

Strategic Management for Competitive Advantage
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Lecture 31
Forms of Organization

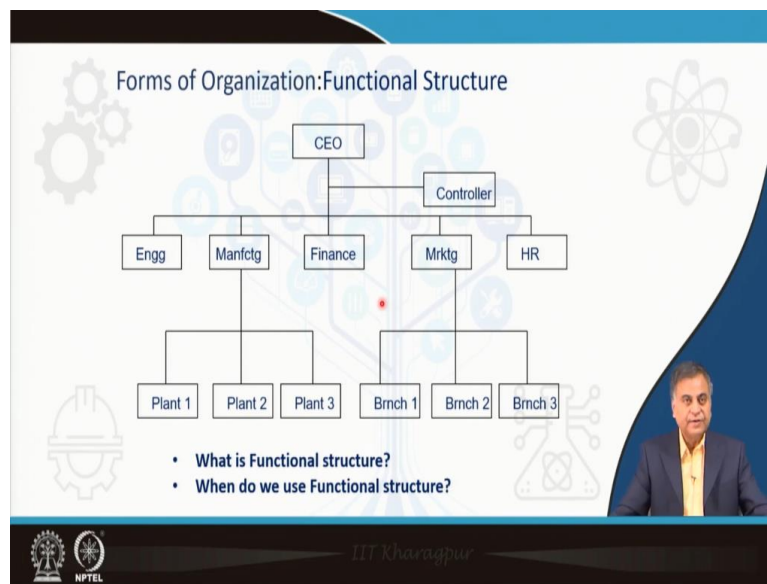
Welcome to the course Strategic Management for Competitive Advantage. Today we will be continuing that Strategy and Structure. In the next lectures, we will be covering the Forms of Organizations.

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The concepts that will be covered today are forms of organization that is, in other words, called organization structure and we will also discuss structuring multinational corporations. So, these two aspects we will be discussing in detail.

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So, we talked about simple structure. You all know what a simple structure is. Then we talked about that functional structure. So, now, we will be discussing what the functional structure is and what its characteristics are and when we use functional structure. The functional structure looks like this. If you see, these are for a single line of business. It is appropriate for a single line of business.

As I told (say) steel manufacturing, oil and gas industries and many other industries, you will find, and these are (say) divided into the functional specializations of the organization. (say), organizations may have an engineering department, manufacturing department or group, a finance group, a marketing group, HR group, SCM, supply chain management group, there may be that R & D group, risk management group. So, these all are divided into their specialized work.

So, (say) a hospital, take the case of a hospital. In a hospital, it works on functional lines because the hospital has different specialized departments like there is cardiology, neurology, ENT, and gynaecology, then there may be that many other ophthalmology. so many, many departments and there all follow a functional structure, similarly, for a university or an engineering college. They have many departments. These departments are grouped under specialization (say), for an engineering college it may be mechanical engineering, electrical engineering, computer science, or chemical engineering. It may be civil engineering, IT, IT technologies and all. So, these are the specializations of the subject areas. So, these are the functional lines.

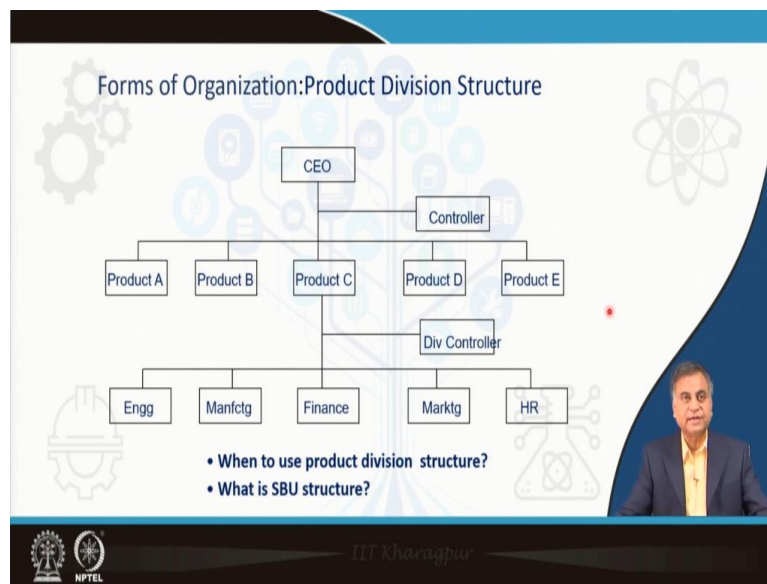
So, in industry, suppose, in manufacturing that may have manufacturing, that may have plant 1, plant 2, plant 3. Similarly, marketing three-four branches. So, these are called the functional form of organization. And when do we use the functional form of organizations?

