UNIT 13 STRUCTURAL DIMENSIONS

Objectives

After going through this unit, you will be able to understand:

- importance of matching the structure and the needs of strategy;
- importance of strategy to the structure of the organization; and
- the benefits of strategy and limitations of different structural designs.

Structure

13.1 INTRODUCTION

Among several other things, successful execution/implementation of strategy depends on the appropriateness of the internal organization which to a large extent is reflected in the structure. Structure represents the network of relationships within an organization over a fairly long period of time. The concept of structure is important because there are alternative forms of structural designs which an organization can use. A certain organizational form may be more suitable for dealing with certain situation than others. For instance, a functional centralised form may be more suitable for a speciality manufacturing firm but unsuitable for a firm operating in a highly complex environment. Once a structure is established (or gets established), it is not easy to change it, for, it reflects the philosophy, prejudices and ambitions of management or owners and changing it may be perceived by them as threatening.

13.2 STRATEGIC CHANGE

It is important for the organizations to find out the extent to which the change can be implemented. Each organization has an independent working, therefore the strategies formulated for these organizations are also different. Therefore there can be different levels of strategic change depending on the nature of strategy. Exhibit 1 shows different levels of strategic change.

Exhibit 1 : Levels of Strategic Change

Strategic Change	Industry	Organization	Products	Market Appeal
Stable Strategy	Same	Same	Same	Same
Routine Strategy	Same	Same	Same	New
Limited Strategy	Same	Same	New	New
Radical Strategy	Same	New	New	New
Organizational Redirection	New	New	New	New

Source: Adapted from Rao, Subba P. (2004).

While implementing a strategy, the whole process involves a number of people, tasks, business units and products to move from a stable strategy to organizational redirection. This is not an easy job as moving to organizational redirection means that organization is entering an entirely new industry. This requires lot of efforts and implementation process is quite complex. Therefore it becomes important for management to adapt to the changing times and manage the strategic change.

13.3 MATCHING ORGANIZATION STRUCTURE TO STRATEGY

An important question before the top management in a firm is : how to match the structure to the needs of the strategy? A company, depending upon its size and objectives, may be pursuing several strategies simultaneously. There are no hard and fast rules to determine what kind of structure would be useful for which type of strategy. Each firm has its own history behind it and its managers have their own value systems and philosophies. The structure, therefore, is the consequences of these and several other variables. Moreover, each strategy rests on a set of key success factors or critical tasks. It is therefore desirable to design the organizational structure around the key success factors or critical tasks which are implied in the firm's strategy. This requires not only complete clarity on the key success factors (or critical tasks), but also requires making the units connected with the critical tasks or functions the main organizational building blocks. Further, the top management has to determine the degree of authority that has to be delegated to each unit, bearing in mind the benefits and costs of centralization vs. decentralization. It has to decide how the coordination among different units of the organization would be brought about. We shall now discuss these three aspects briefly.

Strategy—Critical Activities

From the point of view of strategies, there are some activities which are critical to the success of those strategies while a large number of activities are of routine nature. The routine activities may be either maintenance or support type of activities e.g., handling pay rolls, accounting, complying with regulations, managing cash flows, controlling inventories and safe keeping of stores, training of manpower, public relations, market research etc. However, there are some critical tasks and functions which must be done exceedingly well for the strategy to be successful. For example, tight cost control is essential for a firm pursuing the strategy of low-cost leadership. This is particularly true if the margins are low and price cutting is widely used as a competititve weapon. For a firm which has chalked out 'differentiation' as its strategy, distinctiveness or sophistication in the design of its products is necessary. This needs emphasis on quality and excellence in workmanship. Thus, the activities that are critical to the strategy and competititve requirements may differ from firm to firm. Two alternative questions should help to identify strategy—critical activities: (i) what functions have to be performed exceedingly well for the strategy to succeed? or (ii) what are the areas where less than satisfactrory performance would seriously endanger the success of strategy?

After the critical tasks or functions for a particular strategy have been identified, the next step is to group the various critical activities, along with routine and support activities associated with the critical activities, into organizational units or blocks. This would require a close look into the relationships that prevail within the organization. The flow of material through the production process, types of customers served, distribution channels used, sequence of operations to be performed, geographic locations are some of the bases for scrutinising the relationships.

Degree of Authority (or decentralization)

After the grouping of activities has been done and units have been constituted, the next question to tackle with is the degree of decision-making authority that has to be delegated in the managers of various units. Where the firm is engaged in several businesses, two alternative approaches can be followed. One is to centralize the strategic decision-making authority at the corporate level and delegate only operating decisions to the unit managers. The other is to substantially decentralize the strategic decisions to the unit managers, with the corporate staff providing necessary support to them. The corporate office in the latter case may limit its role to certain kinds of strategic decisions only. What should be the degree of authority given to the unit managers or how much autonomy should be given to them is essentially a question of managerial judgement and would depend upon a number of factors. The merits and demerits of decentralization in each situation must be properly weighed, after taking into consideration the principal decision the business unit managers make and how the corporate management perceives the importance of the various units in the overall strategy of the organization.

In what way the authority is to be distributed across various units, some general observations can be made. Firstly, those activities and organizational units which play a key role in strategy execution should not be made subordinate to routine and non-key activities. Secondly, revenue or result producing activities should not be made subordinate to support activities or staff functions. Thirdly, authority for decision-making should be delegated to managers who are closest to the scene of action. Fourthly, the corporate office should hold authority over operating decisions to the minimum.

Providing for Coordination

Coordination among several units of the organization can be accomplished in several ways. The principal way is to position the various activities in the verticle hierarchy of authority. Managers higher up in the hierarchy generally have broader authority over several organizational units and this enables them to have more clout to coordinate, integrate or arrange for the coordination of the units under their supervision. So far as business units are concerned, general managers are the central points in coordination because of their position of authority over the whole unit. Apart from positioning organizational units along verticle scale of managerial authority, a general manager can also achieve coordination of strategic efforts through informal meetings, special task forces, standing committees, and six monthly or quarterly strategic planning, budgeting and review meetings. Further, while formulating the strategic plan itself, a general manager can solicit the cooperation/association of other general managers in the planning process and this would provide for inbuilt coordinational bridges right from the very beginning.

13.4 DETERMINANTS OF ORGANIZATION STRUCTURE

What determines the organizational structure is a controversial question. Several hypotheses have been advanced. Some of the well known propositions relate to : size, technology, environment, and complexity. The research evidence is not conclusive on any of these propositions or determinants of structure which together constitute what has come to be known as the 'imperative school of thought'. It was left to John Child (Organizational Structure, Environment and Performance: The Role of Strategic Choice, Sociology, 1972: Vol. VI) who provided the missing link between the contextual factors (viz. size, technology, environment) and the structure. The missing link was the manager, his values, aspirations and orientations as shown in Figure 13.1.

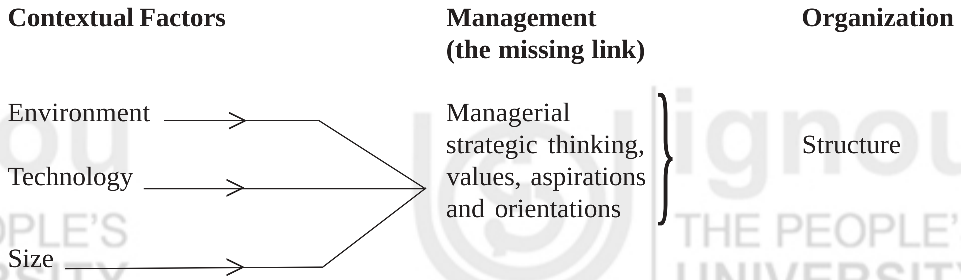

Figure 13.1: Determinants of Organization Structure

13.5 STRATEGY AND STRUCTURE PROPOSITION

Whether strategy precedes structure or structure precedes strategy is again debatable. There are arguments for and against the two positions. Research findings are conflicting. As a matter of fact, strategy and structure are mutually interdependent.

