

BUSI 6005 - Strategy Implementation

Class 4a - Strategy and organization: Organizational structure

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Administration

- questions from last class
- comments or concerns with Brightspace, the readings, etc.
- due dates:
 - 28 February - group project progress report #2
 - 21 March - individual case assignment (GE and Jack Welch)
- Reading Week:
 - 19 - 23 February
- preparation, participation, and group work — my philosophy

Additional reading

Barnard, CI. 1938. ***Functions of the Executive***. Cambridge, MA: Harvard University Press.

Chandler, AD. 1962. ***Strategy and Structure: Chapters in the History of the American Industrial Enterprise***. Cambridge, MA: MIT Press.

Cyert, RM & March, JG. 1963. ***A Behavioral Theory of the Firm***. Englewood Cliffs, NJ: Prentice-Hall.

Jensen, MC & Meckling, WH. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. ***Journal of Financial Economics***, 3: 305-360.

Lawrence, PR & Lorsch, JW. 1967. ***Organization and Environment***. New York, NY: Harcourt.

Meyer, JW & Rowan, B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. ***American Journal of Sociology***, 83: 340-363.

Ouchi, WG. 1980. Markets, bureaucracies and clans. ***Administrative Science Quarterly***, 25: 129-141.

Taylor, FW. 1911. ***The Principles of Scientific Management***. New York, NY: Harper.

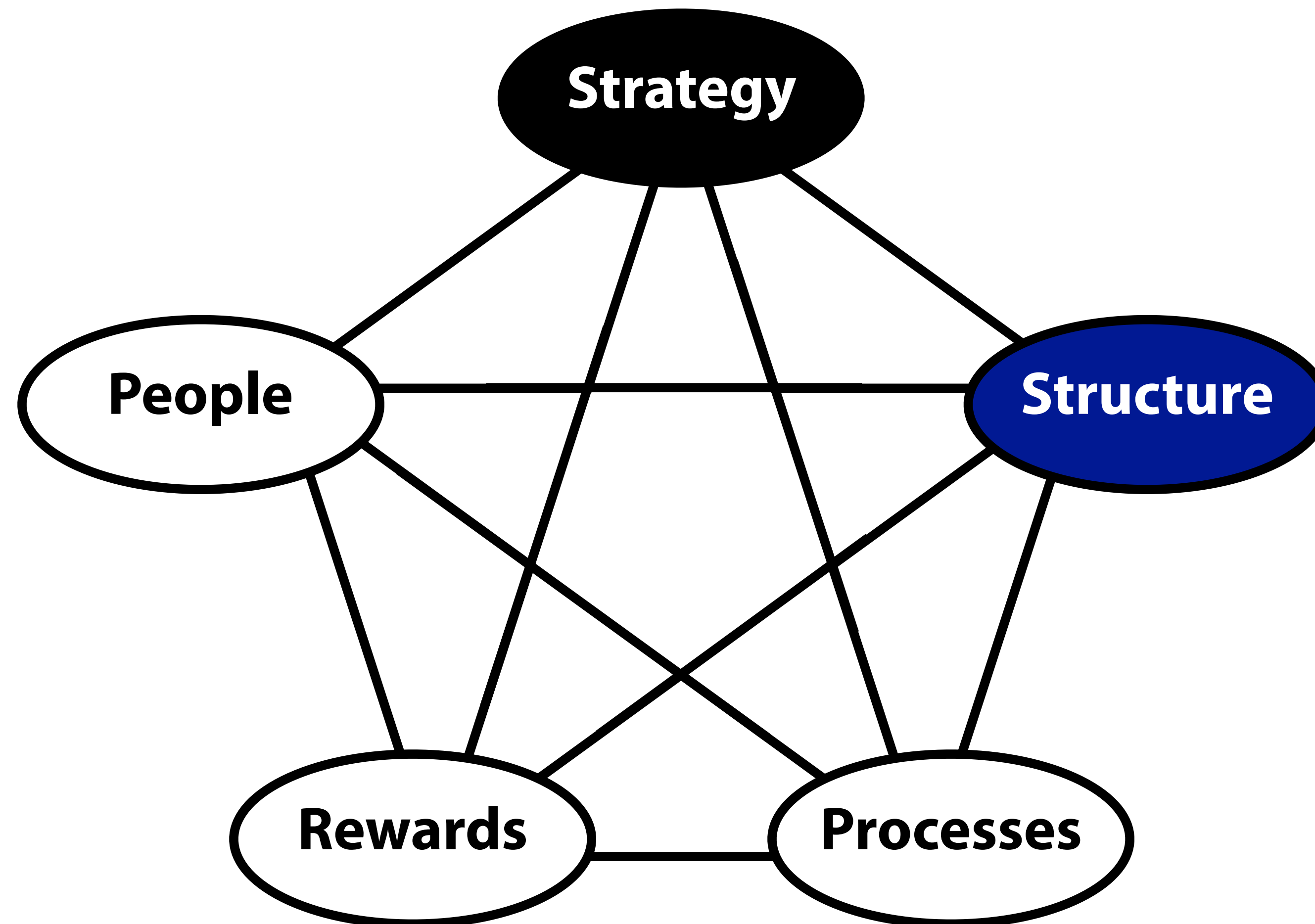
Session objectives

- to examine strategic implementation through organizational structure
- in particular:
 1. to introduce the concept of organizational structure
 2. to discuss various organizational structures and the link to competitive advantage
 3. to consider organizational restructuring
- references:

chapter 12 in HJS

Galinsky & Schweitzer (2015); Bernstein & Nohria (1995); Goold & Campbell (2002)

Outline



Part 1

Early thoughts on organizational structure



History of organizational structure

- “Weberian bureaucracy”
 - based upon the work of Max Weber, a German sociologist
 - ideal bureaucracy:
 - clear differentiation of tasks and responsibilities
 - coordination through a strict hierarchy of authority and decision rights, and standardized rules and procedures
 - vertical separation of planning and execution so that plans are made in the upper ranks and executed in the lower ranks
 - use of technical criteria for recruitment and promotion
- examples?



