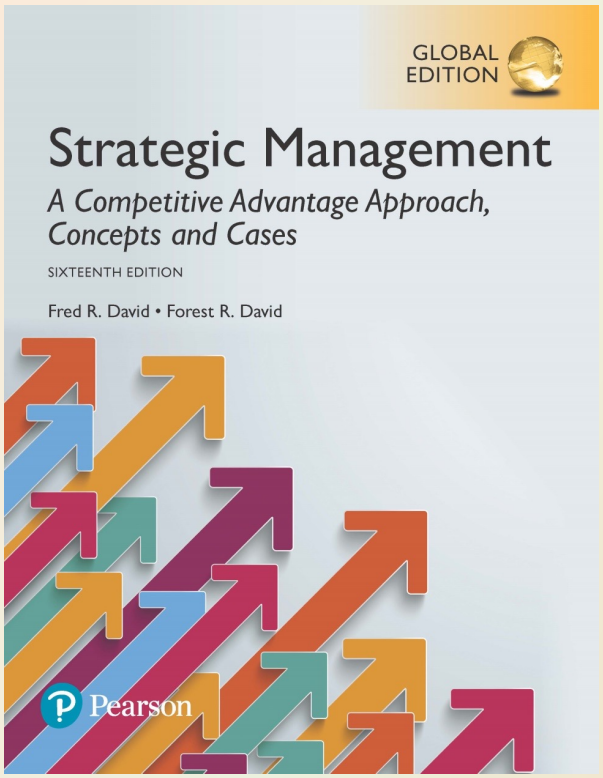


Strategy and Structure

Learning Objectives

1. Discuss the need to match a firm's structure with its strategy.
2. Identify, diagram, and discuss seven different types of organizational structure.
3. Identify and discuss fifteen dos and don'ts in constructing organizational charts.

Matching Structure With Strategy

- Structure largely dictates how objectives and policies will be established
- Structure dictates how resources will be allocated

Designing organisation structures to fit the strategy

- For an organisation to be economically effective, there needs to be a matching process between the organisation's strategy and its structure: the concept of ***strategic fit***
- Such practices go *beyond organisation structure* into other related areas of the business
- These areas include: strategic planning process, recruitment and training, reward systems for employees and managers, work to be undertaken, information systems and processes

Key points:

- Strategic fit may not be fully resolved by considering only strategy and organisational structure
- May even be necessary to *revisit the strategy itself* when the implementation process is formally under consideration

Designing organisation structures to fit the strategy

The main elements are not in any particular order:

- Age
- Size
- Environment
- Centralisation/decentralisation decisions
- Overall work to be undertaken
- Technical content of the work
- Different tasks in different parts of the organisation
- Culture
- Leadership

Designing organisation structures to fit the strategy

Basic considerations:

- Simplicity
- Least cost solution, including gaining any proposed cost savings from mergers
- Motivation of those involved
- Existing organisational culture

Other factors to be considered:

- Environment
- Resources and technical systems
- The strategy to be implemented (or, at least, explored if the strategy is essentially experimental)
- Strategic change: new organisations will impact on people who may object to new responsibilities, power and reporting relationships

Symptoms of an Ineffective Organizational Structure

TABLE 10-6 Symptoms of an Ineffective Organizational Structure

1. Too many levels of management
2. Too many meetings attended by too many people
3. Too much attention being directed toward solving interdepartmental conflicts
4. Too large a span of control
5. Too many unachieved objectives
6. Declining corporate or business performance
7. Losing ground to rival firms
8. Revenue and/or earnings divided by number of employees and/or number of managers is low compared to rival firms