When generally, your environment is steady, and your product ranges are narrow. There is no need for going for innovations or product development which require the participation of many groups and all. So, there, this functional structure works well in a steady environment and but the functional structure fully utilizes your specialization area, those who are in engineering and all (say) different functional areas can use their expertise to the fullest. So, utilization of their functional areas will be better.

But here, what happens, you know, the problem arises these functional groups are working in silos, and they value their group's objectives, the group's target is more important to them rather than the whole picture. (say) the organization's objective, the organization's targets, those become, they are less involved in that. They are more involved in their group's work.

And as a result, what happens? This silo thinking and all, there is always a conflict between different groups, you know, if you are in the industry, you will find it that there are always a conflict and all going on among different groups and all, that dynamics is always politicking and dynamics of organizational dynamics goes on. So, these are the functional structure.

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The next is the form of product division structure. As I told product division structure is also called multi-divisional structure or M form of structure. When do we use it? We use it when the organizations have multiple products (say) product A, product B, product C, product D, or different products.

These different products may be required different techniques that may require; in this, products may be in the multi-locations, multi locations. So, there, this product division structure or multi-divisional structure works well. Suppose that take the case of one company.

The company (say) Electronics Company (say), produces (say) LED TV, it also produces tablets, it also produces (say) smartphones. So, these are it also produces air conditioners. So, these are different products, and these require different technology and these products need not be in the same place. It is mostly in different locations. So, these are the form of product division structure. Then, when to use this product division structure?

As I told you and where the multi-locations, multi-product, multi-technology, there it works well. Suppose, and also the suitability of product division structure is when your environment is dynamic you have to change your product, product development has to be there. So, you need faster decision making, you need the cooperation of different groups so that new product development will require your, (say) marketing, then R & D, engineering, then your finance, then many other groups.

So, the cohesiveness should be more. So, there you use the product division structure. In the product division structure, if you see, different products have their own functional, they work in, each product division has their own functional structure. Because, so, within the product divisions you are having the functional structure. So, this is called the multi-divisional or product division structure.

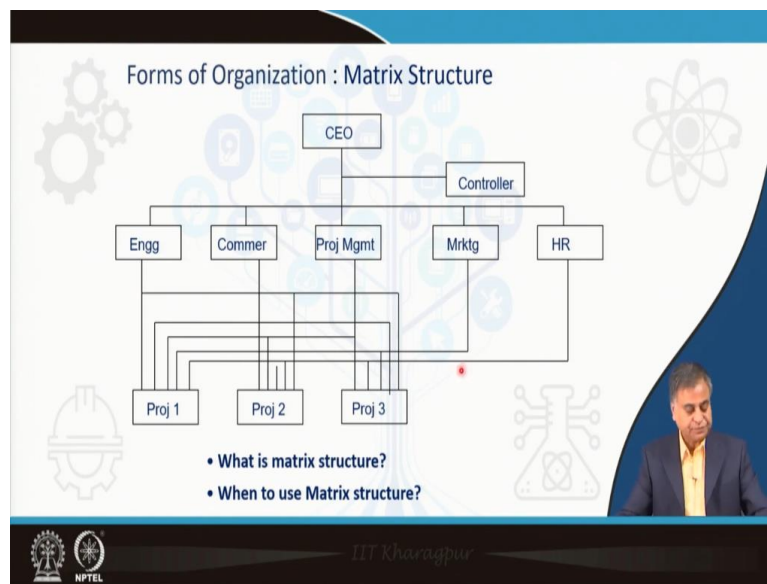
Now, another thing is called SBU structure, 'strategic business units. When do we use this? It is a variant of the product division structure. Product divisions have different variants, one variant is SBU. When do you use the SBU structure? SBU structure is when suppose your number of products are more and it is not possible for the CEO to look after, (say), it may, you may have 30-40 products like general electrics and all, they have the huge number of products and all, and it is not that possible for a CEO to look after the 30-40 products very effectively.

So, you insert a layer in between. (say) suppose you insert a layer of vice president. So, one vice president may look after five to six or four to six products and this way the span of control of the CEO decreases. So, now, five, six products are under (say), vice president and this grouping, how should it be a five-six product? It may be on a different basis.

Suppose it may be based on the product group types if you are a similar type of product, you can group it that way. Or if it uses the same, similar type of technology on the base of technology, you can group it, or you can group it geographically, if the plants are geographically in one region, you can put it that under one vice precedent. So, you can do it.

Basically, you are decreasing the span of control because, as you know, for the management principles, the span of control should not be too large then it will be difficult to control. So, this is called the SBU structure. Then thereafter we will go for another structure. This is the product division structure.