History of organizational structure

- scientific management and industrial engineering
 - Taylor and Fayol
 - led to the idea of “Taylorism”
 - organizations as analogous to machines
- maximum span of control should not exceed six
- unity of command and authority
- incentives to increase piece-work in assembly systems

History of organizational structure

- organizations as systems of interdependent humans
 - Mayo, Roethlisberger
 - organizations have informal structures and dependencies
- organizational processes (post-WWII)
 - Simon, Barnard, Cyert & March
 - how is work accomplished and managed
 - Burns & Stalker
 - structuring to execute certain tasks

History of organizational structure

- structural contingency view of the firm
 - Lawrence & Lorsch
 - effective organizational structure is based upon fit
 - fit is the alignment between the organization and its environment
- managerial discretion
 - Nelson & Winter, Williamson
 - managers choose to align based upon performance goals and the environment
 - Hannah & Freeman, Meyer & Rowan
 - organizations follow evolutionary paths and face legitimacy constraints

Part 2

Organizational structure



Organizational design

- Groups 1 - 3: Galinsky & Schweitzer (2015)
- Groups 4 - 6: Bernstein & Nohria (1995)
- Groups 7 & 8: Goold & Campbell (2002)
- in your groups discuss:
 1. the motivation for the article and its aim
 2. the definition of structure
 3. one or two key insights from the article
 4. the link and/or tension between structure and strategy
 5. an example of organizational structure and strategy from your own experience

Organizational design

- strategy implementation involves the use of **organizational architecture**
 - deciding how a company should create, use, and combine organizational structure, control systems, and culture to pursue a chosen strategy
- the totality of a firm's organizational arrangements including:
 - formal organizational structure
 - control systems
 - incentive systems
 - culture
 - processes

Organizational design

- three goals to organizational design decisions
 - to provide a permanent setting in which to influence individuals to do their jobs
 - to achieve a pattern of collaborative effort
 - to create a cost effective organization that reduces duplication of effort

(Lorsch, 1975: 1-2)

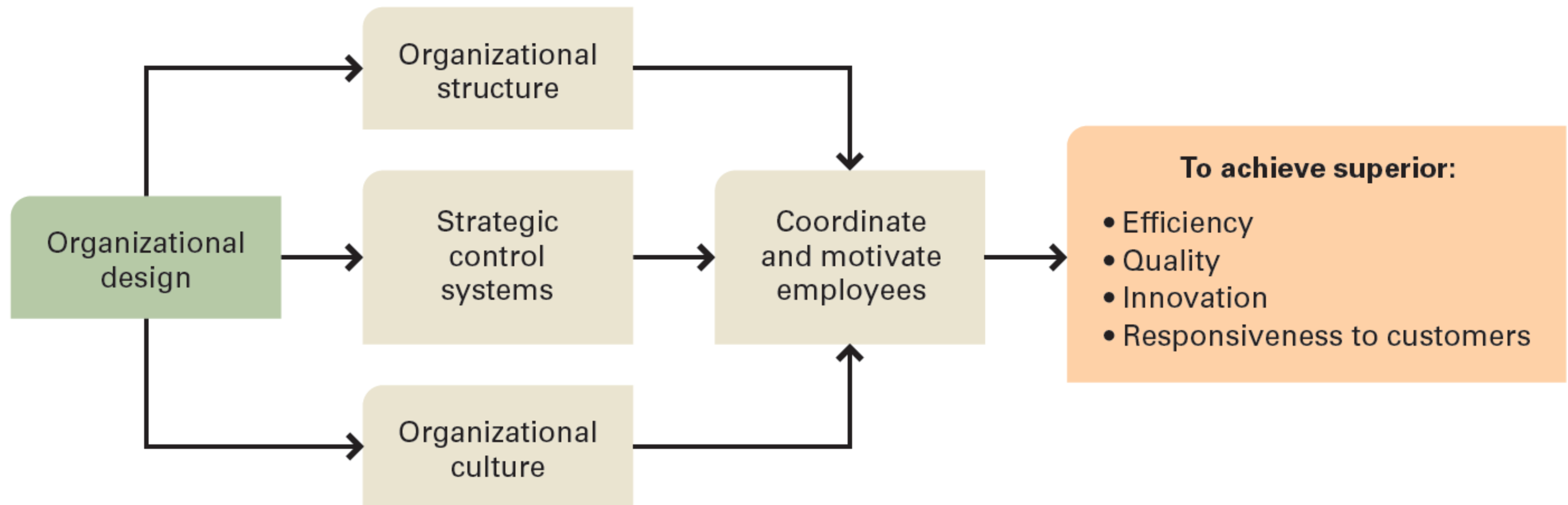
Organizational design

- three steps to design
 - understand and assess the environmental and personnel situations facing the firm (fit, differentiation, integration)
 - make design choices to meet the requirements above
 - consider how to implement changes

(Lorsch, 1975: 7)

Organizational design

- coordinates and integrates across all levels and functions
- there is a need for supporting **control systems** to provide incentives, and a set of specific values, norms, and beliefs (**culture**) to shape behaviour



Organizational structure

- make versus buy decisions - boundaries of the firm
- the location of decision-making responsibilities
- the formal division of the firm into sub-units
- the integrating mechanisms to coordinate activities across the sub-units
- assigns employees to specific value creation tasks and roles
- specifies how these tasks and roles are to work together to increase:
 - efficiency
 - quality
 - innovation
 - responsiveness to customers

Organizational structure

- activities and tasks are a result of strategic choices
 - requires a division of labour, or specialization
 - most common is to divide into functions (or occupations)
 - **function** is a collection of people who work together and perform the same types of tasks, or hold similar positions
 - work exchanges and transfers become more complex as the organization grows
 - creates bureaucratic costs
 - communication and measurement problems
- ➡ separation requires integration

Organizational structure

- managers make three basic choices
 - how to **allocate authority and responsibility** to the functions and divisions
 - how to **group tasks** into functions, and to group functions into business units or divisions
 - how to increase the level of **coordination or integration** between functions and divisions
- think of structure in three dimensions
 - **vertical differentiation** decision-making responsibilities
 - **horizontal differentiation** division of labour
 - **integrating mechanisms** coordination

Organizational structure

- issues to address in defining a structure:
 - the division of labour
 - coordination mechanisms
 - distribution of decision rights
 - organizational boundaries
 - informal structure
 - political structure
 - legitimate basis of authority

(Bernstein & Nohria, 1991: 2-4)

Organizational structure

- to evaluate different structures, consider the following dimensions:
 - efficiency of resource utilization
 - efficiency of time utilization
 - responsiveness to the environment
 - adaptability over time
 - the ability to hold people accountable

(Bernstein & Nohria, 1991: 4)

Vertical differentiation of structure

- to reduce the burden of hierarchy and bureaucratic costs is to **decentralize** authority
 - vest authority in managers at lower levels
 - delegate decision-making
- advantages of decentralization
 - reduces information overload in the upper levels and refocuses attention
 - increases the motivation and accountability of managers in the lower levels
 - fewer managers are required to oversee activities, leading to a flatter hierarchy

Vertical differentiation of structure

- advantages of **centralization**
 - allows for easier coordination of the organizational activities
 - decisions better fit the organization's objectives
 - permits strong leadership in times of crisis
- Union Pacific and Yahoo! examples
 - what conditions forced the changes?
 - what are the possible pitfalls?

