

PART 3

**STRATEGIC
ACTIONS:
STRATEGY
IMPLEMENTATION**

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CHAPTER 11

Organizational Structure

**Management of Strategy
*Concepts and Cases***

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KNOWLEDGE OBJECTIVES

Studying this chapter should provide you with the strategic management knowledge needed to:

1. Define organizational structure and controls and discuss the difference between strategic and financial controls.
2. Describe the relationship between strategy and structure.
3. Discuss the functional structures used to implement business-level strategies.
4. Explain the use of three versions of the multidivisional (M-form) structure to implement different diversification strategies.

KNOWLEDGE OBJECTIVES *(cont'd)*

Studying this chapter should provide you with the strategic management knowledge needed to:

5. Discuss the organizational structures used to implement three international strategies.
6. Define strategic networks and discuss how strategic center firms implement such networks at the business, corporate and international levels.

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

Organizational Controls



- **Strategic Controls: Subjective criteria**
 - **Are concerned with examining the fit between:**
 - What the firm *might do* (opportunities in its external environment).
 - What the firm *can do* (competitive advantages).
 - **Evaluate the degree to which the firm focuses on the requirements to implement its strategy.**

Organizational Controls



- **Financial Controls: Objective criteria**
 - **Accounting-based measures include:**
 - Return on investment
 - Return on assets
 - **Market-based measures include:**
 - Economic Value Added (EVA)

Matching Control to Strategy

- Relative use of controls varies by type of strategy:
 - Large diversified firms using a cost leadership strategy emphasize financial controls.
 - Companies and business units using a differentiation strategy emphasize strategic 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

- Firms grow in predictable patterns:
 - First by volume
 - Then by geography
 - Then integration (vertical, horizontal)
 - And finally through product/business diversification
- A firm's growth patterns determine its structural form.

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
Growth
Pattern

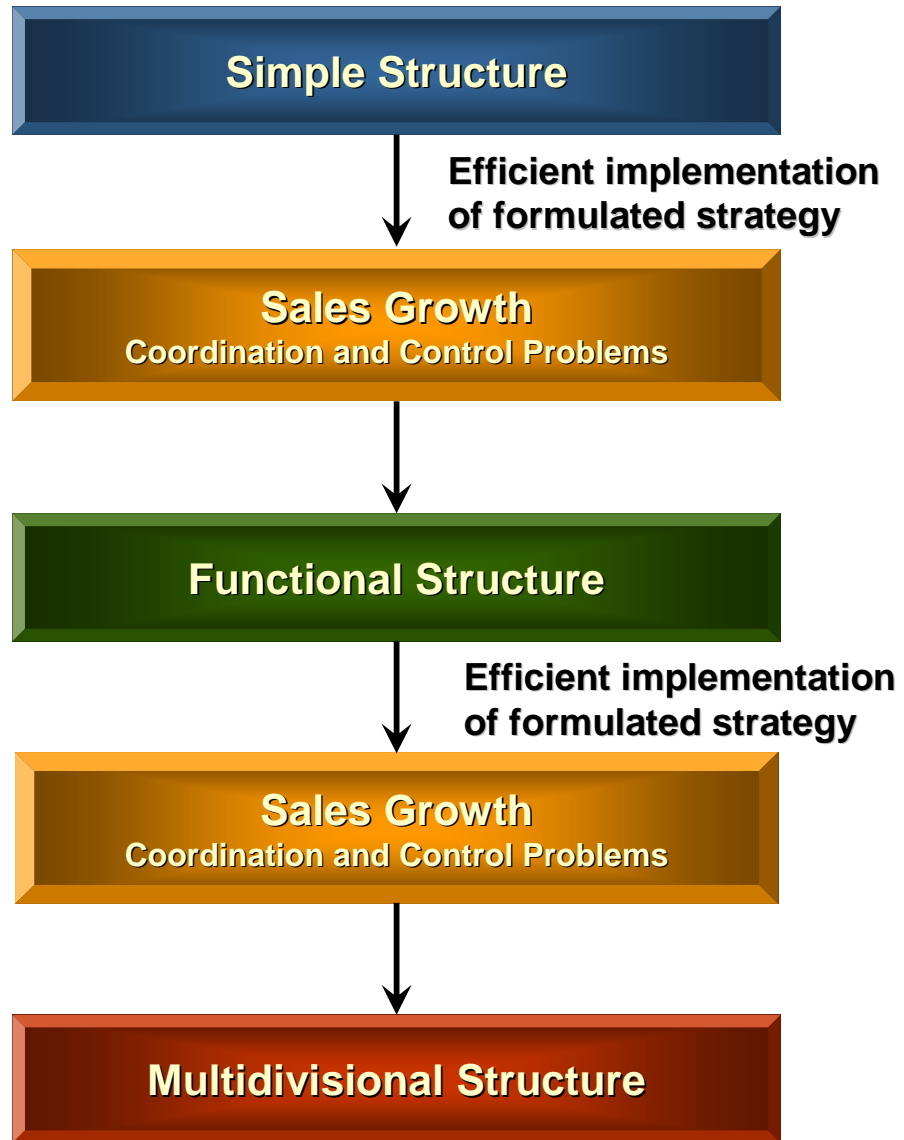
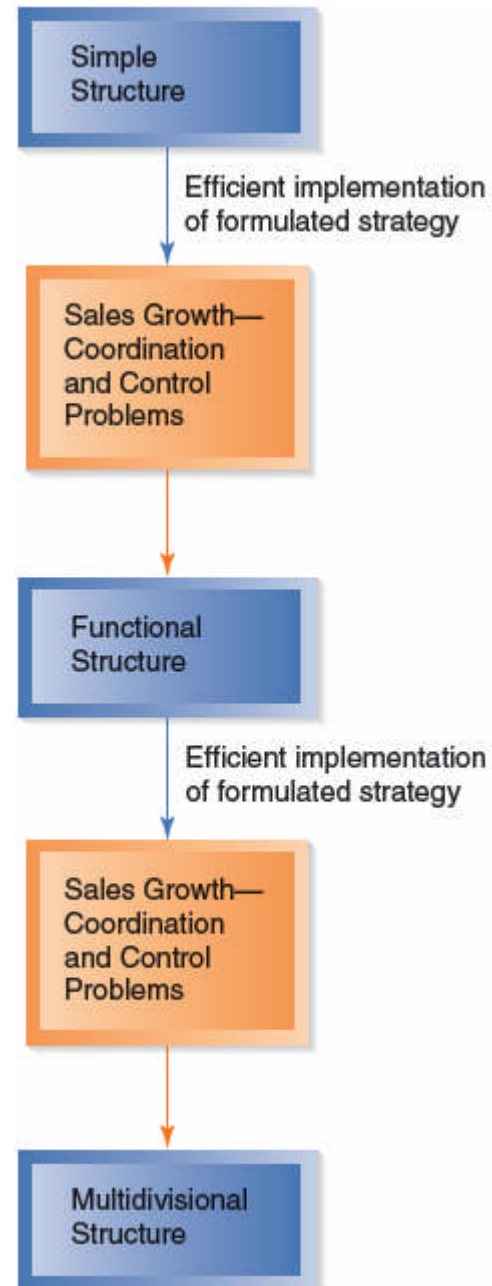


