

Student Version

PART 3

**STRATEGIC
ACTIONS:
STRATEGY
IMPLEMENTATION**

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CHAPTER 11

*Organizational Structure
and Controls*

Strategic Management

Competitiveness and Globalization:

Concepts and Cases

Seventh edition

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Organizational Structure and Controls

- Organizational structure specifies:
 - The firm's formal reporting relationships, procedures, controls, and authority and decision-making processes
 - The work to be done and how to do it, given the firm's strategy or strategies
- It is critical to match organizational structure to the firm's strategy.

Organizational Structure

- Effective structures provide:
 - Stability
 - Flexibility
- Structural stability provides:
 - The capacity required to consistently and predictably manage daily work routines
- Structural flexibility provides for:
 - The opportunity to explore competitive possibilities
 - The allocation of resources to activities that shape needed competitive advantages

Organizational Controls

- Purposes of Organizational Controls:
 - Guide the use of strategy.
 - Indicate how to compare actual results with expected results.
 - Suggest corrective actions to take when the difference between actual and expected results is unacceptable.
- Two Types of Organizational Controls
 - Strategic controls
 - Financial controls

Relationships between Strategy and Structure

- Strategy and structure have a reciprocal relationship:
 - Structure flows from or follows the selection of the firm's strategy but ...
 - Once in place, structure can influence current strategic actions as well as choices about future strategies.

Evolutionary Patterns of Structure and Organizational Structure (cont'd)

- All organizations require some form of organizational structure to implement and manage their strategies
- Firms frequently alter their structure as they grow in size and complexity
- Three basic structure types:
 - Simple structure
 - Functional structure
 - Multidivisional structure (M-form)

Strategy and Structure: Simple Structure

- Owner-manager
 - Makes all major decisions directly.
 - Monitors all activities.
- Staff
 - Serves as an extension of the manager's supervisor authority.
- Matched with focus strategies and business-level strategies
 - Commonly complete by offering a single product line in a single geographic market.

Simple Structure (cont'd)

- Growth creates:
 - Complexity
 - Managerial and structural challenges
- Owner-managers
 - Commonly lack organizational skills and experience.
 - Become ineffective in managing the specialized and complex tasks involved with multiple organizational functions.

Strategy and Structure: Functional Structure

- Chief Executive Officer (CEO)
 - Limited corporate staff
- Functional line managers in dominant organizational areas of:
 - Production ➤ Marketing ➤ Engineering
 - Accounting ➤ R&D ➤ Human resources
- Supports use of business-level strategies and some corporate-level strategies
 - Single or dominant business with low levels of diversification

Functional Structure (cont'd)

- Differences in orientation among organizational functions can:
 - Impede communication and coordination.
 - Increase the need for CEO to integrate decisions and actions of business functions.
 - Facilitate career paths and professional development in specialized functional areas.
 - Cause functional-area managers to focus on local versus overall company strategic issues.

Strategy and Structure: Multidivisional Structure

- Strategic Control
 - Operating divisions function as separate businesses or profit centers
- Top corporate officer delegates responsibilities to division managers
 - For day-to-day operations
 - For business-unit strategy
- Appropriate as firm grows through diversification

Multidivisional Structure (cont'd)

- Three Major Benefits

- Corporate officers are able to more accurately monitor the performance of each business, which simplifies the problem of control.
- Facilitates comparisons between divisions, which improves the resource allocation process.
- Stimulates managers of poorly performing divisions to look for ways of improving performance.

Using the Functional Structure to Implement a Cost Leadership Strategy

- Operations is the main function.
 - Process engineering is emphasized over research and development.
 - Large centralized staff oversees activities.
 - Formalized procedures guide actions.
 - Structure is mechanical.
 - Job roles are highly structured.

Using the Functional Structure to Implement a Differentiation Strategy

- Marketing is the main function for tracking new product ideas.
 - New product R&D is emphasized.
 - Most functions are decentralized.
 - Formalization is limited to foster change and promote new ideas.
 - Overall structure is organic.
 - Job roles are less structured.

Using the Functional Structure to Implement the Integrated Cost Leadership/Differentiation Strategy

- Selling products that create customer value due to:
 - Their relatively low product cost through an emphasis on production and process engineering, with infrequent product changes.
 - Reasonable sources of differentiation based on new-product R&D are emphasized while production and process engineering are not.
- Used frequently in global economy

Implementing an Integrated Cost Leadership/Differentiation Strategy (cont'd)

- The integrated form of the functional structure must have:
 - Decision-making patterns that are partially centralized and partially decentralized.
 - Semi-specialized jobs.
 - Rules and procedures that allow both formal and informal job behaviors.

