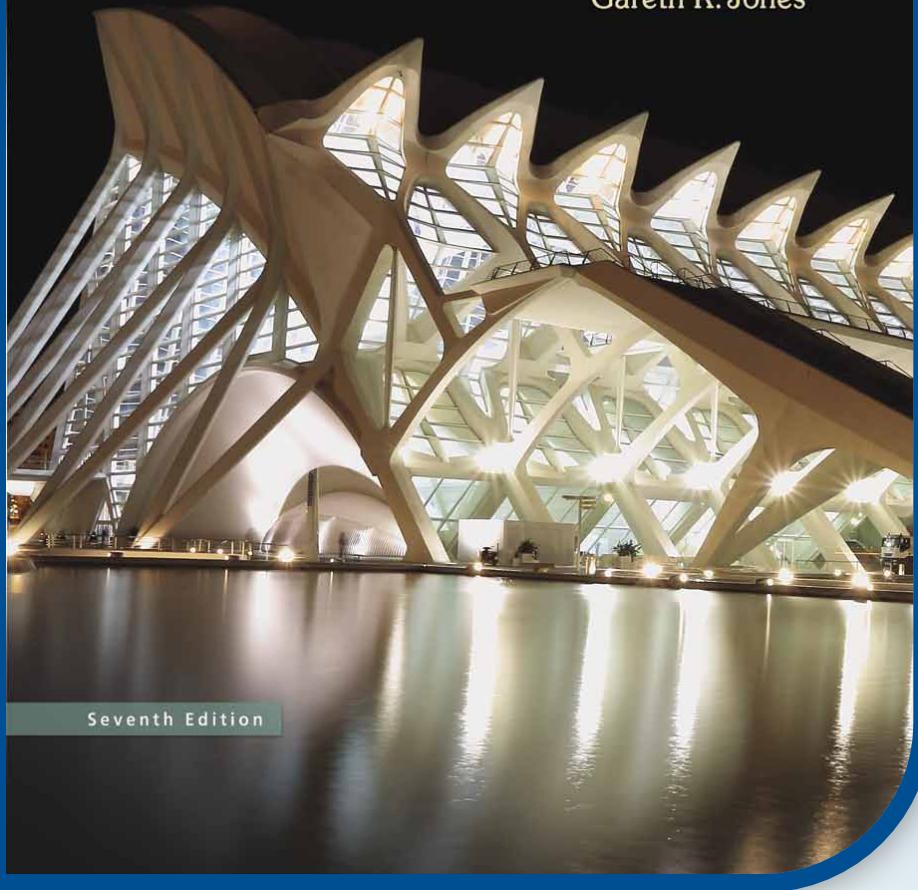


Organizational Theory, Design, and Change

Gareth R. Jones

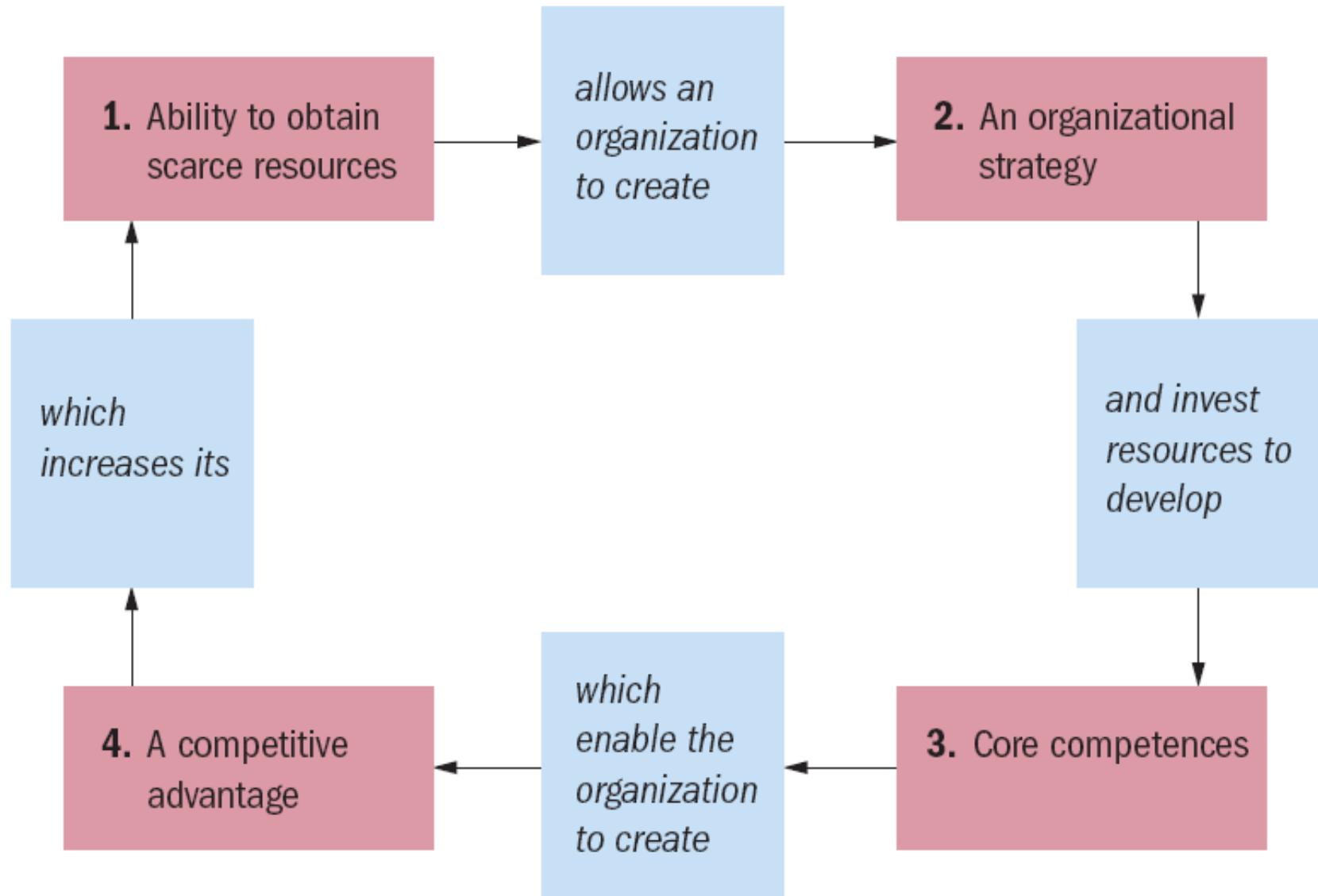


Organizational Design and Strategy in a Changing Global Environment

Strategy and the Environment

- **Strategy:** The specific pattern of decisions and actions that managers take to use core competences to achieve a competitive advantage and outperform competitors
- **Core competences:** The skills and abilities in value creation activities that allow a