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Then another is the matrix structure. What is the matrix structure? Matrix structure is a hybrid structure. You know, it is the combination of product division structure and functional structure. What is this? Like here, you can see the product division structure is overlaid on the functional structure, and it has become a matrix structure, it creates what you know as multiple lines of authority.

And it has at least a dual reporting or maybe more than two bosses may have. So, you see here, these are the functional groups and all. Now, suppose a project you have a project. You will find these matrix structures mostly in EPC companies, consultants, and consultancies, and they use them. And many other R&D-oriented high-level things they do with projects with this matrix structure. (say) here, EPC companies or you wanted to develop a new product. So, what happens? There is project 1, project 2, and project 3. Now, project 1 will be manned by whom? These different functional groups will allocate certain people for project 1. So, it is coming project 1, your project is, you must appoint a project manager.

So, each project has a project manager, and these people are allocated. You know, resource people are personal and are allocated to project 1. So, these people who are allocated here, this project team, have (say) dual or more authority reporting. (say) they report to the project manager as well as their parent group. They are coming from the parent group. So, the reporting is there. So, it compromises between the line functions and the functional specializations.

You know, it compromises with that. And there may be much conflict because when you are doing multiple reporting or dual reporting, if the bosses do not go along and all, there is always a conflict, and this may become very stressful. But the beauty of matrix structure is matrix structure evolved out of necessity.

In any organization number of projects if are more than your resources, suppose you are a projectized for the EPC company then you have more projects, but you cannot have as many numbers of people for each project. So, what happens? You share the resources and pull the resources.

So, one engineering personnel may be allocated to two or three projects. So, he or she may be one day here, another day here, another day another project, so that way you optimize your resource requirement. That is the out of necessity it has come. So, when do you follow the matrix structure?

It is followed when your environment is very dynamic and changing is very fast, your requirement for interacting with different departments is very frequent, and you must take, communicate with them very quickly and take decisions quickly and suppose product development has to be done very quickly. So, there you require this matrix structure.

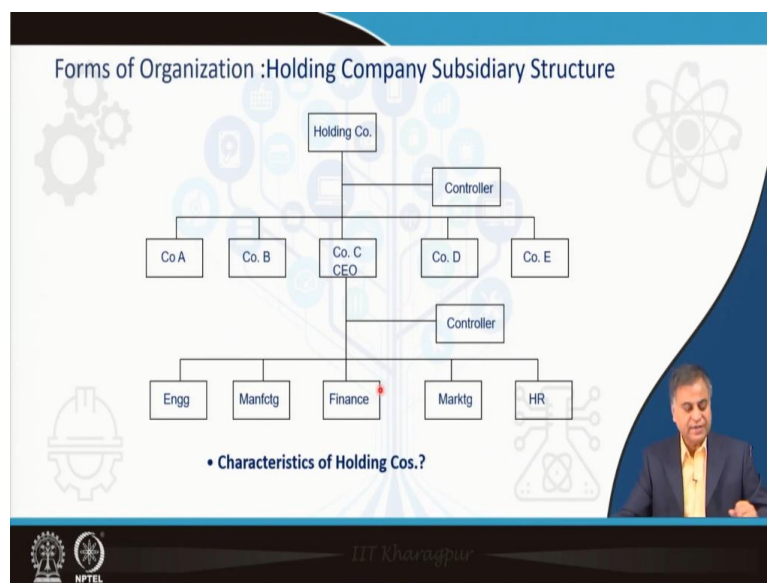
If you see the EPC companies, they follow this matrix structure. And, the consultants, management consultants and all when they get a project, these are projects, they pull the resources as per the requirement of the projects, pull the specialist. Suppose, if it is an IT project, IT people will come then domain knowledge is required.

So, that may come from within them, the consultants, the different groups and all it comes, and they do that project work, and after the project is over, they go back to their parent groups. So, it also is easier to relocate the people who were posted here. This is called matrix structure. It is a hybrid structure, and it has some requirements as I informed you in the last few minutes.

So, these are the three main structures, and the matrix structures also have differences in the degree of the power of the project manager, depending on that you may have a weak matrix, you may have a balanced matrix, and you may have a heavyweight matrix. A weak matrix is more of a functional structure that the functional group managers are dominating and the project managers' role is only coordinating or making the schedule.

There are balanced metrics is where the joint decisions are taken from the functional manager as well as the project manager. And project manager steers the project and functional managers support him and give the job what is required from that group. Then the heavyweight matrix is more of a projectized one. Their function is that the project manager dominates and he gets the, and the functional managers work more like a contractor, whatever is assigned to him or her, they deliver. So, these are the matrix structure.

