ONE strategy

Experiences in Planning, Organization and Decision Making

STEVEN SINOFSKY Microsoft Corporation | **MARCO IANSITI** Harvard Business School

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Organization, Planning, and Decision Making

Steven Sinofsky
Marco Iansiti

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To Melanie and Malena

Acknowledgments

Author's note from Steven Sinofsky: Writing this book has offered me a chance to reflect on the work of the Windows and Windows Live team over three years of building a team and releasing some wonderful software:Windows Live (several "waves"), Internet Explorer 7 and Internet Explorer 8, and Windows 7. While this book represents my point of view, without the collaboration, communication, and even debate that took place over this time, these blog posts would not be possible.The thoughts, input, and points of view of so many members of the team are reflected in these posts that I think of this work as the work of the team much more than the work of any one person. At the same time, I'm most certainly responsible for the mistakes or misinterpretations that might have wound up in posts.

A coworker once suggested that "writing is thinking" and this blog offered a great chance to think through the answers to tough management questions—there's no better way to be prepared to answer a concern of a member of the team than to spend the time to write it down, and no better way to amplify the answer than to post it for all to see, comment on, and share. I'm deeply indebted to many amazing individuals who have been so supportive, not just over the past few years but throughout my professional life. Microsoft is a remarkable collection of people, each of whom has taught me a great deal, tolerated my shortcomings, and shown incredible patience while I continued to learn. At each step in my career, I have been blessed with wonderful coworkers and great managers, and have been part of awesome teams all coming together in an effort to build

excellent software. I would like to offer my deepest and sincerest thanks to the Microsoft community, of which I am so fortunate to be a part.

I offer this book with the utmost humility. One must admit that in the uncertain worlds of product development and management, ideas that are perfect in one context are decidedly wrong in other contexts. The things that seemed absolutely right at one time might be absolutely wrong at other times. My hope is that in sharing these ideas and experiences I continue to grow and learn and that the teams I happen to be part of can experience the same. I also recognize that all of this work is a journey and that most of all what matters is that journey.

The dialog this book represents took place in a learning and growing organization. The reader is asked to fully consider this context and to recognize the value of the whole over small elements taken out of context.

Tren Griffin provided valued insights, guidance, and editing assistance for which I am grateful. I also wish to thank each of the reviewers at Microsoft who provided detailed and constructive feedback.

I wish to express my deepest appreciation to the Windows and Windows Live team, to the Office team, and to the Microsoft engineering community. Thank you.

For more than a decade, I’ve had the opportunity to work with Marco Iansiti, who saw the opportunity for us to work together to bring our complementary experiences to this book, and I thank him for that partnership.

Author’s note from Marco Iansiti: This book project provided me with a unique opportunity to perform management research by examining an organization from

within. When I started, I frankly did not have any idea what the book would ultimately be about. I was just fascinated by the idea of studying an organization as complex and important as the Windows team. I started by reading through blogs, talking with Steven, spending time with his team, and involving myself in the project itself. As I spent more and more time on this, it gradually dawned on me that something really interesting was happening. This was an organization that believed what it said, accomplished what it promised, and embedded its strategy in its way of doing everything.The strategy actually had integrity. There were no fractures, no broken promises, and no “heroes” that made everything happen behind the scenes. This organization did not promise things. It just delivered.

After years of being involved in senseless debates as to whether strategy drove operations or the other way around, here was an organization in which the two were one and the same thing. It simply made no sense to separate strategy development from execution in an environment that moved this fast. Strategy and execution had to remain 100 percent aligned, as the organization reacted to events like the world’s worst financial downturn in recent memory, the architectural transition to cloud computing, or the rise of Google’s competitive power. In this kind of an environment, there is no time to separate strategy. Strategy lives within each team member, who jointly develops it and executes it. Directed and emergent strategy are one and the same.There is only one strategy.

This book never would have happened without the help of countless people. First in line is my wife, Malena, with my children, Alexander and Julia, who had to put up with countless long nights and discussions about chapter headings, book titles, or cover designs. I am also grateful to Greg Richards, whose truly relentless pursuit of insight is a constant inspiration to me. Jeff Schneble, Jeff Marowits, Ross

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Preface

One Strategy describes a general approach for organizations to achieve a single, shared strategic perspective and translate that perspective into impact.

