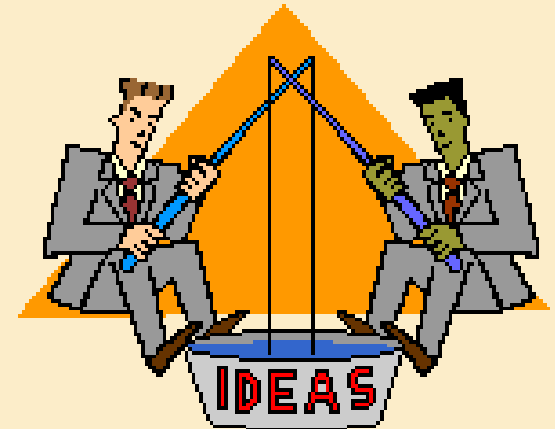
# Example: Sony's Core Competence

**Expertise in electronic technology and ability to translate the expertise into innovative products —miniaturized radios and video cameras; TVs and MP3 players with unique features, attractively designed PCs**



# Three-Stage Process of Developing Competences and Capabilities

1. Develop *ability* to do something
2. As experience builds, *ability* can *translate* into a *competence or capability*
3. If *ability* continues to be *polished and refined*, it can become a *distinctive competence*, providing a potential *competitive advantage*!



# Step 1 in Developing Competences

- ◆ Develop *ability* to do something
  - ➔ Select people with relevant skills/experience
  - ➔ Broaden or expand individual abilities as needed
  - ➔ Mold efforts and work products of individuals into a cooperative effort to create *organizational ability*



# Step 2 in Developing Competences

- ◆ As experience builds and company learns how to perform the activity consistently well and at acceptable cost, the *ability evolves* into a *competence* or *capability*
- ◆ Typically, a capability or competence emerges from establishing and nurturing *collaborative relationships* between
  - ➔ Individuals and groups in different departments and/or
  - ➔ A company and its external allies



# Step 3 in Developing Competences

- ◆ If company *masters* the *activity, performing* it *better than rivals*, the “*capability*” or “*competence*” becomes a

- *Distinctive competence* and

- Holds potential for *competitive advantage*



This is the *optimal outcome* of the process of building *capabilities-competences*!



# Managing the Process of Building Competences: Four Key Traits

1. Competencies are *bundles of skills* and *know-how* growing from *combined efforts* of cross-functional departments
2. Normally, competences *emerge incrementally* from various company efforts to respond to market conditions
3. Leveraging competences into competitive advantage requires *concentrating more effort* and *talent* than rivals on *strengthening competences* to create valuable capabilities
4. Sustaining competitive advantage requires *adjusting competences to new conditions*



# Approaches to Developing Competences

- ◆ **Internal development** involves *either*
  - ➔ Strengthening the company's base of skills, knowledge, and intellect *or*
  - ➔ Coordinating and networking the efforts of various work groups and departments
- ◆ Partnering with key suppliers, forming strategic alliances, or maybe even outsourcing certain activities to specialists
- ◆ **Buying a company** that has the required capabilities and integrating these competences into the firm's value chain



# Building Competences: Keys to Success

- ◆ **Selecting capable employees**
- ◆ **Training**
- ◆ **Cultural influences and peer pressures**
- ◆ **Cross-department cooperation and collaboration**
- ◆ **Motivating employees to strive for operating excellence**
- ◆ **Empowerment**
- ◆ **Attractive incentives**
- ◆ **Organizational flexibility**
- ◆ **Short deadlines**
- ◆ **Good databases**



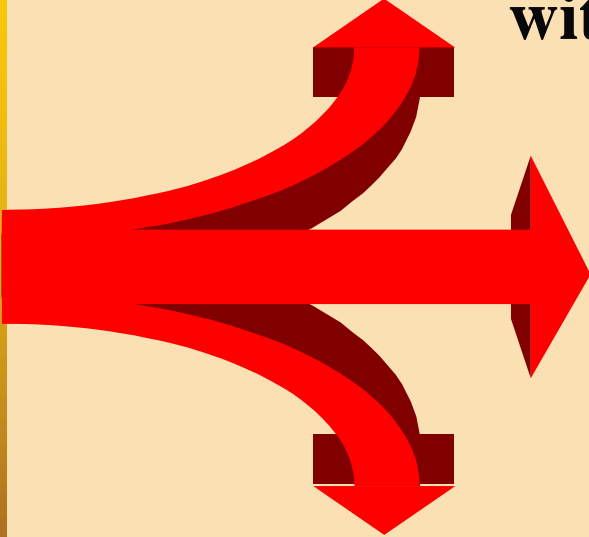
# Updating Competences and Capabilities as Conditions Change