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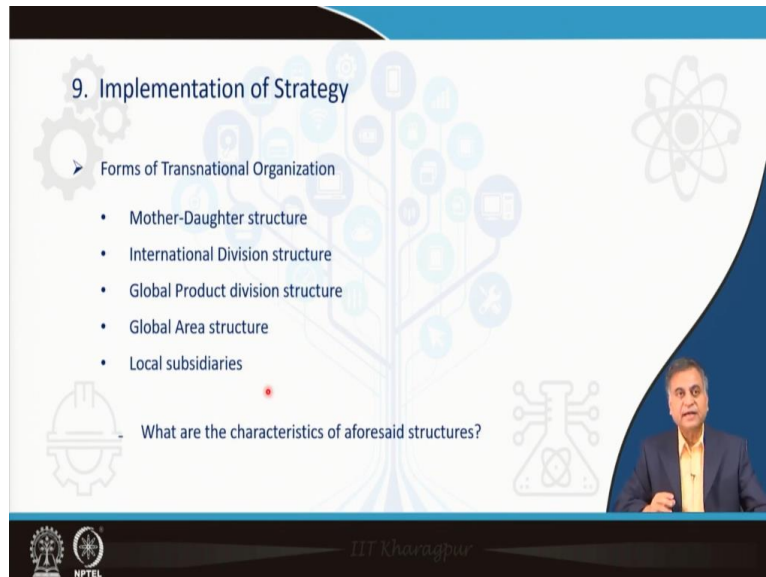
Then another form is the holding company subsidiary structure. This is a holding company. So, this is the, (say), a holding company has more than one subsidiary company, (say), company A, company B, company C, all are the subsidiary companies. And like (say) TATA Sons.

TATA Sons is a holding company. It has many subsidiaries, (say), TCS is one, then your TITAN, your many, the TATA Chemicals, TATA, these, there are hundreds of companies. So, these are the holding company—similarly, Alphabet. Alphabets are a holding company, and under it, it has many companies, like Google is one of the subsidiaries or the holding company.

Here, the subsidiary companies enjoy full autonomy as far as the operations are concerned. The holding company do not interfere with this company's activities. This company has their own board of directors, and the holding company is the controlling share that the holding company enjoys around, (say) 51 per cent to 100 per cent control.

It can be anywhere in between, or it can be a wholly subsidiary company in 100 per cent control. Then each subsidiary company may have may work on different functional areas and all. These are called the, this is nothing but one of the variants of (say) those product divisions.

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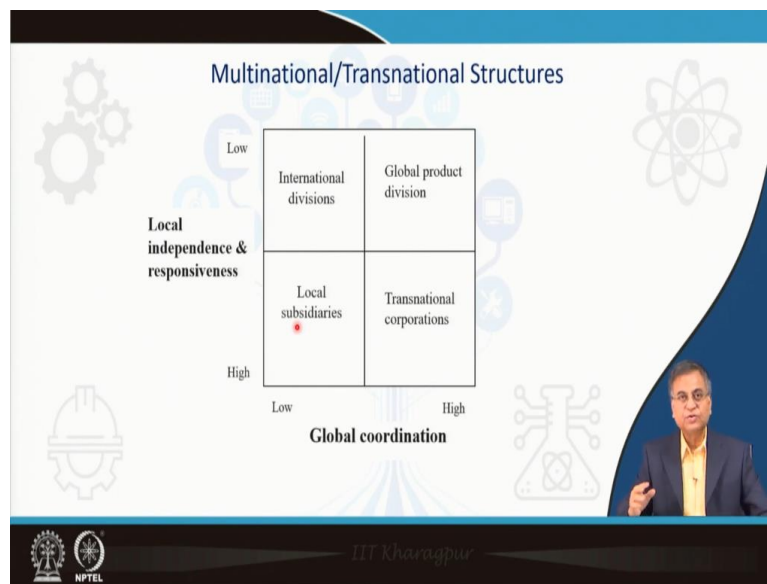
The slide is titled "9. Implementation of Strategy". It features a background graphic of a tree with various icons (gears, a person, a lightbulb, etc.) as leaves. On the right side, there is a portrait of a man in a suit. The slide content includes:

- 9. Implementation of Strategy
 - Forms of Transnational Organization
 - Mother-Daughter structure
 - International Division structure
 - Global Product division structure
 - Global Area structure
 - Local subsidiaries
 - What are the characteristics of aforesaid structures?

At the bottom left, there are logos for IIT Kharagpur and NPTEL. At the bottom center, the text "IIT Kharagpur" is displayed.

Now, we will be talking about some transnational organizations. What are the forms of transnational organizations? We will be discussing some. (say), we will be discussing mother-daughter structure, international division structure, global product division structure, global area structure, local subsidiaries and what are their characteristics. So, these are transnational organizations.