In most of the cases it is found that strategy and structure are interactive. Suppose a company decides to pursue "differentiation" (based on quality improvement/new product development) through intensive R &D efforts as its competitive strategy, this may involve the creation of a new or substantial revamping of existing R & D department. This would mean enlargement of the present organizational structure. If the quality control manager is made to report to the production manager, a conflict of interests may ensue and the thrust of the new strategy may be lost. The quality control manager may thererfore be made to report to the chief operating manager. This would also imply change in the organization structure. This was a simple example where structure follows strategy. However, the opposite is also possible. And this would be the case when strategy has to take into account the prevailing structure. Let us take the example of a shoe chain store which believes in aggressive price competition as its strategy for market penetration. If the company has a centralized organization structure where the prices are to be determined by corporate headquarters, the managers of the local chain stores have only to implement the new price list received from the headquarters (i.e., change the price tags). On the other hand if the structure is decentralized with authority for fixing or altering price vested in the stores' managers, the strategy for price competition would be quite different.

Strategy however should not become a slave of the structure i.e., it should not be constrained by the structure. The implementation of a new strategy must envisage the necessary changes or modifications in the structure or organizational relationships. Since the landmark research study by Alfred D. Chandler (Strategy and Structure, MIT Press, Cambridge Mass, 1962) several authors have veered round the view that organization structure follows the strategy of the enterprise. It has been suggested that the organization structure should be so designed that it matches to the particular needs of the strategy. Chandler found that changes in an organization's strategy bring about new administrative problems which in turn require a new or refashioned structure if the new strategy is to be successfully implemented. His surveyof seventy large industrial firms, supported by indepth study of four large corporations (General Motors, Dupont, Standard Oil, Sears Roebuck) revealed that structure tends to follow the growth strategy of the firm but often not until inefficiency and internal operating problems provoke a structural adjustment. According to him the excperience of these firms followed a consistent sequential pattern: a company adopts a new strategy $\longrightarrow$ new administrative problems arise, profitability and performance decline $\longrightarrow$ a shift to more appropriate organizational structure takes place which leads to improved strategy execution and more profitable levels. Chandler found this sequence to be oft-repeated as firms grew and modified their corporate strategies.

A logical conclusion of Chandler's study is that not all forms of organization structure are equally supportive of implementing a given strategy. The thesis that **structure follows strategy** has a strong appeal. How the work in an organization is structured is just a means to an end and not an end itself. Structure is a managerial device for facilitating the implementtion and execution of the organization's strategy and, ultimately, for achieving the intended performance and results. The structural deisgn of an organization helps people pull together in their performance of diverse tasks. It is a means of tying the organizational building blocks together in ways that promote strategy accomplishment and improved performance. The top management, and for that purpose also the general managers, have to provide for the necessary linakges between strategy and structure for improved performance.

Activity 1

Discuss with an experienced and knowledgeable person of your organization regarding how strategy and structure affect each other.

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13.6 THE STAGES MODEL OF STRUCTURE

The experience of many firms indicate that organization structure evolves through different stages. What structure an enterprise will have would depend upon its growth stage, apart from size and the key success factors inherent in its business. For example, the type of organization structure that suits a small speciality steel tubes manufacturing firm relying upon 'focus' strategy in a regional market may not be suitable for a large, vertically integrated steel producing firm with businesses in diverse geographical areas. To extend our example further, the structural form suitable for a multi-product, multi-technology, multi-business enterprise pursuing unrelated diversification is likely to be still different. Recognition of this characteristic pattern has prompted several attempts to formulate a model linking changes in organizational structure to stages in an organization's strategic development.*

* Salter, Malcalm S., Stages of Corporate Development, Journal of Business Policy 1, No. 1, Spring 1970, pp.23-27; Thain, Donald H., Stages of Corporate Development, The Business Quarterly Winter 1969, pp. 32-45; Scott, Bruce C., The Industrial State: Old Myths and New Realities, "Harvard Business Review, March-April, 1973, pp. 133-148; and Chandler, Alfred D., Strategy and Structure, MIT Press, Cambridge, Mass. 1962, Chapter 1.

The basic idea behind the stages concept is that enterprises can be arranged along a continuum running from simple to very complex organizational forms; and that there is a tendency for an organization to move along this continuum towards more complex forms as it grows in size, market coverage, product line scope and as the strategic aspects of its customer—technology—business portfolio become more intricate. The stages model proposes four distinct stages of strategy-related organization structure.

Stage I : Organizations in this stage are essentially small, single business and managed by one person. The owner entrepreneur has close daily contact with employees. He personally knows all phases of operations. Most employees report directly to him and he makes all pertinent strategic and operating decisions. As a consequence, the organization's strengths, vulnerabilities and resources are closely linked with the entrepreneur's personality, managerial ability, style and financial position. In a way, a Stage I enterprise is an extension of the interests, abilities and limitations of the personality of its owner. The activities of such a business typically are concentrated in just one line of business.

Stage II : Compared to a Stage I enterprise, a Stage II enterprise has an increased scale and scope of operations which necessitate management specialization and transition from individual management to group management. A State II enterprise is fundamentally a single business enterprise which divides its strategic responsibility along classical functional lines: personnel, finance, engineering, public relations, manufacturing, marketing and so on. In an enterprise which is vertically integrated such as an oil company, the main organizational units are sequentially organised from one stage to another e.g., exploration, drilling, pipe lines, refining, wholesale distribution, retail sales, etc.

Stage III : A Stage III enterprise, though in a single field or product line has operations which extend to several geographic areas. Within a broad policy framework, these units have considerable flexibility in formulating their own strategic plans to meet the specific needs of their geographic areas. Based on the principle of geographic decentralization, each unit, operating as a semi-autonomous entity, is structured along financial lines. The main difference between a Stage II and a Stage III enterprise is that while the functional units of a Stage II enterprise stand or fall together (since they are built around one business at single location), the operating units of a Stage III enterprise can stand alone in the sense that the operations in different geographic units are not inextricably linked or dependent upon the units of other areas. The firms that represent this category may include firms in the cement, brewery, heavy machinery, fertiliser industries. The chain stores of a footwear company like Bata may also fall in this category. IFFCO, SAIL, NTC, HMT, are some examples of Stage III enterprises.

Stage IV : Stage IV represents the ultimate in the evolutionary growth of an enterprise. The firms in this category are typically large multi-product, multi-unit, multi-technology enterprises whose units operate on decentralized lines. Enterprises in this category reach this stage because their corporate managements generally lay considerable stress on the strategy of diversification—related or unrelated. As with the Stage III firms, the semi-autonomous units of Stage IV firms may have substantial flexibility in formulating their strategies and policies relating to their own lines of business. All the units however report to corporate headquarters in accordance with the performance parameters decided upon. They conform to the broad guidlines laid down by the corporate office. The general manager of each unit has overall responsibility for the total business as his authority extends to all the functional areas. However, some functions and staff services may be centralized at the corporate level. The prominent example of firms in this category are: ITC, Shaw Wallace, Grasim Industries, ICI, JK Industries, etc.

Comments on the Stages Model : The stages model provides useful insights into why structural configuration tends to change in accordance with the change in size, geographic spread, technology and strategies. As firms progress from small, entrepreneurial enterprises following a basic 'concentration' strategy to more complex phases of volume expansion, verticle integration, geographic extension and line of business diversification, their organization structures evolve from unifunctional to functionally centralized to multi-divisional decentralized organization forms. While at one end of the spectrum come single line businesses which invariably have centralized functional structures, at the other end come highly diversified enterprises which again invariably have decentralised divisional form. In between come firms which have limited diversification. Such firms may have hybrid structures partaking the characteristics of functional and product divisional forms.

Some comments of clarificatory nature at this point are in order. It is not necessary that a firm must begin at Stage I and reach ultimately to Stage IV. Most of the large enterprises today right away begin with Stage II or even Stage III. A firm in the evolutionary process may skip one or more of the stages in the journey.
For example, it is not necessary for a firm in Stage II to pass through Stage III to reach Stage IV. Some firms may exhibit characteristics of two or more stages at the same time i.e., some operations of these firms may be decentralized geographically (for example, warehouses or transport facilities of a large steel mill like TISCO or a company like Coal India Limited) and some other operations (for example procurement of raw material, plant and machinery, manufacturing facilities) may be centralized.

