SECOND EDITION

MAKING STRATEGY WORK

LEADING EFFECTIVE EXECUTION AND CHANGE

LAWRENCE G. HREBINIAK

PRAISE FROM THE FIRST EDITION OF *MAKING STRATEGY WORK*

"I truly believe that if General Motors had incorporated Dr. Hrebiniak's proposals at any time over the past 15 to 20 years, the picture of General Motors today would be extremely different."

—**James P. Powers**, Strategic Planning,
General Motors Corporation (Ret.)

"I am a big Larry Hrebiniak fan. In his book he offers a comprehensive, disciplined process model for making strategy work in the real world. All of us owe him our thanks."

—**Ken Blanchard**, Coauthor of
The One Minute Manager and *The Secret*

"Strategy is the starting point, but without implementing actions, even the best laid plans remain just that. In *Making Strategy Work*, Hrebiniak provides a powerful and persuasive field manual for execution by laying out the logic, order, and essence of the strategic decisions that must follow."

—**Michael Useem**, Professor of Management and Director of the Center
for Leadership and Change at the Wharton School,
University of Pennsylvania

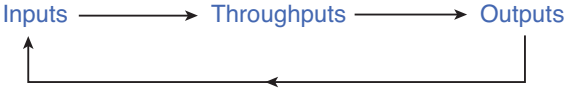
"Terrific…I have read all the 'handbooks,' 'guides to,' and 'roadmaps,' but in this book Larry has create the world's first Strategy Implementation GPS…spot on."

—**Gordon Peters**, founding Chairman, CEO,
Institute for Management Studies

STRUCTURAL ISSUE #1: MEASURING COSTS AND BENEFITS OF STRUCTURE

How does structure affect actual costs or measurable benefits? What results can reasonably be expected from different organizational forms?

To answer these questions, let's go back to basics. Picture an organization in the very simple way suggested by the following diagram:



All organizations have inputs: raw materials, staff or employees, patients, financial resources, and so on. All have throughputs: processes or technologies that transform inputs into outputs. Manufacturing firms have mass-production equipment and robots. Hospitals employ different skill sets or techniques (surgery, lab tests, dietary regimes) when working on patients. Universities have "technologies" (Socratic dialogues, case teaching methods) to educate students. Finally, all organizations have outputs (cars, cured patients, educated MBA students).

Using this simple figure, it is possible to argue, first, that organizations can be structured around their throughputs—the processes, technologies, or skill sets (the "means") employed in converting inputs into outputs (the "ends"). The term "process specialization" can be used to emphasize this focus on throughputs or the common processes employed to generate organizational outputs.[iii]

Figure 4.1 shows the best-known example of process specialization—the common functional organization. Organization by throughput or process breaks the company into functions (manufacturing, R&D, marketing). As Table 4.1 shows, there are benefits and costs associated with the functional structure.

