

# Introduction:

- Organisational structure and controls provide the framework within which strategies (business, corporate, international and cooperative) are used.
- No single structure is the best for all organisations.
- The choice of structure and controls should support the strategic goals of the firm.
- Structure will change as the strategy of the organisation changes.
- Effective strategic leadership means selecting the appropriate structure.
- <https://www.youtube.com/watch?v=gllSuw8il2E>

# Organisational structure:

- Organisational structure:
  - The firm's formal reporting relationships, procedures, controls, and authority and decision-making processes
  - Specifies the work to be done and how to do it, given the firm's strategy or strategies
  - Is the pivotal component of effective strategy implementation
  - It is critical to match organisational structure to a firm's strategy

# ORGANISATIONAL STRUCTURE

- A firm's strategy is supported when its structure is properly aligned to its strategy.
- There are two considerations regarding alignment:

## **Structural Stability :**

The capacity a firm requires to consistently and predictably manage its daily work routines.

## **Structural Flexibility:**

The opportunity to explore competitive advantages a firm will need to be successful in the future

# ORGANISATIONAL CONTROLS

## **Strategic Controls:**

Largely intended to verify that the firm is using appropriate strategies for

- the conditions in the external environment and
- the company's competitive advantages

## **Financial Controls:**

Largely objective criteria used to measure the firm's performance against previously established quantitative standards

# RELATIONSHIPS BETWEEN STRATEGY AND STRUCTURE

- Strategy and structure are a **reciprocal relationship**. A change in one typically causes a change in the other.
- **Strategic focus:** Matching strategy and structure.



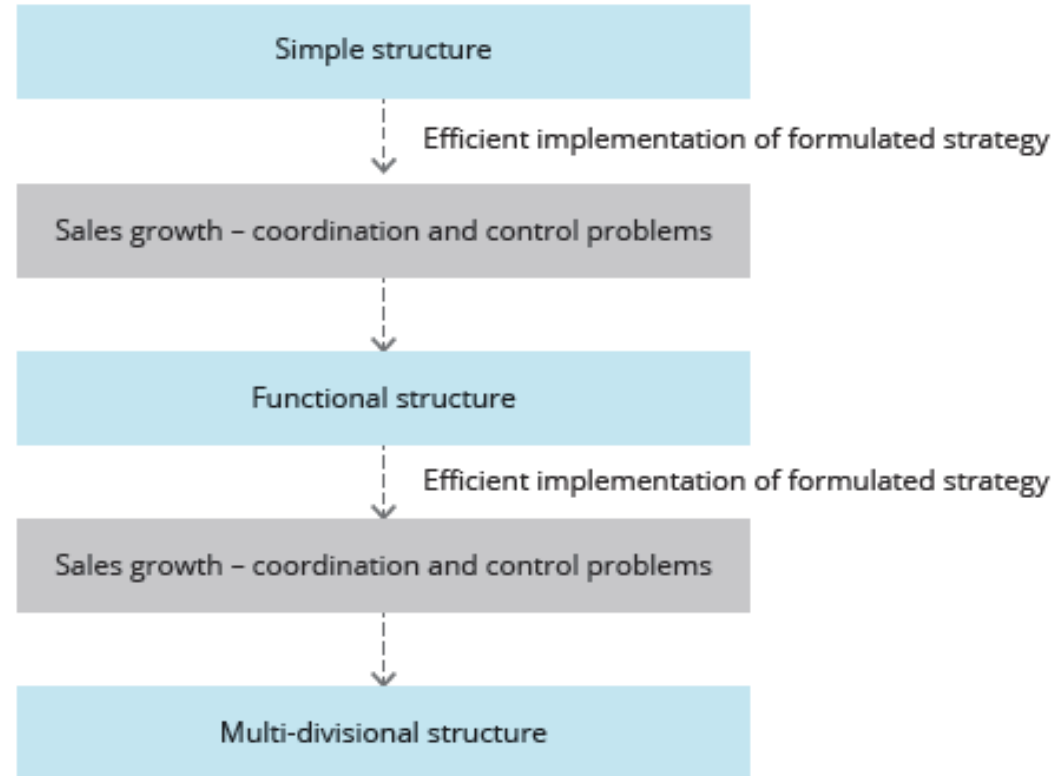
# EVOLUTIONARY PATTERNS OF STRATEGY AND ORGANISATIONAL STRUCTURE

- Chandler found that firms tend to grow in predictable patterns:
  - by volume
  - by geography
  - by integration (vertical, horizontal)
  - through product/business diversification.

▶ **Growth pattern determines structure.**

**Figure 11.1**

**Strategy and structure growth pattern**



# STRATEGY & STRUCTURE

## Simple Structure

- The owner-manager makes all major decisions and monitors all activities.
- Staff acts as extension of manager's supervisory authority.
- Firms use matched focus strategies and business-level strategies, meaning that these firms offer single product lines in single geographic markets.
- There are few rules, limited task specialisation and basic technology systems.
- With size comes complexity and managerial and structural challenges; firms tend to move from a simple to a functional structure.

## Functional Structure

- CEO and a limited corporate staff make all decisions.
- Functional line managers are in dominant organisational areas: production, marketing, R&D, engineering, accounting, HRM.
- Functional specialisation results in active knowledge sharing **within** each area, but can impede communication and coordination among different functional areas.

## Multidivisional Structure

- Each operating division represents a separate business or profit centre.
- Top corporate officers delegate responsibilities for day-to-day operations and business-unit strategies to division managers.
- Each division represents a separate business or profit centre with its own functional hierarchy, and is responsible for daily operations.
- Business-unit strategy is delegated to the division

