

Strategic Management for Competitive Advantage
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Lecture - 30
Matching Organization Structure to Strategy

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The slide features a blue and white design with the NPTEL logo at the top. The text is centered and reads: NPTEL ONLINE CERTIFICATION COURSES, Strategic Management for Competitive Advantage, Prof. Sanjib Chowdhury, Vinod Gupta School of Management, IIT KHARAGPUR, Module 09: Strategy and Structure, Lecture 30 : Matching organization structure to strategy.

CONCEPTS COVERED

- Matching organization structure to strategy execution requirements
- Strategy and Structure proposition
- Stages model of structure
- Forms of organization
- Structuring MNCs
- Perspectives on Strategy and Structure
(Peters and Waterman's perspective; Porter's perspective on Generic Strategies)
- Boundaryless organization

Welcome to the course strategic management for competitive advantage. Today, we will start a new module, module 9 is on strategy and structure. In the first lecture, we will be covering matching organization structure to strategic requirements to start with, we will be covering the following concepts in this lecture. The first is matching organization structure to strategy execution requirements. Next, we will be going for strategy and structure propositions, how they are related, and then we will be going for the stages model of the structure that is the

form of organizations and how it goes on. So, and the rest in future lectures, we will be covering the rest like forms of organization, and structuring multinational companies, then perspective on strategy and structure by Peters and Waterman's perspective and Porter's perspective, and then we will talk about boundary-less organizations in the future lectures.

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The slide is titled "9. Strategy and Structure". It contains the following content:

- **What is structure?**
 - Division of work, departmentalization, network of relationship
 - Configuration of resources
- **Matching organization structure to strategy**
 - What is the best structure for an organization?
 - KSFs
 - Identify critical Activities
 - Degree of Authority (Decentralization)
 - Coordination

An arrow points from the KSFs section to the right. In the bottom right corner, there is a video inset of a man in a suit speaking. The slide also features a background graphic of a tree with various icons and a logo for IIT Kharagpur and NPTEL at the bottom.

To start with what is the structure of an organization? The structure is the configuration of resources used by the management to coordinate the activities so as to achieve its corporate objectives, it is a network of relationships among that different departments. In a sense, the structure is the division of work, the structure is departmentalization and as I said it is a network of relationships among different departments, different groups, how the work will go, and it is configurations of resources I have already explained. Now, further how does, what is the base structure for an organization? Here you need to match the organization structure to the strategy because whether strategy with the implementation of a new strategy you need to change in structures or not all those things we will be discussing.

So, the first question comes to mind, what is the best structure for an organization? You can think, and you can let me know, the base structure of an organization is that which fits the environment of the organization and in terms of its internal characteristics, such as its culture, style management style, skills and the strategy the organization is perceiving that is the best structure for an organization. Since the environment is dynamic, so, there may be needed that structure may change because you are which best fits the environment. So, it is a dynamic, dynamic thing.

It is not that the structure is static for a long period of time in an organization, it is not so. So, how do you determine how you design the structure? So, one way is that as you know, every strategy evolves around some key success factors. So, if you can identify those key success factors and make your structure around those key success factors satisfying that will be one way of going for data designing your structure. Then for that, you need to identify the critical activities. What are the critical activities? Every strategy has some critical activities. For example, if you pursue cost-effective leadership there may be some critical activities on that, if you pursue a differentiation strategy, then there are some pertaining to your industry, there are some key activities.

Key activities are not those which are routine in nature, those are not key activities, key activities influence the strategy that helps your strategy to be implemented successfully. So, for that, you may be requiring a degree of authority, you have to delegate the authority that, that you might have to decentralize, you might have to centralize, so how much to centralize the authority and how much to decentralize, it says it is a delicate, delicate issue.

