Organizational Design Change and Transformation
Prof. Sangeeta Sahney
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Module - 04
Lecture - 17
Organizational Design and Strategy in a changing Global environment

[FL]. We will be continuing with our discussion on Organizational Design and Strategy in a Changing Global environment.

(Refer Slide Time: 00:30)

This is module 4, lecture 2. In the previous session, we have spoken about strategic direction and organization design and we began our discussion on frameworks for selecting strategy and design.

(Refer Slide Time: 00:49)

Today, we shall continue with the frameworks for selecting strategy and design and once we finish that, we will move on to designing, we will move on to discussing how organizations are designed for international environments. So, in the previous lecture, we spoke about you know Michael Porter's strategies and how he how he proposed you know that organizations work you know operate you know in and are under threat with you know with five forces and how he and he proposed three strategies.

But you know like cost leadership, differentiation and focus which could be used to deal with the four five forces in the environment. He we also discussed the framework in the previous session where we mentioned about how based on competitive advantage and competitive scope, you know the four different styles you know are prevalent.

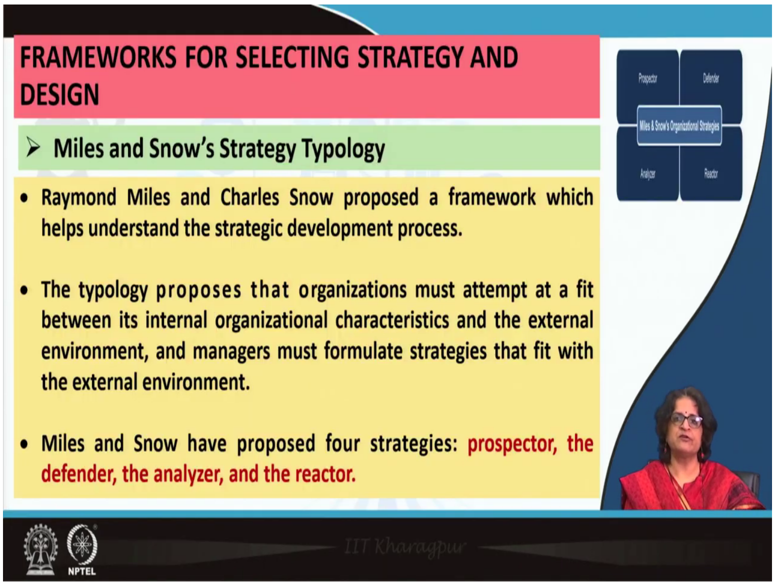
And you know organizations could either choose from the you know the low cost leadership or differentiation or focused low cost leadership and focus differentiation. And this is wherein we had ended our discussion where we said that based on the competitive advantage and competitive scope, a companies could actually use any one of these strategies.

If it was a low cost competitive advantage strategy and the competitive scope was broad, organizations could opt for the low cost leadership, if the competitive advantage was unique and the competitive scope was broad, organizations could follow the differentiation strategy.

If the competitive advantage was if the competitive advantage was on low cost and the competitive scope was a narrow, organizations would opt for focused low cost leadership and if the competitive advantage was unique and the competitive scope was narrow, organizations would opt for focused differentiation.

So, based on the competitive advantage which could either be you know low cost or uniqueness or the competitive scope which could be broad or narrow we have these four options to choose from this is where we had stopped yesterday and we said that managers examined the competitive advantage and the competitive scope and they finally, decide on which of the strategies they could opt for.

(Refer Slide Time: 03:32)



Now, moving further we will now you know have discussed what Miles and Snow had to say. Miles and Snow's strategy typology is again a very you know very well researched and well adopted strategy where Raymond Miles and Charles Snow they proposed a framework which you know which helps understand the strategic development process.

And this typology proposes that organizations must attempt at a fit between the internal organizational characteristics and the external environment and this is what we have been spoke thinking of in the past few weeks that managers must formulate strategies that fit with the external environment.

So, based on that Miles and Snow say that they propose four strategies which is the prospector, the defender, the analyzer and the reactor. So, let us discuss each of these now.

(Refer Slide Time: 04:30)

The first is the prospector. Now, according to Miles and Snow the this is a strategy this the prospector strategy is one which emphasizes upon innovation and you know it will it focuses on looking for newer opportunities taking risks and its a growth oriented strategy. And it emphasizes upon searching for newer markets and newer growth opportunities and trying to take advantage of such opportunities.