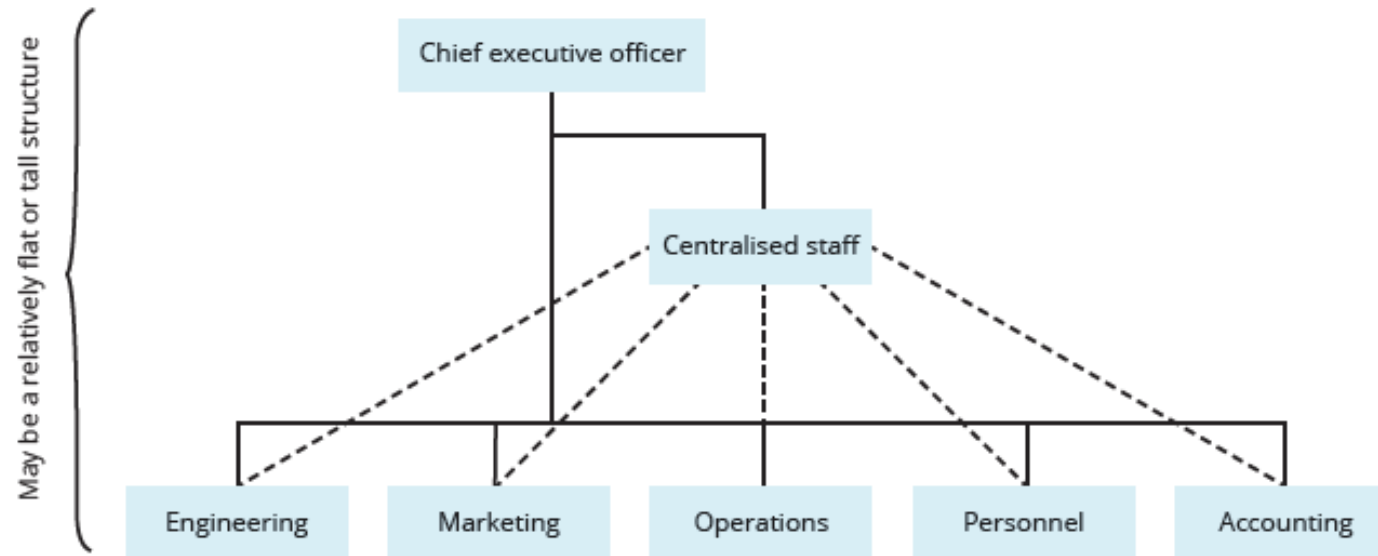
# MATCHES BETWEEN BUSINESS-LEVEL STRATEGIES AND THE FUNCTIONAL STRUCTURE

- Firms use different forms of the functional organisational structure to support business level strategy.
- Business-level strategies include:
  - cost leadership (broad or focused)
  - differentiation (broad or focused)
  - integrated cost leadership/differentiation

# MATCHES BETWEEN BUSINESS-LEVEL STRATEGIES AND THE FUNCTIONAL STRUCTURE

- The choice of structure is influenced by structural characteristics needed to compete:
  - **specialisation**: the type and number of jobs required to complete the work of the firm
  - **centralisation**: the degree to which decision-making authority is retained at higher managerial levels
  - **formalisation**: the degree to which formal rules and procedures govern work

**Figure 11.2** Functional structure for implementing a cost leadership strategy



Notes:

- Operations is the main function.
- Process engineering is emphasised, rather than new product R&D.
- A relatively large centralised staff coordinates functions.
- Formalised procedures allow for emergence of a low-cost culture.
- The overall structure is mechanical; job roles are highly structured.

# USING THE FUNCTIONAL STRUCTURE TO IMPLEMENT THE COST-LEADERSHIP STRATEGY

## OUTCOMES

- operations as the main function
- an emphasis on process engineering, not new product R&D
- few decision-making and authority layers
- centralised corporate staff
- highly formalised rules and procedures
- low-cost culture
- centralised staff decision-making authority
- job specialisation
- simple reporting relationships
- an overall mechanistic structure and structured job roles.

## RISKS

- Processes can become obsolete.
- A focus on cost reductions can come at the expense of understanding customer perceptions and needs.
- Strategy could be imitated, requiring the firm to increase the value offered to retain customers.

# USING THE FUNCTIONAL STRUCTURE TO IMPLEMENT THE DIFFERENTIATION STRATEGY

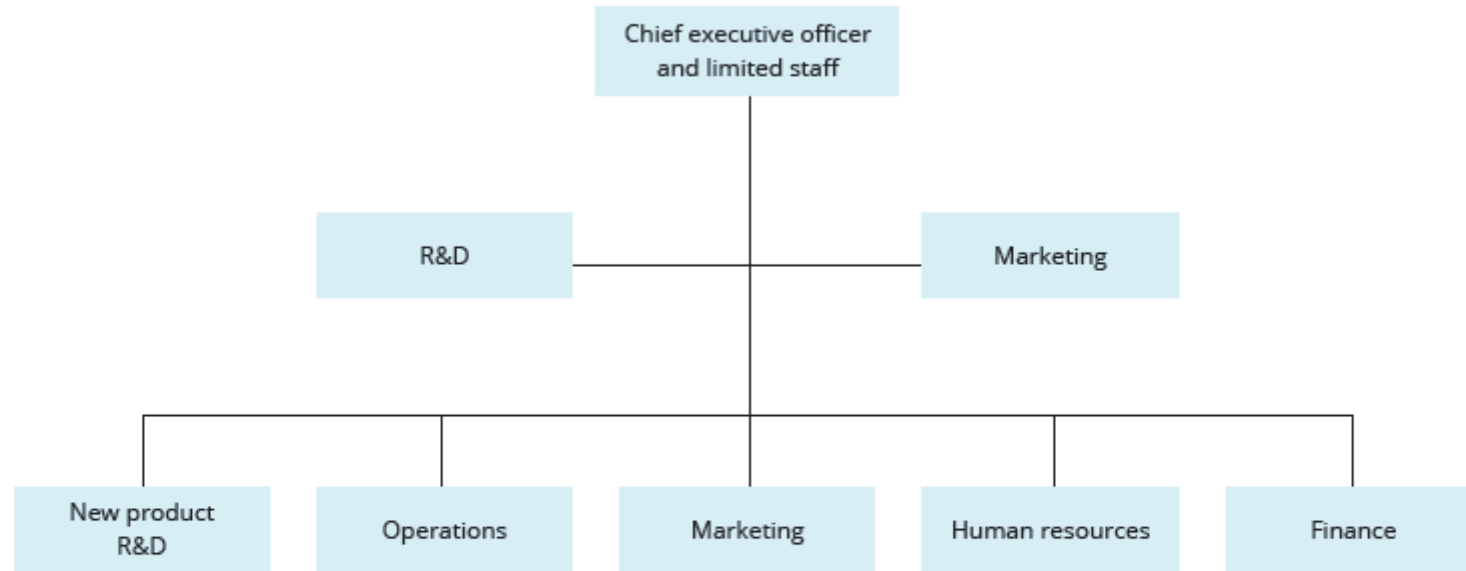
## OUTCOMES

- marketing as the main function
- an emphasis on new product R&D
- mostly decentralised functions, except for R&D and marketing cross-functional product development teams
- complex and flexible reporting relationships
- a development-oriented culture
- decentralised decision making
- broad job descriptions
- informal rules and procedures
- an overall organic structure and less structured job roles

## RISKS

- The price differential for differentiated product may be perceived as too large.
- A firm's means of differentiation may cease to provide value for which customers are willing to pay a premium price (successful rival imitation).
- Experience can narrow customers' perceptions of the value of a product's differentiated features.
- Counterfeit goods may appear in the marketplace.

**Figure 11.3** Functional structure for implementing a differentiation strategy



Notes:

- Marketing is the main function for keeping track of new product ideas.
- New product R&D is emphasised.
- Most functions are decentralised; however, R&D and marketing may have centralised staffs that work closely with each other.
- Formalisation is limited so that new product ideas can emerge easily and change is more readily accomplished.
- The overall structure is organic; job roles are less structured.