No organizational form is perfect. A kind of subtle experimentation always goes on. Some firms, after a stint with decentralization may revert to centralised form. For example, the five separate decentralized, fully integrated units of Dupont of USA—Rayon, Acetate, Nylon, Orlon, and Dacron—were consolidated into a Textile Fibre Unit with a single multifibre field force (earlier each unit had its own sales force which vied with each other for business from the same set of customers and thus competing with each other) organized around four market segments namely: menwear, womenwear, home furnishing, and industrial products. Whenever management changes its strategy it must review its organization structure. It must answer this question : is the organizational structure still alright or does it need modification? The answer to this question could lead the management in recognising whether there is or not a mismatch between the strategy and the organization structure.

Activity 2

Try to familiarise yourself with the historical growth of your organization. Discuss the different stages, the organization has passed through and its present status.

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13.7 FORMS OF ORGANIZATION : STRATEGY RELATED BENEFITS AND LIMITATIONS

There are some well known forms or approaches to organizational structuring: Functional, Product Divisions, Holding Company, and Matrix. There are also other variants of these basic forms. Since you must be familiar with these organization forms i.e., what these organization forms are and what are their main characteristics, we shall confine our discussion here to strategy related benefits and limitations of these forms of organization.

Functional Structure

A functional structure tends to be effective in a single business unit where key activities revolve around well defined skills and areas of specialization. Concentration on performing functional area tasks increases specialization leading to greater operating efficiency and development of distinctive skills. The functional specialization promotes full utilisation of capacity of resources, including technical skills—manpower, facilities and equipment. These are strategically important considerations for single business organizations, dominant product enterprises and vertically integrated firms.

What form the functional specialization will take varies according to customer-product-technology considerations. For instance, a hospital is often compartmentalised according to the needs of its clients, i.e., outdoor and indoor divisions which are further departmentalised into paediatrics; orthopaedics; cardiology, ear, nose and throat, etc. A municipality is also departmentlised according to purposeful functional areas viz., fire, public safety, health services, maintenance of road, water and sewerage, recreation, education, etc. A technical instrument manufacturing firm may be organized around research and development, engineering, production, technical services, quality control, marketing, personnel, finance and accounting.

The problem with the functional structure is that it may not be easy to keep strategic coordination across different functional units. The functional specialists tend to have their own perspectives on how the task can be accomplished and this creates difficulties in achieving coordination. Because they talk in different languages, they may not have adequate understanding of and fail to appreciate each other's strategic roles and changes in the circumstances. Besides, the functional specialists often develop their own mind-sets and are more loyal to their own functional goals rather than the goals of the organization as a whole. This imposes considerable strain on the general manager in terms of resolving cross functional differences and clearing the clogged communication lines and enforcing cooperation. The functional form may also stand in the way of promoting entrepreneurial creativity, adapting quickly to major changes in the customers, market and technological scene and in pursuing opportunities that go beyond the conventional boundaries of the industry.

Product Divisions

For a diversified enterprise producing a variety of products belonging to different industry groups, using different technologies and with plants at different locations, functional structure makes the job of the manager incredibly complex. In such an enterprise the needs of the strategy virtually dictate that different businesses be organized into different business (or product) divisions which may then be organized along functional lines.

Putting all activities belonging to the same business under one roof facilitates implementation of strategies. With appropriate authority delegated to the general managers of the divisions, accountability for results can be stressed in such an arrangement. Reward system can be geared to motivate managers for improved performance by providing incentives. If entrepreneurially oriented and experienced persons are appointed as general managers of divisions, the performance of the entire organiztion may improve on account of better responsiveness and quick decision-making.

However, where activities are not or cannot be properly divisionalised or where considerable interdependence exists between the components of the organization, as it may happen in a firm with related diversification, this form may result in the lack of cooperation among autonomy conscious managers and thus hinder coordination.

Strategic Business Units : Often by introducing one more layer between the chief executive officer (CEO) and the general managers of divisions, **Strategic Business Units (SBUs)** may be created to give separate but related areas within the total enterprise some cohesive direction. The SBUs are an attempt to rationalise the firm's varied businesses, particularly where the span of management for the chief executive is too large i.e., general managers of several divisions, say 40-50, report to him. Under such conditions it is useful to group strategically related businesses (divisions) and place them under a Vice-President (a new layer created). This may improve strategic thinking, planning and coordination of diverse business interests. The strategic relatedness may include a closely related strategic mission, a common need to compete globally, and common key success factors. The SBU concept is quite popular in the United States. The General Electric, Union Carbide, General Foods and some well known examples of the firms which have capitalised on this concept in that country.

However, the location of tasks between SBUs head (i.e., vice president) and general manager of various units comprising the SBU is a delicate matter which needs careful balancing between needs of the general managers for necessary latitude and a need of the heads of the strategic units for strategic coordination.

Holding Company

Holding company is one which has one or more subsidiary companies. According to Section 4 of the Companies Act, 1956, a company shall be deemed to be a subsidiary company if the other company is the controlling company i.e., it (i) holds more than half in nominal values of its equity share capital (or exercises or controls more than half of its total voting power); or (ii) controls the composition of its Board of Directors; or if the subsidiary company itself is a holding company of another subsidiary company, then the latter will also become the subsidiary of the holding company of which the former is a subsidiary company.

In India, holding company form has been adopted as one of the structural forms for organising public sector enterprises. The well known examples are: Fertiliser Corporation of India, State Bank of India, General Insurance Corporation. Some other public sector enterprises which have subsidiaries are: Steel Authority of India Limited, Coal India Limited, and National Textile Corporation. The extent of control, or involvement may vary from very little to quite substantial. Often, however, the holding company form is adopted because the management of the parent company wants to give maximum freedom to the managements of the subsidiary companies.

The holding company may have shareholdings in a variety of connected or unconnected business operations. In such a situation, the holding company is virtually a conglomerate, and in another sense it may really be an **investment company**. In reality, therefore, it operates a portfolio of autonomous business units or investments. The subsidiary companies have their separate, legal entities and have their own names, thus retaining their own identities. The holding company may limit its role to decisions involving buying and selling of such companies. A simple organization chart of a holding company is given in Figure 13.2. The business interests of the parent company may range from 100 per cent (wholly owned subsidiary) to 51 per cent.

The parent-subsidiary relationship may emerge as a result of original planning of the promotor or it may come about due to subsequent developments e.g., growth of the enterprise (new activities/business organised as separate legal entities rather than as organic divisions). This kind of relationship may also emerge on account of acquisitions or takeovers. While holding companies in the Indian public sector typically consist of subsidiaries representing various geographic units, the subsidiaries in the case of holding companies in the private sector typically consist of companies with diverse interest, such as construction, shipping, hotels, mining and engineering, etc. ITC is one such example of the holding company in the private sector.

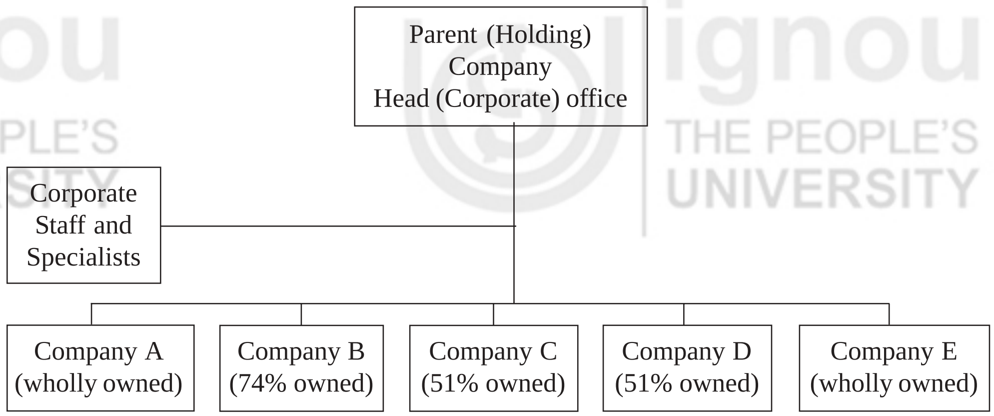

Figure 13.2: Holding Company : A Simple Organization Chart

If a holding company consists of clusters of subsidiaries, representing diverse interests, these clusters may be organised into different divisions at the corporate headquarters. For instance, the various hotels of a company may all be affiliated to the hotel division at the headquarters. This enables the corporate management to formulate company wide business strategy, for example, for all the hotels and coordinate their activities, if necessary. The essential point in a holding company is the extent of autonomy the various subsidiaries have in relation to strategic decisions and this may be influenced by whether or not there are divisions in the parent company.