company to achieve superior efficiency, quality, innovation, or customer responsiveness

The Value- Creation Cycle



Sources of Core Competences

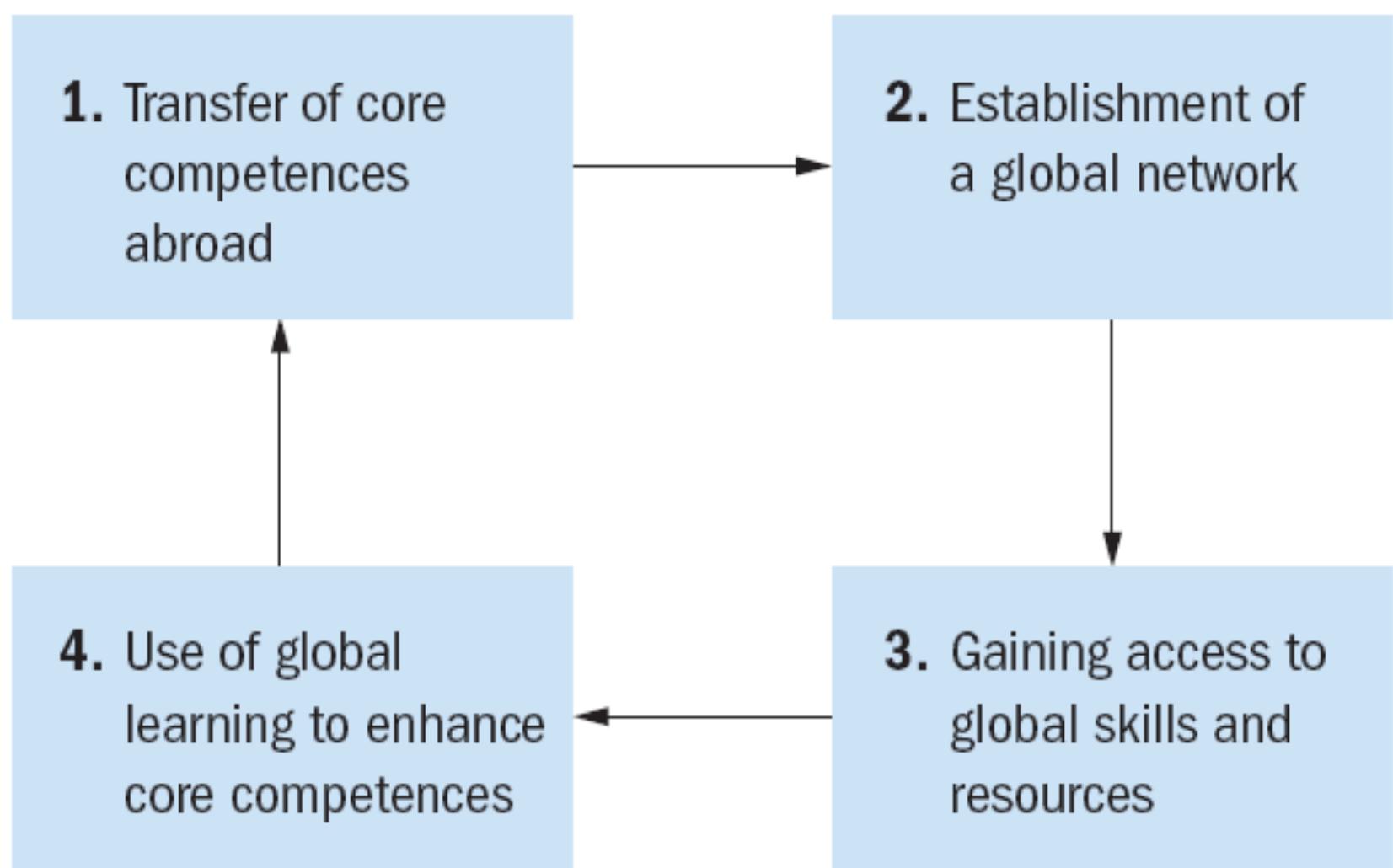
- **Functional resources:** The skills possessed by an organization's functional personnel
- **Organizational resources:** The attributes that give an organization a competitive advantage such as the skills of the top-management team or possession of valuable and scarce resources

Sources of Core Competences

(cont.)