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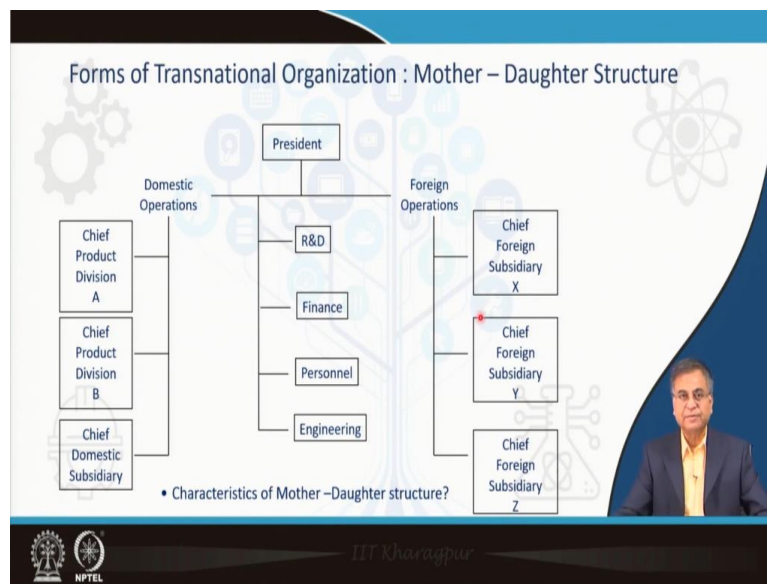


Multinational, transnational structure, if you see it, it follows like this. The need for global coordination may be low, but it may be high. Similarly, local independence and responsiveness may be low or high. Here, it is high, here, it is low. Now, under these four two-by-two matrices, four quadrants.

These will require a different type of structure (say) when your local coordination required is very high and local independence, and responsiveness is high, then it is a transnational corporation. When your global coordination is low and local independence and responsiveness are also low, it will be international, then you go for an international division.

We will talk about what is international divisions and all in the next slide. Then when your global coordinations are high and local independence is low, then you go for a global product division. And when it is global coordination is low and local independence is very high, then you go for local subsidiaries, like fully owned subsidiaries that we have talked about in the international strategies, fully owned subsidiaries.

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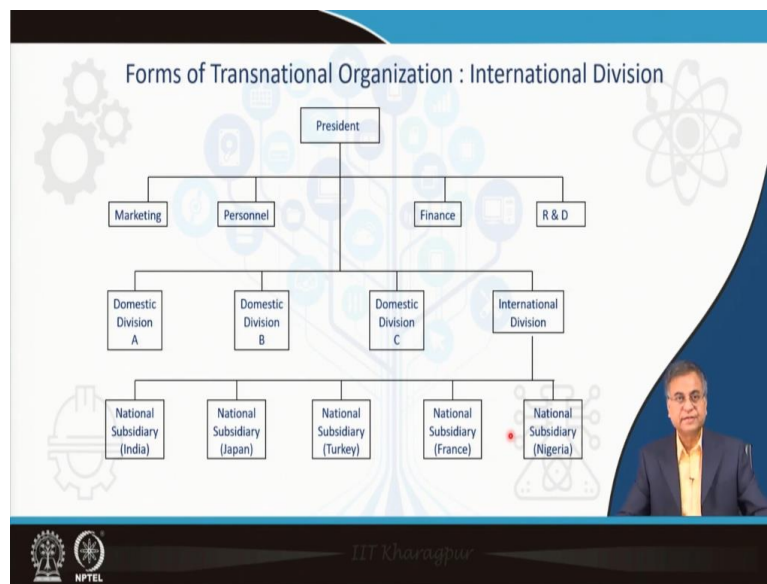
So, we will be discussing these forms of transnational organization. We talked about the mother-daughter structure. Here, what happens? Family-run businesses and all you will mainly find that. Suppose you are in domestic operations. Generally, those private companies and all you will find are in domestic operations.

You have chief product division A, product division B, product division subsidiaries, and all these things you may be having. Now, suppose you wanted to open foreign operations. In foreign operations here that there may be foreign subsidiaries (say) x, y, z, and different subsidiaries.

Here actually, these foreign subsidiaries are manned by the close relatives of the owner or the owner of the company and these subsidiaries are mostly stopped by the family members. So, this is because when you go for abroad international work and all, there is much work you must do for which you need confident that you have to do many those types of work.