FIGURE 11.1

Strategy and
Structure Growth
Pattern



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)

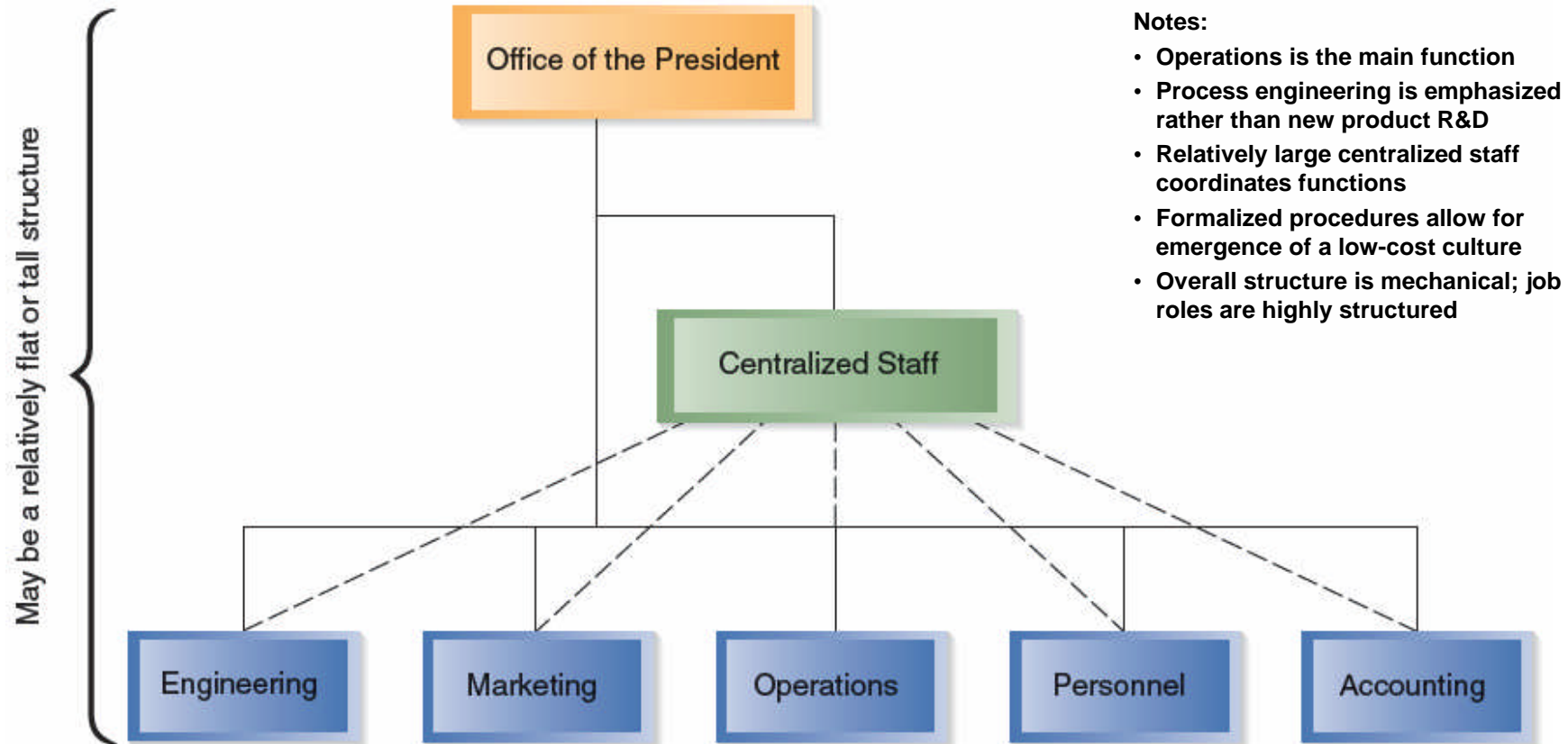
- Three Major Benefits
 - Corporate officers are able to more accurately monitor the performance of each business, which simplifies the problem of control.
 - Facilitates comparisons between divisions, which improves the resource allocation process.
 - Stimulates managers of poorly performing divisions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

