

Point of View: Jan Rivkin

The Strategic Importance of Integrative Skills



To the eyes of an outside observer, the Rotman School appears to have placed a huge bet: that a school whose faculty members can develop new knowledge about integrative thinking and train students to be world-class integrators will thrive.

On one hand, this seems like a safe bet. After all, organizations exist to coordinate and integrate the efforts of individuals – to enable groups to do things that individuals cannot. Accordingly, leading business scholars, pioneers such as **Chester Barnard**, **Alfred Chandler**, **Paul Lawrence**, and **Jay Lorsch**, have argued for decades that no factor is more vital to a firm's health than the quality of its integration.

On the other hand, Rotman's bet is a bold one because – at least to my knowledge – no one yet has explained in detail why, how, and when integrative thinking skills are essential for managers. The question of 'why integration matters' is one I take up with my students in an elective Strategy course at Harvard Business School. I don't have a complete answer yet, but perhaps I can offer some insights.

My course puts forward a simple definition of integrative skill: a highly-skilled integrator can see how the parts of a firm fit together and how they might fit together differently. The parts in play may be functional silos, separate product lines, individual divisions, or different geographic regions, for instance. The students and I then examine how integration and integrative thinking skills play a role in the success of a firm's strategy as the strategy passes through three natural points in its lifecycle: when the strategy first comes together, when it is threatened with failure, and when it is changed. Each of these points represents a moment of truth for integrators, and each highlights a different way in which integrative thinking skills are essential. Let me say a word about each in turn.

New strategies

Integrative skills are crucial early in a strategy's lifecycle because crafting an effective new strategy is, in my mind, an inherently integrative act. Successful, novel strategies rarely rely entirely on progress in a single part of a firm – a marketing breakthrough, a radical new technology, or an advance in manufacturing, for instance. Much more commonly, innovative strategies call on all the parts of a company and craft a whole that is greater than the sum of those parts.

A couple of well-known examples make the point. **Michael Dell** (featured in this issue's CEOs Corner, pp. 30-31) is often credited with creating a logistics system that delivers personal computers to corporate customers quickly and efficiently, without middlemen. But that logistics system works well only because of matching innovations in sales force management, just-in-time manufacturing, supplier coordination, after-sale telephone and Internet service, customer relationship management, and so forth. Everything Dell does is different from the competition: it's hard to find a single part of the Dell value chain that resembles the value chain of a traditional PC maker.

Similarly, early observers often credited **Wal-Mart's** success to its impressive information technology system, which allowed it to manage the flow of goods through its distribution centres and its stores with unprecedented efficiency. Yet the IT system served Wal-Mart so well because it enabled the company to operate cheaply in small isolated towns where it enjoyed near-monopolies. The IT system

gave managers in headquarters the information and confidence to grant store-level managers relative autonomy, it complemented the everyday-low-pricing policy of the firm, it was aligned with Wal-Mart's efforts to negotiate with vendors, etc.

Terrific strategies typically have such a systemic nature, and crafting such a system requires impressive integrative skills. On occasion, such systems spring nearly full-grown from the head of an entrepreneur. **Fred Smith**, for instance, put together much of the plan for what became **Federal Express** in a 1965 Yale term paper, six years before he founded the company (the paper earned him only a C grade.) Far more commonly, and surely in the cases of Dell and Wal-Mart, strategies emerge over time in a messy process that involves experimentation, feedback, and adjustment. Even in this emergent process, though, integrative skills are crucial. Managers who possess them can spot the core of an innovative strategy, grasp the implications for other parts of the company, and build out the idea relentlessly until it comes to pervade a company's entire value chain. They see, for instance, how improvements in a retailer's information system have implications for store locations, store manager autonomy, pricing policy, and vendor relations.

The relentless elaboration of a strategy throughout the parts of a company leads to a system that is very hard for outsiders to reproduce. Dell's competitors – capable firms such as **IBM**, **HP**, and **Gateway** – have struggled for more than a decade and with little success to match Dell's approach to selling PCs. Speaking to a group of stu-

dents in 2002, Michael Dell himself admitted, “I would have expected by now that somebody would have copied our business model. Actually I am quite surprised that it hasn’t happened.” His explanation: “We’ve come to believe that it’s just very, very hard to make these changes, and Dell is a company that – from the ground up, from the design, to the manufacturing, to the sales, to the support – started with a very distinctive way of doing business.”

