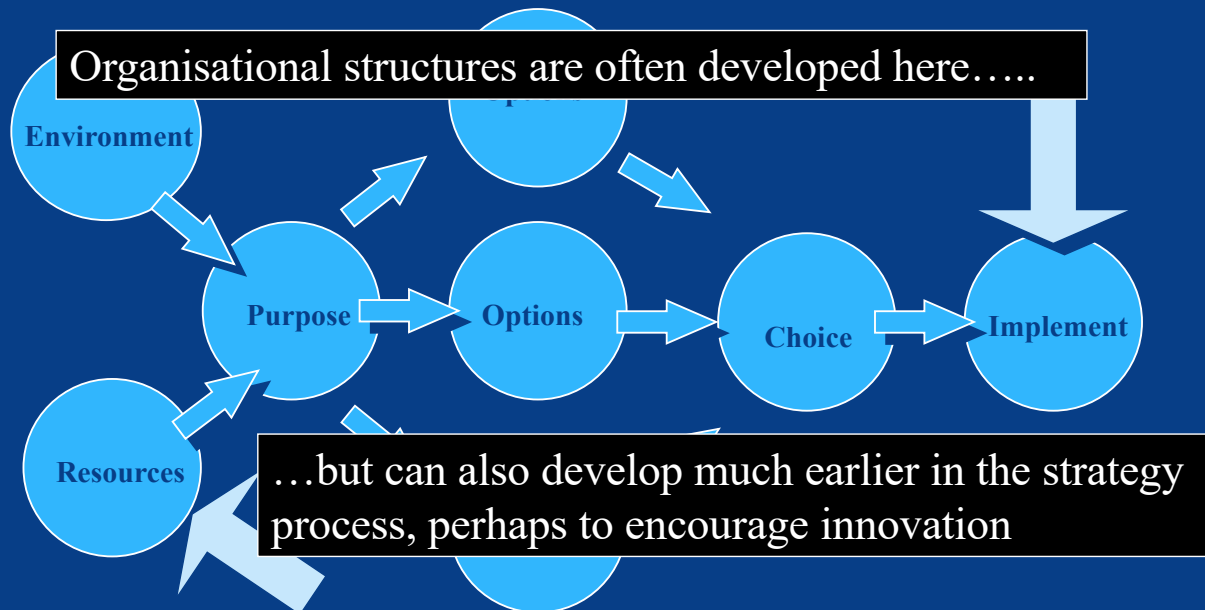


Chapter 12

Organisational structure, style and people issues

How do we develop the optimal organisation structure?

Developing the organisation structure



See: Lynch, Chapter 12

Lynch, *Strategic Management PowerPoints on the Web*, 7th edition © Richard Lynch 2015

Designing organisation structures to fit the strategy - 1

- 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 - 2

Chandler identified four key parameters for strategic growth that would mean organisations need to restructure as they expand:

- Expansion of volume
- Geographical dispersion
- Vertical integration
- Product diversification

Two main consequences:

- Increased bureaucracy: need to set up formal control systems and planning
- Increased decentralisation: need to move to multidivisional structures

Designing organisation structures to fit the strategy - 3

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 - 4

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

Designing organisation structures to fit the strategy - 5

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

How do we develop the optimal organisation structure?

Some additional overheads

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Strategy before structure: Chandler's contribution

- Alfred Chandler studied a number of leading North American companies during the early part of the twentieth century.
- His conclusions:
 - As companies grow in size and complexity, they need a *general office* to handle the planning and co-ordinating work of the various parts of the business
 - The general office was concerned with long-term strategy of the company
 - Once the strategy was formulated, the general office then designed a suitable organisation structure to implement the agreed strategy

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The five main problems of putting strategy before organisational structure

- Strategy-then-structure may be too rigid to cope with some fast-changing environments in the new millennium
- The type of structure may be just as important as the business/market area in the strategy development process
- Some value chain configurations demand some organisational structures: one does not follow the other
- Complex strategic change needs to be managed as it proceeds, rather than imposing an organisational structure at the end
- Top-down strategy decision-making may be inappropriate for the development of innovative strategies: middle managers may need the flexibility to experiment and the freedom from imposed organisational structures

Organisational structures for innovative companies - 1

From work of Kanter *et al* surveying US companies in the 1970s and 1980s:

- *Importance of matrix structures*: break down barriers and lead to more open reporting lines. Also useful in providing a network for individuals to move outside their own positions
- *Need for parallel organisation*: separate group to run in tandem with the existing hierarchy. The new group was left to develop its own working relationships among its members

Organisational structures for innovative companies-2

- From the work of Kanter *et al*.....continued
- *Work of parallel organisation*: such a group tasked with finding innovative solutions, acting independently and without day-to-day pressures. Work was integrative, cross-functional, flexible and with little hierarchy. Often empowered people lower in the organisation
- *Participative/collaborative management style*: involved persuading rather than ordering and also sharing favourable results of successful initiatives

Motivation and staffing in strategy implementation - 1

Reward systems:

- Can be designed to achieve strategic objectives
- One form is direct remuneration: others include promotion and career development
- May need to be short term to meet managers' desires, whereas strategy may be longer term: possible inconsistency
- May need to focus on *individual* reward, whereas strategy may need to be *team* effort
- May need to encourage risk-taking and innovation, but difficult to measure quantitatively so judgement may be involved

Motivation and staffing in strategy implementation - 2

Formal organisation structures and staffing procedures:

- New strategies may require new people from outside or existing people to be retrained
- Hence implementation will include:
 - Appraisal: examination of existing skills and people represents a starting point
 - Training: sometimes cheaper and more motivating to retrain existing staff
 - Recruitment: may be essential in some cases
 - Leadership: radical new strategies may call for fundamental change of leadership
- New strategic directions underline the importance of human resource management at the highest levels of strategy development