- Coordination ability
 - An organization's ability to coordinate its functional and organizational resources to create maximal value
 - Effective coordination of resources leads to competitive advantage by means of:
 - Control systems
 - Centralization or decentralization of authority
 - Development and promotion of shared cultural values

The Creation of Value Through Global Expansion



Four Levels of Strategy

- (1) Functional-level strategy:** A plan to strengthen an organization's functional and organizational resources and its coordination abilities in order to create core competences
- (2) Business-level strategy:** A plan to combine functional core competences to position the organization so that it has a competitive advantage in its domain

Four Levels of Strategy (cont.)

(3) Corporate-level strategy: A plan to use and develop core competences so that the organization not only can protect and enlarge its existing domain but can also expand into new domains

(4) Global expansion strategy: A plan that involves choosing the best strategy to expand into overseas markets to obtain scarce resources and develop core competences

(1) Functional-Level Strategy

- The strategic goal of each function is to create a core competence that gives the organization a competitive advantage
- To gain a competitive advantage, an organization must be able to do at least one of the following:
 - Perform functional activities at a cost lower than that of its rivals
 - Perform functional activities in a way that clearly differentiates its goods and services from those of its rivals

Low-Cost and Differentiation Advantages Resulting From Functional-Level Strategy

Value-Creating Function	Source of Low-Cost Advantage	Source of Differentiation Advantage
Manufacturing	<ul style="list-style-type: none">• Development of skills in flexible manufacturing technology	<ul style="list-style-type: none">• Increase in product quality and reliability
Human resource management	<ul style="list-style-type: none">• Reduction of turnover and absenteeism	<ul style="list-style-type: none">• Hiring of highly skilled personnel• Development of innovative training programs
Materials management	<ul style="list-style-type: none">• Use of just-in-time inventory system/computerized warehousing• Development of long-term relationships with suppliers and customers	<ul style="list-style-type: none">• Use of company reputation and long-term relationships with suppliers and customers to provide high-quality inputs and efficient distribution and disposal of outputs
Sales and marketing	<ul style="list-style-type: none">• Increased demand and lower production costs	<ul style="list-style-type: none">• Targeting of customer groups• Tailoring products to customers• Promoting brand names
Research and development	<ul style="list-style-type: none">• Improved efficiency of manufacturing technology	<ul style="list-style-type: none">• Creation of new products• Improvement of existing products

Functional-Level Strategy (cont.)

- The strength of a function's core competence depends;
 - not only on the function's resources,
 - but on its ability to coordinate the use of its resources

Functional-Level Strategy (cont.)

- A competitor can easily imitate an organization's structure but it is very difficult to imitate their culture
- The coordination abilities that stem from an organization's culture emerge gradually and are a product of the property rights system, structure, ethics, and characteristics of its top-management team

Functional-Level Strategy (cont.)

- The importance of culture for functional-level strategy
 - To gain a competitive advantage, an organization must design its functional structure and culture to provide a setting in which core competences develop
 - If culture is embedded in the day-to-day interactions of functional personnel, it is difficult for a competitor to imitate another organization's culture

(2) Business-Level Strategy

- It involves:
 - Selecting the domain the organization will compete in
 - Positioning the organization so that it can use its resources and abilities to manage its specific and general environments to protect and enlarge that domain

Business-Level Strategy (cont.)

- Strategies to lower costs or differentiate products
 - **Low-cost business-level strategy:**
An organization produces low priced goods and services for all customer groups
 - **Differentiation business-level strategy:**
A plan whereby an organization produces high-priced, quality products aimed at particular market segments
 - **Focus business-level strategy:**
Specialization in one segment of a market, and focusing all of the organization's resources on that segment

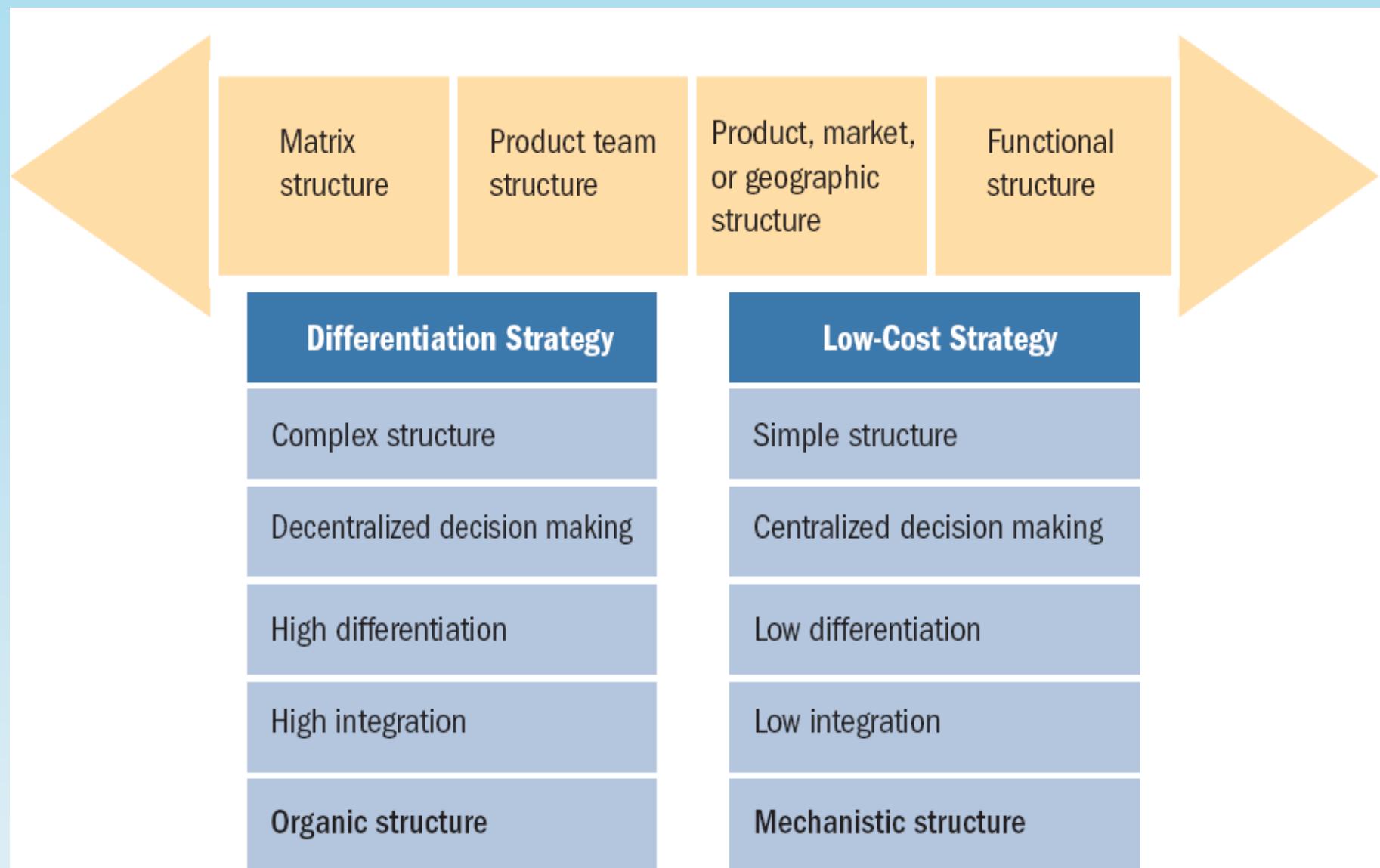
Figure 8.4 – Types of Business-Level Strategy