Matching Strategy and Functional Structure

- Different forms of the functional organizational structure are matched to:
 - Cost leadership strategy
 - Differentiation strategy
 - Integrated cost leadership/differentiation strategy
- Differences in these forms are seen in three important structural characteristics:
 - Specialization (number and types of jobs)
 - Centralization (decision-making authority)
 - Formalization (formal rules and work procedures)

FIGURE 11.2

Functional Structure for Implementation of a Cost Leadership Strategy



Notes:

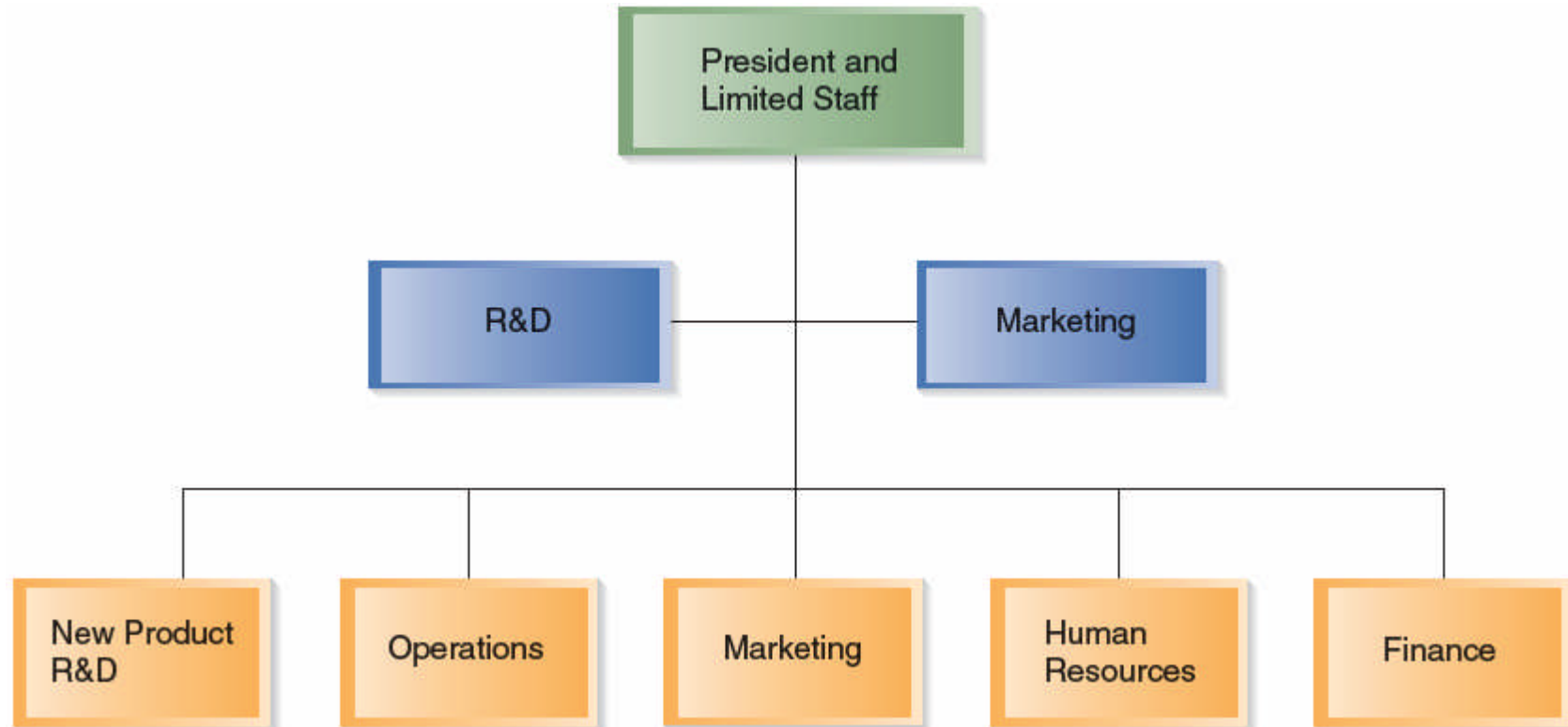
- Operations is the main function
- Process engineering is emphasized rather than new product R&D
- Relatively large centralized staff coordinates functions
- Formalized procedures allow for emergence of a low-cost culture
- Overall structure is mechanical; job roles are highly structured

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.

FIGURE 11.3

Functional Structure for Implementation of a Differentiation Strategy



Notes: • Marketing is the main function for keeping track of new product ideas

- New product R&D is emphasized
- Most functions are decentralized, but R&D and marketing may have centralized staffs that work closely with each other
- Formalization is limited so that new product ideas can emerge easily and change is more readily accomplished
- Overall structure is organic; job roles are less 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.