# USING THE FUNCTIONAL STRUCTURE TO IMPLEMENT THE INTEGRATED COST LEADERSHIP/ DIFFERENTIATION STRATEGY

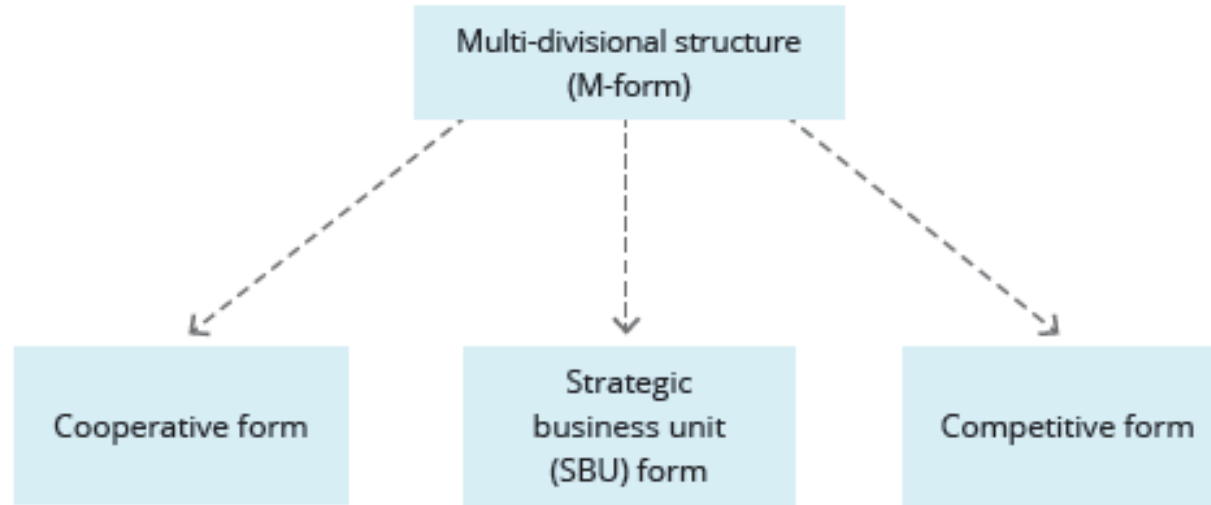
- These firms create value through both low cost and uniqueness.
  - Relatively low product cost results from an emphasis on production and process engineering, with infrequent product changes.
  - Reasonable sources of differentiation are based on new product R&D.
- This structure and strategy are difficult to implement, but frequently used in the global economy.

# USING THE FUNCTIONAL STRUCTURE TO IMPLEMENT THE INTEGRATED COST LEADERSHIP/ DIFFERENTIATION STRATEGY

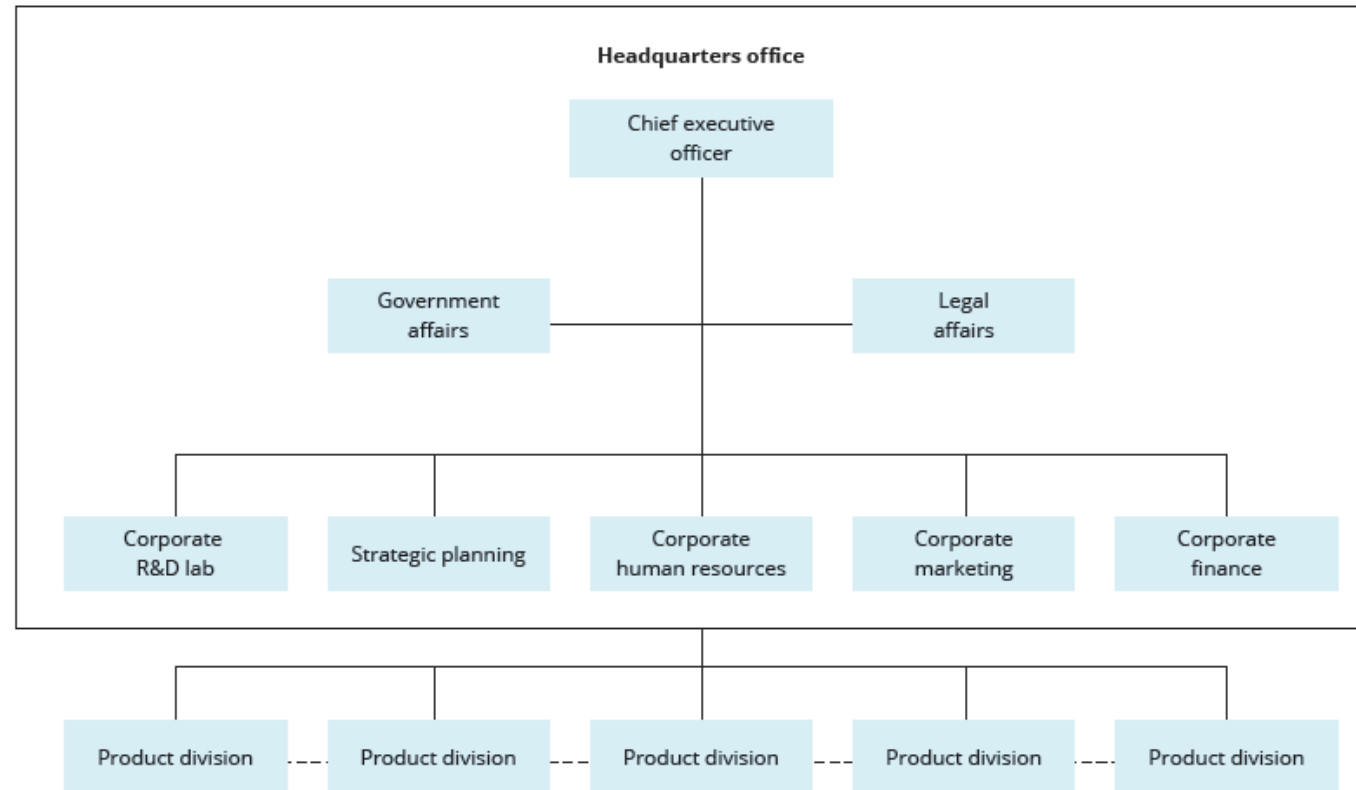
- Challenges due to primary/support activities
- Need to successfully combine specialisation, formalisation and centralisation
- Decision-making patterns that are partially centralised and partially decentralised
- Semi-specialised jobs
- Rules and procedures that allow both formal and informal job behaviours

**Figure 11.4**

**Three variations of the multi-divisional structure**



**Figure 11.5** Cooperative form of the multi-divisional structure for implementing a related constrained strategy



Notes:

- Structural integration devices create tight links among all divisions.
- Corporate office emphasises centralised strategic planning, human resources and marketing to foster cooperation between divisions.
- R&D is likely to be centralised.
- Rewards are subjective and tend to emphasise overall corporate performance, in addition to divisional performance.
- The culture emphasises cooperative sharing.

