

# Strategy and Structure

An Understanding of the Concepts

# STRATEGY

An important determinant of an organization's design is the strategy adopted by its top managers.

Strategy can be defined as the optimal match between available resources and properly identified, known opportunities and threats.

# TYPES OF STRATEGIES

## **CORPORATE-LEVEL STRATEGY**

An organization chooses a corporate-level strategy after determining what type of organization design would be effective.

For example , a firm that pursues single-product strategy , relies on functional departmentalization and can use a mechanistic design .If either unrelated or related diversification is used to spur growth ,managers need to decide how to arrange the various units within the organization.

# Corporate level strategy cont.

If the firm is using related diversification , there must be a high level of coordination among the various units to capitalize on the presumed synergistic opportunities inherent in this strategy.

On the other hand , firms using unrelated diversification are more likely to rely on a strong hierarchical reporting system , so that corporate managers can better monitor the performance of individual units with the firm.



# Corporate level strategy cont

An organization that adopts the portfolio approach to implement its corporate-level strategies must also ensure that its design fits its strategy.

For example , each strategic business unit may remain a relatively autonomous unit within the organization. But managers at the corporate level need to decide how much decision-making power to give the head of each unit , how many corporate-level executives are needed to oversee the operations of various units and what information , if any , is shared among the units.

# Conclusion

Dr . Alfred Chandler's study of a number of American companies has shown that with the change in strategy, change in structure becomes essential. The strategy of diversification into new products or new geographical areas inevitably makes a highly centralised structure inefficient and impractical.

# BUSINESS-LEVEL STRATEGY

Such strategies affect the design of individual businesses within the organization as well as the overall organization itself.

For example , an organization pursuing a defender strategy is likely to be somewhat tall and centralized

have narrow spans of management, and perhaps take a functional approach to departmentalization.

# BUSINESS-LEVEL STRATEGY cont.

In contrast, a prospective type of organization is more likely to be flatter and decentralized. With wider spans of management, it tries to be very flexible and adaptable in its approach to doing business.

Generic competitive strategies can also affect organization design. A firm using a differentiation strategy, for example, may structure departments around whatever it is using as a basis for differentiating its products, such as marketing in the case of image or manufacturing in the case of quality.




# BUSINESS-LEVEL STRATEGY cont

A cost leadership strategy necessitates a strong commitment to efficiency and control. Thus such a firm is more centralized as it attempts to control costs.

A firm using a focus strategy may design itself around the direction of its focus ; local departmentalization if its focus is geographic region, customer departmentalization if its focus is customer groups.

# ORGANIZATION STRUCTURE



An organization is the structural framework for carrying out the functions of planning, decision-making, control, communication, motivation, etc. Organizational structures vary tremendously.

Organisations may be departmentalised on the basis of function, product, or some combination of the three.

# Basic classification of an organization structure

**Formal structure :** It is again two dimensional – horizontal and vertical,

**Horizontal** dimension depicts differentiation of the total organisational job into different departments. A horizontal structure reads from left to right. It shows the chief executive at the left and all other successive levels of management horizontally rightward.

**Vertical** dimension refers to the hierarchy of authority relationship with a number of levels of from top to bottom. Authority flows downward along these levels. Higher the level, greater the authority and vice-versa. It shows the chief executive at the top and all other successive levels of management vertically downward.

# Mechanistic and Organic Structures

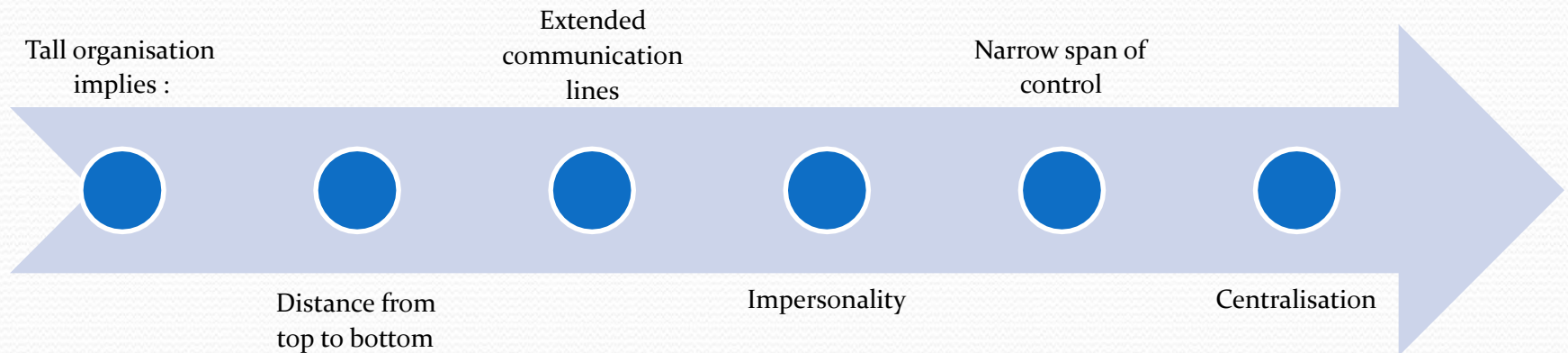


## **MECHANISTIC STRUCTURE**

A mechanistic or classical organisation structure is usually pyramid-shaped. This implies centralisation of authority at the top, departmentalization of jobs, hierarchy of command, narrow span of supervision and intense division of labour.



# Tall organisation implies





# Tall

## Organization

The merit of this type of structure is that it provides a clear and well-defined work setting to its employees. It tells them what they have to attend to and how, and also tells them what they do not have to bother with, what is not their affair, what is not expected of them.

# Tall

Demerits :

Each individual carries out his assigned part as something apart from the overall purpose of the organisation as a whole. He does not care to know whether his job fits into the entire picture.

As one descends through the levels in the organisation , one finds tasks more simple and the authority and information more and more reduced. Thus people at lower level are required to use very little skill

Once the tasks of people at lower levels have been defined, it is difficult to change them

It is assumed that the boss at the top knows everything. This tends to alienate people at lower levels.

# ORGANIC STRUCTURE

An organic or behavioural structure has generally wide spans of control which give rise to a flat form, more general supervision and more decentralisation. There is little specialisation and hierarchy of command. People are grouped according to their social needs.

Flat organisation means :

High levels of decentralisation

Extremely wide spans of control determined on the basis of each superior's interpersonal skills.

Less extended communication lines.



# Merits :

The structure is flexible, people's responsibilities and functions can be quickly changed to meet situational demands.

Communication takes place in all directions thus information passed to all.

Decision-making is not centralised at the top. It is done by people at all levels.

Task, information, and authority flow to the person who has the greatest experience to deal with the problem.

In case of failure the individual cannot help but feel that he is to blame to some degree.

## Demerit :

Due to people's tasks being ambiguous and changing, there is continuous uncertainty about their roles. This sometimes proves to be too exhausting for anyone to bear.

# WHAT TYPE OF STRUCTURE IS BEST ?(CONTINGENCY VIEW)

Researchers concerning organisation structure are not conclusive enough to support any specific organisation structure.

In the Sears Roebuck Study, James C. Worthy has found that the flatter structure is the best way to design an organisation because with maximum decentralisation it develops self-reliance, initiative and decision-making abilities, in another study Porter and Lawler have concluded that there is no clear overall superiority of a flat organisation structure.

The latter research prevents one from making the sweeping generalisation that a flat structure produces more favourable job satisfaction. In fact no one structure is best for all situations.