FIGURE 11.4

Three Variations of the Multidivisional Structure

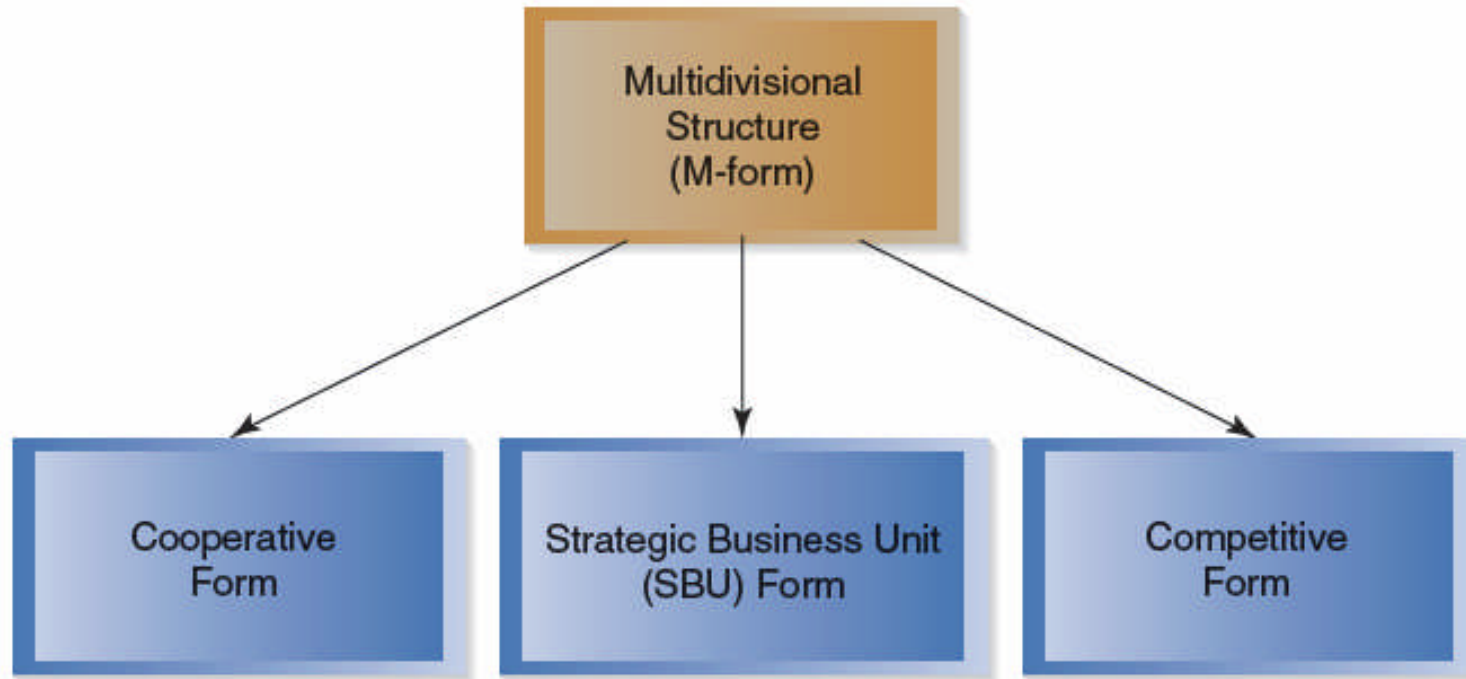
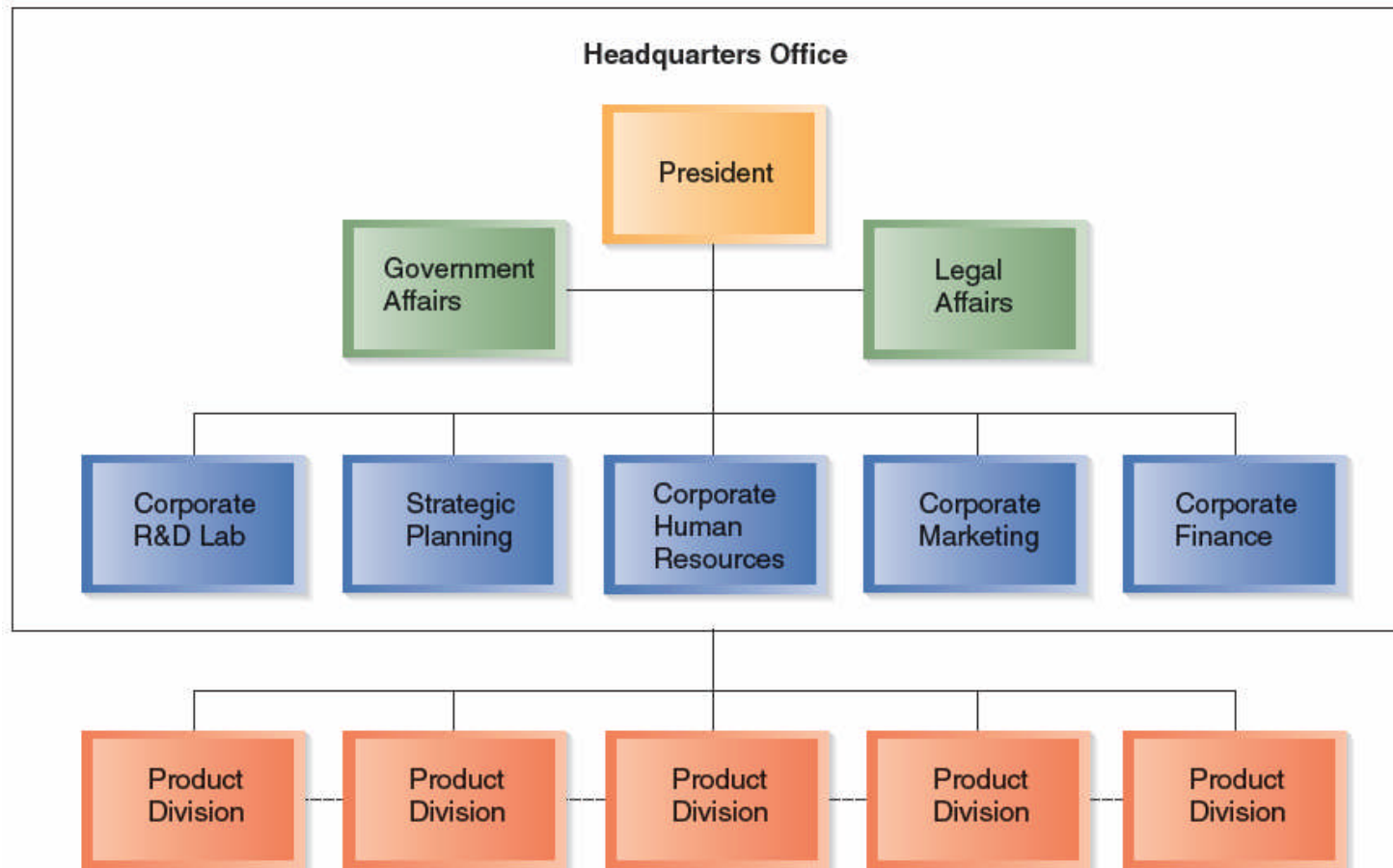