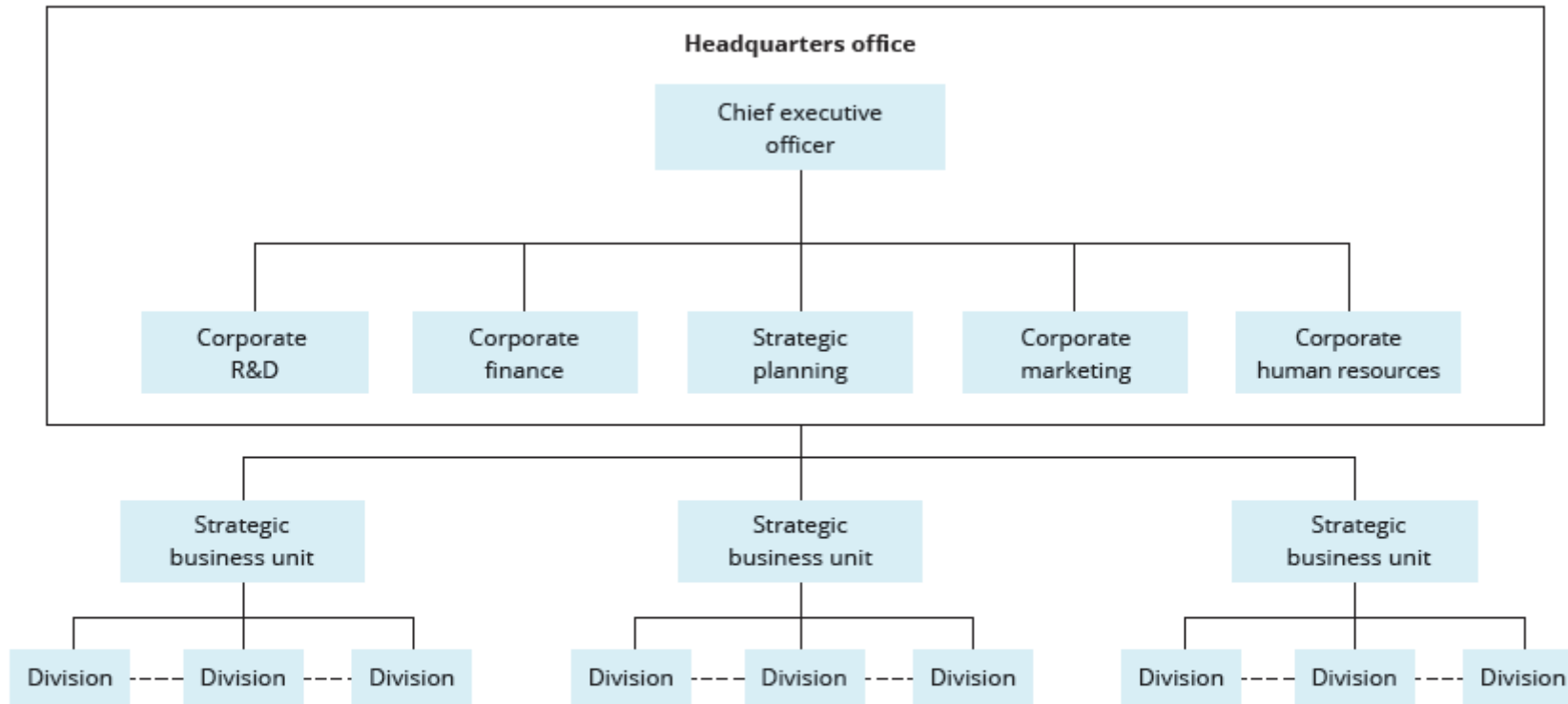
# USING THE COOPERATIVE FORM OF THE MULTI-DIVISIONAL STRUCTURE TO IMPLEMENT A RELATED CONSTRAINED STRATEGY

- Structural integration devices create tight links among all divisions.
- Corporate office dictates centralised decision making.
- Rewards are subjective and tend to emphasise overall corporate performance in addition to divisional performance.
- Culture emphasises cooperative sharing.
- Economies of scope (cost savings resulting from the sharing of competencies developed in one division with another division) are important for the related constrained strategy.

# USING THE COOPERATIVE FORM OF THE MULTI-DIVISIONAL STRUCTURE TO IMPLEMENT A RELATED CONSTRAINED STRATEGY

- Interdivisional sharing of competencies depends on cooperation.
- Links result from effective integration mechanisms.
- Both tangible and intangible resources are shared.
- The cooperative structure uses different characteristics of structure (centralisation, standardisation and formalisation) as integrating mechanisms to facilitate interdivisional cooperation.

**Figure 11.6** SBU form of the multi-divisional structure for implementing a related linked strategy



**Notes:**

- There is structural integration among divisions within SBUs, but independence across SBUs.
- Strategic planning may be the most prominent function in headquarters for managing the strategic planning approval process of SBUs for the chief executive officer.
- Each SBU may have its own budget for staff to foster integration.
- Corporate headquarters staff serve as consultants to SBUs and divisions, rather than having direct input to product strategy, as in the cooperative form.

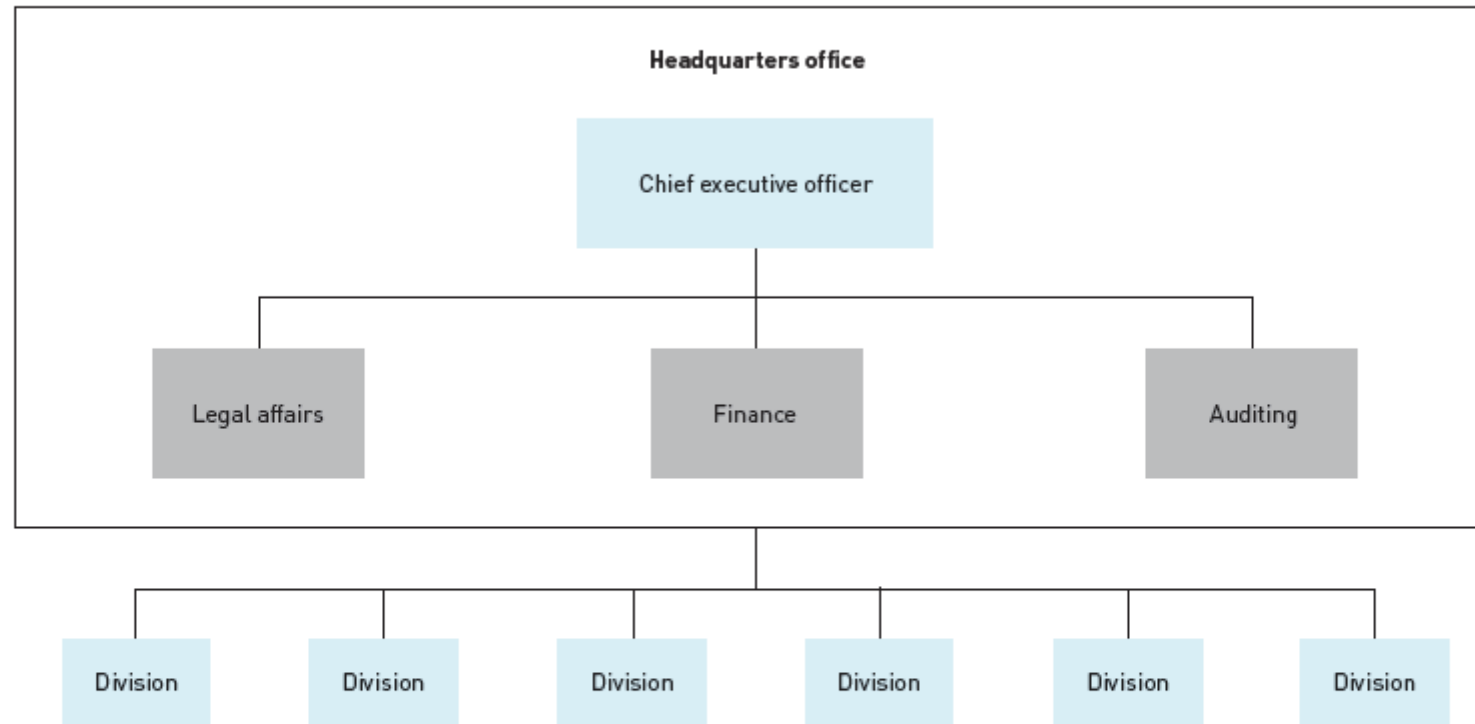
# USING SBU FORM OF THE MULTI-DIVISIONAL STRUCTURE TO IMPLEMENT A RELATED LINKED STRATEGY

- In the **strategic business unit (SBU)** form, firms share fewer resources and assets among their businesses, concentrating on the **transfer of knowledge and competencies** among the businesses (related linked strategy).
- The organisation structure has three levels to support the implementation diversification strategy:
  - corporate headquarters
  - strategic business units (SBUs)
  - divisions under each SBU.