In doing so, this book investigates the interaction between strategy and execution by providing a unique blend of theory and practice. Marco Iansiti combines his research in strategy and innovation with Steven Sinofsky's experience managing the Windows team at Microsoft in order to describe what it takes to align a complex organization around one strategy. Marco's research provides the context for Steven's blogs and together they describe a real journey, with strategic integrity as the final destination, and with important managerial lessons encountered along the way. In doing so, the book examines the concepts, capabilities, processes, and behaviors that aligned around one strategy that helped to build a new release of Microsoft Windows—Windows 7.

Rather than stipulating what a high-integrity organization should look like, the authors offer readers the communications and experiences documenting the managerial journey of the Windows organization as it seeks to optimize the match between strategy and execution in developing the product. The book includes the series of dialogs between Steven and his organization, captured by Steven's blogs.These blogs, posted internally on the Microsoft Office SharePoint site to all Microsoft employees (http://my/site/stevesi/blog on Microsoft's network), tell the story of the Windows team as it progresses through the development of both the organization and the product. Given the large size of the organization, Steven found

blogging to be a powerful communication tool to provide his perspective and to discuss a broad set of issues in depth, from organization to motivation, and from culture to budgets, especially when used in conjunction with traditional tools such as one-on-ones (1:1s), team meetings, office hours, and so on.

The blogs present a real view into the Windows organization and the issues it confronted as it searched for strategic integrity and strived to translate potential into impact in its organization and in its business. While these blogs are presented as though they were a series of memos, in practice blogging is a two-way form of communication and for that reason Steven is literally having a dialog with the Windows team. The blogs chosen are a subset of the more than 200 postings on the site. In addition, some of the blogs have been chosen from a public blog maintained by Steven prior to his joining the Windows organization (http://blogs.msdn.com/techtalk), as these were often referenced.

Perhaps most interesting is how the blogs reflect Steven's own experience and learning throughout his tenure at Microsoft. Steven is the first to point out that the dialogs with the team represent his opportunity to pass along the insights, experiences, and lessons learned from some of Microsoft's great managers—especially Jeff Harbers, Bill Gates, Pete Higgins, Chris Peters, and Mike Maples, who so greatly influenced, in fact defined, his approach and thinking early in his career. Steve Ballmer and Jeff Raikes were there to support Steven as he applied these lessons to the management of the Microsoft Office organization. During the course of building the new Windows organization, having the wisdom and support of both Bill Gates and Steve Ballmer afforded Steven unparalleled support, advice, and guidance on the topics of technology, business, and leadership. Building on the strengths of

Microsoft gave Steven a unique foundation on which to further refine the concepts articulated in the blogs.While *One Strategy* documents the changes in the Windows organization, one must not lose sight of the foundation on which these concepts have been added—an incredibly talented engineering team rooted in the development of one of the largest and most successful software products ever created.

The blogs are integrated into the body of each chapter, providing a unique view into a real journey to strategic integrity. Except for fixing spelling errors and typographical conventions, or editing small amounts of Microsoft internal content, the blogs are presented “as posted.” In cases where words were omitted or even garbled we have enclosed clarifications in [square brackets]. The blogs describe what went on in the Windows organization and are linked to commentary, frameworks, and examples drawn from other companies that have struggled with the same challenges, as well as original research.

By providing these blog posts “as posted” and unedited, the reader is brought into the reality of an evolving organization and project. Many of the blogs were written while reacting to events as they unfolded or were written within the context of the moment. In all cases, the posts reflect Steven’s personal view of the situation and in no way reflect a corporate policy. Even on matters of policy, these posts merely represent a conversation—in the hallway, at the break room, or in a casual team get-together—and not a policy statement or definitive guide to how things are or should be at Microsoft in general. While many corporate communications are vetted, edited, or go through a feedback process, Steven’s posts went straight from Windows Live Writer to SharePoint, and as such reflect the realities of that sort of conversation.