- ◆ Competences 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 competences *up-to-date* can provide a basis for *sustaining* both
  - ➔ Effective strategy execution and
  - ➔ Competitive advantage



# Competitive Advantage Potential of Competences and Capabilities

When it is *difficult* to *outstrategize* rivals with a superior strategy . . .

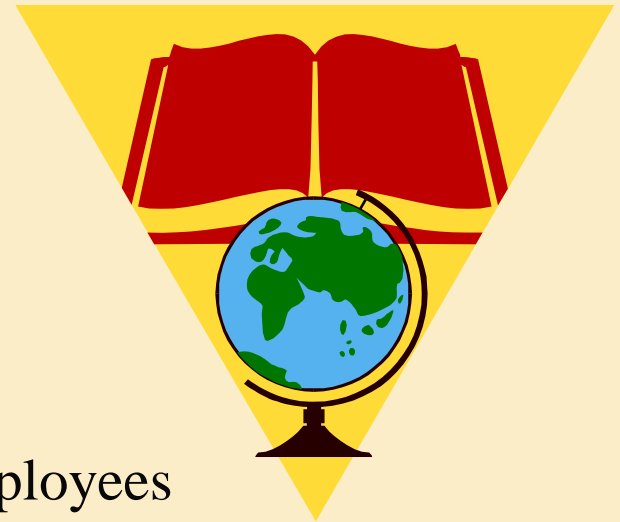


. . . Best avenue to *industry leadership* is to *out-compete* rivals with *superior strategy execution!*

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

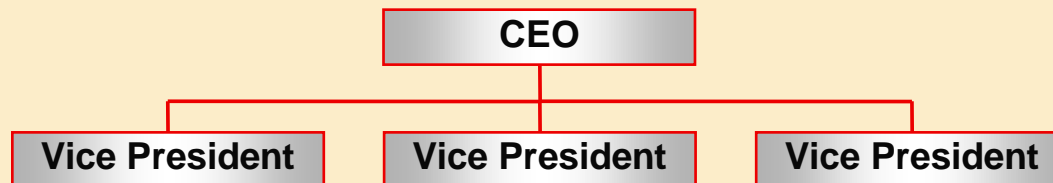
# Strategic Role of Employee Training

- ◆ Training plays a critical role in implementation when a firm shifts to a strategy requiring different
  - Skills or core competences
  - 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
  - ➔ ***One Big Rule: Role and purpose of 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





# Fig. 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

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

# Step 1: Decide Which Value Chain Activities to Perform Internally and Which to Outsource

- ◆ Involves *deciding* which *activities* are *essential* to *strategic success*

→ Most strategies entail certain crucial business processes or activities that must be performed exceedingly well or in closely coordinated fashion if the strategy is to be executed with real proficiency

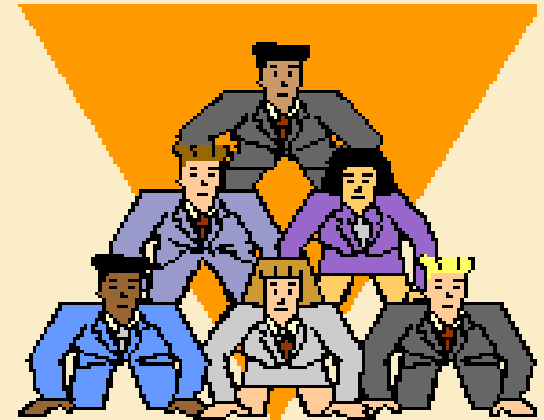
- These processes/activities usually need to be performed internally