# USING SBU FORM OF THE MULTI-DIVISIONAL STRUCTURE TO IMPLEMENT A RELATED LINKED STRATEGY

- SBU divisions are related in terms of shared products/markets.
- Divisions of one SBU have little in common with divisions of other SBUs.
- Divisions within each SBU share product or market competencies to develop economies of scope.
- Integrations used in the cooperative form are equally effective for the SBU form.
- Each SBU is a profit centre and has its own budget for staff to foster integration.
- Financial controls are more vital for evaluating performance.

**Figure 11.7** Competitive form of the multi-divisional structure for implementing an unrelated strategy



**Notes**

- Corporate headquarters has a small staff.
- Finance and auditing are the most prominent functions in the headquarters office to manage cash flow and assure the accuracy of performance data coming from divisions.
- The legal affairs function becomes important when the organisation acquires or divests assets.
- Divisions are independent and separate for financial evaluation purposes.
- Divisions retain strategic control, but cash is managed by the corporate office.
- Divisions compete for corporate resources.

# USING COMPETITIVE FORM OF THE MULTI-DIVISIONAL STRUCTURE TO IMPLEMENT AN UNRELATED STRATEGY

- **Financial economies** are pivotal for the unrelated strategy.
- The unrelated strategy creates value through two types of financial economies:
  - cost savings realised through **improved allocations of financial resources** based on investments inside or outside the firm
  - **efficient internal capital market allocation** (i.e. the restructuring of acquired assets).

**Table 11.1** Characteristics of the structures necessary to implement the related constrained, related linked and unrelated diversification strategies

Overall structural form			
Structural characteristics	Cooperative M-form (related constrained strategy)	SBU M-form (related linked strategy)	Competitive M-form (unrelated diversification strategy) <sup>a</sup>
Centralisation of operations	Centralised at corporate office	Partially centralised (in SBUs)	Decentralised to divisions
Use of integration mechanisms	Extensive	Moderate	Non-existent
Divisional performance evaluation	Emphasises subjective (strategic) criteria	Uses a mixture of subjective (strategic) and objective (financial) criteria	Emphasises objective (financial) criteria
Divisional incentive compensation	Linked to overall corporate performance	Mixed linkage to corporate, SBU and divisional performance	Linked to divisional performance

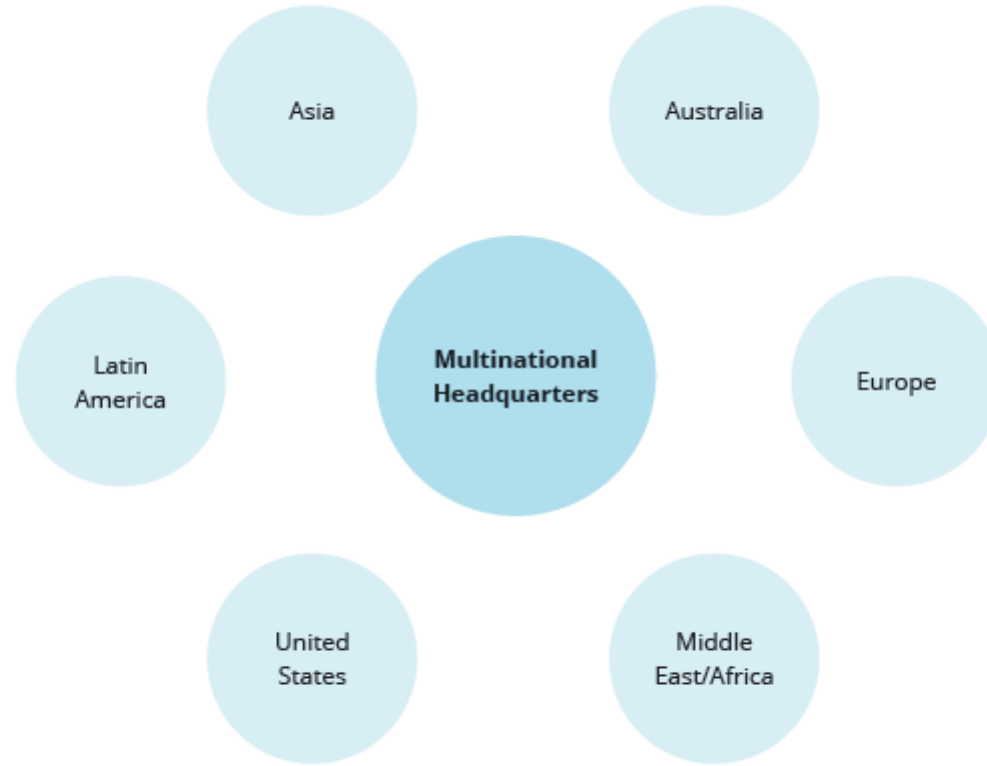
<sup>a</sup> Strategy implemented with structural form.

# MATCHES BETWEEN INTERNATIONAL STRATEGIES AND WORLDWIDE STRUCTURE

- International strategies allow a firm to search for new:
  - markets
  - resources
  - core competencies
  - technologies
- The three primary international strategies are:
  - multi-domestic
  - global
  - transnational

**Figure 11.8**

**Worldwide geographic area structure for implementing a multi-domestic strategy**



**Notes:**

- The perimeter circles indicate decentralisation of operations.
- Emphasis is on differentiation by local demand to fit an area or country culture.
- Corporate headquarters coordinates financial resources among independent subsidiaries.
- The organisation is like a decentralised federation.