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9. Strategy and Structure

- **What is structure?**
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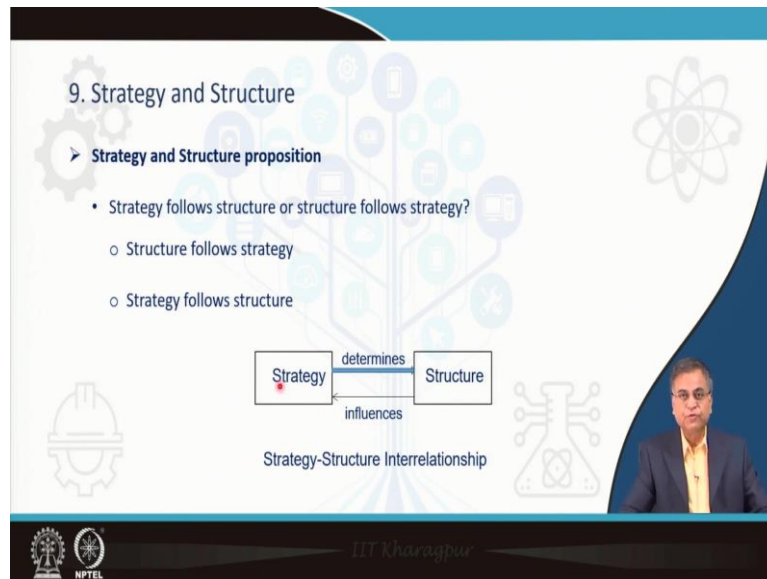
So, this has to be balanced, this is you can see it by determining how much authority to delegate say organizational approach to decision making, it may be centralized decision making, it may be decentralized decision making, as we have seen in our previous discussions, that overall cost leadership require a centralized decision making because you have to control the cost and efficiencies have to be improved. Decentralized decision-making is the differentiation strategy that requires decentralisation. So, here, centralized strategic decisions make a corporate level making at corporate-level that has to be centralized decision making and delegate operational decisions at the managerial level.

So, here decentralized strategic decisions to unit managers and corporate staff provide the support. So, you can see these are now how much to delegate from centralized to the form corporate level to the operational level, it may be different circumstances, different policy, or different strategy that depends on the organization's policies, how much to delegate. Similarly, here, decentralized do you decentralize fully or to a certain extent, this balancing is very, very dependent on many other factors.

So, that depends on the situation, that depends on the environment, that depends on the company's policy, company's resource availability. So, many things are there, so we cannot generalize it that way. So, you need to delegate means you are empowering, empowering those managers, and empowering the employees through certain degrees of motivation comes through in through that. So, these are the degree of authority you want to decentralize, or you wanted to centralize at the corporate level, these are the issues. Then Coordination, you need to, when you are implementing a strategy, the structures and all you need to coordinate, this coordination has to be done, say it may be regular coordination, it may be daily, it may be

weekly, it may be monthly some meetings, maybe monthly meetings, maybe quarterly meetings, maybe half annual meetings, depending on the levels and depending on the importance of the activities.

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So, the structures also are based on these are some of the factors you incorporate when designing a structure. Now, we will be discussing strategy and structure proposition. Now, can you answer whether strategy follows structure or structure follows strategy? You may think it over and tell me the results are conflicting because in some cases strategy structure follows strategy. I will give you examples for both, saying structure follows strategy. Suppose you are following a differentiation strategy in your organization is following. So, there through differentiation strategy through the improvement of product quality or through introducing a new product, you are developing a new product for that you need to establish a R&D department.

This research and development department might have you already have an existing R&D department, you have to strengthen that you have to revamp that or if you do not have you have to create a new R&D department. Now, in the R&D department, suppose the quality control manager reports to the production manager, then what happens, it is a conflict of interest, the thrust of your strategy that R&D is an all-new thrust of your strategy will be lost seen so, what you do?

You make the structure that the quality control manager reports to the higher authority say the CEO or director. So, your strategy for the R&D is that all new product development will

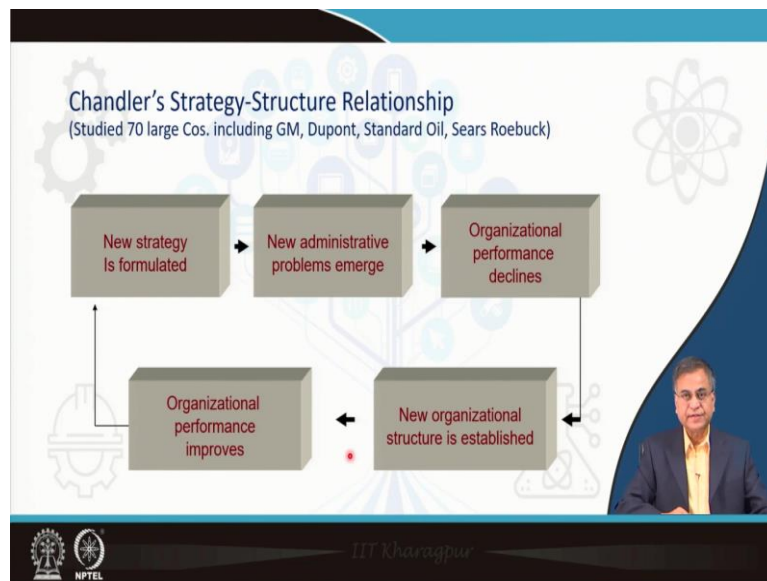
have a better thrust and better effectiveness. Similarly, if the R&D manager reports to the engineering manager, then also your conflict of interest arises and the strategies that will not be that impactful, the thrust is lost. Suppose now, if you make the R&D manager report to say CEO, then it will have some teeth that strategy will be more impactful. So, here you see that with your strategy, and your structure, you are changing the structure of the organization.

