

Figure 6.11 Focus features.

Source: Adapted from McGee et al., 2005, 211.

market segment. Since focus is a competitive strategy derived from two previous competitive strategies (overall cost leadership and differentiation), two subtypes of focus should be differentiated: (1) low-cost focus with a primary focus (orientation) on low-cost products aimed at a market segment and (2) differentiation focus with a primary focus (orientation) on differentiated products aimed at a market segment (Figure 6.11).

### The action component

The action component includes the implementation of decisions which initiate the process of conducting a competitive strategy as a key decision. The interaction between the competitive strategy and the organisational structure is the *conditio sine qua non* for the application of the decision (Figure 6.12).

According to Tom Burns and George Stalker (Burns and Stalker, 1971), the action component consists of two groups which shape the organisational structures of business:

- 1 Bureaucratic (or mechanical) structure which can be applied to traditional, i.e. classic structures,

- 2 Organic (or adaptive) structure which can be applied to contemporary, i.e. modern structures. The features of bureaucratic and organic structures appear as extremes suitable for different strategic business units (Figure 6.13).

The relation between competitive strategy and organisational structure has changed over time depending on the environment and the company. Alfred Chandler (1962) conducted the most extensive research concerning the

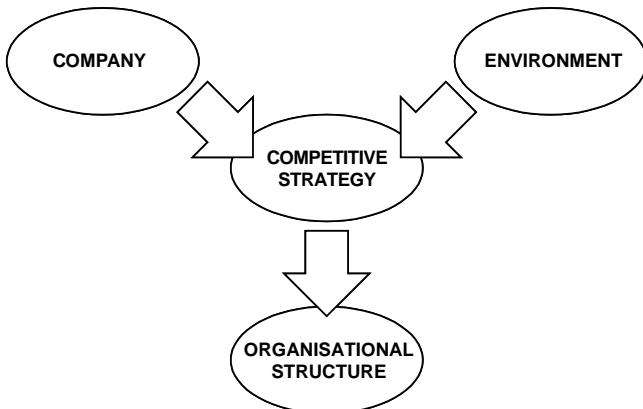


Figure 6.12 The synchronisation between competitive strategy and organisational structure.

Source: The authors.

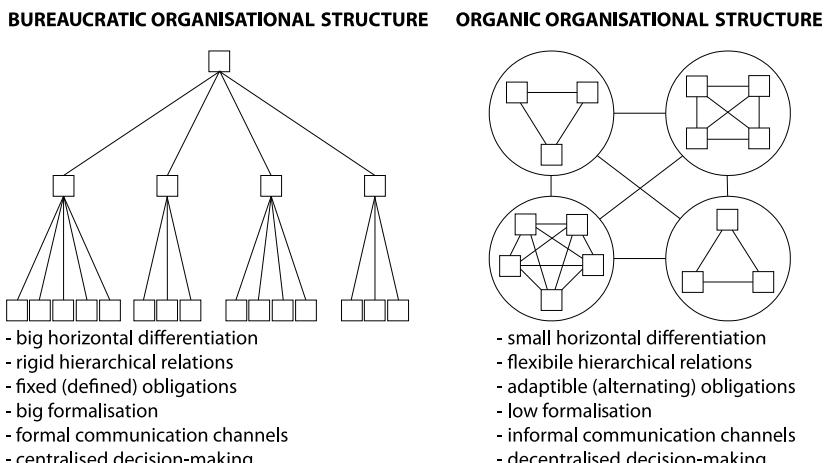


Figure 6.13 Bureaucratic versus organic organisational structure.

Source: Adapted from Burns and Stalker, 1971, 54.

relation between competitive strategy and organisational structure. He based his work titled *Strategy and structure – chapters from the history of the American industrial company* on an intensive study of the history of company such as DuPont, General Motors, Standard Oil of New Jersey and Sears, Roebuck and Co., and he proved the hypothesis that competitive strategies of a company determine the organisational structure of a company and that its common name is the use of company resources (tangible and intangible) to meet the market demands. Organisational structure is a tool for an integrated application of the existing resources of a company in the process, whereas competitive strategy is a plan for resource allocation (relevant distribution) for future market demands.

Based on that notion, Alfred Chandler formulated his famous *structure follows strategy* statement. There has been an ongoing discussion on the nature and the character of that relation ever since from the 1960s. According to this statement, environmental changes and the opportunities and the danger it produces inform the company about the manner of adapting competitive strategies to fit the changed circumstances (geographical expansion, vertical integration, i.e. product diversification).