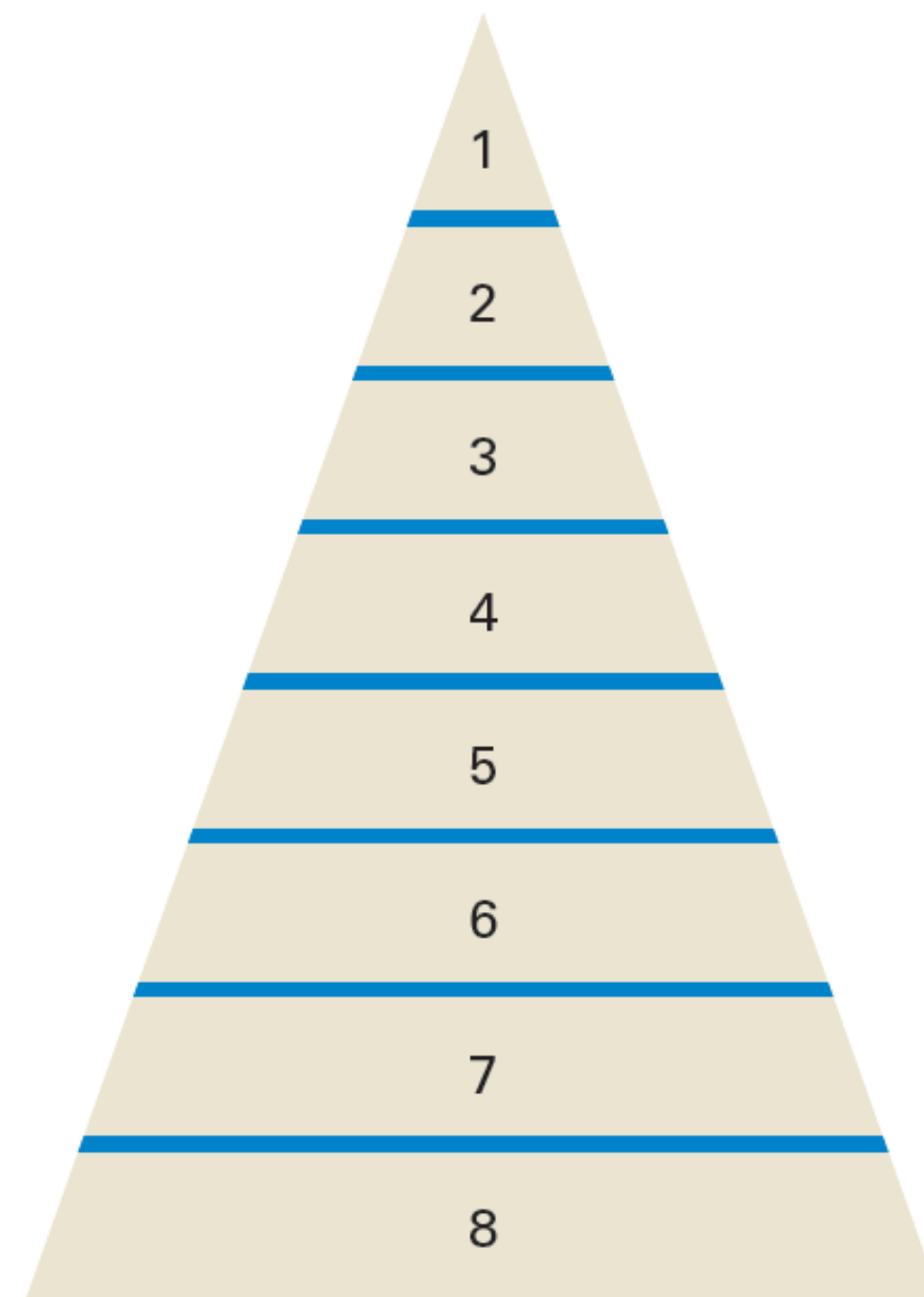


Vertical differentiation of structure

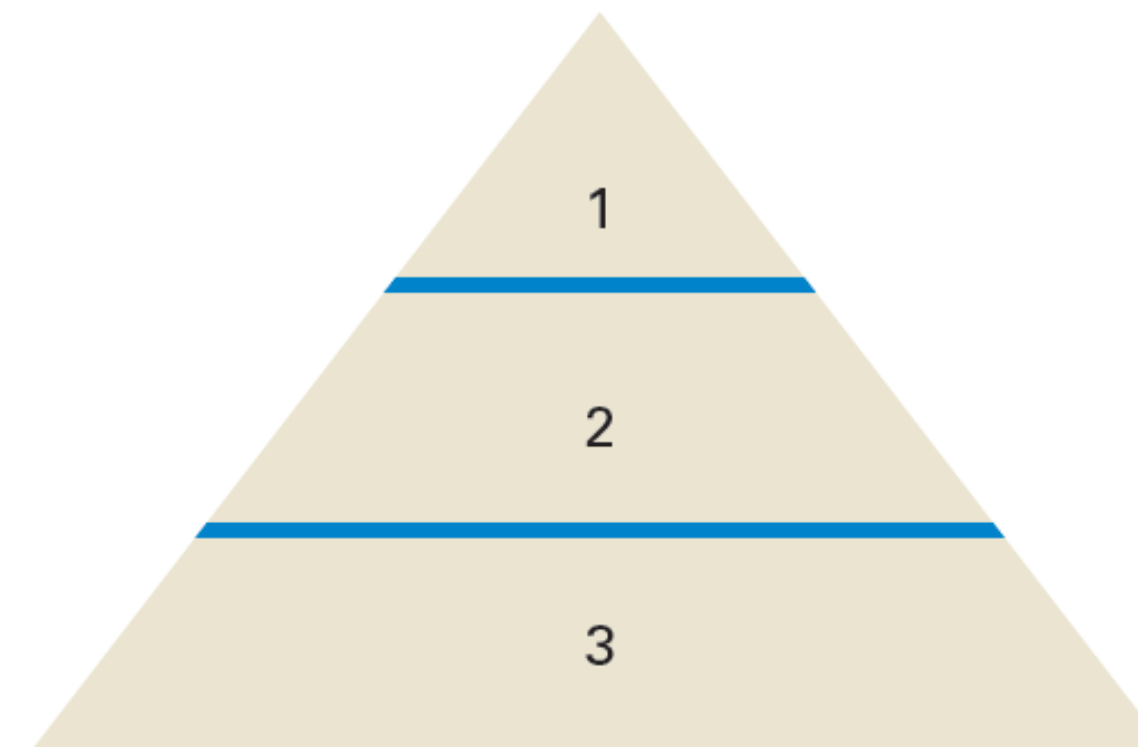
- to economize on bureaucratic costs, and effectively coordinate activities requires a clear **hierarchy of authority** or chain of command
- defines each manager's relative authority from the CEO to the lowest employees
- every manager supervises one or more subordinates
 - **span of control** refers to the number of direct reports under any manager
 - nature of the work being supervised
 - extent to which performance is visible
 - extent of centralization/decentralization