FIGURE 11.5

Cooperative Form of the Multidivisional Structure for Implementation of a Related Constrained Strategy



- Structural integration devices create tight links among all divisions
- Corporate office emphasizes centralized strategic planning, human resources, and marketing to foster cooperation between divisions
- R&D is likely to be centralized

- Rewards are subjective and tend to emphasize overall corporate performance in addition to divisional performance
- Culture emphasizes cooperative sharing

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

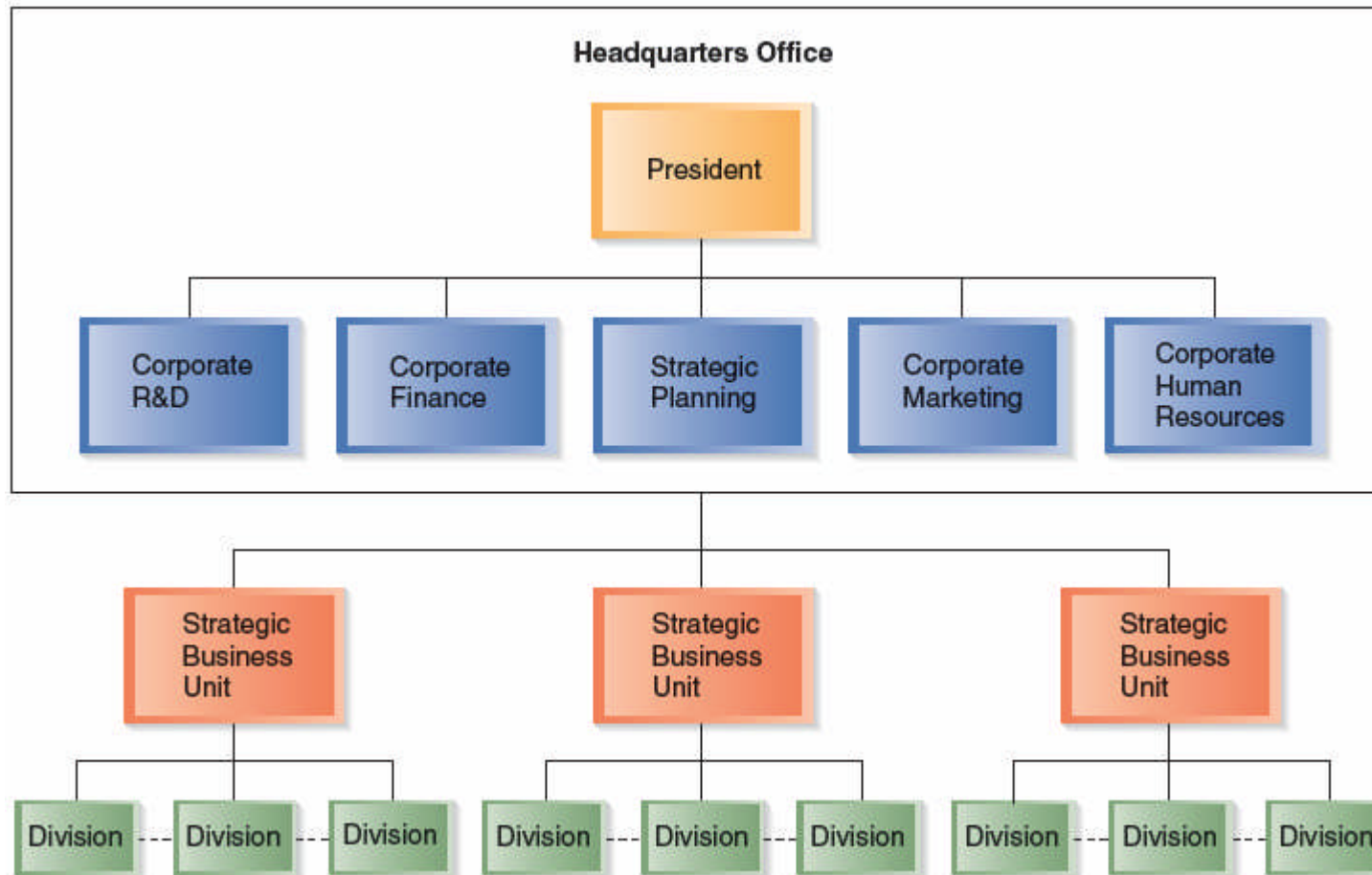
Cooperative Form (cont'd)

- 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

FIGURE 11.6

SBU Form of the Multidivisional Structure for Implementation of a Related Linked Strategy



Notes:

- 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 president
- 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