The holding company form offers several advantages. It enables the spread of risk across many business ventures and facilitates the divestment of individual companies if circumstances so demand. The subsidiaries can benefit from their belonging to the membership of the group. The losses of one may be offset against the profits of another. Protection is thus afforded to loss-making units in bad times. The subsidiaries can have the benefit of cheaper finance for investment from the parent company for expansion or technology upgradation. They are not burdened with high central overheads since the head office usually has a lean staff.

The holding company form may not be without some pitfalls, especially when subsidiaries are created as a result of takover craze. The empire building may lead to lack of internal strategic cohesion. Since the aim in the holding company design is to keep the centre as slim as possible, the necessary skills at the centre to provide help to subsidiaries may not be available. This form may also lead to some duplication of efforts in the enterprise if taken as a whole. There may be very little synergy between different business interests.

Matrix Form

The key feature of the matrix form is that product (or business) divisional form is overlaid on the functional structure to form a matrix or grid, resulting dual authority for most of the members of the organization. The combining of the two structural forms usually results in a compromise between the functional specialization and line-of-business specialization. The members in such an organization have to learn to live a "new way of life". They have to adjust to a different kind of organizational climate.

For organizations which work in a dynamic or fast changing environment or where product life cycle is relatively short or where the organization has to be constantly on the look out for new products, matrix form is the answer. The business managers and resource managers in a matrix structure have important strategic responsibilities. The team approach implicit in a matrix promotes internal checks and balances the differing viewpoints and perspectives. Several well known companies in the United States, such as General Electric, Texas Instruments, Boeing, Dow Corning, Citibank use matrix structures.

Since matrix form is likely to generate some amount of conflict, friction and misunderstanding, it must be carefully designed. It is a complex structure to manage. Apart from the expectation that everybody must communicate with every body else in the grid, decisions may be delayed.

A Brief Discussion on Forms

From the above discussion on various forms it may be observed that there is no such thing as an ideal organization design. There are no universally applicable rules for matching strategy and structure. It is quite possible that two firms with similar strategies may work with two different structures. Of course, a structure that suits one strategy may be totally unfit for another. Further, a structure which has worked well in the past may not work well in the future. Changes in customer-product-technology relationships may make the structure of a firm strategically obsolete. An organization structure is thus dynamic. Changes are not only inevitable but typical.

Experience shows that pragmatic considerations, such as the constraints imposed by the personalities involved and the corporate culture influence the design of the structure. The design of the structure however should begin with a strategy-structure framework. The latter should get precedence over the organization's internal situation, including the personalities involved. Once the structure has been built keeping in mind this framework; it may be modified to adapt it to the peculiar situation of the organization.

As already stated, there is nothing like the "best" form in organization design. Each form that we have discussed in this section has its own strategy related strengths and weaknesses. The adoption of one form does not preclude the use of one or more of the other forms. Many organizations are large and diverse enough to accommodate more than one form for their different lines of activities. The best organizational form is the one that best fits the overall situation.

Some generalisations may however be made. Firstly, where the firm is engaged in a single product line or it uses continuous process or assembly type of technology, the structure tends to be functionally oriented because standards of performance and tightly sequenced integration are crucial. Secondly, where an organization operates in a tightly regulated environment (e.g., government agencies), it often has a more rigid, authoritarian and bureaucratic organization structure because government rules and regulations have to be observed. Such rules and procedures leave little latitude for individual discretion. Thirdly, where a firm's products are mostly custom made and there is a wide variety in the day-to-day work routine or where the process of production is high technology based, the structure tends to be decentralized and the organizational members have greater freedom of decision and action. Fourthly, the greater the diversity within an organization's business, the greater is the likelihood that the most effective organization form will be decentralized and multi-divisional. Finally, the more uncertain and diverse the organization's product-market environment, the more likely it is that the firm will utilise a loose "organic" design (e.g., matrix) with considerable managerial latitude given to subordinates. It is not difficult to understand the logic that lies behind this. The structural flexibility is more conducive for the organizational units to adapt to their peculiar environments.

Activity 4

What kind of structural form your organization has? Is it suitable keeping in view the needs of the strategy? Critically evaluate.

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13.8 STRUCTURING MULTINATIONAL (TRANSNATIONAL) ORGANIZATIONS

It is a common knowledge that companies typically begin their intertnational operations through exporting. One way to fit the personnel and resources concerned with exports is to attach the new export unit to one of the existing major parts of the organization serving domestic markets. In companies organized along functional lines, exporting activities or international sales are frequently attached to the sales division.

In firms having a divisionalised product structure (i.e., whose major divisions correspond to different products or product groups), the export department is often appended to the product division whose export it handles. Thus, one or all of the major product divisions may have their own export departments. As export activity expands, company organized in this fashion will think in terms of amalgamating the various export departments into a single unit serving entire company. Whether the structure of the company undergoes change or not, a lot would depend whether exports are handled directly by the producer company or by a trading company as it happened in the initial stages in Japan. However, if the producer in course of time finds that a ready market for its products exists abroad, it may accelerate the attainment of still larger sales. It may therefore decide to do away with the trading company and handle exports directly. The producer then makes arrangements for finance, marketing intelligence and distribution. There is a tendency for such successful exporters to establish their own sales subsidiaries abroad. The Hitachi company in Japan relied heavily on the trading companies to carry its products abroad during early stages of its international development. As its volume of business abroad expanded, it gradually relied less on trading companies and more on its own management of foreign operations, including joint ventures and wholly owned subsidiaries.

Once a firm has established its own operating units abroad, the original issues change from those in the exporting stage to the relationship between overall corporate structure and quasi-independent foreign based subsidiaries which have their own management and productive resources.

Mother-Daughter Type Structure

The relationship between the corporate office and the subsidiaries may be informal as it happened in the early stage of development with most of the multi-national companies of Europe. The chief executive deals with them on individual basis. The various operating units (subsidiaries) may be staffed largely by relatives of the founder. Thus the whole company is a family affair. The highly personalised relationship between the Chief Executive Officer (CEO) of the parent company and the managing directors of the foreign subsidiaries has come to be known as mother-daughter type of organization. This is shown in Figure 13.3. This type of organization allows considerable discretion to the chiefs of the national operating units. Control from the centre is mainly exercised through personal visits by the chief executive officer to the various units. The focus of control is often on financial performance.