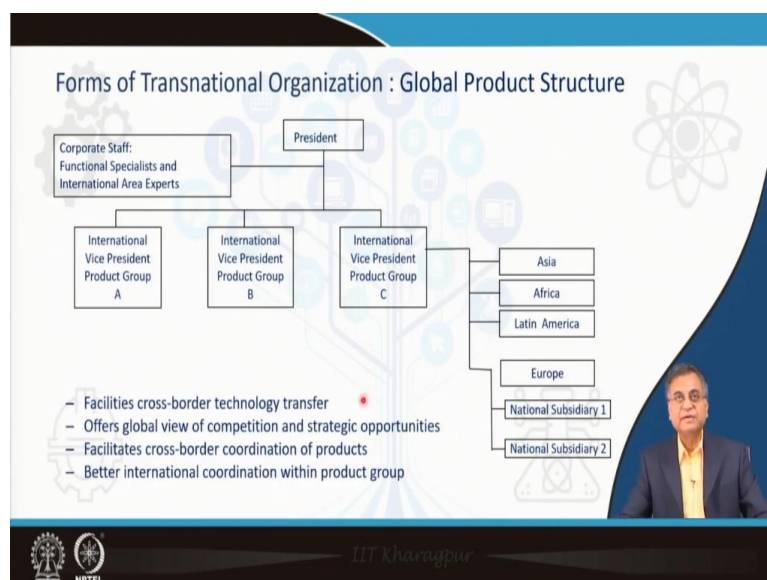
So, these are staffed with family members or close relatives. So, here, the problem is as your business grows and all the limits surface, that capability of that person and all it surfaces that then you need to provide a professional. So, these are called the mother-daughter structure.

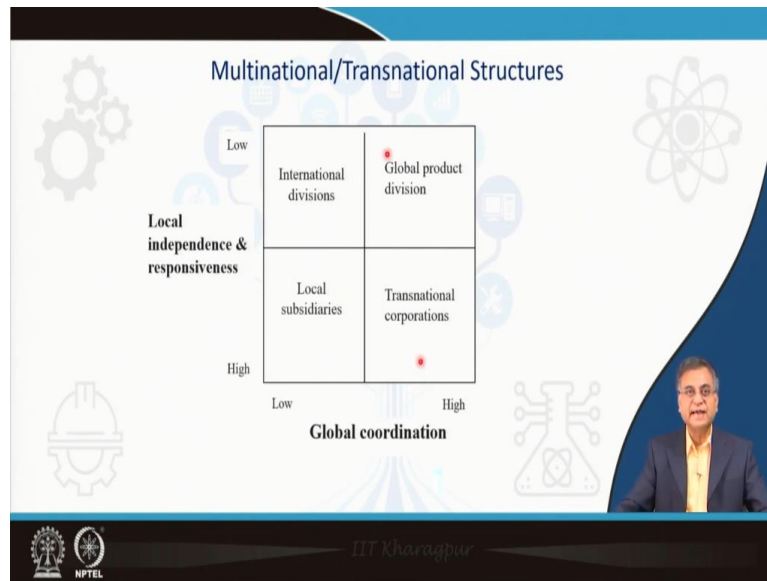
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Then as I said, this is that international division. Suppose you are very, you have your domestic divisions, domestic operations, (say) domestic division A, domestic division B, C. So, after that you wanted to open an international division. So, that you want to expand. So, you open international divisions and you have a different national subsidiary under that. So, you open an international division. And you have seen that the high global these things but the low response and interdependence are required in this.

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Then you can have another form of the global product structure. We have, and it looks like this. Under (say) the CEO or president there is the international vice president of product group A, product group B, and product group C, different product wise it is divided, like (say), Samsung. Samsung may have the products for (say) your smartphone. It may have the product for LED TV, it may have the product for tablet, it may have the product for (say) air conditioning. So, different product-wise global, but it is controlled globally. They have that global thing.

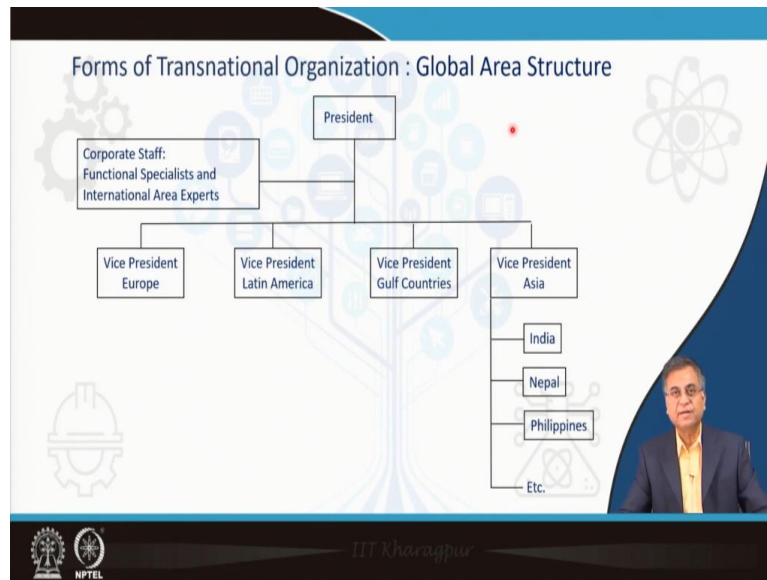
Now, you have seen this. Here, global coordination is high, but local independence and responsiveness are low and international division fall in here. So, (say) Proctor and Gamble. They follow what? This global product structure also. Anyway, they change their policies, change their structures also with time also, which is also dynamic.