Strategy	Number of Market Segments Served	
	Many	Few
Low cost	●	
Focused low cost		●
Differentiation	●	
Focused differentiation		●

Business-Level Strategy and Structure (cont.)

- Three factors affect an organization's choice of a structure to create a competitive advantage:
 - As an organization produces a wider range of products, it needs greater control over the development, marketing, and production of these products
 - As an organization seeks to find new customer groups for its products, it needs a structure that allows it to serve the needs of its customers
 - As the pace of new product development in an industry increases, an organization will need a structure that increases coordination among its functions

Characteristics of Organizational Structure Associated with Business-Level Differentiation and Low-Cost Strategies



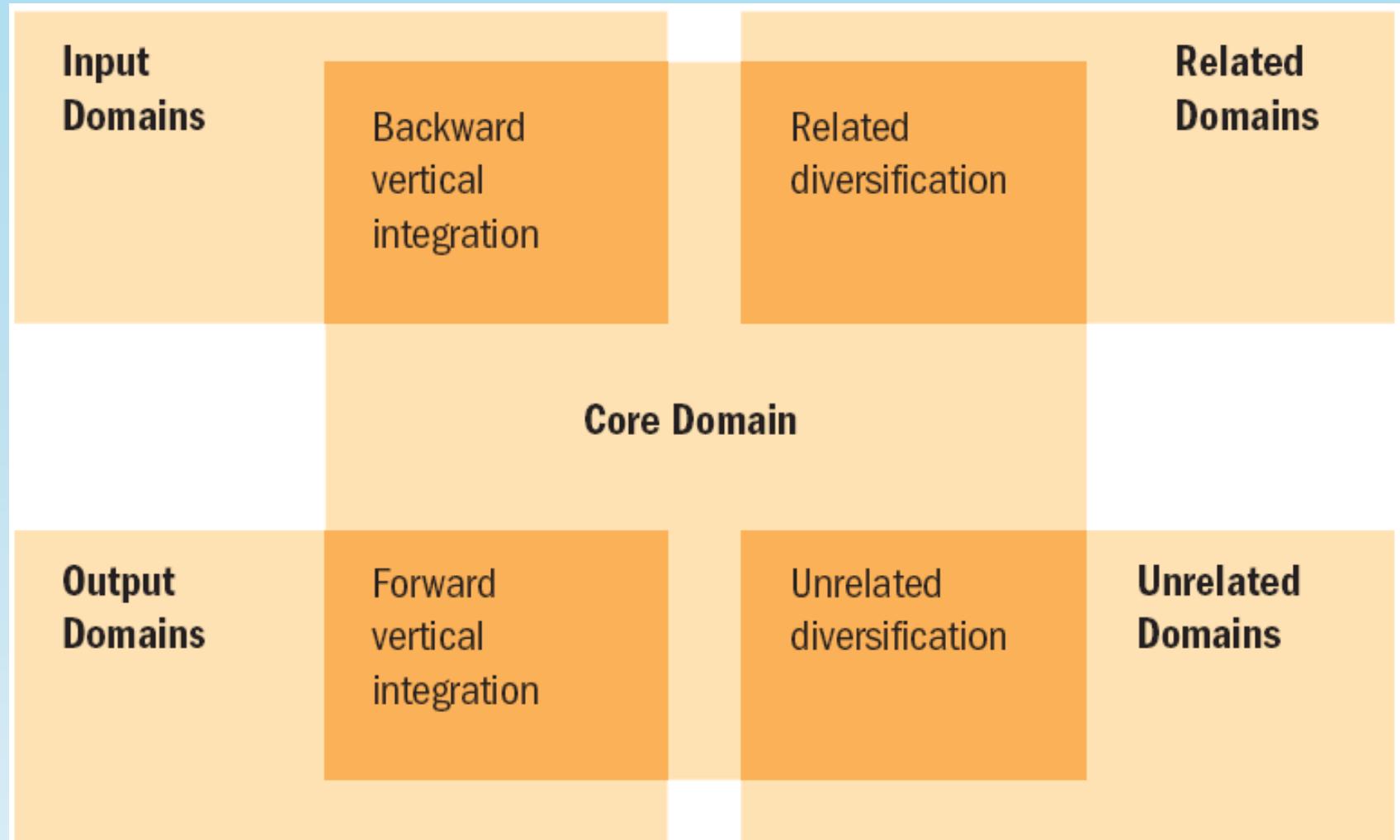
Business-Level Strategy and Culture

- Challenge is to develop organization-wide values and specific norms and rules that allow the organization to combine and use its functional resources to the best advantage
- Organizations pursuing low-cost strategy must develop values of economy and frugality
- Differentiators must develop values of innovation, quality, excellence, and uniqueness