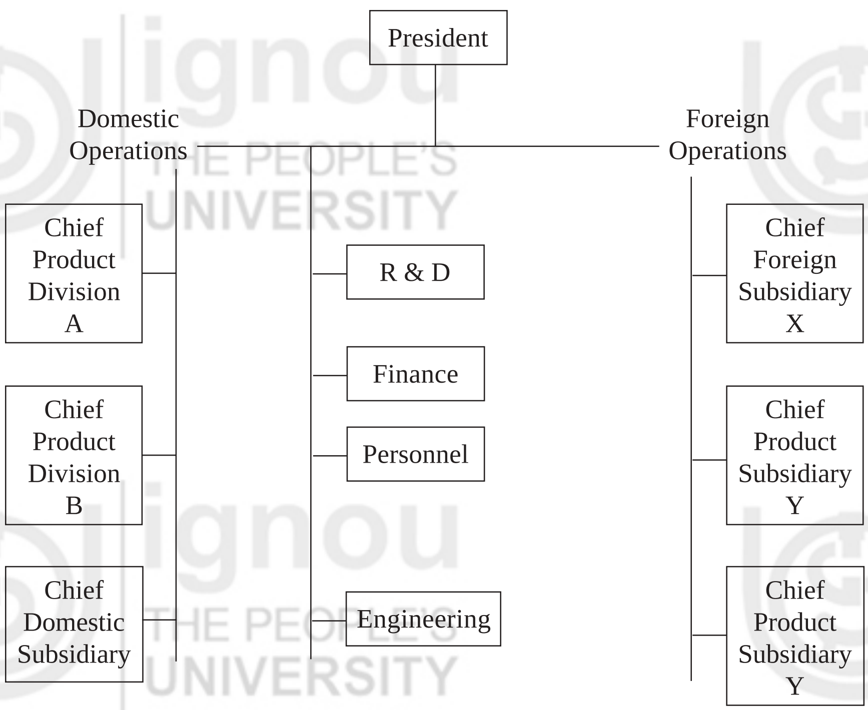

Figure 13.3: Mother-Daughter Structure

The limits of the mother-daughter structure usually surface when multinational companies begin to expand geographically. The CEO's personal knowledge of diverse countries of say Asia, Africa and the Middle-East can only be superficial. This is why, perhaps European multinationals such as Philips, Ciba Geigy, and Nestle led the move away from the mother daughter organization towards more global structures.

International Division

Since most of the multinationals in United States were already organized on product divisional lines, they added an international division to the existing structure when they were faced with the expansion of operations abroad. The international division has its own staff and an executive incharge. The various foreign subsidiaries become its operating units as shown in Figure 13.4. This form of structure provides a central focus within the firm with the strategy directed at the firm's international opportunities. The international operations have no longer to play a second fiddle to the domestic operations. Unlike mother-daughter structure, international division lends itself more readily to the establishment of formal reporting procedures and a less personal form of control. Grouping together of the firm's international operations not only gives them more weightage within the organizational hierarchy but it also facilitates the training and development of a core of international managers. Moreover, the considerable autonomy that the heads of the various national subsidiaries typically enjoy within their national spheres clearly fixes responsibility and accountability for results while leaving them free to respond to local conditions.

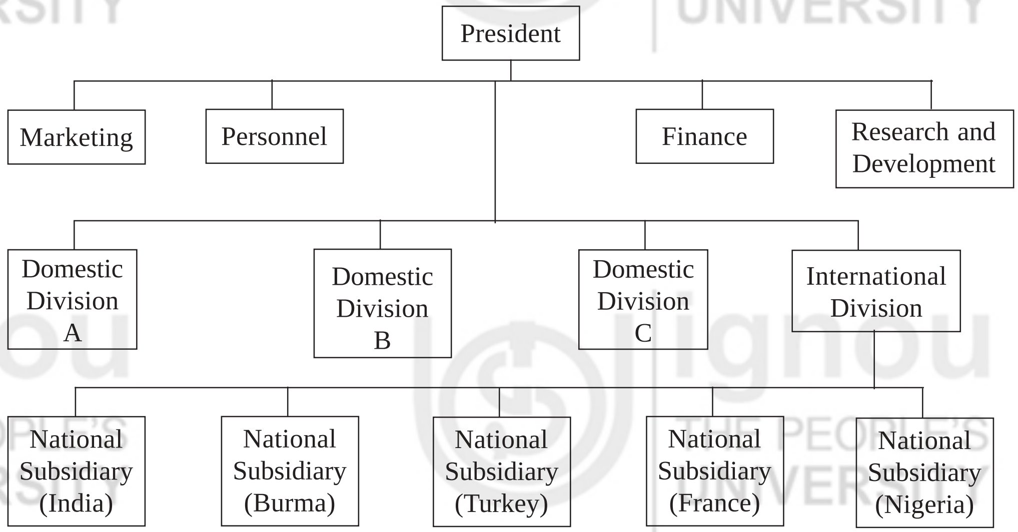

Figure 13.4 : International Division

Activity 5

What could be some other advantages and disadvantages of the international division form of structure? List them below (one advantage and one disadvantage is listed for you).

Advantages

i) Flexibility : The structure can be readily supplemented with special project teams and international committees for a greater degree of international coordination.

ii) ....

....

Disadvantages

i) Friction : This form gives rise to friction arising from cultural split between international managers working abroad and domestic managers oriented towards national context of the firm's home country.

ii) ....

iii) ....

Global Structures

Global structures may be either global product structures or global area structures. Let us first talk about global product structure.

Global Product Structure : Unlike the international division form where the overall control, coordination and direction is concentrated with one executive and with one division, global product structures assign primary responsibility to international product managers with a world-wide mandate for specified product groups as shown in Figure 13.5.

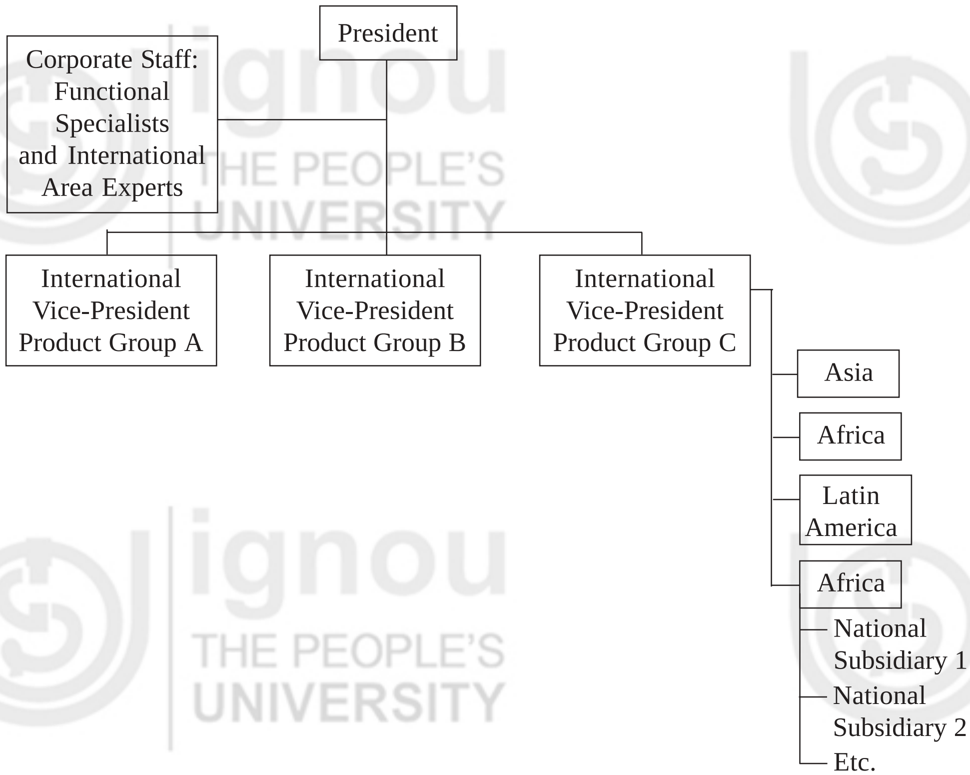

Figure 13.5 : Global Product Structure

Each manager incharge of an international product group is assisted by a staff equipped to scan the international environment on a global scale. He has both the necessary information and authority to mobilise firm's international resources behind global strategies.

Compared to the international division, the global product structure shifts some of the important authority away from managers managing national subsidiaries and places it in the hands of executives with world-wide product responsibility. The aim is to achieve better international coordination within specific product groups. A more global view of competition and the firm's strategic opportunities is possible. It facilitates cross-border coordination of product activities which may include manufacturing, marketing and technology transfer. Technology transfer is of particular importance for firms which have sizeable investment in R & D. They must defuse the new technology globally within a relatively short period. With its emphasis on cross-border rationalisation of marketing and productive activities the global product structure has the potential for improving cost efficiency.

While global product structure offers several benefits, certain amount of duplication of activities may become inevitable. However, the fact that several of the more experienced MNCs have continued to use the structure indicates that the problems are few and manageable, especially if a corps of senior managers with international outlook and experience are developed.