Vertical differentiation of structure

- as an organization grows in size or complexity, its hierarchy of authority typically lengthens, and spans of control shrink



Tall Structure
(8 levels)



Flat Structure
(3 levels)

Vertical differentiation of structure

- disadvantages to taller structures
 - distortion of commands, orders, and information (influence cost)
 - long time taken in decision making and adherence
 - organizational inertia (slow to change)
 - increase in expenses
- solution
 - principle of the **minimum chain of command**
 - the firm should design its hierarchy with the fewest levels of authority necessary to use organizational resources effectively

Vertical differentiation of structure

- solution
- **delaying**
 - based upon the assumption that when times are good firms tend to expand management hierarchies beyond the point of optimal efficiency
 - when the competitive environment becomes more difficult, many firms eliminate management levels and increase spans of control

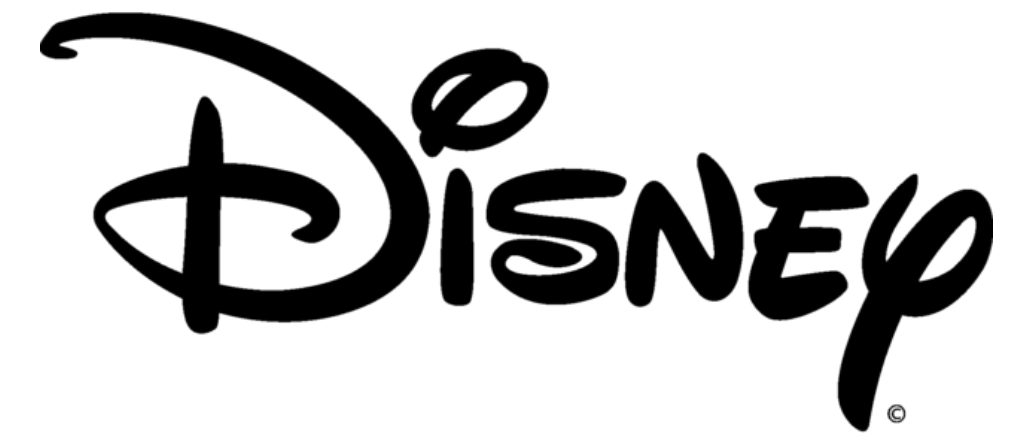
Vertical differentiation of structure

- solution
 - **situational authority**
 - build cohesive sub-units through mutual trust
 - create shared understanding
 - provide a clear organizational strategy statement
 - exercise disciplined initiative
 - use lower-level directives linked to strategy
 - accept prudent risk

How to build trust

- trust is slow to develop and almost impossible to repair
 - exude warmth and competence
 - convey genuine care and concern
 - use non-verbal cues
 - walk the talk
 - show vulnerability
 - build long-term relationships

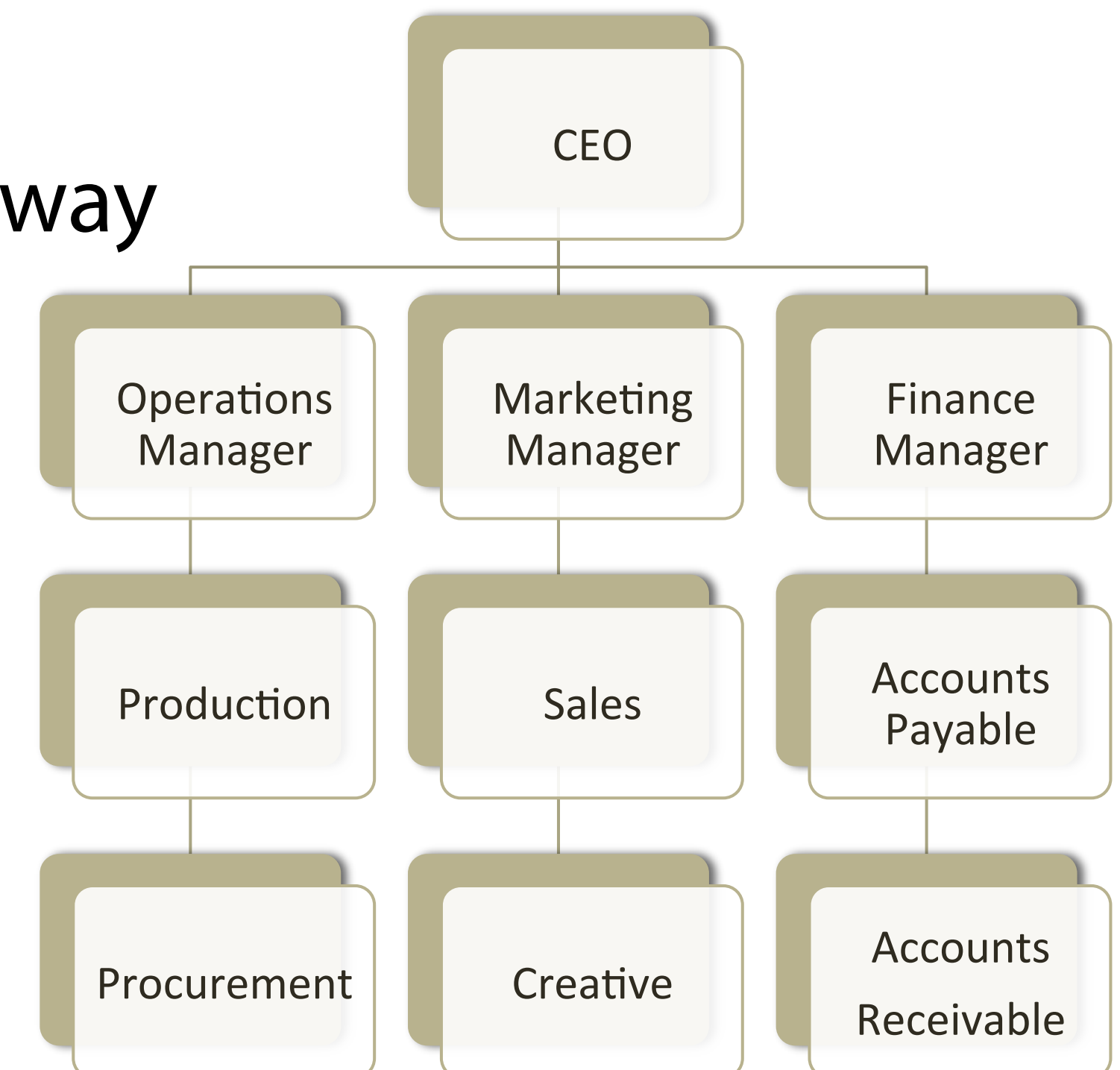
Vertical differentiation of structure: Disney example



- discussion: Bob Iger flattens Disney
- eliminate bureaucratic bottlenecks
- reassigned managers back to different business units
 - increased ideas generated from business units
 - increased innovation
 - increased motivation to champion ideas
- do specific types of industries call for one type over the other?
- in which situation would a centralized strategy be the best choice?
- where would you prefer to work?