Corporate-Level Strategies and the Multidivisional Structure

- A firm's continuing success that leads to:
 - Product diversification, or
 - Market diversification, or
 - Both product and market diversification.
- Increasing diversification creates control problems that the functional structure can't handle.
 - Information processing, coordination
 - Control

Corporate-Level Strategies and the Multidivisional Structure (cont'd)

- Diversification strategy requires firm to change from functional structure to a multidivisional structure.
- Different levels of diversification create the need for implementation of a unique form of the multidivisional structure.

Multidivisional Structure: Cooperative Form

- Horizontal integration is used to bring about interdivisional cooperation.
- Sharing divisional competencies facilitates development of economies of scope.
- To foster divisional cooperation, the corporate office emphasizes centralization:
 - Strategic planning
 - Human resources
 - Marketing

Related Constrained Strategy

Cooperative Form (cont'd)

- R&D is likely to be centralized
- Frequent, direct contact between division managers encourages and supports cooperation and sharing of competencies and resources.
- Use of liaison roles
- Rewards are subjective, emphasizing overall corporate performance in addition to divisional performance.

Related Constrained Strategy

Multidivisional Structure: SBU Form

- Strategic business unit (SBU) form is a structure consisting of three levels:
 - Corporate headquarters
 - Strategic business units (SBUs)
 - SBU divisions
- Divisions within SBUs share
 - Products, or markets, or both

Related Linked Strategy

Multidivisional Structure: SBU Form

- Divisions within SBUs develop economies of scope and/or scale by sharing product or market competencies.
 - Each SBU is a profit center controlled and evaluated by the headquarters office.
- Used by large firms
 - Can be complex due to an organization's size and diversity in products and markets.

Related Linked Strategy

Multidivisional Structure: Competitive Form

- A structure in which there is complete independence among the firm's divisions
 - Divisions do not share common corporate strengths.
 - Because strengths aren't shared, integrating devices aren't developed.
 - Organizational arrangements emphasize divisional competition rather than cooperation.

Unrelated Strategy

Worldwide Geographic Area Structure: Implementing a Multidomestic Strategy

- Multidomestic strategy decentralizes strategic and operating decisions to:
 - Business units in each country
 - Product characteristics tailored to local preferences
- Firms counter global competitive forces by:
 - Establishing protected market positions, or
 - Competing in industry segments most affected by differences among local countries.

Worldwide Geographic Area Structure

- Worldwide Geographic Area Structure
 - Emphasizes national interests
 - Facilitates the firm's efforts to satisfy local or cultural differences
- Multidomestic Strategy
 - Requires little coordination between different country markets: integrating mechanisms aren't needed.
 - Key disadvantage is inability to create global efficiencies.

Worldwide Product Divisional Structure: Implementing a Global Strategy

- Global Strategy
 - Allows firm to offer standardized products across country markets.
- Effects on Firm
 - Success depends on firm's ability to develop and take advantage of economies of scope and scale on global level.
 - Firm tends to outsource some primary or support activities to the world's best providers.

Worldwide Product Divisional Structure

- Centralizes decision-making authority in the worldwide division headquarters.
 - Headquarters coordinates and integrates decisions and actions among divisional business units.
- Integrating mechanisms are important:
 - Direct contact between managers
 - Liaison roles between departments
 - Temporary task forces as well as permanent teams

Combination Structure: A Transnational Strategy

- Transnational Strategy
 - Combines multidomestic strategy's local responsiveness with global strategy's efficiency.
- Combination structure draws characteristics and mechanisms from both:
 - Worldwide geographic area structure
 - Worldwide product divisional structure
- Appropriate integrating mechanisms for the combination structure are less obvious.

Matches between Cooperative Strategies and Network Structures

- Network strategy exists when:
 - Partners form several alliances in order to improve performance of the alliance network itself through cooperative endeavors.
- Strategic Network
 - A group of firms formed to create value by participating in multiple cooperative arrangements such as alliances and joint ventures.

Matches between Cooperative Strategies and Network Structures (cont'd)

- Strategic networks are used to implement:
 - Business-level strategies
 - Corporate-level strategies
 - International cooperative strategies
- Strategic center firm
 - The firm around which the network's cooperative relationships revolve.