Global Area Structure : Under global area structure, the firm's operations are segmented geographically into several regions of the world. Each region has responsibility for an area (or region) and has area (or regional) headquarters. Below the area headquarters, the activities may be organized either on product basis or on functional basis. The structures will then be known as **global area product structures, global area functional structures,** and **global area national structures** respectively. An organizational chart of global area national structure is presented in Figure 13.6.

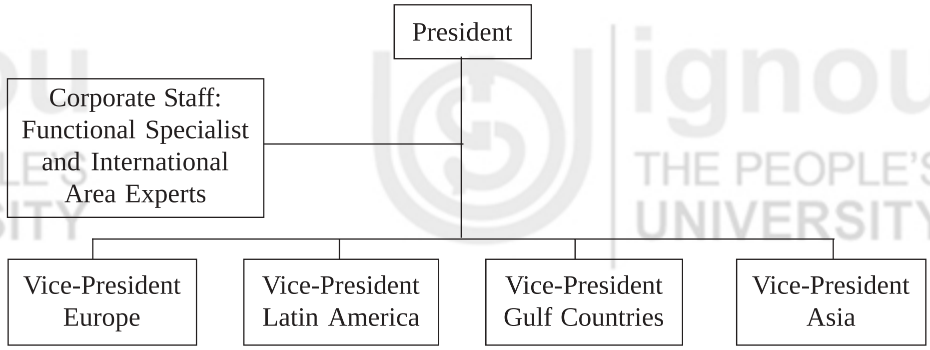

Figure 13.6 : Global Area Structure

Activity 6

In the preceding section we discussed two types of global structures: Product and Area. List some common features of these structures (one feature is listed for you).

i) Multiple international headquarters and staff.

ii) ....

iii) ....

Taken from the viewpoint of highest level of corporate hierarchy, the move towards a global structure represents a more decentralized approach to international operations, as compared to either the international division or the mother-daughter organization. The responsibility for cross-border coordination among multiple international headquarters is spread under global structures instead of it being concentrated in a single headquarters exercising control over all international operations.

Matrix Structures

Under matrix structure, authority and responsibility are assigned along at least two dimensions which, in the international context, are often product and region. As illustrated in Figure 13.7 the firm's various product groups are coordinated globally, each by its own vice-president. Its operations are also coordinated by area, with authority for this type of control vested in regional vice-presidents. The aim is to get best product and area centred coordination. Problems may sometime arise because of

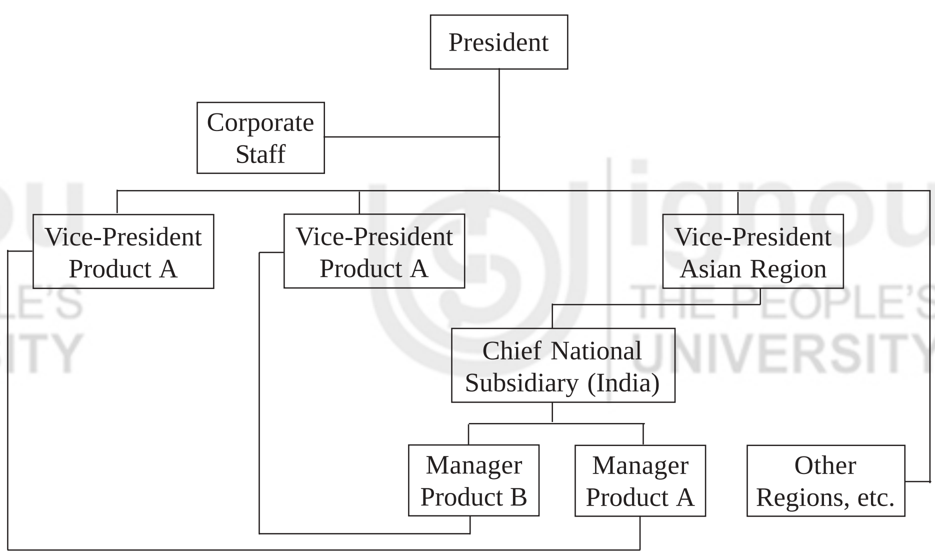

Figure 13.7 : Matrix Structure

dual authority inherent in such structures. As shown in Figure 13.7 the chief of the national subsidiary is directly responsible to the Vice-President of the Asian region. The product groups within his/her subsidiary and under his/her direction also report to their respective product group Vice-President. The national managers of product groups A and B are responsible to both the President of the national subsidiaries and the Vice-President of their respective product groups. Despite its some apparent shortcomings the matrix structure has been adopted by several leading multinationals. We also come across cases where matrix structure, due to its own inconsistencies, was abandoned in favour of global product structures.

13.9 STRUCTURE FOR DEVELOPMENT PROGRAMMES

Though governments world-wide are characterised by hierarchical structures which depend largely on the use of rules and authority, they however do recognise the importance of creating new organizational structures and reforming the existing ones. That they are generally slow in adopting change is another thing. The corporate form of organization for public sector manufacturing or commercial undertakings in India, for example, reflects the belief that this form of organization is more appropriate than the departmental form. Commissions and task forces are often set up by governments to recommend structural reorganization to fit the changed task requirements. Ministries and departments are regrouped and sometimes some departments are abolished, especially when a new government takes over. When strategies change, structures need to be realigned.

Structural Form

Governments usually have functional structures. The tasks or services are broken up according to the functions. Since development programmes are normally initiated by Ministries, there is a tendency for the sponsor to prescribe a structural form (often the functional form) for the programme. However, an across-the-board approach may not be desirable for programmes of complex nature. The appropriateness of a structure can be judged only in relation to a programme's strategy and environment. The designer should start with the tasks and goals identified in the strategy and search for the best structural form.

When a programme deals with a single service or is relatively small or the technology it uses is simple, or production processes are standardized and processing of information is relatively easy, the **functional** (hierarchical) **structure** would suffice. To illustrate, for a dairy development programme where four basic functions can be identified, providing service to farmers (extension, inputs), milk collection, quality control and transport, the functional form can be adopted. The integration of these and some other support or common functions (e.g., milk processing, marketing, finance, etc.) takes place at the level of the chief executive.

However, when a programme grows larger geographically, or adopts a multiple service strategy (e.g., an agricultural programme diversified into health and education), a simple functional structure may no longer work. Many development programmes, spread over a wide geographical area, require local adaptation of services. **Matrix structures** are increasingly used when programmes diversify their services or expand. In the agricultural programme that we cited earlier, personnel for health and educational services may be drawn from relevant Ministries of the Government on the understanding that the technical back up for the services will be provided by the Agricultural Ministry.

Though, dual authority exists at the middle level in the matrix organization, it merges into a unified command at the top. In a large and complex development programme, however, joint decisions and resolution of conflict often require the formal cooperation of several organizations ouside the programme agency. Network structures would be more appropriate.

Network Structure

Network structure is more appropriate for large and complex programmes as it facilitates inter-organizational cooperation. Under the network structure a lead agency creates a network of relevant public and private agencies which have an influence on the programme. The lead agency coordinates but does not control which is left to the local or constituting units. The lead agency influences the collaborating agencies by joint allocation of funds, joint planning of activities, political support and review at higher levels. Figure 13.8 illustrates the network structure of the Indonesian population programme. It will be seen that the lead agency was the Population Board which had strong political support of the country's President.