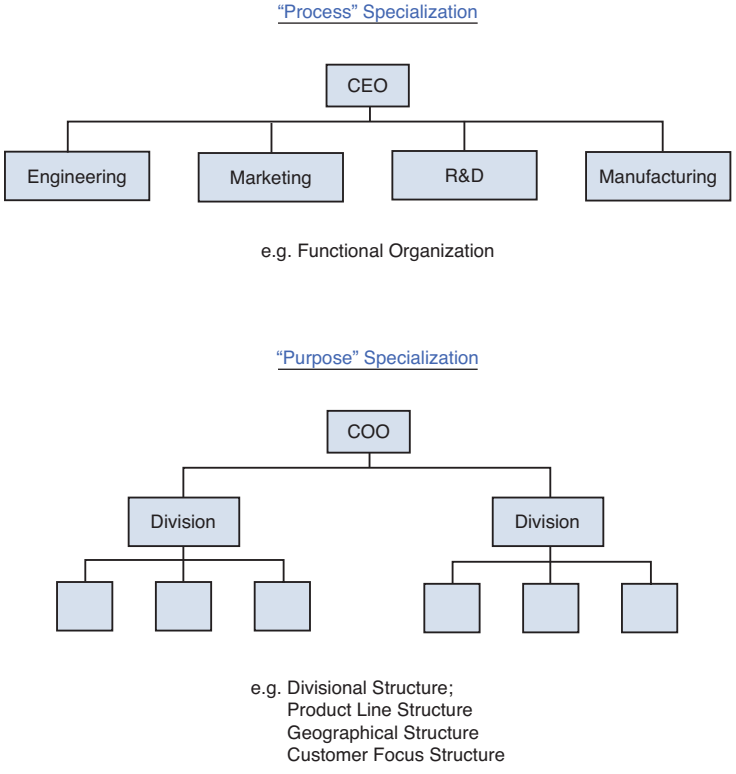


Figure 4.1 Organizational Structure: Process and Purpose Specialization

Table 4.1 Costs and Benefits of Process and Purposes Specialization

	Process Specialization/Functions	Purpose Specialization/Divisions
Benefits	■ Expertise of knowledge/a "critical mass"	■ Focus on customer, products, markets
	■ Economies of scale and scope/efficiency	■ Effectiveness
	■ Avoid duplication of scarce resources	■ Fewer coordination problems
	■ "Career" benefits	■ Quick response to industry change
Costs	■ Coordination costs	■ Duplication of scarce resources
	■ Functional myopia	■ Potential loss of economies/ efficiency
	■ "Distance" from customers of markets	■ Potential loss of control
	■ Loss of "big picture"	
	■ Bureaucracy	

The focus on expertise, with skilled engineers, scientists, or manufacturing managers working closely together, is a positive aspect. Groups of experts often form a "critical mass" that is needed for problem solving and innovation. A group of scientists working together in close proximity, with high levels of interaction and discussion, is more likely to discover something new than that same group split among a large number of separate divisions.

The repetition and standardization of work (such as doing lab tests in hospitals, assembly lines in manufacturing, engineers working on common problems, or insurance analysts working on and refining aspects of whole-life insurance) often lead to efficiency, economies of scale and scope. Duplication of resources is avoided, as personnel in a function can service many customers within the company.

Finally, there may be some "career" benefits when, for example, engineers work with engineers and know that their career path is through engineering. A handful of engineers reporting to a business manager in a small division in Tierra del Fuego may not see such a clear career ladder.

There are costs to the functional organization, as shown in Table 4.1. The most obvious are coordination costs. To service a customer or make a product, it is necessary to coordinate the many and diverse functions. The differences in goals and perceptions that mark different functions' views of work can exacerbate the problems of coordination and detract from a common goal such as customer service or high product quality. It simply is difficult to coordinate work among groups that hold differing views of what's important and what needs attention. Relatedly, the greater the number of diverse functions that need coordination, the more difficult the task and the higher the likelihood of problems.

Another way of looking at this is to talk about "functional myopia."[iv] Functional people get so wrapped up in their own technologies and views of the world that they lose sight of the "big picture." They lose contact with customers. R&D people get so involved in research, new technologies, and the long term that they totally ignore the "mundane" requests for product-line improvements now, in the near term. Science is more exciting and compelling than product revisions or customer demands. Functional myopia clearly exacerbates problems of coordination and unity of effort.

Finally, I've often heard the cry of "bureaucracy" by people who have trouble dealing with functional resistance to new ideas or the speeding up of work. Each function has its own rules and will follow them, the accusation goes, even if organizational work comes to a standstill.

Table 4.1 also shows the benefits and costs of what has been labeled "purpose" specialization. Purpose specialization simply means organization around "ends," or outputs, in contrast to the focus on "means," or throughputs, or the common functions of process specialization. For our purposes, think of "divisions" in organizations (see Figure 4.1). Strategic business units (SBUs) or product-line organizations also qualify as examples of this type of specialization, but let's focus on divisions to facilitate discussion. Divisional structures that focus on customers (Consumer Products Division), product lines (Mainframe Division), or geography (Asian or North American Division) are common examples of this form of organization.