Alongside to following these competitive strategies, a change of the organisational structure becomes a necessity after a certain period of time.

Alfred Chandler studied the big American companies in detail and reached some satisfactory generalisations. Observed from the aspect of time, many of those companies have been in the process of initial resource accumulation in the period between 1880 and World War I. They established their top management in the period of the first two decades of the 20th century. Some of them initiated the process of further expansion mostly through diversification in the third decade, whereas most saw this expansion after the 1930 crisis. The outset of the new organisational structure formation dates back to the third decade. However, a vast number of organisational unit re-organisations took place in the fifth and sixth decade.

The operation and achievement of those companies have shown that a desire for self-regeneration and growth within the market economy frame was the driving force which knew how to efficiently utilise the existing resources. American companies gave no visible signal of comprehending the association between organisational structure and competitive strategy up until the 1920s.

Considering everything said, the organisational structure of companies following overall cost leadership and differentiation will be different from the organisational structure of companies following the strategy of focus (Petković et al., 2002) (Table 6.2).

Generally speaking, overall cost leadership requires a bureaucratic organisational structure, whereas differentiation requires an organic organisational structure.

The decision to follow a certain competitive strategy requires a strict application of completely different models of organisational structure since

Table 6.2 Common requests from competitive strategies to organisational structure

| <i>Competitive strategy</i> | <i>Common requests for organisational structure</i>   |
|-----------------------------|---|
| Overall cost leadership     | <ul style="list-style-type: none"> <li>• Strong cost control</li> <li>• Detailed control reports</li> <li>• Organisational responsibility of employees</li> <li>• Achieving quantitative goals</li> </ul> |
| Differentiation             | <ul style="list-style-type: none"> <li>• Coordination between functions</li> <li>• Subjective goal measurement</li> <li>• Highly skilled workers</li> </ul>   |
| Focus                       | <ul style="list-style-type: none"> <li>• The combination of the above stated features (focus on a particular segment)</li> </ul>  |

Source: Adapted from Daft, 2002, 112.

the three competitive strategies include completely different demands. Overall cost leadership requires high productivity and low costs from a company. Differentiation requires company competence to achieve a certain degree of flexibility and advanced innovations. Focus requires company competence to achieve a combination of the two previous strategies. Here, company success requires an adequate organisational structure. Different organisational structure features displayed in Table 6.3 compete for the two competitive strategies too. Previously mentioned attitudes on the relation between competitive strategies and organisational structures are displayed in Figure 6.14.

The organisational structure needs to follow the competitive strategy, whereas the business functions within the organisational structure have a task of securing the sources of competitive advantage (low cost and differentiation) to optimise the organisational structure to follow one of the selected competitive strategies (overall cost leadership, differentiation and focus), as shown in Table 6.4.

Table 6.3 The features of an organisational structure in three competitive strategies

| <i>Organisational structure features</i> | <i>Overall cost leadership</i> | <i>Differentiation</i> | <i>Focus</i> |
|--|--------------------------------|------------------------|--------------|
| Specialisation                           | High                           | Low                    | Combination  |
| Decentralisation                         | Low                            | High                   | Combination  |
| Degrees                                  | High                           | Low                    | Combination  |
| Range                                    | Narrow                         | Wide                   | Combination  |
| Grouping                                 | Functional                     | Market                 | Combination  |
| Relations                                | Low                            | High                   | Combination  |
| Integration                              | Low                            | High                   | Combination  |
| Formalisation                            | High                           | Low                    | Combination  |
| Coordination                             | Process<br>standardisation     | Team communication     | Combination  |
| Overall                                  | Mechanical                     | Organic                | Combination  |