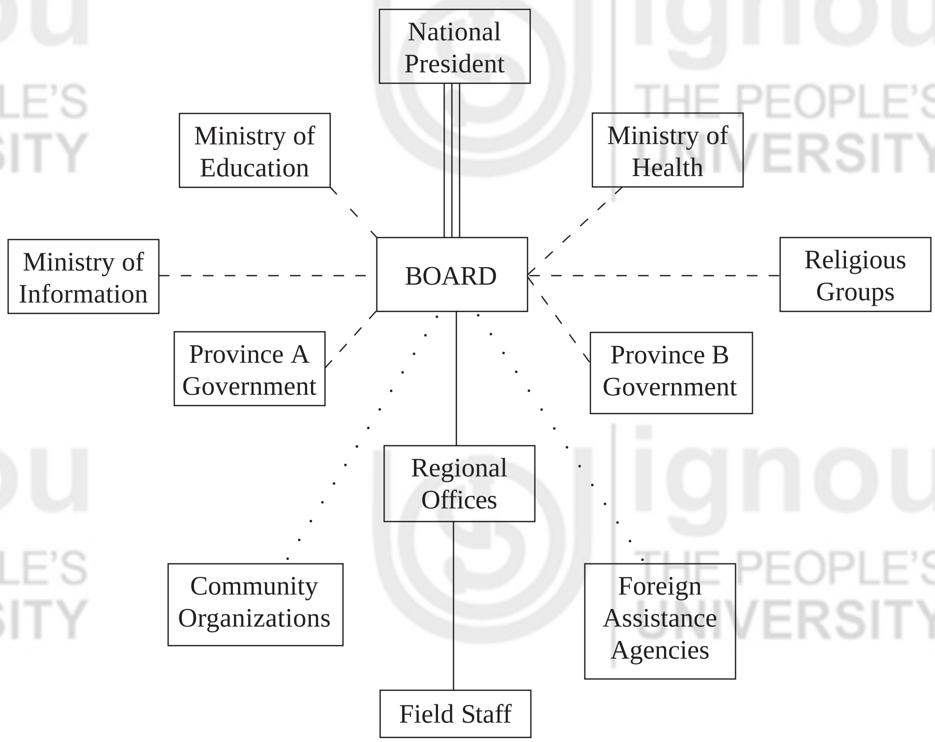

Figure 13.8 : Network Structure of the Indonesian Population Programme

Legend:
- ═══ political support
- ─── direct control
- – – – – – strong influence
- · · · · · weak influence

Source: Paul, Samuel C, Strategic Management of Development Programmes, International Labour Office, Geneva, 1983, p. 83.

The problem with network structure is that the lead agency may have little control or influence over members of the network, except those who belong to its own organization i.e., its own regional offices and field staff over which it has direct control.

We have discussed some structural forms in the preceding paras. For other matters related with the organizational structures for development programmes, the degree of decentralization and the amount of autonomy that should be given to the heads of the various programme agencies.

Activity 7

What structure would you suggest for a development authority

i) Which acquires all its single type of inputs (e.g., coffee seeds) from farmers in a certain region?

....

....

....

....

....

ii) Which depends on several agencies, public and private, provincial and local governments, for its diverse inputs and functions?

....

....

....

....

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....

13.10 PERSPECTIVES ON STRATEGY AND STRUCTURE

In this section we will learn some recent or widely acclaimed perspectives on strategy and structure. Two perspectives are provided here: one by Michael E. Porter (Competitive Strategy, The Free Press, New York, 1980) and the other by Thomas J. Peters and Robert H. Waterman Jr. (In Search of Excellence, Warner Books, 1982). We shall first take up Porter's view.

Porter's Perspective

Porter has enunciated three **generic strategies:** Overall Cost Leadership, Differentiation and Focus. According to him the successful implementation of the three generic strategies requires not only different resources and skills but also imply different organizational arrangements, control procedures and inventive systems. These strategies are discussed in block-4. Let us briefly recapitulate these three generic strategies.

Overall cost leadership (common in 1970s in the USA) is achieved through a set of functional policies culminating into what is popularly known as the Experience Curve Effect. This strategy requies construction of efficient scale facilities, vigorous pursuits of cost reduction from experience, tight cost and overhead control and cost minimisation in areas like R&D, sales force, advertising and so on. A great deal of managerial attention to cost control is necessary to achieve the aims.

The **differentiation strategy** implies offering a product or service by the firm which is perceived in the industry as being unique. Differentiation can be approached in many ways (one or more at the same time); product design features, brand image, technology, customer services, dealer network and other dimensions.

The **focus strategy** means concentrating on a particular buyer group, segment of product lines, or geographic market.

As with differentiation, focus may take many forms. Whereas the 'low cost' and 'differentiation' strategies aim at achieving their objectives industry-wise, the focus strategy is built around serving a particular target very well. All functional policies are geared in that direction. This strategy rests on the premise that the firm is able to serve its narrow strategic target more effectively and efficiently than those competitors who are engaged in broader activities.

We now turn our attention to the organizational requirements for each strategy. Some common implications of the generic strategies in terms of skills and resources and organizational requirements are presented in Table 13.1 which are self-explanatory.

Table 13.1 : Organizational Requirements for Different Generic Strategies

Generic Strategy	***Commonly Required Skills and Resources***	***Common Organizational Requirements***
Overall Cost Leadership	Sustained capital investment and access to capital Process engineering skills Intense supervision of labour Products designed for ease in manufacture Low-cost distribution system	Tight Cost Control Frequent, detailed control reports Structured organization and responsibilities Incentives based on meeting strict quantitative targets
Differentiation	Strong marketing abilities Product engineering Creative flair Strong capability in basic research Corporate reputation for quality or technological leadership Long tradition in the industry or unique combination of skills drawn from other businesses Strong cooperation from channels	Strong Coordination among functions in R & D, product development, and marketing Subjective measurement and incentives instead of quantitative measures Amenities to attract highly skilled labour, scientists, or creative people
Focus	Combination of the above policies directed at the particular strategic target	Combination of the above policies directed at the particular strategic target

Source: Porter, Michael E., p. 40-41.

Industry Maturity and Organizational Arrangements: According to Porter, not only different organizational arrangements, leadership and motivation systems are needed for different generic strategies, different organizational structures and systems are also needed as the industry **transitions to maturity**. Some suitable adjustments must take place in the area of control and motivation system as well. As the industry matures, more attention to costs, customer service and true marketing (as opposed to selling) may be required. More attention to refining old products rather than introducing new ones may be necessary. The less "creativity" and more attention to detail and pragmatism is often what is needed in the mature business. These shifts in competitive focus obviously require changes in the organizational structures and systems to support them. Systems designed to highlight and control different areas of business are necessary. The various elements of the structural and system requirements of mature business are tabulated in Exhibit 2.

In short, it may be stated that there has to be more emphasis on formal arrangement than on the informal ones as hitherto. The competitive shifts (e.g., aggressive marketing, price competition) and new organizational requirements may be presented to by people within the organization who till the other day found pride in pioneering

Exhibit 2 : Organizational System Requirements of Mature Business

- Tight budget;
- Strict control;
- Performance based incentive systems;
- Control of financial assets such as inventory and accounts receivable;
- More coordination across functions and among manufacturing facilities;
- Major changes in plant manager's job.

high quality products. Sacrificing quality for costs and close monitoring of costs may be resisted. Furthermore, new reporting requirements, new controls, new organizational relationships and other changes may sometimes be seen as a loss in personal autonomy and as a threat. A company thererore must be prepared to re-educate and remotivate personnels at all levels as it enters the maturity stage.

Peters and Waterman's Perspective

Large companies tend to be complex. Unfortunately, many of such companies, according to Peters and Waterman, respond to complexity by designing complex systems and structures rather than simple ones. A favourite candidate for the **wrong** kind of complex response is the matrix organization structure. For a multiproduct, multi-location and multi-market company, with several functional departments, a four dimensional matrix may be a normal choice. However, such a matrix is a "logical mess". The matrix is quite confusing: "people aren't sure to whom they should report for what. The most critical problem, it seems, is that in the name of "balance", everything is somehow hooked to everything else. The organization gets paralysed because the structure not only does not make priorities clear, it automatically **dilutes priorities**. In fact, it says to people down the line: "everything is important; pay equal attention to everything".

None of the excellently managed companies, according to the authors, had matrix structures, except for the project management companies like Boeing. Even early users of the matrix technique such as Boeing and NASA emphasised one key dimension of the organization structure to which they accorded clear-cut primacy, and this could be either product, or geography or function. How have the excellent companies avoided matrix forms? They have done so by sticking to simple forms. "Most of the excellent companies have a fairly stable, unchanging form—perhaps the product divisions— that provides the essential touchstone which everybody understands, and from which the complexities of day-to-day life can be approached."