(3) Corporate–Level Strategy

- Involves a search for new domains in which to exploit and defend the ability to create value from its core competences
 - **Vertical integration:** A strategy in which an organization takes over and owns its suppliers (backward vertical integration) or its distributors (forward vertical integration)
 - **Related diversification:** The entry into a new domain in which it can exploit one or more of its existing competences
 - **Unrelated diversification:** The entry into new domains that have nothing in common with its core domain

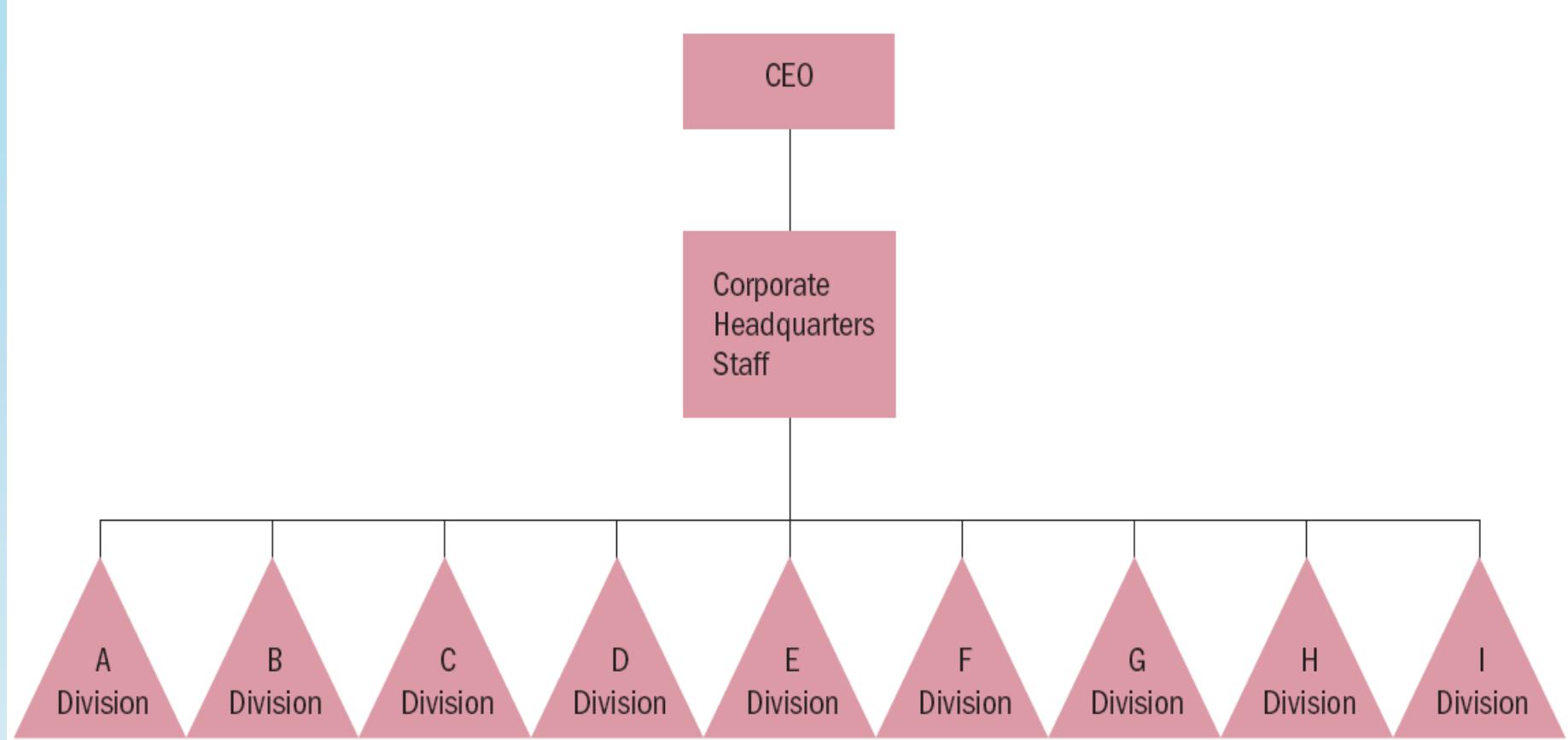
Corporate-Level Strategies for Entering New Domains



Corporate-Level Strategy and Structure

- For organizations operating in more than one domain, a multidivisional structure is appropriate
- Conglomerate structure and unrelated diversification
 - **Conglomerate structure:** A structure in which each business is placed in a self-contained division and there is no contact between divisions

Conglomerate Structure



Corporate-Level Strategy and Structure (cont.)