So, here structure follows strategy, strategy is determining how the structure of the organizations will be there. Now, you take another case, here strategy follows structure, how? Suppose your organization wants to follow an aggressive pricing policy and aggressive overall cost leadership, they are pursuing an overall cost leadership through aggressive pricing, suppose it is a shoe chain store, it is all over the country shoe chain stores, and the overall cost leadership follows a centralized control, centralized pricing policy.

So, whatever the fixed in at the centre all over the country, the same prices for the shoe, take the case of Bata, it happens like that, in many other industries, you will find that. Now, you find that you wanted to capture the market through aggressive pricing, but, in some local, regional places and there are competitors who are cheaper than you and they are capturing the most of the market share. So, like say Bata's competitors, regional competitors are there, Khadims, Sreeleathers and all. So, here local managers cannot change their strategy.

So, you change the strategy like you delegate the pricing can be done by the regional managers. So, they have the authority to do that. So, here your structure remains the same, but your strategy is changing regarding strategy regarding changing pricing so that you can capture a greater market share. So, here strategy follows structure. So that is why I told it is the results are conflicting, but we can what we can say that strategy here strategy determines structure and structure influences strategy. These generally the strategy structure relationship, these are the strategic structure relationship, wherein we can say strategy determined structure and structure influences strategy.

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Now, we will be moving to the next this was also resonated by Chandler. Chandler in his book, has extensively studied the strategy structure relationships and how it works, he has extensively studied 70 large companies in the US, including General Motors, Dupont, Standard Oil, Sears, Roebuck and all others. Then after studying those, he came up with this model, wherein it says that strategy is that structure follows strategy say what it says new strategy when a new strategy is formulated, then it is associated with new administrative problems, this administrative problem emerges. So, that leads to organizational performance declining, it is going southwards. So, that compels the organizations to bring a new organizational structure.

So, when a new organizational structure is required to reverse the declining performance, then when a new structure comes in organizational performance means improves. So, the new strategy gives feedback to the formulations of that new strategy. So, you can see here that the structure follows the strategy that is mostly you will find it, but the results are not very conclusive, that is the strategy structure relationships.

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9. Strategy and Structure

➤ Organization Structure

Basic form of Structure :

- Simple Structure
- Functional structure
- Product division structure /Strategic business unit structure (SBU)
- Matrix structure

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Next, we will be talking about there is organization structure, what are the basic forms of organizations, we will be talking extensively. Say as you know, there is a simple structure, there is a functional structure, there is a product division structure, which is also called multi divisional structure, which also has different variants like SBU, then it has the holding company these are some product division structures variants, then there is the matrix structure.

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Matching Type of Organizational Structure to Strategy Execution Requirements

Organizational Structure	Strategy Execution Requirements
Simple Structure (Line-and-Staff)	Chosen Strategy
Functional Structure (Departmental or Unitary)	Capabilities and Competencies
Multidivisional Structure (Divisional or M-form)	Centralized or Decentralized Control
Matrix Structure (Composite or Combination)	

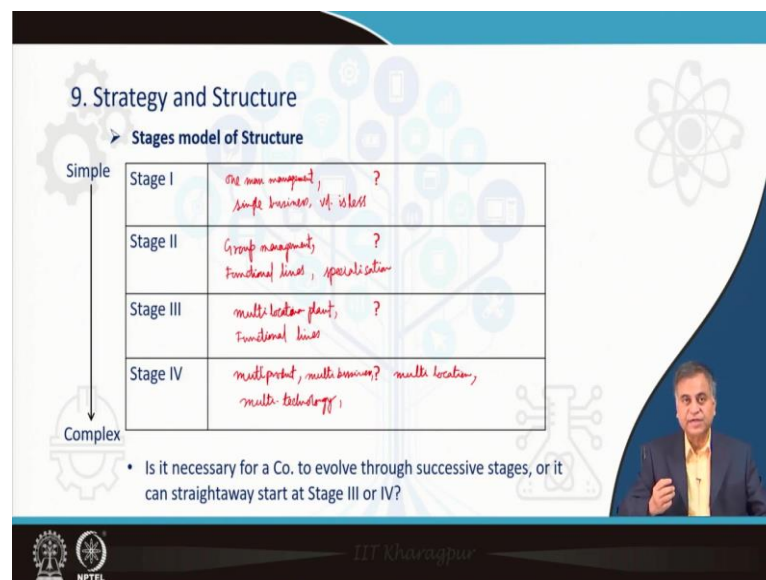
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We will be discussing all these say how that same thing, the matching type of organization structure to strategy execution requirements. Here, the simple structure, what is simple structure? It is a one-man management structure we will be discussing it in full then it is