Horizontal differentiation of structure

- a **functional structure** is the grouping of employees on the basis of their common expertise and experience or because they use the same resources
- follows the obvious division of labour
- a top manager or team oversees the functions
- most single businesses of any scale are organized this way



Horizontal differentiation of structure

- advantages of **functional structure**
 - employees learn from one another and become more specialized and productive
 - employees can monitor each other to make sure that all are performing their tasks effectively
 - gives managers greater control of organizational activities
- disadvantages of **functional structure**
 - problems arise once the firm moves into other lines of business
 - becomes difficult to identify the profitability of each business when the activities are spread across functions
 - there can be a lack of accountability, control, and coordination

Horizontal differentiation of structure

- a **multidivisional structure** is the division of the firm into divisions, each of which is responsible for a distinct business area
- a self-contained autonomous unit with its own functions
- responsibility for functional decisions and business-level strategy is decentralized to the divisions
- accountable for performance



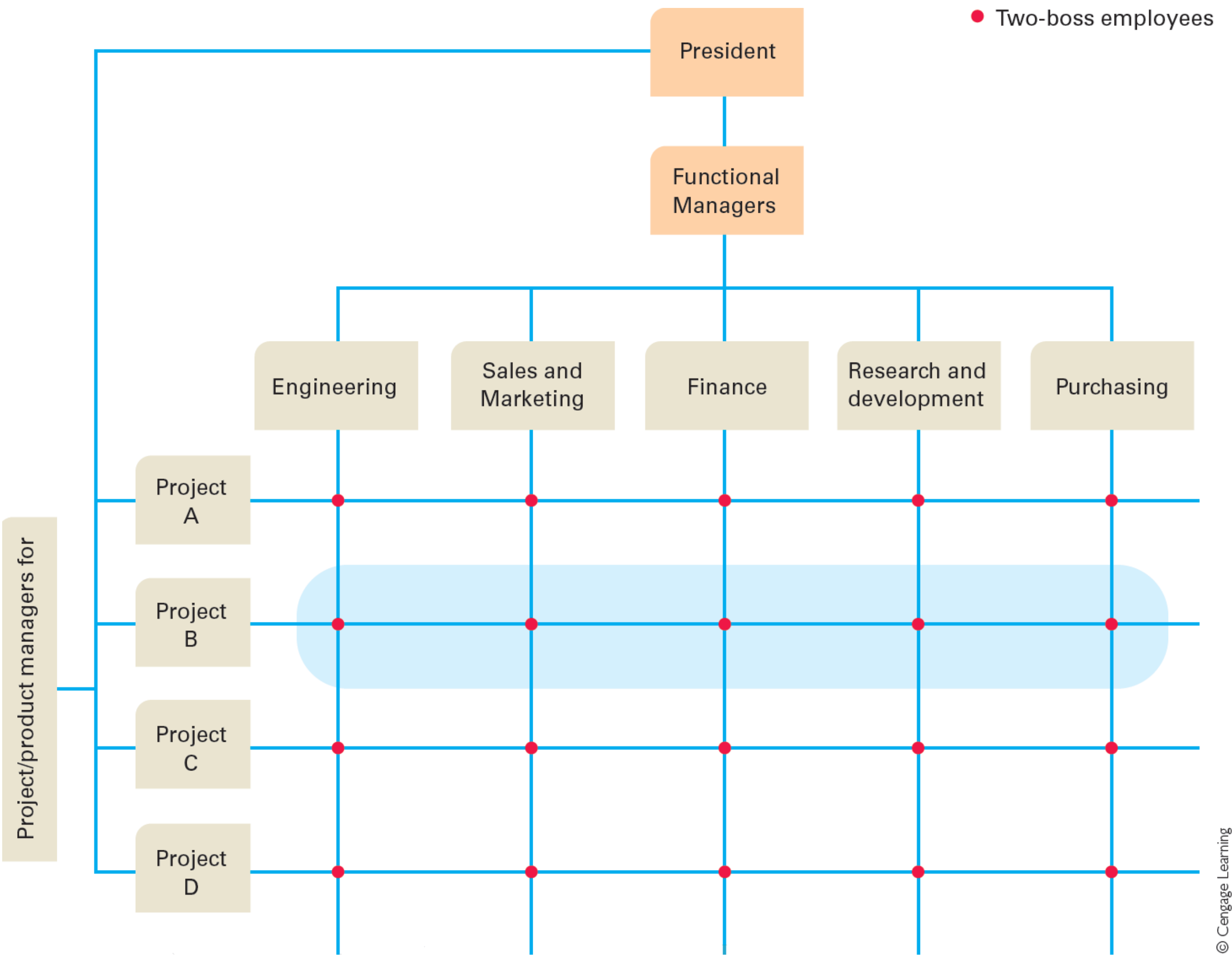
Horizontal differentiation of structure

- advantages of **multidivisional structure**
 - divisional managers focus on efficiency
 - incentives to improve competitive position tied to resources and incentives
- disadvantages of **multidivisional structure**
 - pressure to improve performance may lead to poor decisions, such as cutting R&D, and foregoing investments
 - loss of economies of scale

Horizontal differentiation of structure

- in a **matrix structure** managers try to achieve tight coordination between functions, particularly R&D, production, and marketing
 - an employee may belong to two subunits within the firm
 - often one side of the structure is given precedence
 - relies on informal connections and knowledge management systems