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

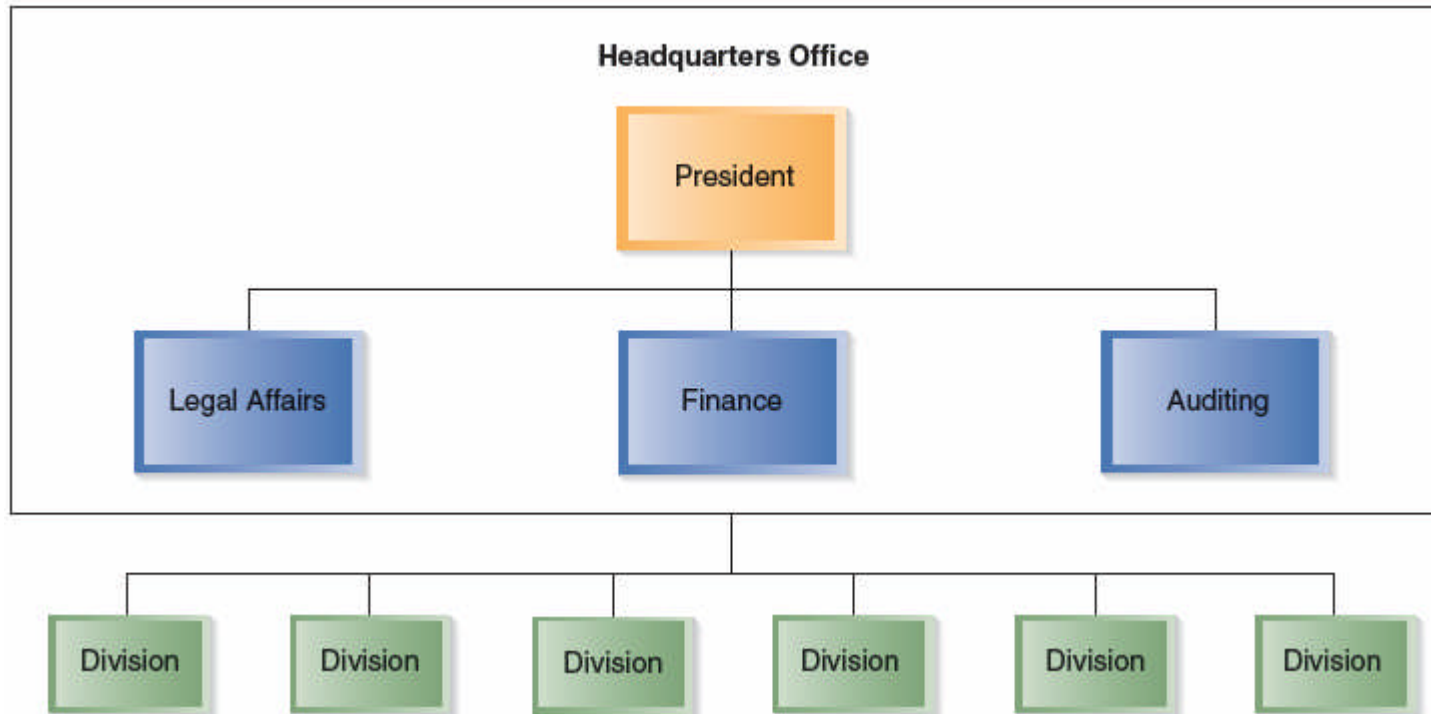
Multidivisional Structure: SBU Form

- 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

FIGURE 11.7

Competitive Form of the Multidivisional Structure for Implementation of 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 firm 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

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

Competitive Form (cont'd)

- Three benefits from the internal competition
 - Flexibility—corporate headquarters can have divisions working on different technologies to identify those with greatest future potential.
 - Challenges the status quo and inertia.
 - Motivates effort.
- Creates specific profit performance expectations for each division to promote internal competition for resources.

Unrelated Strategy

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)^a	SBU M-Form (Related Linked Strategy)^a	Competitive M-Form (Unrelated Diversification Strategy)^a
Centralization of operations	Centralized at corporate office	Partially centralized (in SBUs)	Decentralized to divisions
Use of integration mechanisms	Extensive	Moderate	Nonexistent
Divisional performance appraisals	Emphasize subjective (strategic) criteria	Use a mixture of subjective (strategic) and objective (financial) criteria	Emphasize objective (financial) criteria
Divisional incentive compensation	Linked to overall corporate performance	Mixed linkage to corporate, SBU, and divisional performance	Linked to divisional performance