- Related diversification creates value by sharing resources or transferring skills from one division to another
- Requires lateral communication between divisions as well as vertical communication between divisions and headquarters
- Integrating roles and teams of functional experts are needed to coordinate skills and resource transfers
- Multidivisional structures or matrix allow for the coordination needed

Corporate-Level Strategy and Culture

- Cultural values and the common norms, rules, and goals that reflect those values can greatly facilitate the management of a corporate strategy
- Organizations need to create cultures that reinforce and build on the strategy they pursue

(4) Global Extension Strategies: Implementing Strategy Across Countries

- Four principal strategies
 - Multidomestic strategy
 - International strategy
 - Global strategy
 - Transnational strategy

Implementing Strategy Across Countries (cont.)

- Choice of structure and control systems for managing a global business is a function of:
 - The decision of how to distribute and allocate responsibility and authority between managers at home and abroad

Implementing Strategy Across Countries (cont.)

- The selection of the organizational structure that groups divisions both at home and abroad in a way that allows the best use of resources and serves the needs of foreign customers most effectively
- The selection of the right kinds of integration and control mechanisms and organizational culture to make the overall global structure function effectively

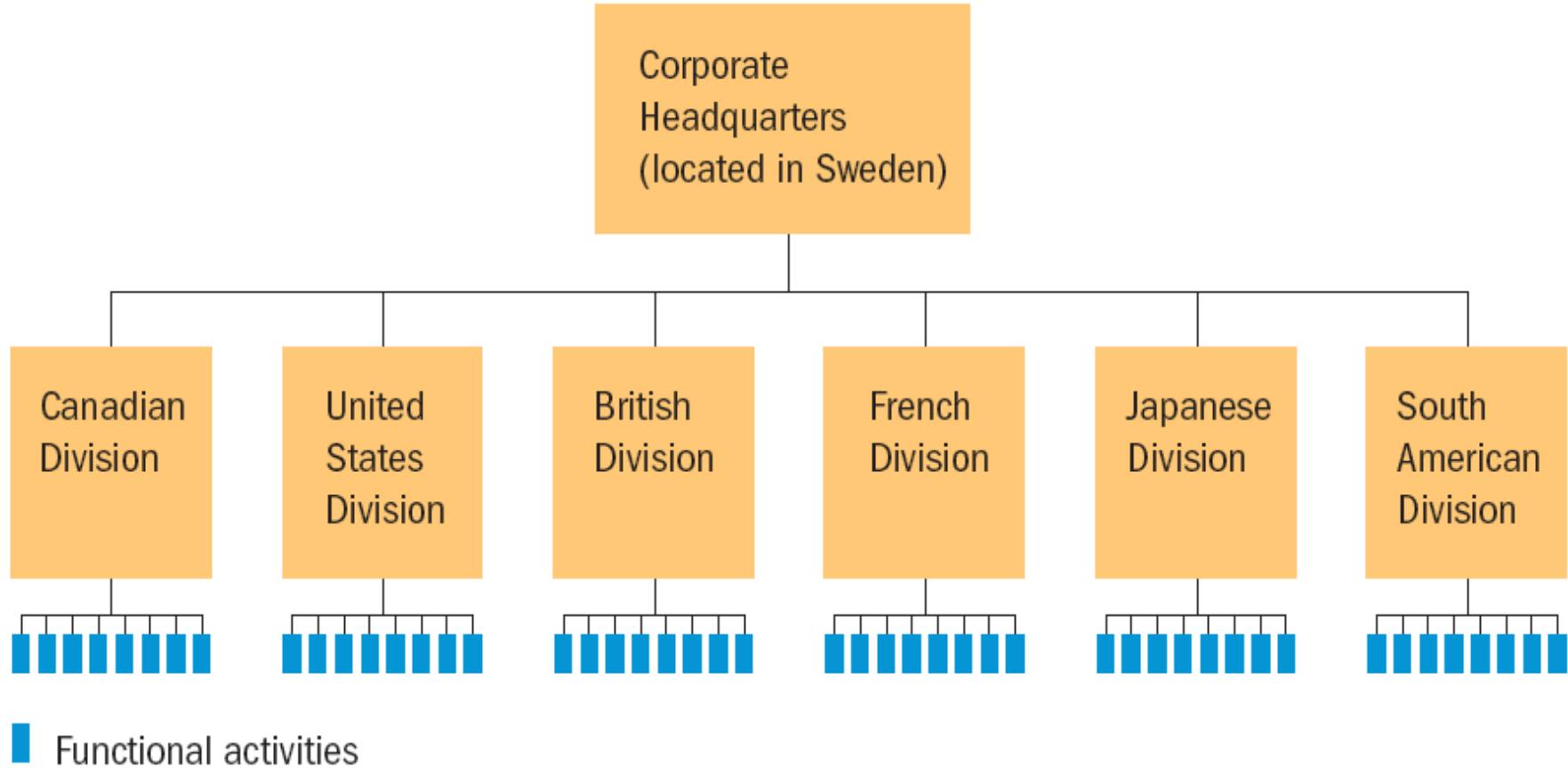
Strategy-Structure Relationships in the International Arena

	Multidomestic Strategy	International Strategy	Global Strategy	Transnational Strategy
	Low	Need for Coordination		High
Vertical Differentiation Choices				
Levels in the hierarchy	Relatively flat	Relatively tall	Relatively tall	Relatively flat
Centralization of authority	Decentralized	Core competences centralized, others decentralized	Centralized	Simultaneously centralized and decentralized
Horizontal Differentiation				
	Global geographic structure	Global product group structure	Global product group structure	Global matrix or “matrix in the mind”
Integration				
Need for integrating mechanisms such as task forces and integrating roles	Low	Medium	Medium	High
Need for electronic integration and management networks	Medium	High	High	Very High
Need for integration by international organizational culture	Low	Medium	High	Very High
	Low	Bureaucratic Costs		High