→ Other activities, such as routine administrative housekeeping and some support functions, may be candidates for outsourcing



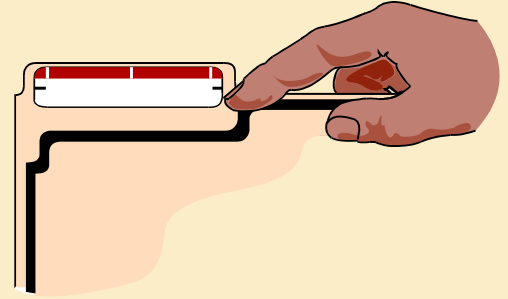
# Pinpointing Strategy-Critical Activities: Ask 2 Questions

1. What functions or business processes have to be performed extra well or in timely fashion to achieve competitive advantage?
2. In what value-chain activities would poor execution seriously impair strategic success?



# 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 an outsider can perform an activity cheaper or better.**

# 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 direct control to
    - Build core competences
    - 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 for competitive success



**Partnering makes *strategic sense* when the result is to enhance a company's competences and competitive capabilities.**



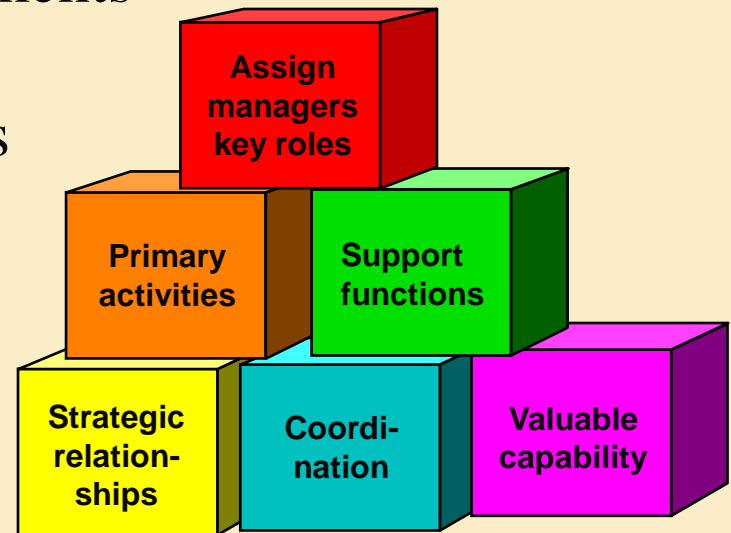
# Dangers of Outsourcing

- ◆ A company must guard against hollowing out its knowledge base and capabilities
- ◆ Way to guard against pitfalls of outsourcing
  - ➔ Avoid sourcing key components from a single supplier
  - ➔ Use two or three suppliers to minimize dependence on any one supplier
  - ➔ Regularly evaluate suppliers
  - ➔ Work closely with key suppliers



## Step 2: 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 competitive capability



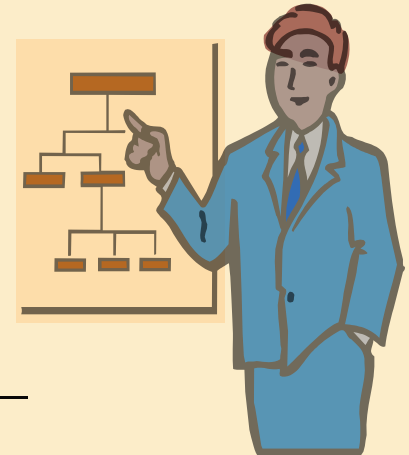
# Why Structure Follows Strategy

- ◆ *Changes in strategy* typically require a ***new*** or ***modified*** ***organization structure***

- ➔ A new strategy often involves different skills, different key activities, and different staffing and organizational requirements

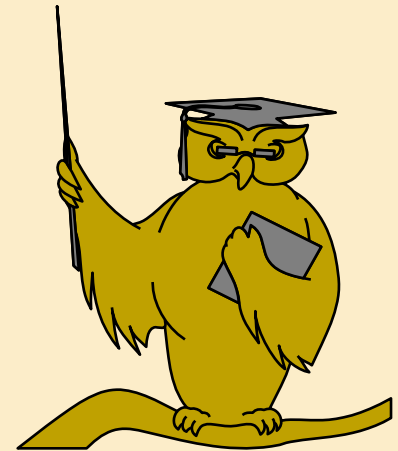
- ➔ Hence, a new strategy signals a need to reassess and often modify the organization structure