Horizontal differentiation of structure



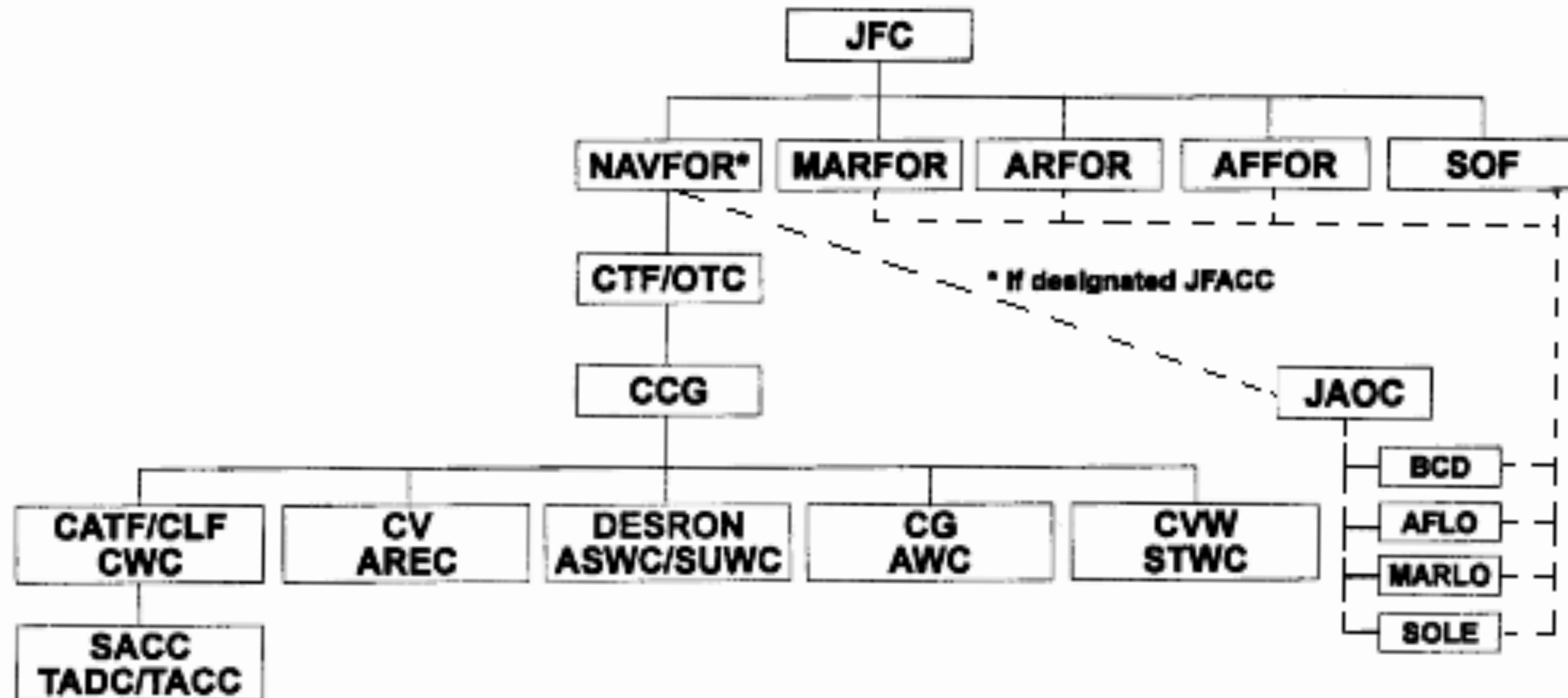
Horizontal differentiation of structure

- advantages of **matrix structure**
 - quicker product development
- disadvantages of **matrix structure**
 - can be clumsy and bureaucratic
 - can lead to power struggles and conflict
 - difficult to ascertain accountability
 - lack of jurisdictional clarity
 - role ambiguity
 - hampers career development

Integrating mechanisms

- formal means to increase communication and coordination among functions and divisions
 - direct contact
 - liaison roles
 - teams that represents each division or department
 - facing a common problem
 - with a goal of finding a solution to the problem