Implementing a Multidomestic Strategy

- Generally operates with a global geographic structure
 - Duplication of value-creation activities in all countries
 - Authority delegated to each overseas division
 - Managers at global headquarters use market and output controls

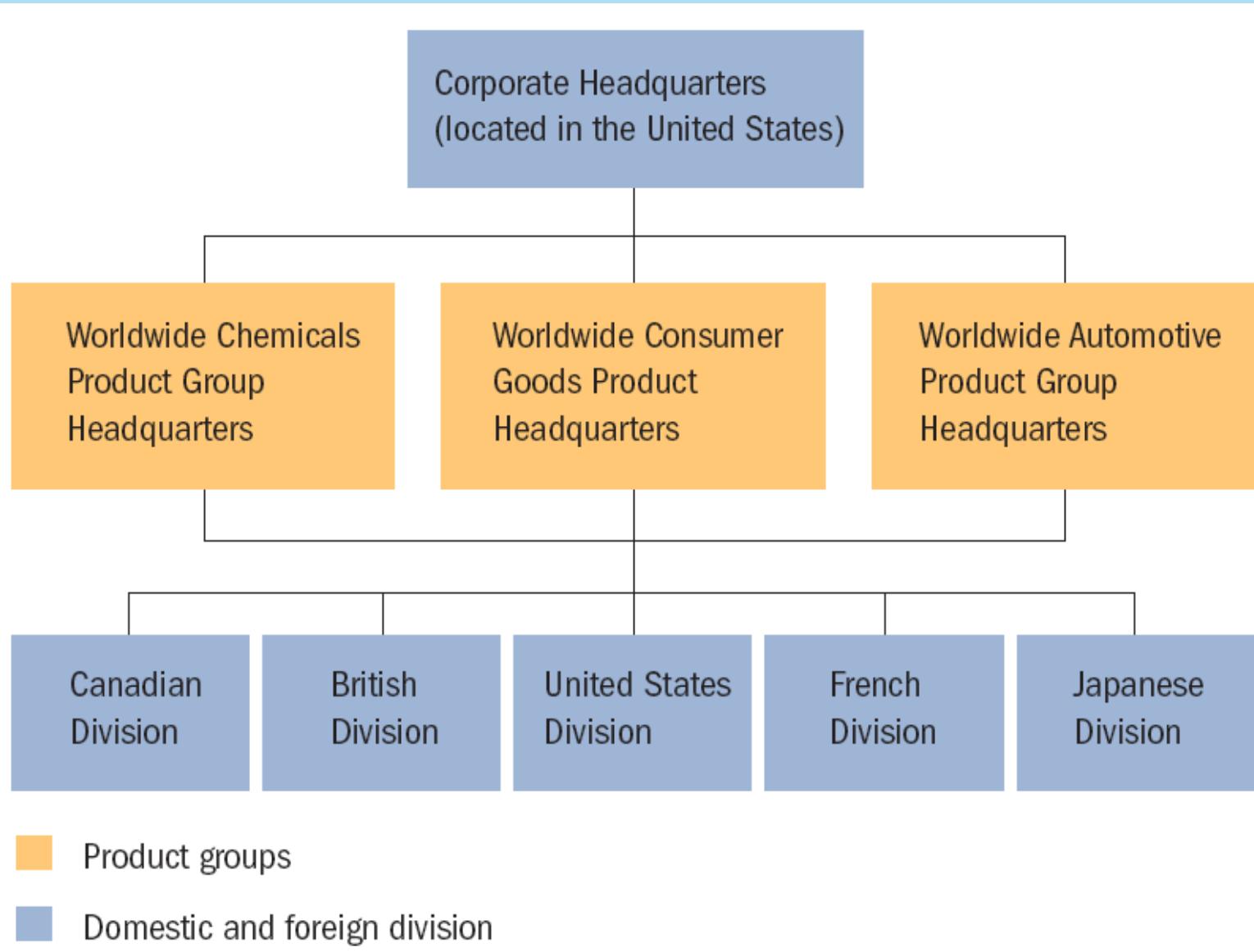
Global Geographic Structure



Implementing International Strategy

- Companies use a global product group structure and create product group headquarters to coordinate the activities of domestic and foreign divisions
 - Product managers are responsible for organizing all aspects of value creation on a global level
 - Managers abroad are in the control of the international division managers