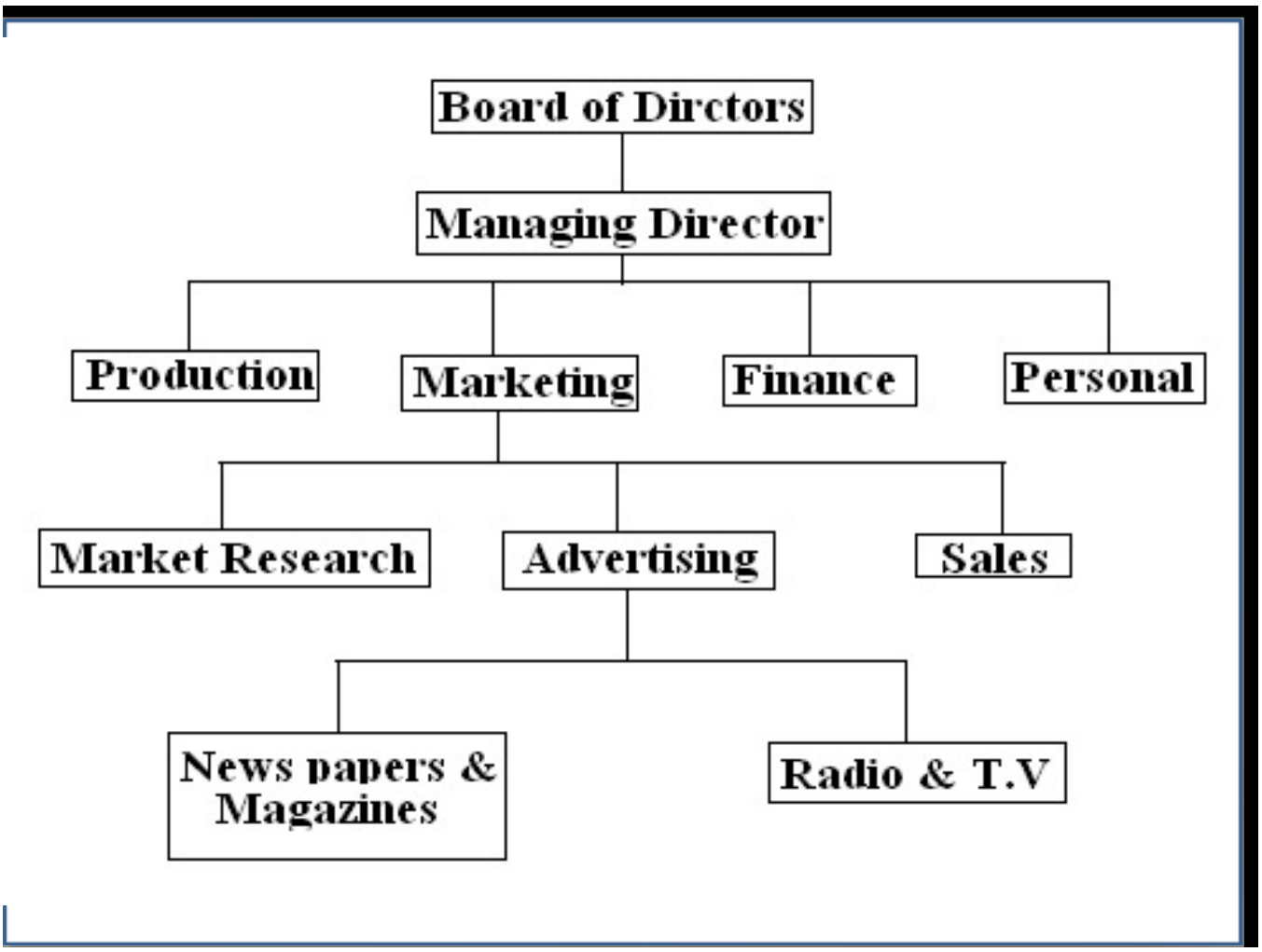
Designing organisation structures to fit the strategy

Some of the most well-known forms of organisational structure

- Small organisational structure: flexible, informal, dependent on management style of leader or owner
- Functional organisation structure: based on locating the structure around the main activities – such as marketing, production, R&D
- Multi-divisional structure: structured around separate divisions formed on the basis of products, markets or geographic areas
- Holding company structure: company owns various businesses and acts as an investment company with no central strategy
- Matrix organisation structure: combination of two or more forms of organisation – typically product and geographical structure
- Innovative organisation structure: characterised by creativity, lack of formal reporting relationships and informality

The Functional Structure

- **Functional Structure**
  - groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems



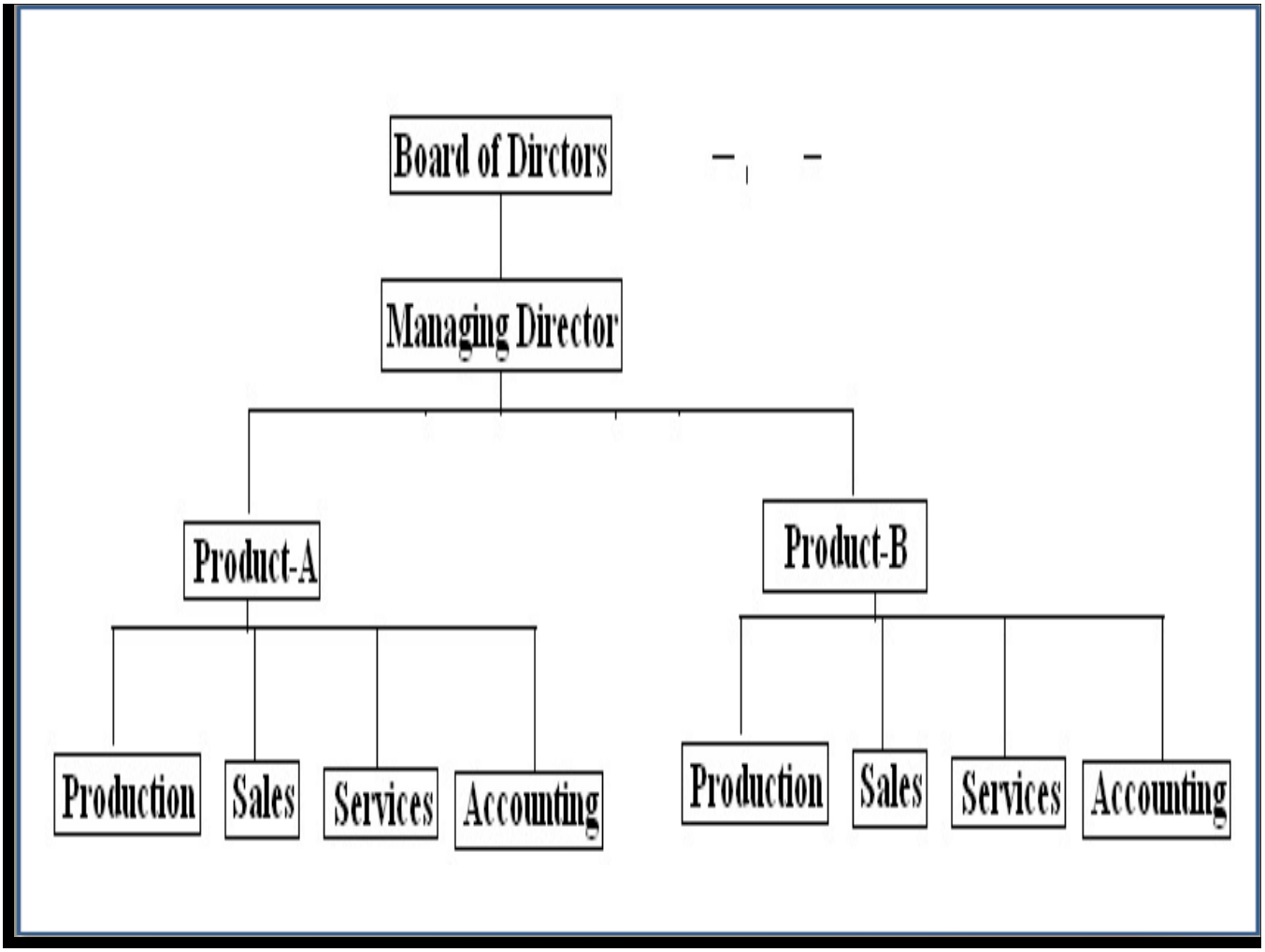
Advantages and Disadvantages of a Functional Organizational Structure

TABLE 10-7 Advantages and Disadvantages of a Functional Organizational Structure

Advantages	Disadvantages
1. Simple and inexpensive	1. Accountability forced to the top
2. Capitalizes on specialization of business activities such as marketing and finance	2. Delegation of authority and responsibility not encouraged
3. Minimizes need for elaborate control system	3. Minimizes career development
4. Allows for rapid decision making	4. Low employee/manager morale
	5. Inadequate planning for products and markets
	6. Leads to short-term, narrow thinking
	7. Leads to communication problems

Divisional Structure

- Functional activities are performed both centrally and in each separate division
- Organized by geographic area, product or service, customer, or process



Advantages and Disadvantages of a Divisional Organizational Structure

TABLE 10-8 Advantages and Disadvantages of a Divisional Organizational Structure

Advantages	Disadvantages
1. Clear accountability	1. Can be costly
2. Allows local control of local situations	2. Duplication of functional activities
3. Creates career development chances	3. Requires a skilled management force
4. Promotes delegation of authority	4. Requires an elaborate control system
5. Leads to competitive climate internally	5. Competition among divisions can become so intense as to be dysfunctional
6. Allows easy adding of new products or regions	6. Can lead to limited sharing of ideas and resources
7. Allows strict control and attention to products, customers, or regions	7. Some regions, products, or customers may receive special treatment

The Strategic Business Unit (SBU) Structure

- **SBU Structure**
  - groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer
  - can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units