SEA-BASED JFACC ORGANIZATION

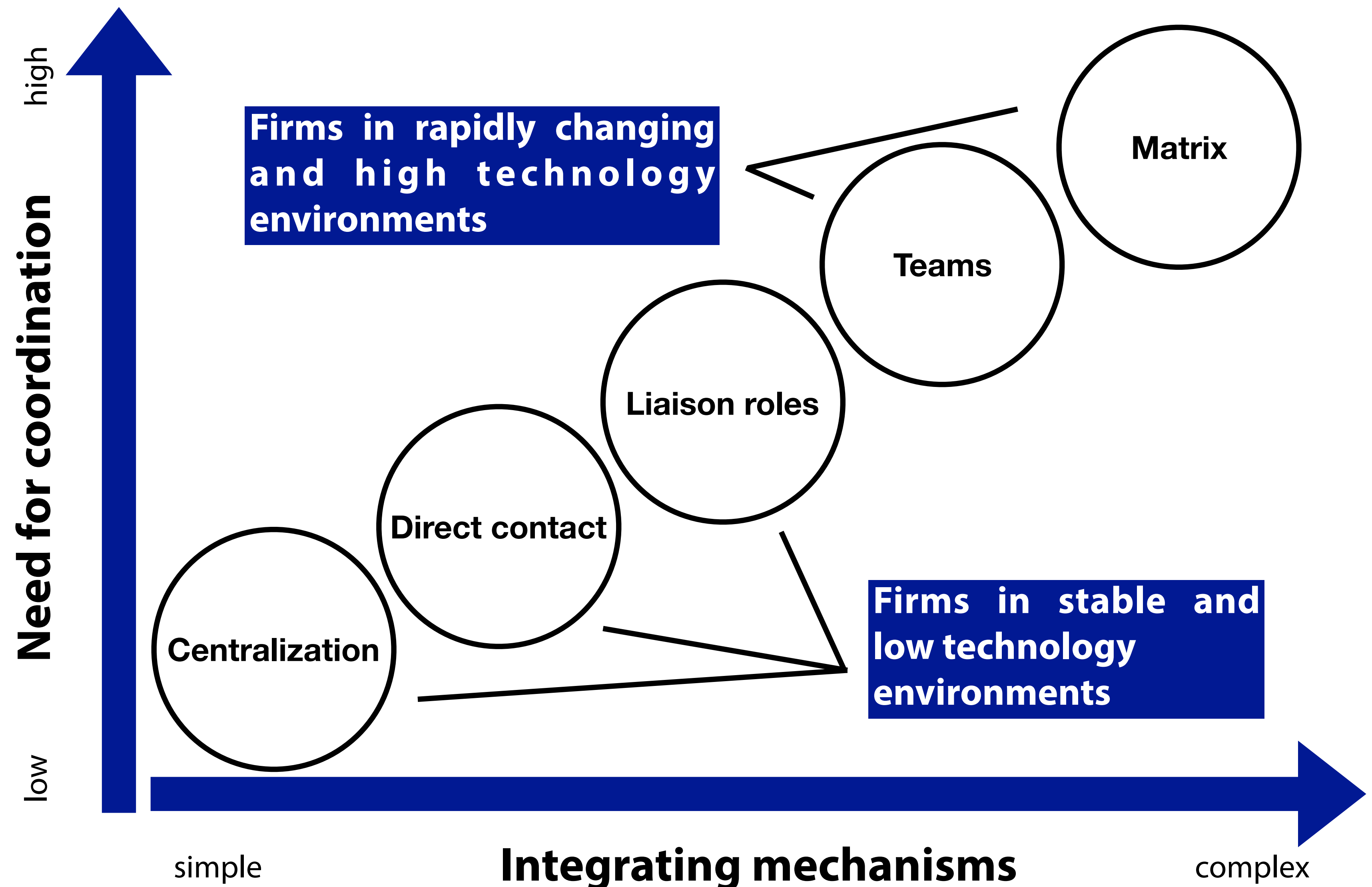


LEGEND: COMMAND COORDINATION JFACC COMMAND

ASWC antisubmarine warfare commander
CCG commander carrier group
CGAWC carrier group air warfare commander
CVW STWC carrier air wing strike warfare commander
SUWC surface warfare commander

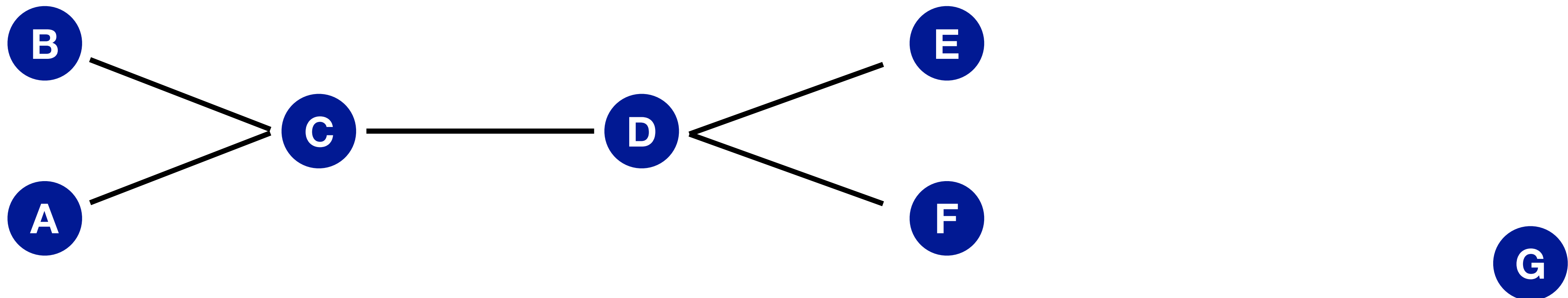
CATF commander amphibious task force
CTF commander task force
CVAREC carrier air element coordinator
DESRON destroyer squadron
TADC tactical air direction center

Integrating mechanisms



Integrating mechanisms

- informal means to alleviate the problems associated with the formal mechanisms
- **knowledge network**
 - transmitting information based upon informal contacts between managers
 - a non-bureaucratic conduit
 - requires an indirect link at a minimum
 - requires individuals to have common goals

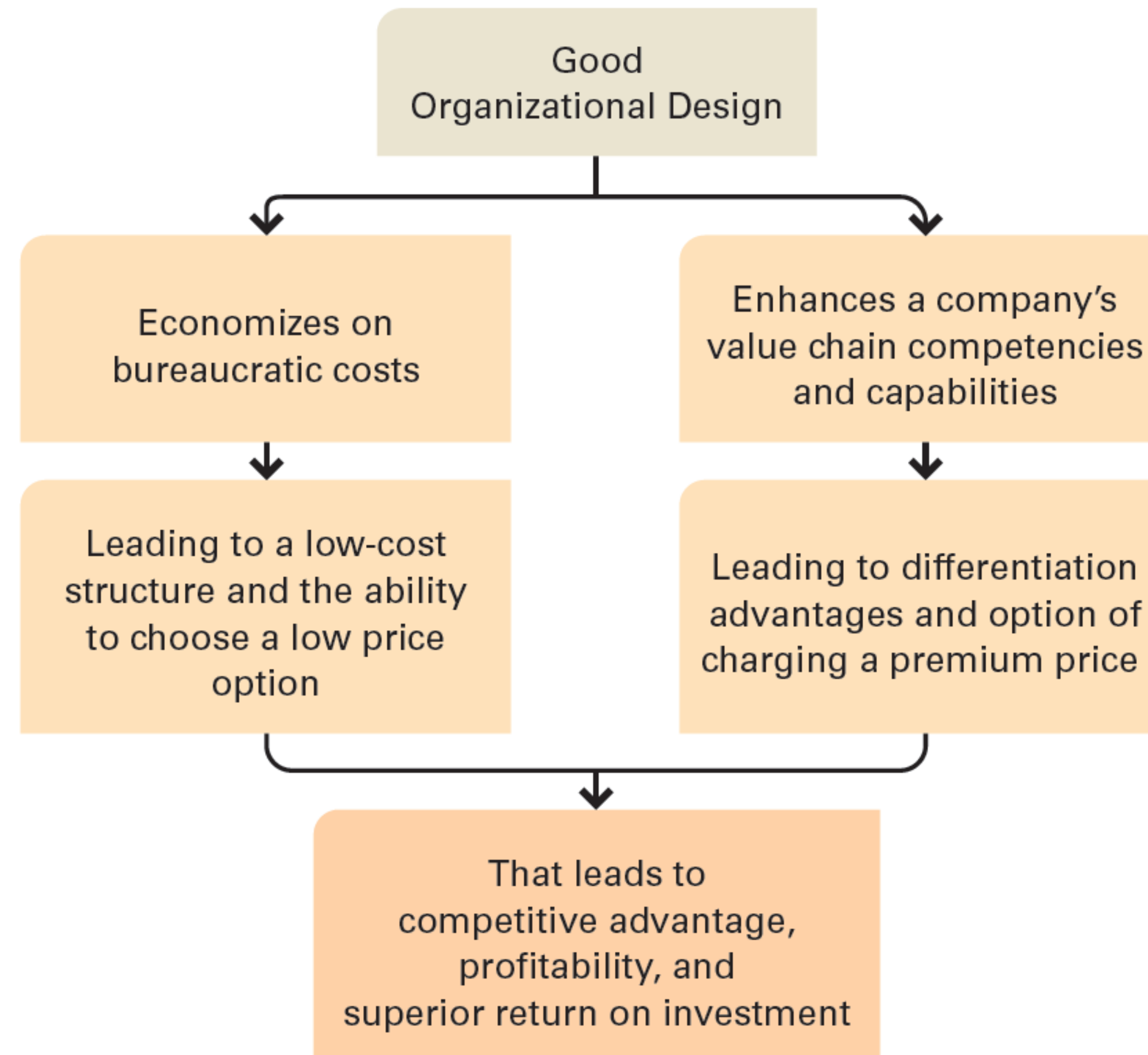


Balancing hierarchies: How human is the task?