Chapter 1

Strategic Integrity

Strategic integrity is established by aligning strategy and execution at all levels of the organization. Every firm has two strategies. The first is explicit, defined by official strategy white papers, memos, and presentations to turn executive vision into a series of competitive moves.[1] The second is implicit and defined by execution, and arises from the pattern of decisions and actions undertaken by the firm.[2] The first notion of strategy is “directed” since it stems from the top-down directions of senior management.The second notion of strategy is “emergent” because it materializes from bottom-up performance and originates from the aggregate behavior of the firm’s middle managers and line employees. As organizations grow in size, and as uncertainty in the business environment increases, creating alignment between these two notions becomes increasingly difficult. A lack of alignment will fuel an unproductive duality that destroys strategic integrity and leads to catastrophic business failure.

Directed and emergent strategies diverge because strategy and execution are usually disconnected, defined at disparate points in time, placed in separate organizations, and driven by different people. But rapid change in the business environment requires constant adaptation and reassessment, which in turn necessitate an increasingly tight and responsive connection between top-down strategic priorities and the actual patterns of operational execution. Rethinking the strategy development processes,

organizational capabilities, and decision-making systems to provide a better connection between top-down priorities and bottom-up actions has become one of the most important priorities on the agenda of today's executives.

Drawing from specific examples and detailed descriptions, this book describes a general approach for organizations to achieve a single, shared strategic perspective. Strategic integrity is driven by specific approaches to organization, planning, and decision making. Beyond the establishment of measurement systems that track performance to strategic objectives, matching strategy to execution incorporates many concepts and approaches that are traditionally separated from the strategy creation process. Not only should strategy match organizational capabilities, but the specific configuration of organizational capabilities should be part of the strategy development process. Also, successful strategy benefits from a much deeper and more participatory planning process than previously recognized. Participation drives alignment and promotes teamwork, while planning connects strategic vision to execution tactics. Together, these factors mold emergent and directed strategies into one.

The Enterprise and Its Unrealized Potential

Despite the devoted efforts of managers everywhere, the potential of an enterprise often remains unrealized. Companies today are confronted by unprecedented challenges caused by the unpredictability and complexity of their competitive environment. From automobiles to financial services, from consumer electronics to computers, many recent managerial missteps have created a common belief that established enterprises can no longer compete effectively. Large companies are often slow, driven by the

wrong incentives, trapped in the wrong value systems, or simply too rigid and entrenched to adapt to turbulence. In the extreme case, these problems have caused spectacular failures, as seen in the telecom industry during the dot-com era or in financial institutions leading up to the financial crisis that resulted in the recession of 2008 and 2009. It may appear to some people that once a business achieves the very success it strives for, the next step must inevitably be failure. But there must be more opportunity for success as part of an enterprise; otherwise many waste a great deal of effort.

Bridging the gaps between conflicting strategies in large organizations is essential. Enterprises drive our economy and are essential to innovation. From the phones that we use to the media that carry their signals, products and services are increasingly complex and their businesses require constant innovation. Any notion that small ventures or volunteer communities can produce all of the innovations that society requires is untenable. Countless innovations require, by their very nature, significant resources, capabilities, and investments. While start-ups and spin-outs can and do create important new technologies, new businesses, or even new markets, they simply cannot solve the class of problems that is addressed by larger and more established firms. One cannot develop a spacecraft to explore Mars, revolutionize transportation to address environmental challenges, drive innovations in biotech and pharmaceutical research to deliver cures, or engineer an operating system that serves one billion customers without mastering the management of complex, multibilliondollar organizations. There is a pervasive need to find new ways to align and manage large enterprises, especially given the nature of the problems that society must solve.

The challenges and opportunities in managing the enterprise are amplified by the fact that today’s products

are most often produced in partnership with many firms. Companies are embedded in business ecosystems, which are made up of large networks of partners, suppliers, and competitors that influence the value of products and services by producing complementary or competitive offerings.[3] Having impact in such a setting requires an organization that not only reaches internal integrity, but also has the strategy and capability to align external communities. MS-DOS and then Windows were both successful because they created opportunities for millions of external software developers. Even Linux, originally developed by Linus Torvalds and a dispersed community of engineers, dramatically increased its impact when companies such as IBM, HP, Novell, and Red Hat aligned key parts of the community around a new strategy for success (focusing on the enterprise). Beyond software, automobile, appliance, and electronics companies must align suppliers and dealers, while pharmaceutical companies must connect with regulatory agencies and scientific communities. Ultimately, enterprises have great strategic potential because they shape and influence vast assets and capabilities, both internal and external to the firm. If they manage to align these resources, in a way that remains coherent through times of change, their potential will translate into enormous impact on both business and social dimensions. But without alignment, the same potential is virtually certain to remain unfulfilled.