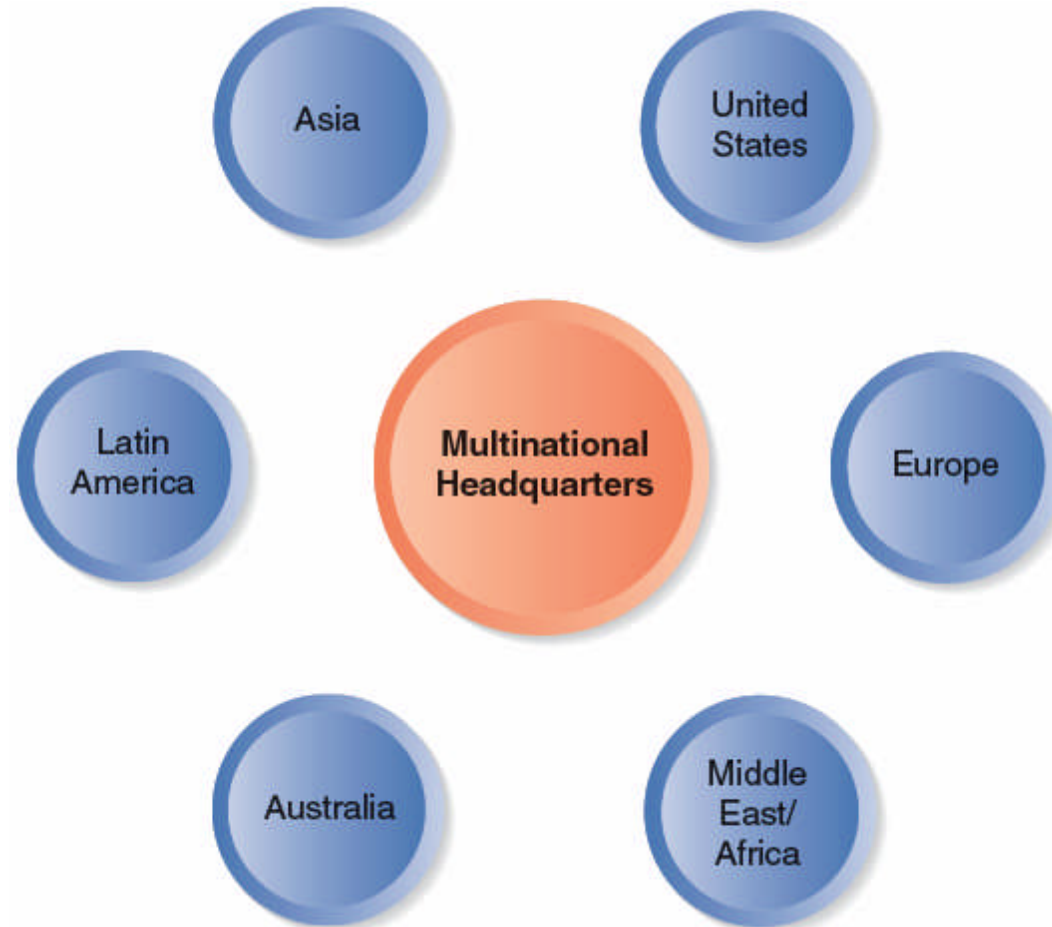
^a Strategy implemented with structural form.

International Strategies and Worldwide Structures

- International strategies allow the firm to search for new:
 - Markets
 - Resources
 - Core competencies
 - Technologies

FIGURE 11.8

Worldwide Geographic Area Structure for Implementation of a Multidomestic Strategy



Notes:

- The perimeter circles indicate decentralization 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 organization is like a decentralized federation

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.

FIGURE 11.9

Worldwide Product Divisional Structure for Implementation of a Global Strategy



Notes:

- The headquarters' circle indicates centralization to coordinate information flow among worldwide products
- Corporate headquarters uses many intercoordination devices to facilitate global economies of scale and scope
- Corporate headquarters also allocates financial resources in a cooperative way
- The organization is like a centralized federation

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

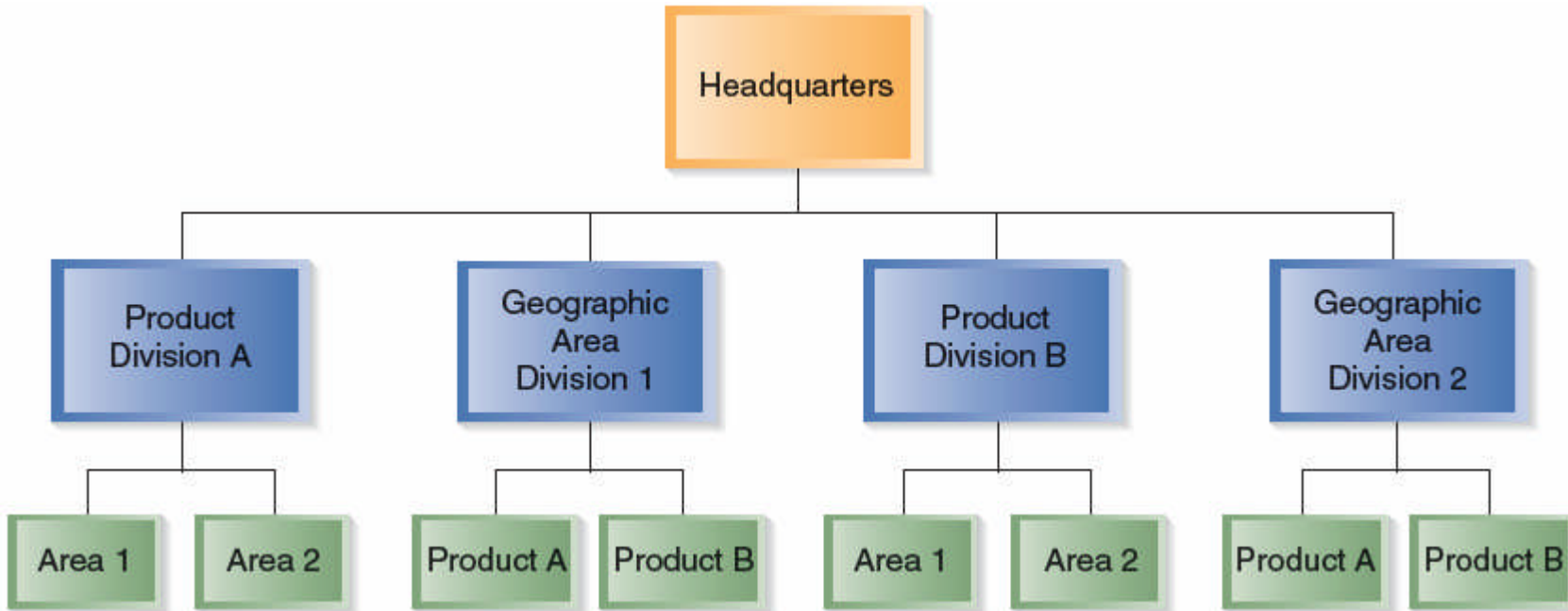
- Centralizes decision-making authority in the worldwide division headquarters.
 - Headquarters coordinates and integrates decisions and actions among divisional business units.
- Integrating mechanisms are important:
 - Direct contact between managers
 - Liaison roles between departments
 - Temporary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