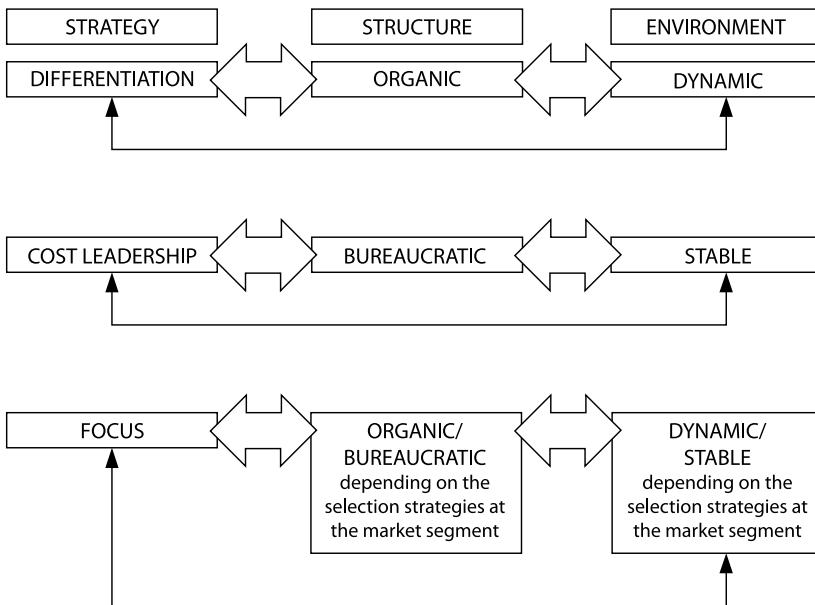


Figure 6.14 The relationship between strategy, structure and environment.

Source: Adapted from Daft, 2013, 71, Šehić, Delić, 2012, 405.

Table 6.4 Competitive advantage resources in business functions

| Business function         | Overall low costs  | Differentiation   |
|---------------------------|--|---|
| Production                | Productivity enhancement                                 | Flexible production   |
| Human resource management | Decrease and elimination of the absence and fluctuation  | Attracting and educating experts and workers                      |
| Marketing and sales       | Increase in demand and the scale of sales                | Targeting customers and brand creation                            |
| Technology development    | Enhancing the efficiency of production technology        | Enhancing the quality of existing products                        |
| Logistics                 | Reducing logistics costs through the just-in-time system | Ensuring the most quality logistics through long-term cooperation |

Source: Jones, 2001, 236.

Each competitive strategy type requires employees with different roles of behaviour (DeNisi and Griffin, 2008). The role of behaviour (Nankervis et al., 2002) implies the behaviour which an employee needs to have functioning as a job holder in a company. These behaviour roles vary across different dimensions. In addition, different behaviour roles concern different competitive strategies. Company following the overall cost leadership (Kulović, 2012)

demand that their employees take care of quantity, have a short-term approach, be comfortable with stability and be prone to risk. These employees are expected to foster a behaviour type which is repetitive and conducted independently or automatically. Hence, companies following overall cost leadership, due to the focus on production efficiency, have a tendency to narrowly define the desired competencies and to invest in the development of desired competencies. Such companies develop consistent payment systems with a huge difference in income between supervisors and subordinates.

Companies following differentiation (Kulović, 2012) demand that their employees are creative and cooperative, to have low interest in quantity, a long-term approach, to tolerate insecurity and to accept risk. Employees in such companies are expected to practice behaviour type which includes the willingness to cooperate with others, to accept risk, to develop new ideas and to have a balanced approach on the work-results relation. Hence, companies following differentiation will encourage creativity through widely defined jobs. Such companies hire more people from the outside with a limited socialisation of newcomers and with a provision of broader career paths. Activities related to the development of competencies are focused on co-operation. The compensation system is characterised by movement towards external equality since external influences manage the recruitment needs.

Such companies develop a performance system based on results and company success evaluation to encourage top managers to accept risk<sup>2</sup>. The selection of competitive strategies influences the choice of respective policies and practices concerning the employees, as seen in Table 6.5 (Storey and Sisson, 1990).

Control indicates the degree of success to which companies follow the selected competitive strategy. However, the type of control to be selected depends on the competitive strategy followed by the companies,

*Table 6.5 The influence of competitive strategies on employee policies and practices*

| <i>Overall cost leadership</i>   | <i>Differentiation</i>  | <i>Focus</i>  |
|--|---|---|
| Low rate of employee involvement in decision making                              | High rate of employee involvement in decision making                          | High rate of employee involvement in decision making                            |
| Internal recruiting only   | Internal recruiting only  | Partial internal and external recruiting  |
| Small share of variable incomes in total profit<br>Small investments in training | High share of variable incomes in total profit<br>Big investments in training | Medium share of variable incomes in total profit<br>Big investments in training |
| Classic relation between employer and employees                                  | Employer-employee cooperation   | Employer-employee cooperation   |

Source: Adapted from Storey and Sisson, 1990.