Strategy, Execution, and Inertia

Management research has examined the challenges enterprises face in translating potential into impact. The research spans a broad variety of studies that examine thousands of organizations across every industry, from

cement kilns to digital photography, and from automobiles to financial services.[4],[5] These research studies converge on the idea that organizations accumulate a kind of “inertia” over time, through the processes, incentive systems, routines, and relationships that shape operational execution.These routines and processes enable an organization to perform complex tasks, ranging from management of customer orders to interpretation of market research, and from choice of design features in product development to specific steps taken in driving to a particular operational improvement goal (e.g.,“We always do it this way”). These same routines shape how the organization works, and are reinforced by the company’s incentive systems, to make it efficient to do the same types of tasks over and over again. However, what makes it easy to perform repetitive tasks can make it nearly impossible for the organization to change.

Over time, routines established to optimize efficient execution converge into a pattern of behavior that defines the emergent strategy of the organization. Strategy therefore becomes the product of the firm’s incentives, structures, and patterns of behavior, not the other way around. Over time, a very large gap can emerge between emergent strategy and any top-down, directed strategy, causing the firm’s potential to stay unrealized. This may go unnoticed for some time, but will rapidly come to a head if the firm’s environment begins to evolve.[6]

In times of change, attempts by management to alter the strategic direction of the company can easily expand the gaps between directed and emergent strategy. If the management of the enterprise recognizes the need for change and articulates new directions, subordinates will too often reject it and stay focused on established patterns of behavior. The organization will often tend to stay the old

course either because it has not been given a new definition of success that applies to daily tasks and priorities, or because that new definition has not been fully embraced. Even if the need for change is recognized in certain operating units, more gaps may open as different units move in different directions. Gaps between strategy and execution will destroy alignment and make it difficult for the enterprise to respond effectively to competitive pressures.

Dell: Inertia, Failure, and Renewal[7]

Before 2006, Dell had often been hailed as the world's most successful personal computer company. For 20 years, Dell enjoyed tremendous success in the personal computer industry, driven by a powerful business model, which competitors repeatedly tried to imitate, and failed.The situation changed dramatically in recent years, with Hewlett Packard (HP) taking the lead and Dell falling behind. How did this come to happen?

Unlike most other computer manufacturers, Dell sold directly to its customers and established a unique information flow between customers and suppliers. This rapid and rich information exchange was matched by a high-velocity supply chain, and Dell was able to match customer orders with a lead time that was an order of magnitude shorter than competitors'. This had a direct impact on reducing inventory, returns, and even component costs, while dramatically improving cash flow and overall profitability. The speed of Dell's system enabled the company to respond to changes in customer needs and market requirements with unmatched velocity and efficiency. Dell was the darling of customers and Wall Street

analysts alike, as its sales and stock price increased by orders of magnitude between 1984 and 2004.

Dell was perfectly optimized to fit its quick response model. The model influenced all aspects of the organization, from a ruthless cultural focus on efficient execution to a financial emphasis on rapid cycles, closing the books, and emphasizing “making the numbers”on a weekly basis, sometimes even on a daily basis.The people it recruited were focused on operational excellence and rewarded for the rapid and efficient completion of operational tasks. Dell did not always emphasize product innovation, since its computers were designed conservatively and exhibited a relatively small number of similar models, which could be stocked efficiently and shipped quickly to customers. As the organization grew rapidly during the 1990s and early 2000s, this model was continually reinforced, and its routines became second nature to the company’s employees. The organization stayed efficient but, as it grew, lost its flexibility. Managers were doing “the right things” not because they were the right things to do but because it was the same way they had always been done. Their model became a driver of organizational inertia. As an insider stated,“The business model became cast in concrete, and business processes became increasingly ossified.”[8]