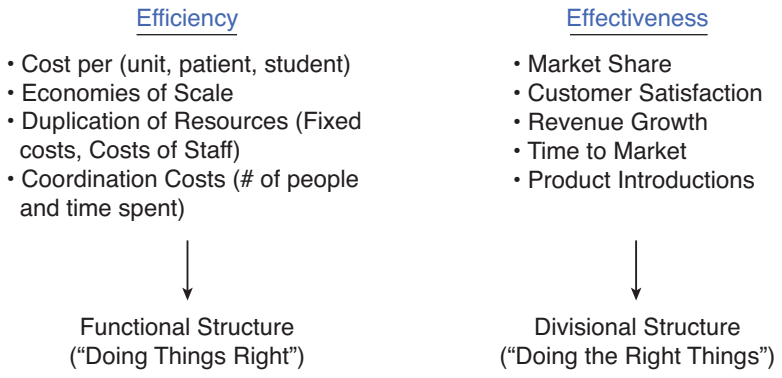
As is seen in Table 4.1, the costs and benefits of purpose specialization or divisionalization are generally the opposite of those shown under process specialization. Divisions can focus on customers, products, or geographical areas, increasing effectiveness. A dedicated organizational structure allows for quick responses to customer needs or industry changes. There are fewer coordination problems. Even if divisions are organized functionally, the focus derived from attention to one customer (the Government Products Division), product (Mainframe Division), or geographical region (the Asian Division) facilitates and enables coordination around a common goal, customer, or output.

The costs of divisional structures include the duplication of scarce resources. Each division head will argue for control over his or her own resources, staff, or functional groups, leading potentially to large amounts of costly duplication. Similarly, although the functional structure reinforces efficiency and scale economies, smaller divisions may not be able to achieve or sustain these same efficiencies.

Finally, divisional or related forms (for example, SBUs) may become so autonomous that the organization loses some control over them. A strong focus on one market, customer, or technology could result in decisions or behaviors inconsistent with larger organizational goals or needs. Decentralization clearly has benefits for the organization; excessive decentralization and autonomy, however, may breed serious control or governance issues.

It is clear that the purpose/divisional form contributes to effectiveness or "doing the right things" (having the right products or services, meeting customer needs quickly), whereas it may sometimes sacrifice efficiency or "doing things right" (low cost, scale economies).[v] The process/functional form contributes heavily to "doing things right" but potentially at the expense of "doing the right things" because of the problems noted in Table 4.1.

The actual metrics that can be employed to measure the impact of structure can be summarized under the headings of efficiency and effectiveness.



These prototypical organizational forms and metrics are basic. Still, keeping these basic ideas in mind, along with their costs and benefits, helps immensely when facing difficult structural decisions such as centralization versus decentralization of organizational structure or relating structure to strategy. Let's apply these basic ideas in the next section of this chapter, where we consider the choice between centralized and decentralized structures.

STRUCTURAL ISSUE #2: CENTRALIZATION VERSUS DECENTRALIZATION

"You're damned if you do and damned if you don't," lamented a CEO whose company I helped restructure. "If I ask corporate center people where resources should be, they answer 'here, naturally.' Ask the same question of my business heads, and of course, the answer is quite different. They want all resources in their businesses or divisions, not at corporate. As profit centers, they want total control of all functional staff. Corporate is seen as a hindrance, not a help."

This quote reflects a common problem in many organizations—where to put scarce resources or assets or how to organize to obtain maximum benefit from these resources. Should R&D or manufacturing be centralized and service all divisions or businesses, or should they be decentralized and under the control of managers who most directly need and use their capabilities? The quote shows that even today there obviously are mixed answers to this question.