Excellent companies are quite flexible in responding to fast changing conditions in the environment. They make better use of small divisions or other small units. "They can reorganise more flexibly, frequently, and fluidly. And they can make better use of temporary forms such as task forces and product centres" and other *ad hoc* devices. Most of the reorganization takes place around the edges. The fundamental form rarely changes that much.

Product divisions are the building blocks in the structure of the excellent companies. A characteristic of structures in such companies is the shifting of people and even products or product lines among divisions on a regular basis and without acrimony.

The simple form is not limited to companies—specialized in creating niches for themselves. Other companies such as HP, Emerson, Digital, Dana and 3M have also simple structures. Regardless of industry or apparent scale needs, virtually all the companies pushed authority far down the line and tried to preserve or maximise practical autonomy for a large number of people. Simplicity in basic structural arrangement actually facilitated organizational flexibility.

Clean staff at the corporate level is a characteristic feature of excellent companies. And whatever staff these companies have tends to be out in the field solving problems rather than being stayput in the home office. Some increasing examples are given below:

- Emerson Electric has 54,000 employees, with fewer than 100 in the corporate headquarters.
- Dana employs 35,000 employees and has cut its corporate staff from about 500 in 1970 to around 100 by 1982.
- Schlimberger, a $ 6 million diversified oil service company, runs its world wide empire wth a corporate staff of 90.

That "less is more" also holds true for some of the top performing smaller companies. "ROLM, for instance, manages a $ 200 million business with about 15 people in corporate headquarters. "Virtually every function in the excellent companies is radically decentralized down to the divisional level at least." Though strategic planning is regarded as a corporate function, yet, some companies such as 3-M, HP, J & J have no planners at the corporate level. Fluor runs its $ 6 million operations with three corporate planners.

In some excellent companies the research staffers come in from line operations and then go back after sometime. "At IBM, management adheres strictly to the rule of three year staff rotation. Few staff jobs are manned by career staffers". The others are manned by line officers. "If you know you are going to become a user within thirty six months, you are not likely to invent an overbearing bureaucracy during your brief sojourn on the other side of the fence."

A structural form for the future should respond to three prime needs or properties: a

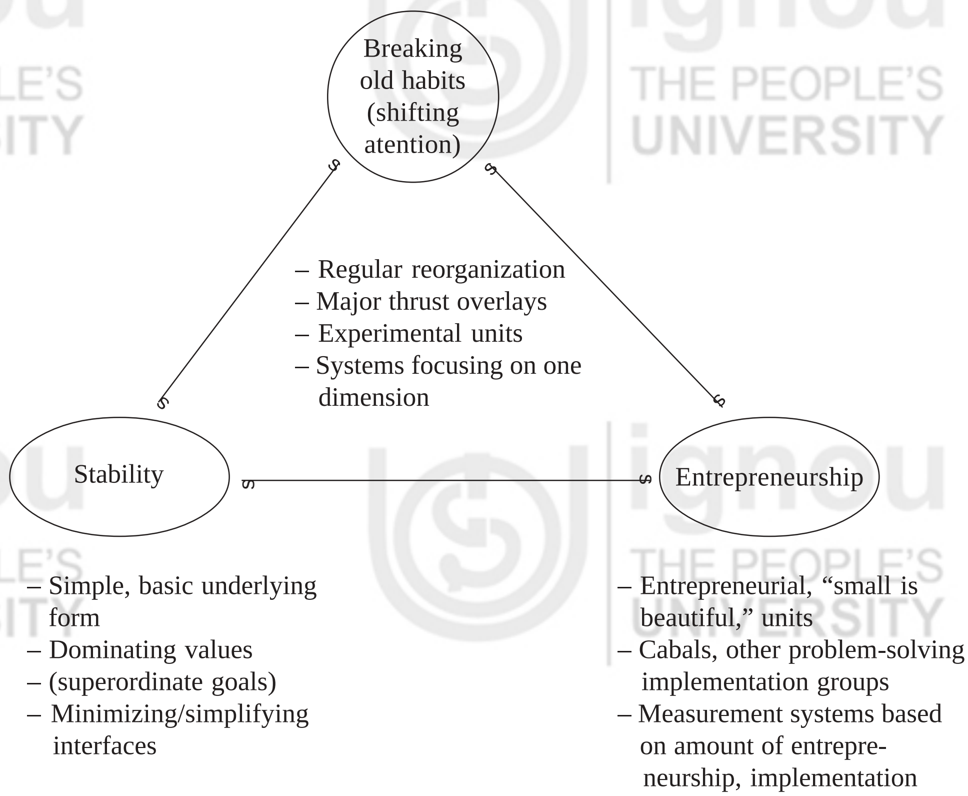

Figure 13.11: The Three Pillars of the "Structure of the Eighties"

Source: Peters and Waterman, p. 316.

need for efficiency around the basics (stability pillar); need for regular innovation (entrepreneurial pillar), and a need to avoid calcification by ensuring at least modest responsiveness to major threates (habit breaking pillar). The structural form should be based on these three pillars, each one of which responds to one of the three basic needs. The idea about the structural form for the future is depicted in Figure 13.11. The authors further say that an effective structure should have loose-tight property simultaneously. It is in essence the co-existence of firm's central direction and maximum individual autonomy which the author calls "**having one's cake and eating it too**." Organizations that live by the loose-tight principle do so through "Faith", through value systems. Beleif in customer, belief in granting autonomy, belief in quality are some of the values which great managers have demonstrated in their lives.

13.11 SUMMARY

Successful implementation of strategy, among several other factors, depends upon the appropriateness of the organization structure. The latter must meet the needs of the strategy. The various forms of organizational structuring may not be equally supportive of a particular strategy at hand. In designing an appopriate structure, tasks and functions which are critical to the achievement of strategy must be first identified. The organization designer should then think of other supporting and routine activities which are connected with the critical tasks and place all these in one unit. In this way various building blocks would be formed.

Though strategy and structure are interactive and interrelated, it has been often observed that structure follows strategy. Since structure is a tool to realise the aims of strategy, it helps people pull together in the performance of their diverse tasks to accomplish those aims. The experience of many firms indicates that organization structure evolves through different stages. The Stages Model provides useful insights into why structure tends to change in accordance with changes in size, geographic spread, technologies, and strategies of an enterprise.

Various forms of organization structuring are available: Functional, Product Divisions, Strategic Busines Units, Holding Comapny, Matrix, etc. Each form has its benefits and limitations when looked from a particular strategy point of view. There is nothing like the "best" or ideal structure. The best organization structure is the one that best fits the overall situation.

13.12 KEY WORDS

Global Structure: A kind of structure used by multinational companies. Under a *global area structure*, the firm's operations are segmented geographically into several regions in the world.

Holding Company: A company which has one or more subsidiary companies.

International Division: A division (in addition to domestic divisions) created by a multinational company to which all operating units (subsidiaries) in foreign companies report for performance based on formal procedures. Accountability thus can be fixed for performance.

Matrix Structures: In the context of multinational organizations, under a matrix structure authority and responsibility are assigned along at least two dimensions which are often product and region.

Mother-daughter Type Structure: A form of organization used by (European) multinational companies where relationship between the parent company and the subsidiaries is informal, personalised and where most of the staff on important positions is appointed by the parent company.

Network Structure: Under network structure a lead agency creates a network of relevant public and private agencies which have an influence on a development programme initiated by the government.

Stages Model of Structure: The proposition that organization structure evolves through different stages (Stages I to IV).

Strategy related Critical Talks: Tasks which are critical to the success of strategy of the organization. Such tasks must be performed exceedingly well for the strategy to succeed.

13.13 SELF-ASSESSMENT QUESTIONS

1) Why is the question of appropriateness of an organization important for management?
2) While distributing authority to various units of the organization, what general considerations you would bear in mind? Discuss.
3) In what ways would you provide for coordination for several units of the organization? Explain.
4) Explain the Stages Model of structure. Is it necessary for an organization to pass through all successive stages of growth?
5) What is a holding company? Discuss the strategy related benefits and limitations of this form of organization.
7) Write short notes on the following:
   a) Global structure
   b) Mother-daughter type structure
   c) Matrix structure

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