In 2005, the personal computer industry continued to undergo incremental changes. Growth opportunities shifted increasingly to the consumer market, which favored notebook computers over desktops. This gradual shift increasingly challenged Dell’s operating model, since consumers valued design innovation and liked shopping retail, particularly for notebooks. Dell evolved its strategies toward an increased focus on notebooks and on consumers, but unlike HP and Apple, which made significant investments in design and in retail presence,[9] Dell’s

operations simply did not follow suit. Dell continued to execute as it had in the past, focusing on supply chain management, channel efficiencies, and economies of scale, which provided an increasingly ephemeral advantage. Dell's relative lack of design innovation, R&D, sales channel diversity, and absence of focus on the consumer business led to increasingly poor financial performance.[10]

Dell's story is particularly surprising because the challenges it encountered were so gradual and incremental. The increase in notebook share is very incremental and predictable.This is not the Internet transforming the competitive landscape overnight, but a much more gradual transition, which takes place over essentially a ten year period. Could Dell's managers, immersed in their competitive environment, really fail to notice such incremental changes?

Most Dell executives were certainly aware of the changes way before 2004, but their knowledge did not translate into significant actions. Inertia had set in and it had become impossible for individual managers to change the company's course and react in a coherent fashion, until it was much too late. Despite a top-down strategy calling for change, the company was only able to form pockets of activity that argued for a new operational direction, increasing a focus on design, investing in a retail presence, with many separate groups advocating different approaches. However, these groups did not reach critical mass and succeeded only in creating stress, without real impact. This caused major fractures in the organization, especially when Dell began to miss its financial targets, and then "things really hit the fan . . . "[11] The organization lost its coherence, with different executives arguing for different strategies, blaming each other, and creating a managerial

panic that resulted into significant financial mismanagement.[12]

In early 2007, Michael Dell came back as Dell's CEO in order to turn things around and realign the organization around a new strategy. Dell urged every manager to rethink his or her individual job in light of the new strategy and reexamine every aspect of the Dell model. Dell showed significant promise by mid-2008, when its performance was further challenged by recession.

Michael Dell rolled out changes in many key areas. He reorganized the businesses, which had hollowed out and lost key talents and skill sets. He rebuilt management capability, flattened the organization, and invested deeply to bring in new, hand-picked employees at every level, from the top executives to entry-level engineers. He moved to reinvigorate R&D to catch up with competition, particularly in consumer designs.[13] Dell expanded the company's product line breadth and focused resources on designing PCs in new ways, predicting features ahead of demand, stocking more inventory, and implementing new approaches to product distribution. In its most observable move, Dell moved to the retail channel, and now has its products in more than 10,000 retail outlets around the world. The company also redesigned its manufacturing process for lower-margin laptops—with less configurability, focusing more on build to stock and less on build to order. Additionally, Dell improved its customer support function and increased its competency in dealing with a less-technical customer base.[14]

It took significant managerial energy to repair old fractures and execute the new strategy in a coherent fashion. Michael Dell motivated his organization to develop, evolve, and communicate a new detailed plan and present

progress on a weekly basis, with many meetings personally attended by him. The system went both up and down: He emphasized close top-down supervision while encouraging (and requiring) bottom-up participation. Gradually, the results began to emerge, and Dell appears once again positioned to succeed, even in these very difficult economic times.[15]

Why was it so difficult for Dell to change course? Dell's organization had learned over time how to live by a certain business model, and it was very successful. Management had optimized everything in the company to emphasize quick supply chain responsiveness, minimum inventory, and ultimate manufacturing efficiency. However, the routines that evolved did not lend themselves to the different challenges of the last few years, which required regaining an emphasis on notebook computers, design innovation, and product differentiation. Dell managers faced a significant challenge in changing course, since they had tightly aligned the organization's processes and incentives around the old environment, and the massive organization suffered debilitating inertia. Until Michael Dell came back and broke the dominant patterns, replanned activities from scratch, and changed organization, processes, and incentives, managers had no space to make different decisions and they continued doing the same old things, measured in the same old way, and driven by the same old incentives and goals.