FIGURE 11.10

Using the Hybrid Form of the Combination Structure for Implementation of a Transnational Strategy



Matches between Cooperative Strategies and Network Structures

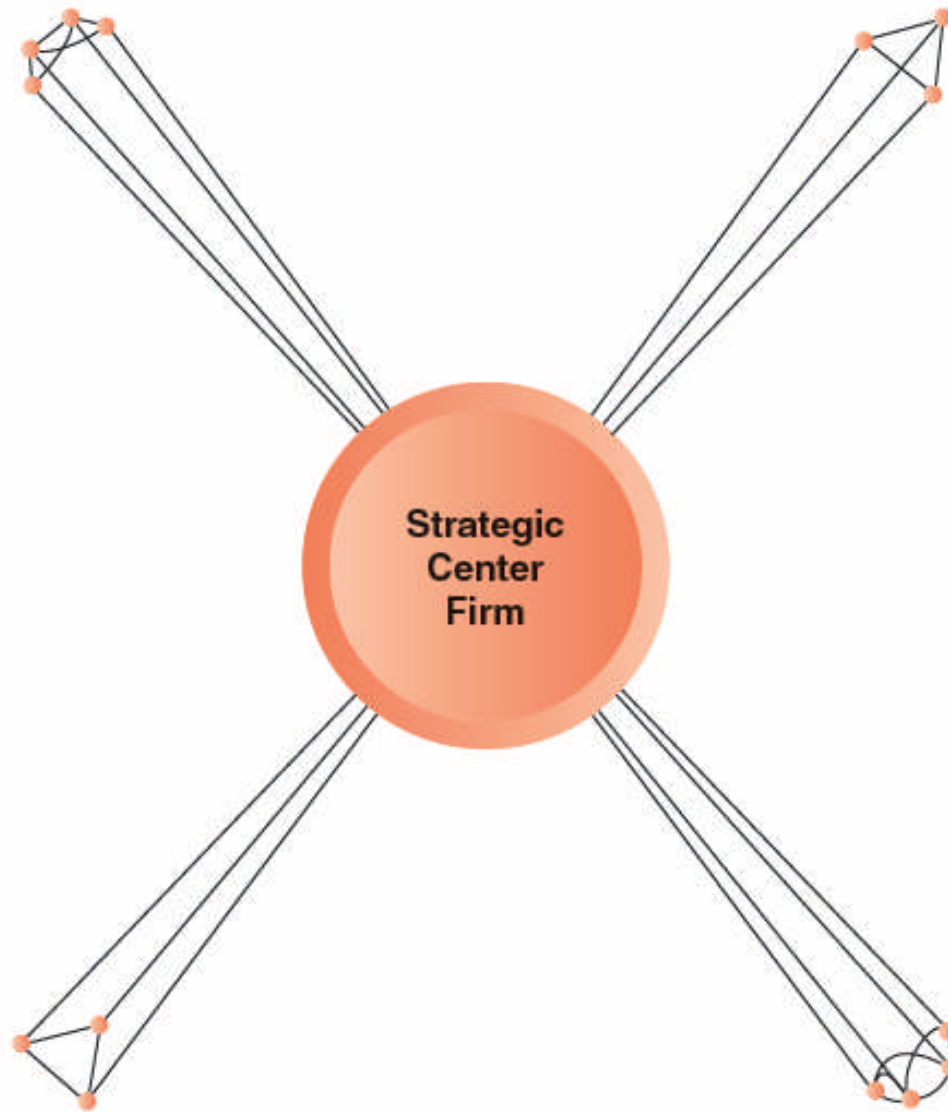
- Network strategy exists when:
 - Partners form several alliances in order to improve performance of the alliance network itself through cooperative endeavors.
- Strategic Network
 - A group of firms formed to create value by participating in multiple cooperative arrangements such as alliances and joint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

FIGURE 11.11

A Strategic Network



Strategic Center Firm

- Is the foundation for the strategic network's structure.
 - Concerned with aspects of organizational structure such as formal reporting relationships.
 - Manages the complex, cooperative interactions among network partners.
- Engages in four primary tasks:
 - Strategic outsourcing
 - Competencies
 - Technology
 - Race to learn

Implementing Business-Level Cooperative Strategies

- Vertical Complementary Alliances
 - Firms have complementary competencies in different value chain stages that let them cooperatively integrate their different skills.
- Horizontal Complementary Alliances
 - Firms that agree to combine competencies to create value in the same stage of the value chain.
- The strategic center firm is obvious in vertical alliances, but not always in horizontal alliances.

Implementing Business-Level Cooperative Strategies: International Franchising

- Franchising

- A common form of cooperative strategy used to facilitate product and market diversification.
- Allows the firm to use its competencies to extend or diversify its product or market reach without completing a merger or acquisition.

Implementing International Cooperative Strategies

- Strategic Networks

- Are used to implement international cooperative strategies for competing in several countries.

- Differences in countries' regulatory environments increase the challenge of managing international networks.

- Distributed Strategic Networks

- Are the organizational structure used to manage international cooperative strategies.

- Regional strategic center firms

FIGURE 11.12

A Distributed Strategic Network