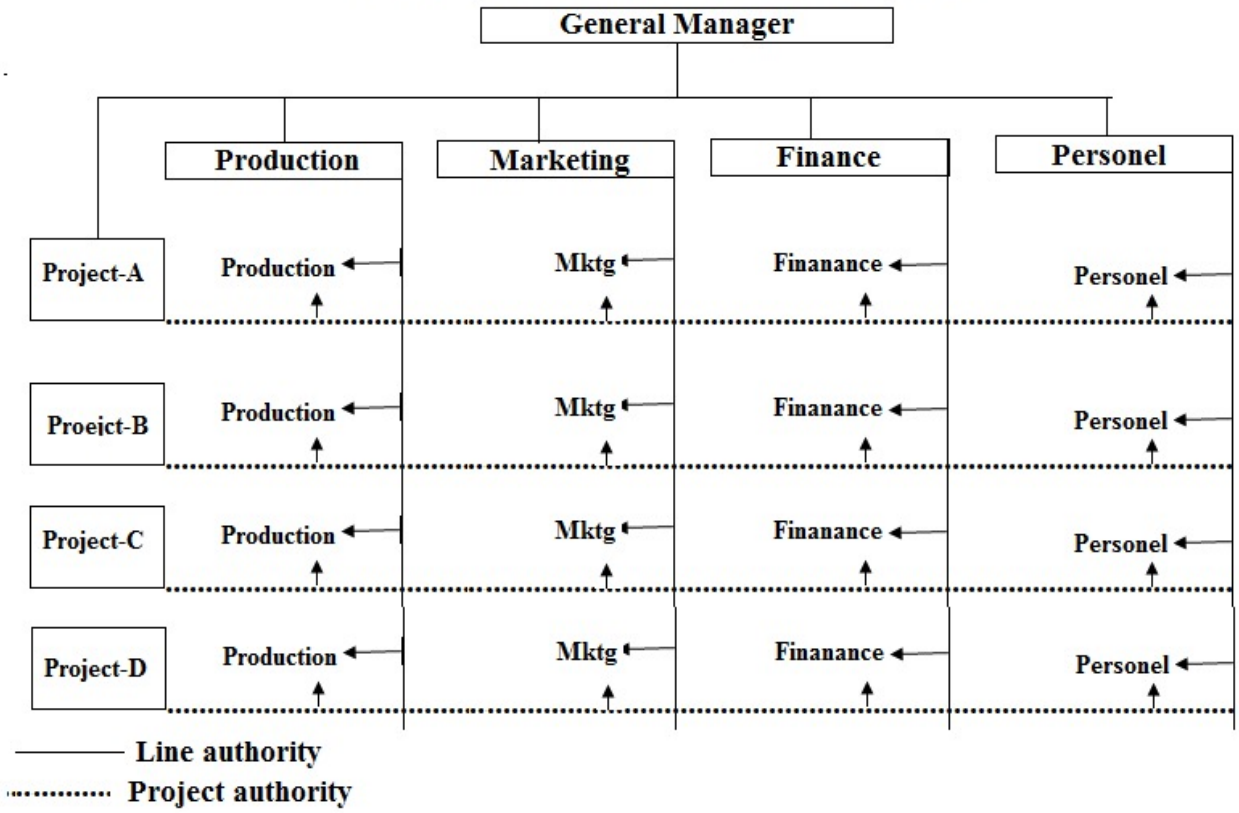
The Matrix Structure

- **Matrix Structure**
  - most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication

The Matrix Structure

- For a matrix structure to be effective, organizations need participative planning, training, clear mutual understanding of roles and responsibilities, excellent internal communication, and mutual trust and confidence

MATRIX ORGANISATION STRUCTURE



Advantages and Disadvantages of a Matrix Structure

TABLE 10-9 Advantages and Disadvantages of a Matrix Structure

Advantages	Disadvantages
1. Clear project objectives	1. Requires excellent vertical and horizontal flows of communication
2. Results of their work clearly seen by employees	2. Costly because creates more manager positions
3. Easy to shut down a project	3. Violates unity of command principle
4. Facilitates uses of special equipment, personnel, and facilities	4. Creates dual lines of budget authority
5. Shared functional resources instead of duplicated resources, as in a divisional structure	5. Creates dual sources of reward and punishment
	6. Creates shared authority and reporting
	7. Requires mutual trust and understanding

Restructuring

- **Restructuring**
  - involves reducing the size of the firm in terms of number of employees, number of divisions or units, and number of hierarchical levels in the firm's organizational structure
  - primary benefit sought from restructuring is cost reduction

Reengineering

- **Reengineering**
  - involves reconfiguring or redesigning work, jobs, and processes for the purpose of improving cost, quality, service, and speed
  - does not usually affect the organizational structure or chart, nor does it imply job loss or employee layoffs