# USING THE WORLDWIDE GEOGRAPHIC AREA STRUCTURE TO IMPLEMENT THE MULTI-DOMESTIC STRATEGY

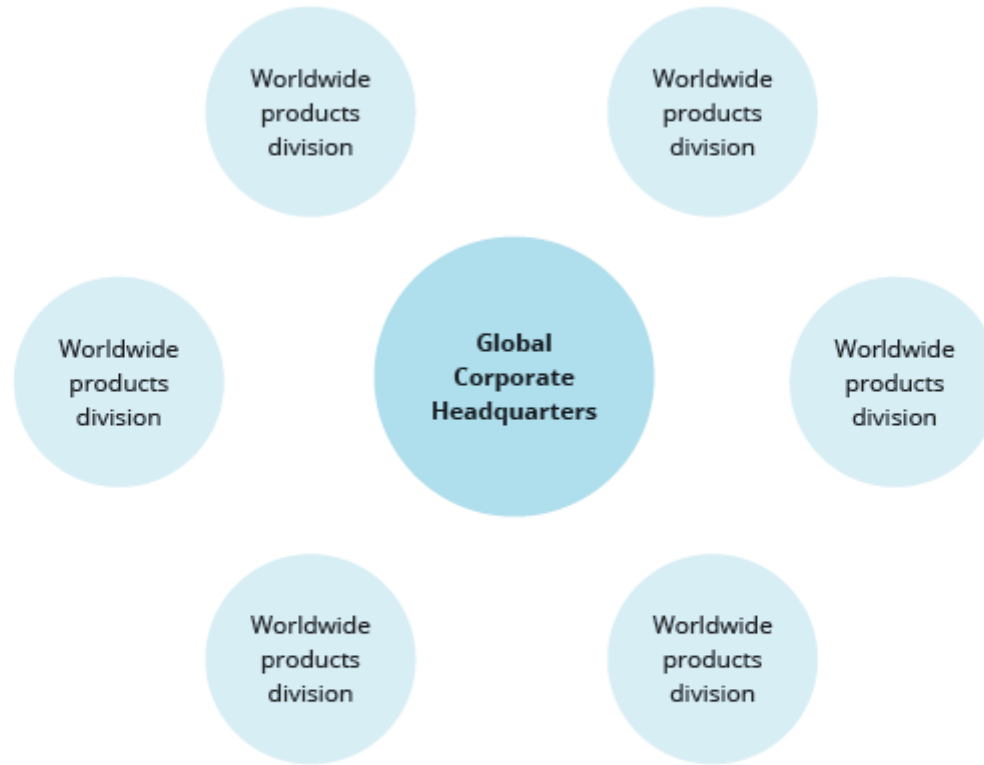
- The **multi-domestic strategy** is an international strategy in which strategic and operating decisions are **decentralised** to each country to allow the units to tailor products to local markets.
- In the **worldwide geographic area structure**, the organisational structure emphasises national interests and facilitates efforts to **satisfy local or cultural differences**.

# USING THE WORLDWIDE GEOGRAPHIC AREA STRUCTURE TO IMPLEMENT THE MULTI-DOMESTIC STRATEGY

- The multi-domestic strategy–worldwide geographic area structure:
  - focuses on variations in competition within each country
  - emphasises differentiation by local demand to fit an area or country culture
  - deals with uncertainty due to market differences.
- Corporate headquarters coordinates financial resources among independent subsidiaries.

**Figure 11.9**

**Worldwide product divisional structure for implementing a global strategy**



**Notes:**

- The 'Global corporate headquarters' circle indicates centralisation to coordinate information flow among worldwide products.
- Corporate headquarters uses many inter-coordination devices to facilitate global economies of scale and scope.
- Corporate headquarters also allocates financial resources in a cooperative way.
- The organisation is like a centralised federation.

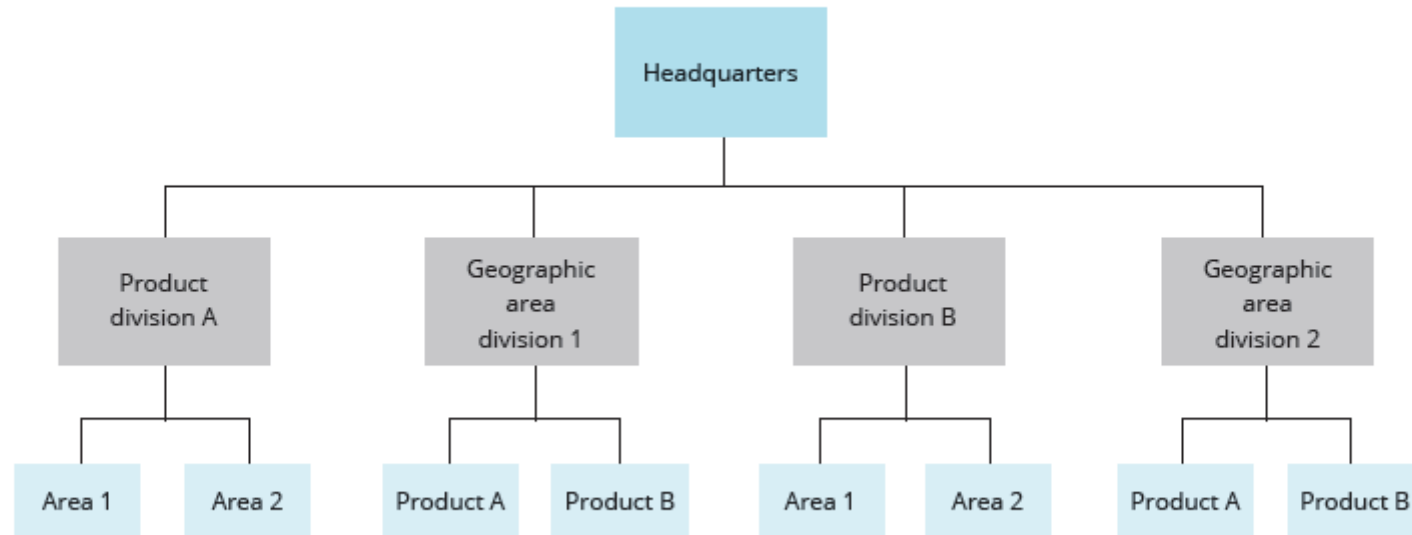
# USING THE WORLDWIDE PRODUCT DIVISIONAL STRUCTURE TO IMPLEMENT THE GLOBAL STRATEGY

- The **global strategy** is an international strategy with standardised products across country markets and a competitive strategy dictated by the home office.
- In the **worldwide product divisional structure**, organisational structure has a **centralised** decision-making authority to coordinate and integrate decisions among divisional units.

# USING THE WORLDWIDE PRODUCT DIVISIONAL STRUCTURE TO IMPLEMENT THE GLOBAL STRATEGY

- The global strategy–worldwide product divisional structure:
  - emphasises economies of scale and scope
  - is facilitated by improved global accounting and financial reporting standards
  - produces lower risk
  - has less effective learning processes due to the pressures to conform and standardise.
- Corporate headquarters allocates financial resources in a cooperative way.