- ◆ How work is structured is a ***means to an end*** – ***not an end in itself!***



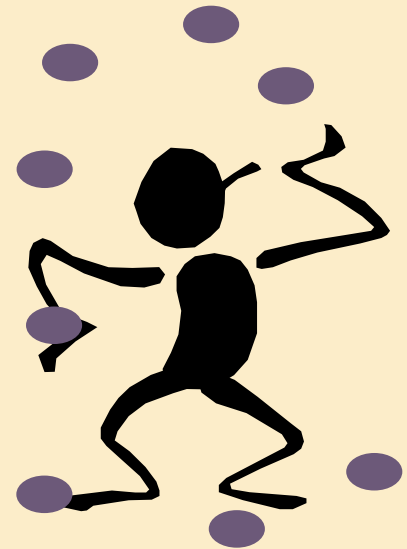
# Guard Against Functional Designs That Fragment Activities

- ◆ **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 silos to **create process-complete departments** or **cross-functional work groups**



# Examples of Fragmented Strategy-Critical Activities

- ◆ 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 3: 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





## *table 11.1* Advantages and Disadvantages of Centralized versus Decentralized Decision-Making

### Centralized 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 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.

#### Chief Advantage

- Tight control from the top allows for accountability.

#### Primary Disadvantages

- Lengthens response times because management bureaucracy must decide on a course of action.
- Does not encourage responsibility among lower-level managers and rank-and-file employees.
- Discourages lower-level managers and rank-and-file employees from exercising any initiative—they are expected to wait to be told what to do.

### Decentralized Organizational Structures

#### Basic Tenets

- Decision-making authority should be put in the hands of the people closest to and most familiar with the situation and these people should be trained to exercise good judgment.
- A company that draws on the combined intellectual capital of all its employees can outperform a command-and-control company.

#### Chief Advantages

- Encourages lower-level managers and rank-and-file 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.
- Reduces layers of management.

#### Primary Disadvantages

- Puts the organization at risk if many bad decisions are made at lower levels.
- Impedes cross-unit coordination and capture of strategic fits.

# Advantages of a Decentralized Structure

- ◆ Creates a more horizontal structure with fewer management layers
- ◆ Managers and employees develop their own answers and action plans
  - ➔ Make decisions in their areas of responsibility
  - ➔ Held accountable for results
- ◆ Shortens organizational response times and spurs
  - ➔ New ideas
  - ➔ Creative thinking and innovation
  - ➔ Greater involvement of managers and employees
- ◆ Jobs can be defined more broadly
- ◆ Fewer managers are needed
- ◆ Electronic communication systems provide quick, direct access to data
- ◆ Genuine gains in morale and productivity



# Maintaining Control in a Decentralized Structure

- ◆ Place limits on authority empowered employees can exercise
- ◆ Hold people accountable for their decisions
- ◆ Institute compensation incentives that reward employees for doing their jobs in a manner contributing to good company performance
- ◆ Create a corporate culture where there's strong peer pressure on employees to act responsibly



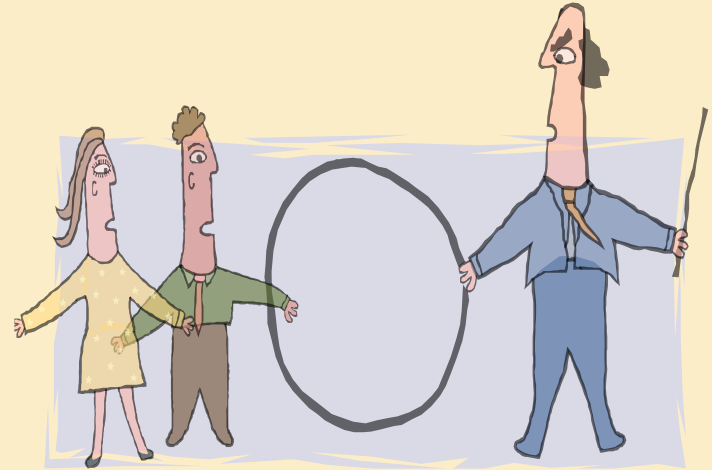
# Step 4: Provide for Internal Cross-Unit Coordination