There are many factors explaining Dell's challenges. The company had a great tradition of success in a relatively predictable environment. The organization also rewarded project managers for execution excellence and for hitting their numbers, providing an urgent incentive to execute on immediate tasks, but no incentive to look ahead. As the environment changed, even though it did so gradually and

incrementally, the organization did not have the flexibility to adapt. The pressure that built up in the organization was not being released by means of any real changes in overall direction, and instead gave rise to fractures between groups and between directed and emergent strategies. As a result, the company kept going through its traditional motions without responding to the changing desires of its customers.

Inertia can make matching new strategies to execution as difficult as steering an ocean liner. Making the problem set harder is the fact that organizations are more fragile than most people imagine. If one attempts to take an organization in a new direction, without the right foundation, much of that organization will remain pointed in the old direction, creating stress, fractures between groups, confusion, delays, and poor execution. These fractures fragment the business and prevent an efficient flow of information, making it impossible to gain the critical mass needed for change. The fractures cause people to make the wrong decisions and can lead to business “failure.”[16]

Inertia, with the stress and organizational fractures that it can cause, destroy the match between strategy and execution in countless examples. Inertia that may exist in engineering, marketing, general management, and finance, or between business partners and customers, will prevent teams from sharing information and making informed decisions. This wrecks the alignment between strategy and execution. Inertia and stress can do damage at different levels, including detrimental behavior of CEOs and other executives all the way down to mistakes made by engineers.

Inertia is challenging but not insurmountable, as the Dell example illustrates. Laying the groundwork to fight inertia takes time and enormous attention to detail and consistency across the many factors that drive the coherence and

responsiveness of an organization. Much like turning an ocean liner too quickly or without the right infrastructure, inertia can lead to the creation of fissures large enough to sink the whole ship. On the other hand, with appropriate strategy and framework of operational principles, the enterprise can successfully counteract inertia and develop the coherence and flexibility required to do extremely well in today's turbulent business environment.

A Participatory Approach to Strategic Integrity

Breaking inertia and matching execution to new and evolving strategies hinges on the idea of strategic integrity. More than just ensuring that a strategy has traction, a close match between strategy and execution is crucial to be sure that we have the right strategy in the first place. Strategic integrity is not about crafting brilliant strategy or about having the perfect organization: *It is about getting the right strategies done by an organization that is aligned and knows how to get them done.* It is about matching top-down-directed perspectives with bottom-up tasks.

Creating a match between strategy and execution is rare. Historical research in strategy, innovation, and operations has shown that companies often isolate strategy development, marketing, and planning processes from the very groups that are responsible for execution, such as engineering, product, or operations. Additionally, these functions further fracture into increasingly small departments, teams, and subgroups without creating any processes or systems to reintegrate the disparate subgroups. Human nature tells us that few are likely to accept at face value a strategy handed “down”and even fewer are likely to execute it according to an inevitably poor plan, lacking the necessary detail. This fragmentation not

only prevents strategy from being absorbed and implemented by the operational functions, it also prevents the right operational information to migrate up to inform and redirect strategy. Beyond financial information, this includes information about more difficult issues such as project schedules, customer needs and trends, technical feasibility, and partner viability. Above all, this separation avoids organizational accountability at every level—those responsible for the strategy can point to failed execution and those responsible for execution can point to a strategy doomed to failure. The effects of separation, fragmentation, and lack of accountability are exacerbated by increasingly static incentives and measurement systems. This pattern creates and amplifies misalignments and can contribute to stress and major fractures in the organization.This pattern also destroys the organizational coherence required for strategic integrity.

There are better ways to run an enterprise. Achieving strategic integrity depends on maintaining coherence in the organization and achieving a high degree of fit with evolving customer needs and environmental trends. Imagine an organization in which the articulation of strategy is not contained within the purview of a small number of senior managers or executives but is instead shared broadly across the organization. Engaged in a participatory planning activity that examines the creativity and feasibility of the strategy, the organization feeds back comments, arguments, challenges, and new opportunities. In this world, the organization not only improves the strategy, but also connects strategy to execution with integrity. Once execution kicks off, the organization is behind it. And when execution runs into challenges, the problems are visible across the organization and the strategy changes to overcome the obstacles that come into its path. Emergent and directed strategies are one and the same thing.