actually a line-and-stop structure. The functional structure is the specialization division of work as per the specialization which is also called departmental or unitary structure, then there is product division structure that is also called multi-divisional structure or M form organizations.

Then there is the matrix structure which is the hybrid structure it is a combination of 2 structures, and these are the strategic execution requirements for this structure, you will know what to choose according to the chosen strategy, your capabilities and competencies that you have to see, then the power how much to centralize, decentralize that control you see, all these determines that which are the form of organizations you will be choosing all these we will be discussing it in that due course.

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So, next, we will be moving to before we go for all these types of substructures will discuss a very important thing which is the stages model of the structure, what is this stages model of structure? The stages model of structure says that the form of the organization grows with the volume of business and as the business grows, the complexity is also growing for the business, and it gives it a continuum like it starts from the simple business simple form of structure and goes to the evolves through and comes to a complex form of structure. So, how is it done? It goes through stages various stages stage I, stage II, stage III, and stage IV.

So, what is stage I? Stage I is when your business is a very small business, one-line function business, one-line business, single unit, single business those are usually those called say those are called one man management, that man management. So, the owner is your

strategist, the owner is the operations manager he directs he controls so it is everything one man, his visions in the company's vision how it will go, how it will work? So, the structure is very simple structure it is the owner and under him are all the subordinates that are a flat structure, and they are doing the work, and the owner supervises, and the owner directs everything like in the case of startup.

In a startup business, it happens like that it is one man management single business, one man management single business. Volume is less, business volume is less if it is managed by the owner or the entrepreneur. That is the simple form of structure then, as your business grows, your volume of business increases substantially then it is not possible that one man management can supervise and can control it very effectively. So, what do you need, then it evolves the group management, how would that group management from one man management to group management as per the functional needs, what are the specialization?

It is the and the still the business is single line of business, but huge volume. So, it is businesses then you go for specializations like HR, finance, marketing, production, R&D, so, you need all these, these are very specialized work. So, you have to appoint those specialists. So, your management is becoming on functional line. So, stage 2 works on say group management, work on functional lines, works on functional lines. So, here it is compartmentalized according to the specializations as per specialization. Say, case of it can be vertically integrated take the case of usually oil and gas industries and refineries all those are in a functional line they work for you and the line of business is also a single line of business but may have many products, this is called group management stage II, stage II of the evaluation.

Now, if you go what is stage III further? Here stage III you also have the functional, functional group management and it is divided into functional lines. But you have multi locations plants, geographically your plants may be different, but those plants are not dependent on each other they may be independent plants. Suppose the steel plants Steel Authority of India they have many steel plants say Rourkela, it is in Bokaro, it is in Bhilai it is in other places also there. So, those are standalone steel plants. So, those are on functional lines because the steel product line of your business is Steel and products may be different.

Similarly, say the case of Bata similarly, the case of the cement factory fertilizer factory may be different locations and different plants. So, these are called stage III. So, it has multi-locations, it has multi-location plant, but it uses functional divided into functional lines. So

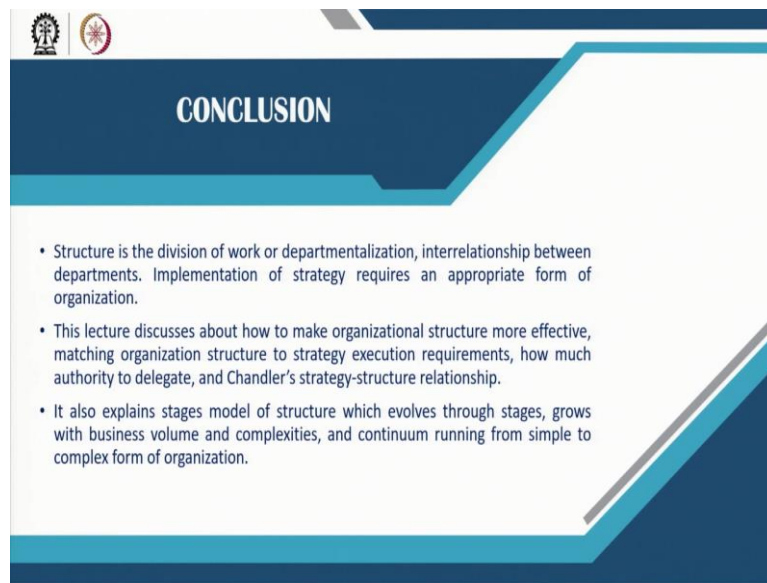
these are called stage III, and stage III of the stages model then see these things coming from stage I and stage II as they are becoming more complex. Now, stage IV is the ultimate it is the more complex thing. Here, you have multi-location, multiple products, multiple businesses, and multiple technologies uses. Say take the case of ITC case of Reliance they have different businesses, these businesses are maybe related, maybe unrelated businesses.