So, here (say), the international vice president of product group C may have that Asia, Africa, Latin America, and Europe they can be divided like this. These are global. What are the advantages of these? It facilitates cross-border technology transfer and also offers a global view of competing and strategic opportunities.

That cross-border technology transfer we have talked about in international strategy. You have seen that in an international strategy that profit sanctuary, from there, how they share the resources for different countries and it also that like facilitates cross border coordination of products, we have seen it in the international strategy.

Suppose, in one country, your cost exchange rate fluctuations go unfavourable, or your energy cost and labour wages increase, so, you coordinate, you ship the productions to another country where the labour wages and all are low, and the conditions are favourable. So, cross border products. Then better international coordination with the product group. So, these are the global product structure.

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Similarly, what you can do that you can have a global area structure also. In global area structure, you can have, it can be again divided in, this is basically for segmented geographically, and under that, you can always have on functional lines, on product lines, on national lines. So, you can have many combinations here.

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International Operations

Advantages

- Absorb excess capacity
- Reduce unit cost
- Spread risk over wider markets
- Low-cost production facilities

Disadvantages

- Difficulties in communication
- Underestimate foreign competition
- Cultural barriers to effective management
- Complications arising from currency differences

The slide features a blue and white color scheme with a decorative blue wave on the right side. A small video inset in the bottom right corner shows a man in a suit and glasses speaking.

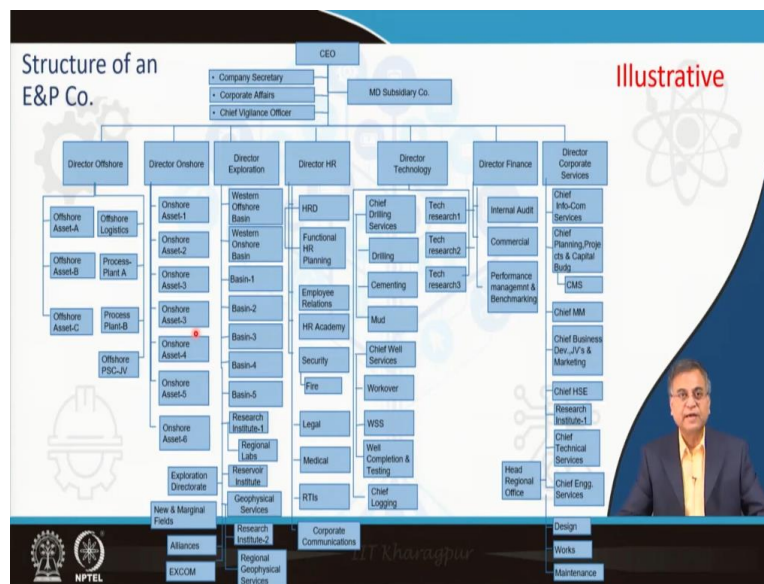
So, now, I will just tell you what the advantage of this international operation having these international divisions and all. With this, you can absorb your excess capacity. Suppose you have an international division, and your excess capacity is in one country or your domestic country, you can send the products there you can absorb that, and it is a better utilization of your capacity, and also it reduces unit cost then it spreads the risk over wider markets.

So, when you are operating in a different country, in different markets your risks are spread. So, suppose somewhere it is stagnation in some country, in other country, it may be booming. So, you are spreading your risk and similarly for exchange rate fluctuations, you are getting it even then also it gives you low-cost production facilities.

The disadvantages are that these foreign operations are difficult to communicate and different countries have different languages. Suppose. now, a Chinese, if you want to have the Chinese language communication is very different, so is the difficult bit. Then understanding foreign competitions, when we go from outside, we think competitions are like this, but when you land up there in the real life you will find that whatever you have assumed or you presumed those are not right. So, you always underestimate the foreign competition.

Then there are cultural barriers to effective management. Cultures and all we will discuss more in future, but these cultural barriers are potential obstacles and complications arising from the currency differences. These are some of the disadvantages of international operations.