Threat of failure

Even with the best of strategies, a company will eventually face challenges from the outside world. How well it responds to challenges depends critically on the quality of the integrative thinking skills of its managers. A growing body of research suggests that threats that ‘cut across the seams’ of an organization are especially dangerous. In the context of technological change, for instance, **Rebecca Henderson** and **Kim Clark** argue that leading incumbent companies are undone not by breakthroughs in individual technological components, but by ‘architectural innovations’ – innovations that change how component technologies relate to one another.

There are at least two reasons that companies are vulnerable to cross-cutting changes. First, because such changes don’t fall squarely in the domain of any single department or division, management teams can fail to see them until it is too late. Anyone who wishes to see a dramatic and tragic example of this should read the final report of *America’s National Commission on Terrorist Attacks upon the United States* – the so-called ‘9/11 Commission’. The Commission records a half-dozen instances in which critical clues about al Qaeda’s horrific plans were lost in the gaps between government agencies. Divisions between the **FBI** and the **CIA**, between intelligence gatherers and criminal investigators within the FBI, and between country-level station chiefs at the CIA – all of these prevented anyone from integrating the clues that the hijackers and their handlers provided. The organizational recommendations of the Commission focus on eliminating such divisions, noting that “a ‘smart’ government would integrate all sources of information to see the enemy as a whole.”

Even when an organization sees a cross-cutting threat, however, it remains vulnerable, simply because coordinating a response across all parts of a company is a formidable challenge. Far more common is piecemeal reaction: each part responds to a threat on its own. In recent work, for instance, I’ve examined the response of full-service airlines to the rise of low-fare carriers. The vice president of corporate strategic planning at **Delta Air Lines** described Delta’s historical, and unsuccessful, actions this way: “The challenge of low-cost competition from carriers like **Southwest** and **JetBlue** had been building for years. We had been looking at the problem for a long time, but because Delta is organized by function, solutions focused

figure out where the troops will march. Toward what new combination of choices will the company move?

Take, for instance, **Lou Gerstner’s** famed transformation of **IBM**. There is no doubt that Gerstner succeeded wildly on human dimensions, renewing the energy and confidence of IBM’s employees. But his key act, I would argue, was an integrative one. Early in his tenure, when others were proceeding with his predecessor’s plan to split IBM into ‘Baby Blues’, Gerstner reversed course radically, declaring that the company would stay together and “go to market as one IBM.” He subsequently put in place a comprehensive set of plans to break down the barriers between divisions, promote coordination, and deliver complete

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on individual parts of the company. The marketing organization provided marketing ideas, the customer service organization offered customer service ideas, and so forth. We didn’t have a comprehensive response to low-cost carriers across functions.” Delta’s recent launch of a new subsidiary, **Song**, is an innovative effort to take a more holistic approach. The launch has put the company’s integrative skills to the test.

Strategic change

Indeed, large-scale transformation of a company’s strategy may be the ultimate integrative challenge. In the popular business press, transformation efforts are often presented solely as challenges of leadership, vision, and motivation: if only the Great Leader can inspire the troops to march in unison, the company’s problems will be solved. I agree wholeheartedly that human skills related to leadership play a central role in successful transformations. But integrative skills play an equally important part. After all, someone must

solutions to customers. Gerstner’s ability to see how the parts of IBM might work together to provide something valuable and unique in the marketplace was an impressive display of integrative skill.

In sum, then, integrative skills play a pivotal role at all stages of a strategy’s development. In the early phase, they help managers spot new cross-cutting combinations of choices and build reinforcing sources of distinction that fend off imitators. Later, they enable managers to see the dangerous cross-cutting threats that undo many great companies, and equip them to pull off comprehensive efforts at transformation.

In the end, it’s the importance of integrative skills at all stages of a strategy’s development – and therefore at all stages of a manager’s career – that makes me most confident in Rotman’s bet. ■

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Jan Rivkin is an associate professor in the Strategy Unit at Harvard Business School. His research, course development, and teaching efforts examine the interactions across functional and product boundaries within a firm.