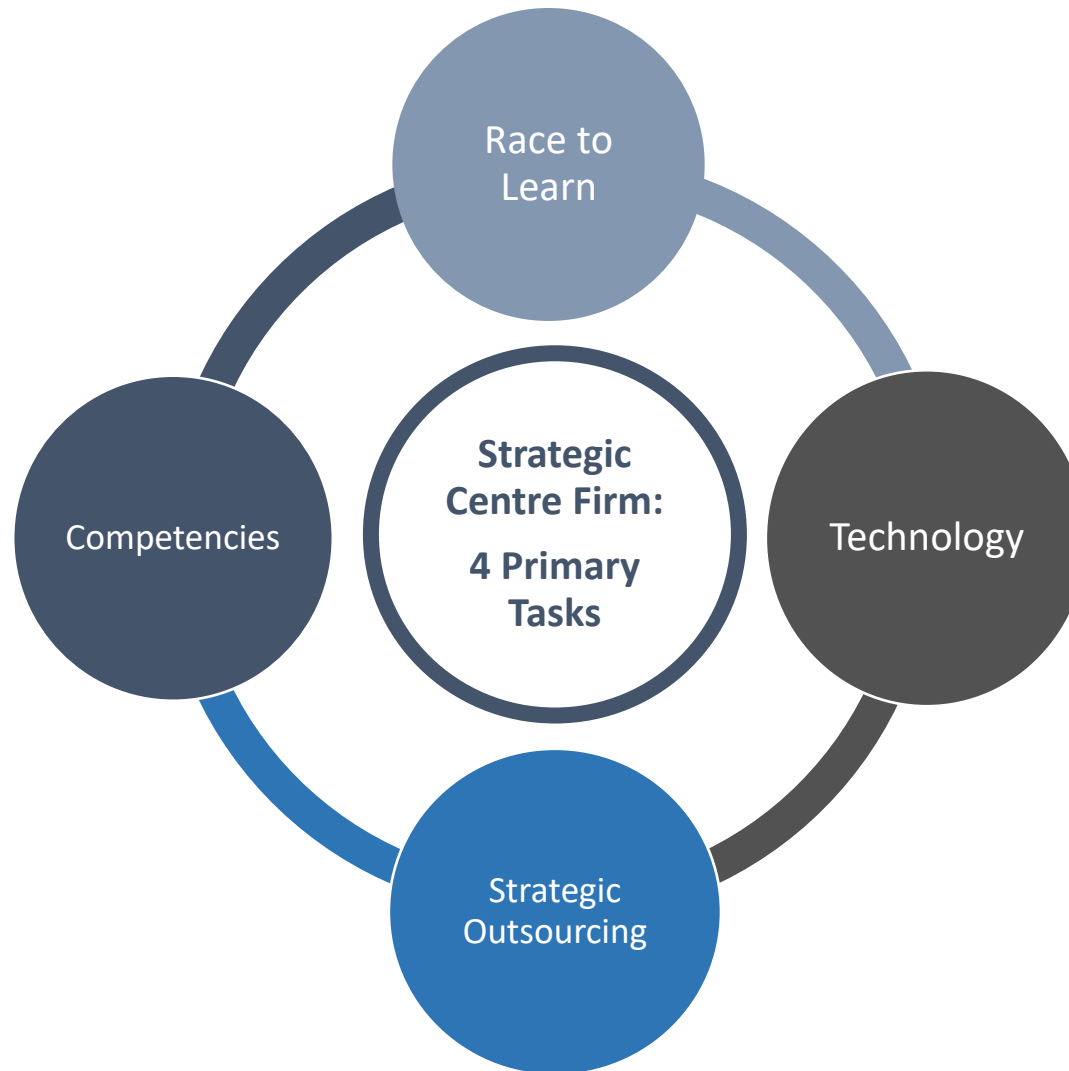
**Figure 11.10** Hybrid form of the combination structure for implementing a transnational strategy



# USING THE COMBINATION STRUCTURE TO IMPLEMENT A TRANSNATIONAL STRATEGY

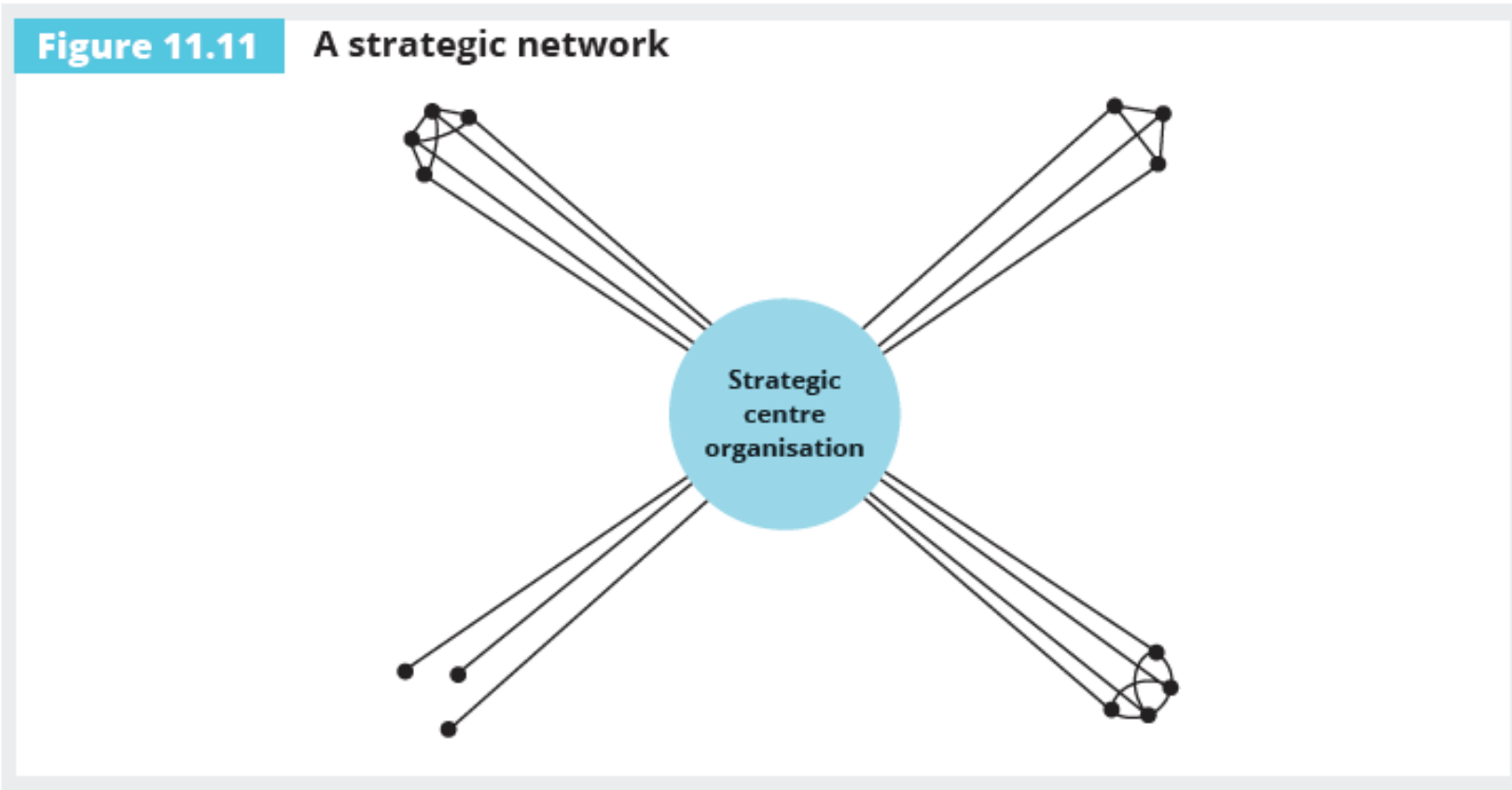
- **Transnational strategy** – an international strategy through which a firm seeks to achieve both global efficiency and local responsiveness; usually implemented through global matrix structure and hybrid global design
- **Flexible coordination** – building a shared vision and individual commitment through an integrated network
- **Combination structure** – an organisational structure in which characteristics and mechanisms are drawn from both the worldwide geographic area structure and the worldwide product divisional structure (used to implement transnational strategy)