Conglomerate they are in hotel businesses, their ITC is in paper and pulp businesses they are in tobacco, cigarettes, those businesses they are in this FMCG or the food products businesses. So, these are the more complex like it is multiproduct or multi businesses, multi businesses, multi-location, multi-location, multi-technology using multi-technology, multi-technology and maybe there are multiple other things. So, these are more complex. So, as you see stages model of structure says it starts from the business starts from very simple then as the business grows, complexity grows, and a continuum moves from simple to more complex form of businesses.

Now, to this is the question you may ponder and answer, is it necessary for a company to evolve through successive stages or can straightaway start at stage III or stage IV? This question can be answered this way say generally it follows that it goes from simple to more complex, but if a company, a large company say a large company ITC or the reliance and all they have resources they can straightaway start at stage II or stage III, they do not have to start from the beginning take the case of Reliance Jio it did not start with stage I, it started with stage III, or it may be above that. So, it can straightaway start from there. Because if you have the brand name, if you have the financial power, if you have the resources to sell you can straightaway jump to or start from that higher stage.

So, and also it may happen for small companies and all the startups and all generally start from stage I, but there are nowadays unicorns and all those startups are there they may also start with the higher stages. So, this is the stages model of structure hope you have understood.

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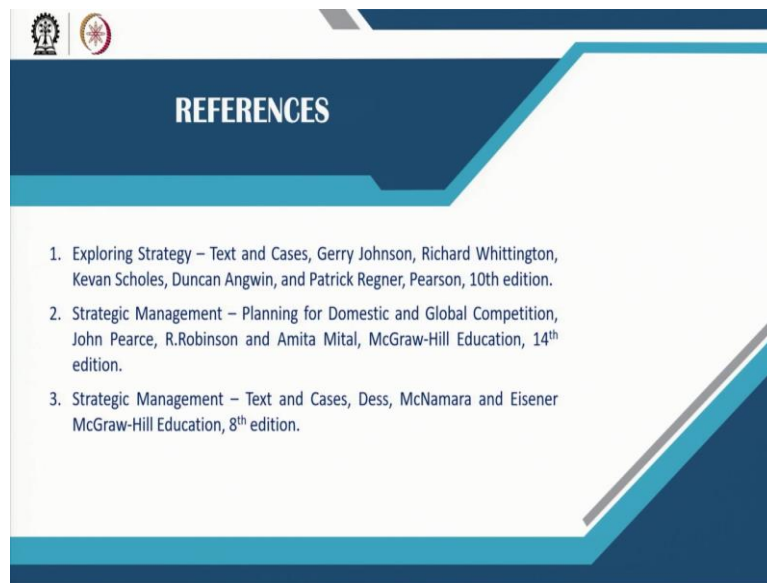


CONCLUSION

- Structure is the division of work or departmentalization, interrelationship between departments. Implementation of strategy requires an appropriate form of organization.
- This lecture discusses about how to make organizational structure more effective, matching organization structure to strategy execution requirements, how much authority to delegate, and Chandler's strategy-structure relationship.
- It also explains stages model of structure which evolves through stages, grows with business volume and complexities, and continuum running from simple to complex form of organization.

Now, to summarize today's discussions what we have talked about that we have talked about the structure is the division of work or departmentalization. It is the relationship between departments, and we also talked about the implementation of strategy requires an appropriate form of organization. So, then, further, this lecture discusses how to make the organizational structure more effective and match the organization structure to strategy execution requirements. Moreover, we have also discussed how much authority to delegate, and we have also illustrated Chandler's strategy structure relationship, and we have also explained the stages model of the structure, which evolves through stages and grows with business volume and complexities and a continuum running from simple to complex form of organizations.

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These are some of the references you can go through, and you can enrich yourself further on strategy and structure. Thank you very much for attending.