- ◆ *Classic method of coordinating activities* – Have *related units report to single manager*
  - ➔ Upper-level managers have clout to coordinate efforts of their units
- ◆ *Support activities should be woven into structure* to
  - ➔ Maximize performance of primary activities
  - ➔ Contain costs of support activities
- ◆ *Formal reporting relationships* often need to be *supplemented to facilitate coordination*



# Coordinating Mechanisms to Supplement the Basic Organization Structure

- ◆ Cross-functional task forces
- ◆ Dual reporting relationships
- ◆ Informal networking
- ◆ Voluntary cooperation
- ◆ Incentive compensation tied to group performance
- ◆ Teamwork and cross-departmental cooperation





# Step 5: Provide for Collaboration With Outsiders

- ◆ Need *multiple ties* at *multiple levels* to ensure

- Communication

- Coordination and control



- ◆ Find ways to *produce collaborative 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*



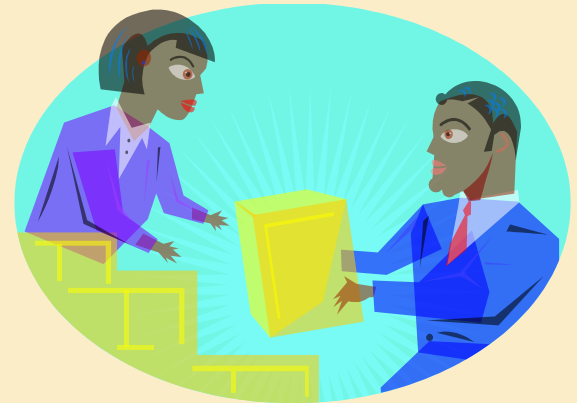
# Roles of Relationship Managers With Strategic Partners

- ◆ Get right people together
- ◆ Promote good rapport
- ◆ See plans for specific activities are developed and implemented
- ◆ Help adjust internal procedures and communication systems to
  - ➔ 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

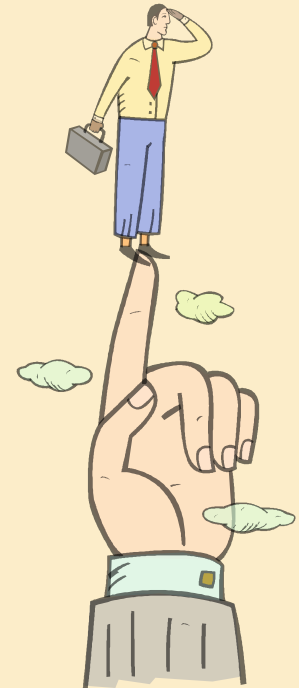
- ◆ Revolutionary *changes* in *how work* is *organized* have been triggered by
  - ➔ New strategic priorities
  - ➔ Rapidly shifting competitive conditions
- ◆ *Tools* of *organizational design* include
  - ➔ Empowered managers and workers
  - ➔ Reengineered work processes
  - ➔ Self-directed work teams
  - ➔ Rapid incorporation of Internet technology
  - ➔ Networking with outsiders



# Drawbacks of Centralized Authoritarian Structures

◆ *Centralized or authoritarian structures* have often turned out to be a *liability* where

- 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
- Market conditions are fluid



# Characteristics of Organizations of the Future

- ◆ *Fewer barriers* between
  - ➔ Different vertical ranks
  - ➔ Functions and disciplines
  - ➔ Units in different geographic locations
  - ➔ Company and its suppliers, distributors, strategic allies, and customers
- ◆ *Capacity* for *change* and *rapid learning*
- ◆ *Collaborative efforts* among people in different functions and geographic locations
- ◆ Extensive *use* of *Internet technology* and *e-commerce* business practices