MATCHES BETWEEN  
COOPERATIVE  
STRATEGIES AND  
NETWORK STRUCTURES

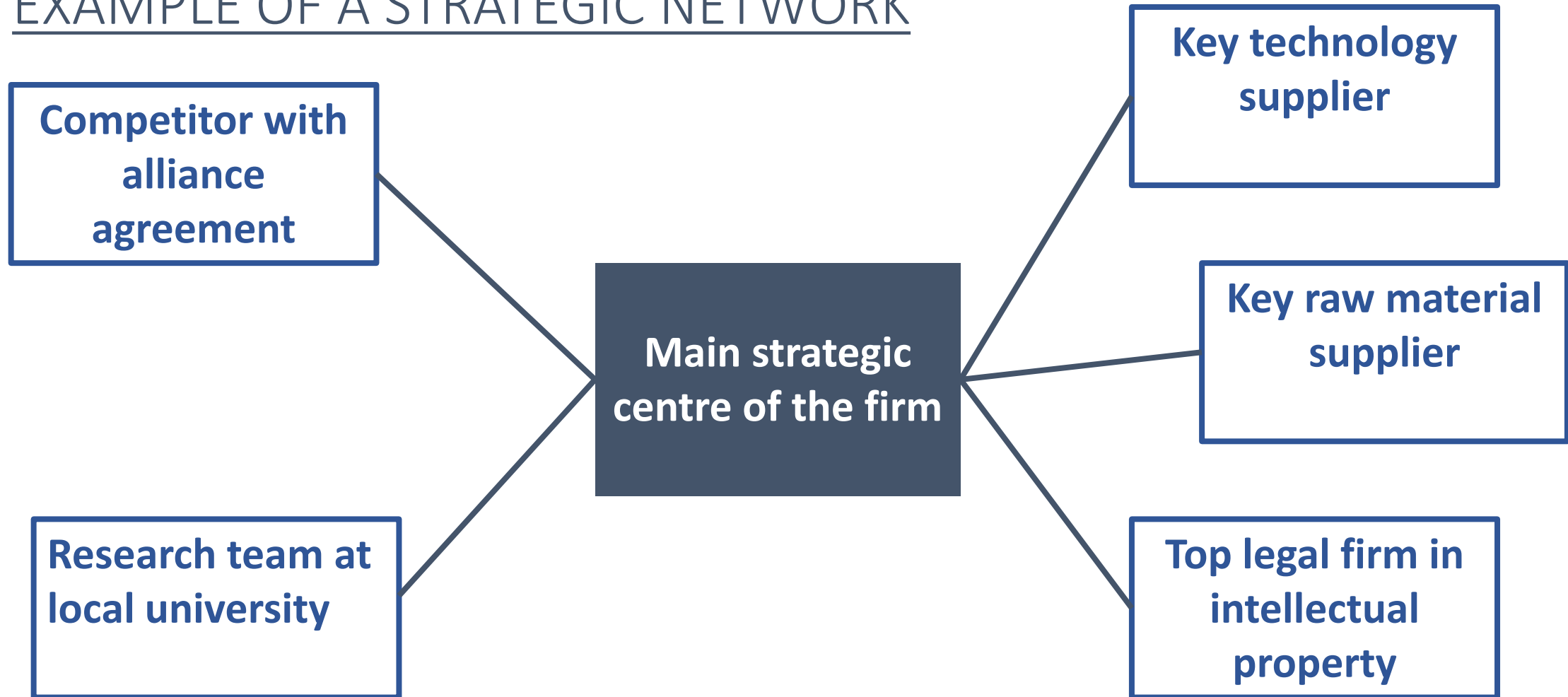


**Figure 11.11**

**A strategic network**



## EXAMPLE OF A STRATEGIC NETWORK



# IMPLEMENTING BUSINESS-LEVEL COOPERATIVE STRATEGIES

- Business-level complementary alliances
  - **Vertical alliance:** Partnering firms share their resources and capabilities from different stages of the value chain to create a competitive advantage.
  - **Horizontal alliance:** Partnering firms share resources and capabilities from the same stage of the value chain to create a competitive advantage.
    - This type of alliance is commonly used for long-term product development and distribution opportunities.

# IMPLEMENTING CORPORATE-LEVEL COOPERATIVE STRATEGIES

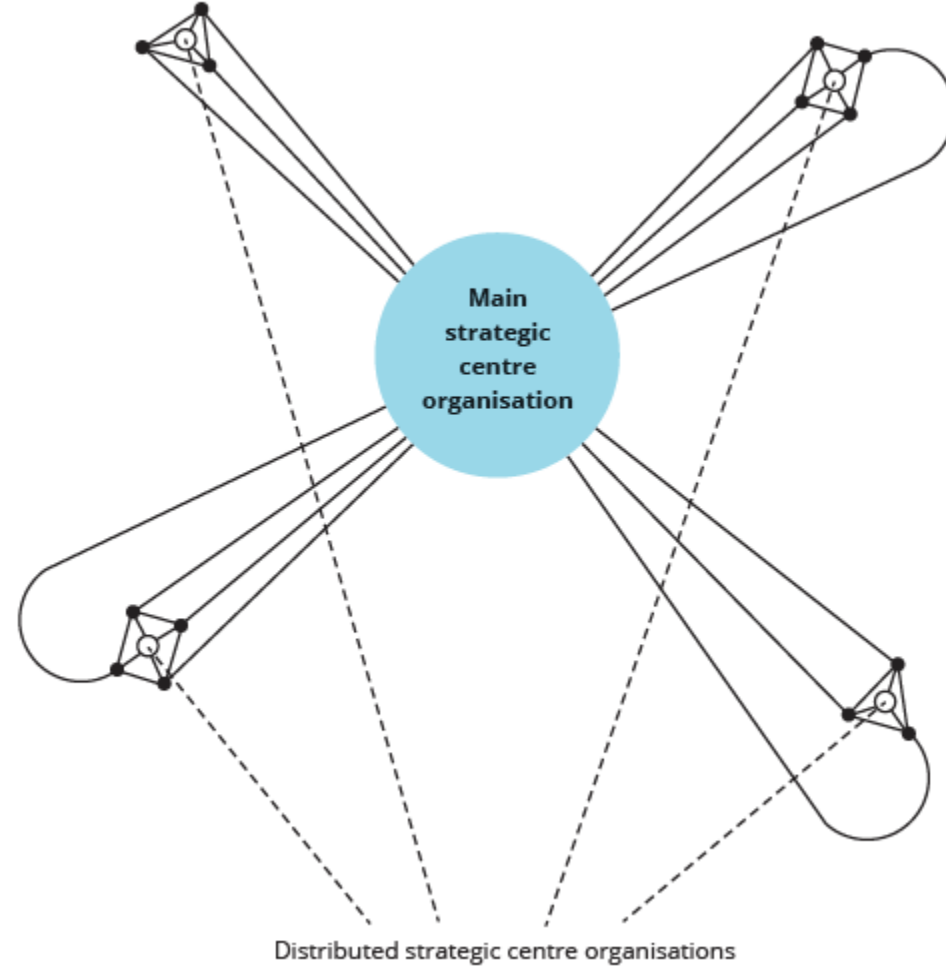
- Corporate-level cooperative strategies:
  - are used to facilitate product and market diversification.
    - For example, franchising is a contractual relationship in which a firm controls the sharing of its resources and capabilities with partners.
  - allow firms to use their competencies to extend or diversify product or market reach, without completing a merger or acquisition
  - facilitate synergy through knowledge embedded in the strategy.

# IMPLEMENTING INTERNATIONAL COOPERATIVE STRATEGIES

- Strategic networks are formed to implement cooperative strategies, resulting in firms competing in several different countries.
- **Distributed strategic networks** are the organisational structure used to manage international cooperative strategies.
  - Several regional strategic centre firms are included in a distributed network to manage partner firms' multiple cooperative arrangements.

**Figure 11.12**

**A distributed strategic network**



# EXAMPLE OF A STRATEGIC NETWORK