Global Product Group Structure



■ Product groups

■ Domestic and foreign division

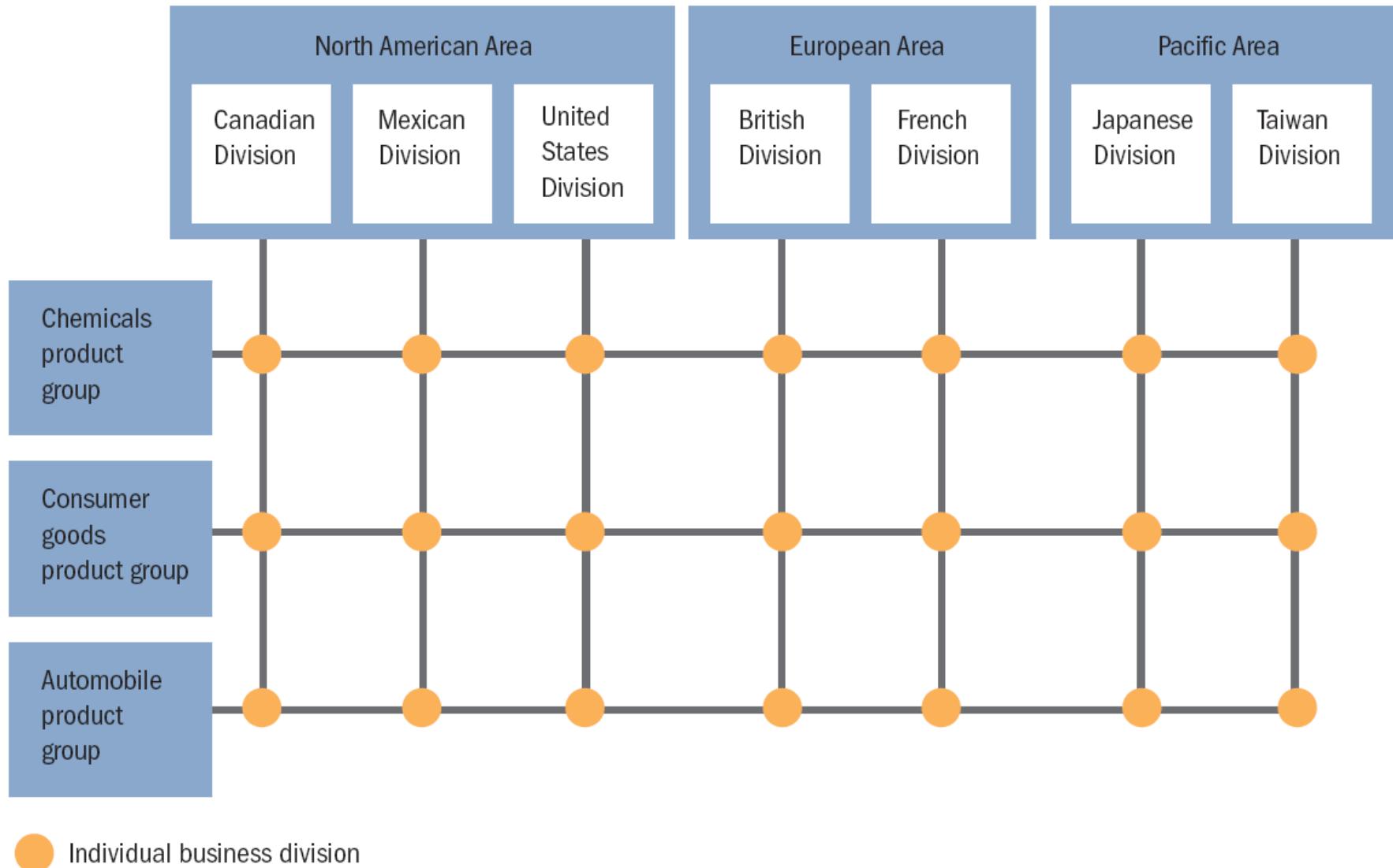
Implementing Global Strategy

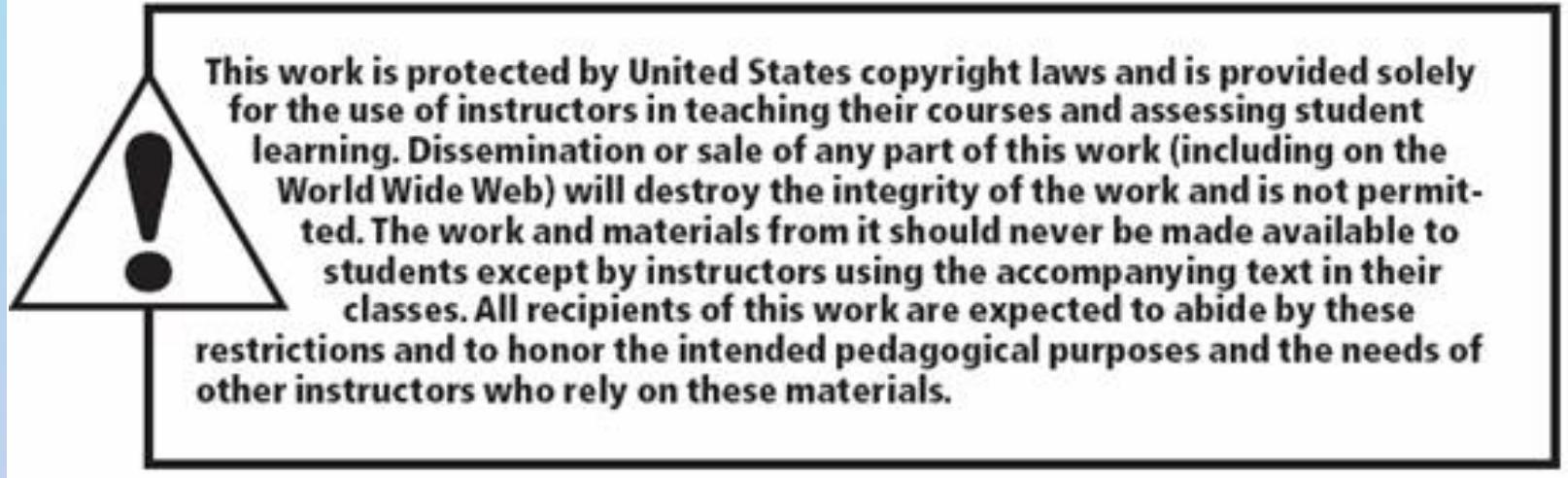
- Manufacturing and other value-chain activities placed at the global location that will allow it to increase efficiency and quality
 - Must find ways to reduce bureaucratic costs associated with transfers between corporate headquarters and the global divisions
 - May establish a global product group structure

Implementing Transnational Strategy

- Global matrix structure
 - Lowers global cost structures
 - Differentiates activities through superior innovation and responsiveness to global customers
 - Managers at the regional or country level control local operations
 - Company's corporate product groups are grouped by world region
 - Decentralizes control to overseas managers
 - Corporate managers exert centralized control to coordinate company's global activities

Global Matrix Structure





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