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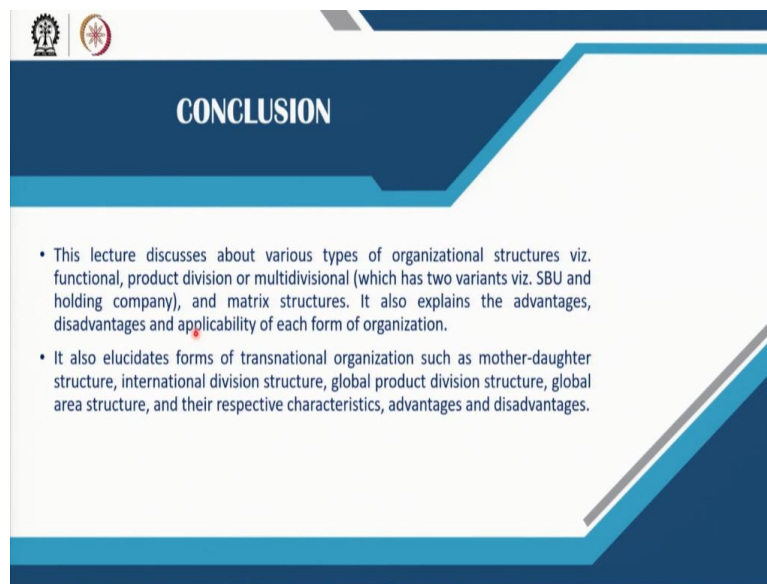
Now, this is an illustrative, real-life company's organisational structure. It is one oil company. E & P company, Exploration and Productions of Oil Company. If you just go through it, can you answer what type of structure it is and whether it is a simple structure or complex structure? You just go through it, and you can answer it yourself. So, that will be a good thing whether you have captured it or not.

This is actually a very simple structure. And it is a functional structure. See here, these are the functions. Chief is the director of offshore, director onshore, director of exploration, director of HR, director of technology, director of finance, and director of corporate services, these are on the functional lines.

Under that, these are the different units and different groups, they are looking at it. And it may be in a different country also. So, this is a simple structure, functional structure. So, you can see functional structure, even if it is we (say) the single business and all when your business volumes increase, and it can be very complicated also.

There are some good companies which also follow functional structure. Because your design should be as per your requirement. The requirements are, I have discussed all those things before that when I talked about functional structure, product division structure, and matrix structure that way we have done that.

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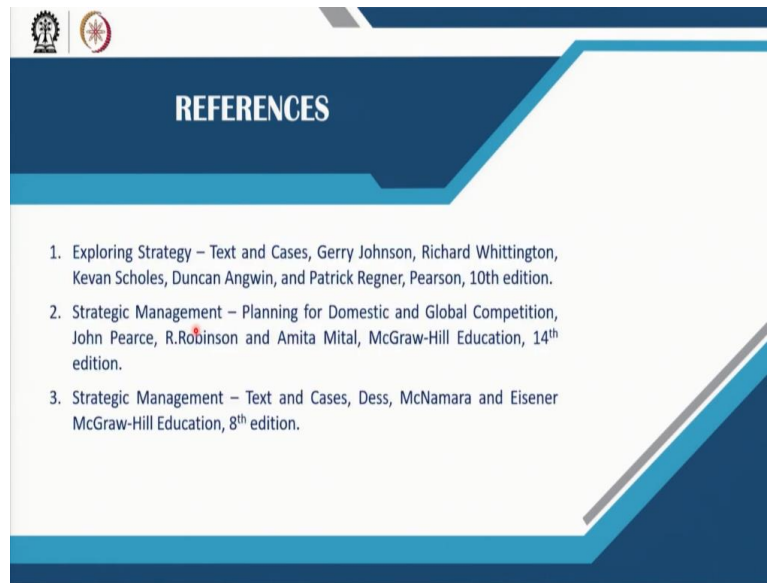
CONCLUSION

- This lecture discusses about various types of organizational structures viz. functional, product division or multidivisional (which has two variants viz. SBU and holding company), and matrix structures. It also explains the advantages, disadvantages and applicability of each form of organization.
- It also elucidates forms of transnational organization such as mother-daughter structure, international division structure, global product division structure, global area structure, and their respective characteristics, advantages and disadvantages.

Now, to summarize this lecture, what have we learnt? We can (say) in this lecture we have discussed various types of organizational structures like functional structure, product divisions or multi-divisional structure which has two variants like namely SBU and holding company.

We have also talked about matrix structure. It also explains the advantage, disadvantages and applicability of each form of organizations. Then we also elucidated the form of transnational organizations such as mother-daughter structure, international division structure, global product division structure, and global area structure and their respective characteristics, advantages, and disadvantages.

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So, these are some of the references. You should go through it. These will enrich you further. Now, thank you very much for attending.