- when hierarchy helps:
 - activity requires physical coordination
 - activity requires division of labour
 - complex business context
 - need for incentives — work for the common good
 - too much star talent — establishes the leader
- when hierarchy hurts:
 - cognitively complex task
 - activity requires the “wisdom of the crowd” — any and all relevant information
 - individual responsibility is required — pull own weight
 - dynamic, fast-changing environment — new plans on the fly

Structure and competitive advantage

- good organizational design through structure improves profitability



Discussion questions

- what kind of structure best describes the way the Rowe School of Business operates?
 - is this appropriate? why?
 - would another structure fit better?

Small group exercise

As part of a strategic change, your business model directs you to increase your product range to offer a soft drink in every segment of the market to attract customers. Currently you have a functional structure. What you are trying to work out now is how best to implement your business model to launch your new products.

- should you move to a more complex kind of product structure, and if so which one?
- alternatively, should you establish new-venture divisions and spin off each kind of new soft drink into its own company so that it can focus its resources on its market niche?

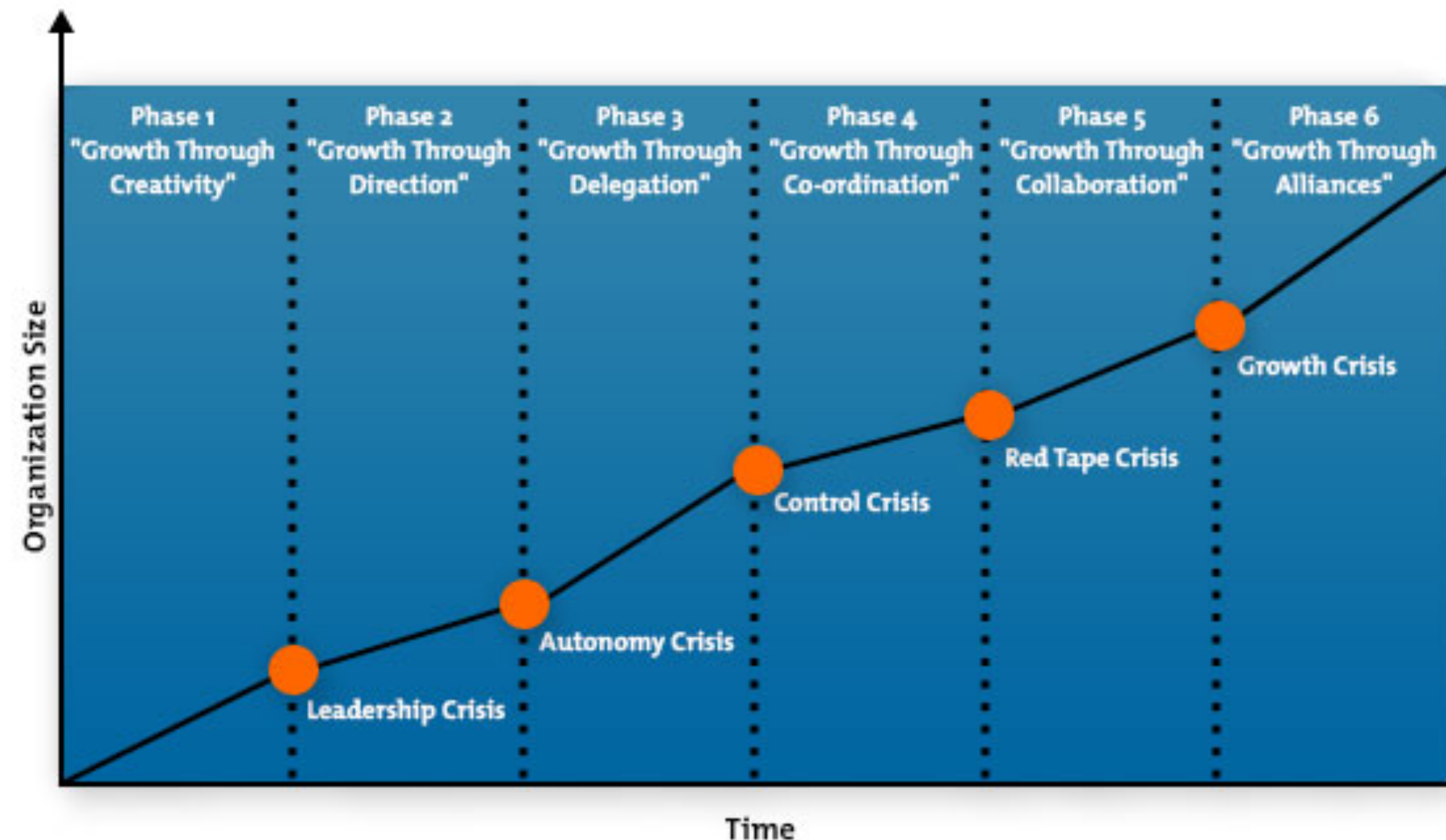
Part 3

Changing structure



Creating new structures and restructuring

- organizational structures evolve over time
- comprehensive redesigns are difficult requiring trade-offs and the management of conflict
- must be implemented with strategy in mind - Drucker reading



Greiner, 1998: 5

Creating new structures and restructuring

- **restructuring**
 - streamlining the hierarchy or authority and reducing the number of levels
 - reducing the number of employees to lower operating costs
- ethical dilemma
 - using equality, fairness, and justice in decision-making
 - what about the employment of individuals?

Creating new structures

- Goold & Campbell (2002) propose nine tests to help guide redesign
 1. does the design direct managerial attention to the sources of competitive advantage?
 2. does the design help the corporate parent add value?
 3. does the design reflect the strengths and weaknesses of the people?
 4. have you considered the constraints on the design?
 5. does the design protect certain units?
 6. does the design provide coordination solutions for unit-to-unit links?
 7. does the design have too many parent levels?
 8. does the design support effective controls?
 9. does the design provide flexibility for new strategies and adaptation?

Summary

- main take-aways:
 1. organizational structure is defined by, and supports strategy
 2. specialization of work leads to a diverse structure
 3. organizational size leads to complexity and the need for integration
 4. changing organizational structure is as much about managing people as it is redefining relationships
 5. organizational structure is not an end, it sets the context for behaviour