So, the strategy is highly suitable for dynamic growing environments and creativity is regarded as an is more is regarded to be more important than efficiency. So, when we speak companies like Facebook and Google and Apple, we are actually you know we actually you know these companies are the ones which are which operate in such dynamic growing environments and there is huge amount of creativity which is regarded to be more important than efficiency.

And so, the strategy followed by these organizations is hugely you know less huge focus on innovation they look for new opportunities, they look for new markets and they take risks. And so, the go so, what they follow is a prospector strategy. The second strategy proposed by Miles and Snow is defender.

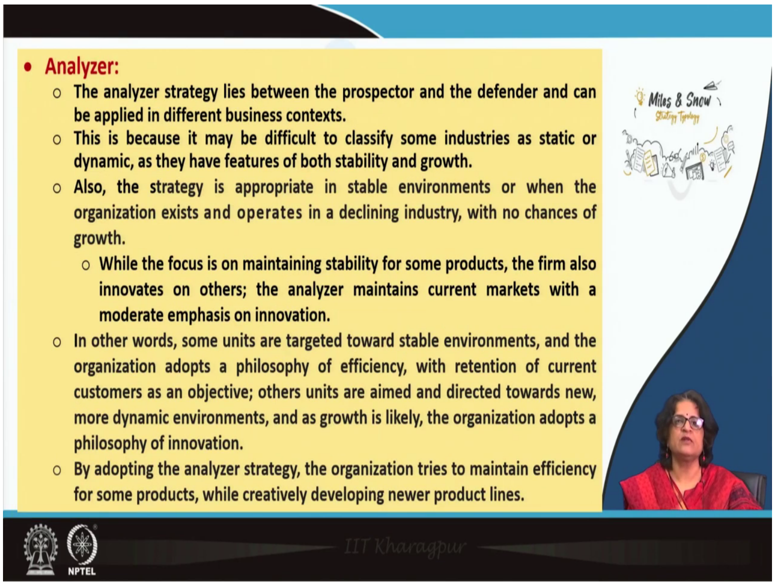
Now, this defender strategy is nearly opposite to the prospector strategy it basically emphasizes upon stability, it does not believe in you know seeking out new opportunities or taking risks or looking for growth. The major objective is customer retention and you know the defender as the name goes wants to safeguard its current markets, he wants to defend its current markets.

So, the focus is on internal efficiency by making use of existing resources and technologies in an efficient manner and the production of high quality products and services for existing customers. So, that is what the focus is on and the strategy is actually suitable for organizations which operate in stable environments or with organizations who are operating in a declining industry with no chances of growth.

So, we have organizations like for example, Starbucks and that is the reason organizations like Starbucks are now entering into other business which are you know contemplating investing into other businesses as well because till now they have been very you know focused on following only a defender strategy.

But now of course, you know the things are changing with them as well. But nonetheless the defender strategy is appropriate in stable environments and when organizations are actually in the you know in a declining industry with no future for growth. So, the focus is on stability, the focus is on customer retention.

(Refer Slide Time: 07:27)



The third strategy going to Miles and Snow is the analyzer strategies. Analyzer strategy is somewhere between the prospector and the defender and it can be applied in a different business context. This is because it may be difficult to classify some industries as static or dynamic as they may have a features of both a stability and growth. So, you know it may because it may be difficult to actually categorize them as static or a dynamic.

You know primarily because they have characteristics of both of features of both you know we have this analyzer strategy which lies both you know between the defender and the analyzer. And it can be applied in different business context, context which are stable or context which are unstable.

So, also the strategies appropriate in stable environments or when the organization exists in an operating in a when organizations operate in a declining industry with no chances of growth. So, the while the focus is on maintaining stability for some products, the firm also innovates on others and the so, you know. So, the analyzer maintains current markets with a moderate emphasis on innovation.

In other words, some of the units are targeted towards stable environments and the organization adopts the you know adopts efficiency as a motive with retention of customer object with retention of customers as the objective. Other units are aimed or directed towards more dynamic environments, new dynamic new environments and you know growth and as growth is likely the organization adopts a philosophy of innovation.

So, this particular strategy as we said lies between the prospector and the defender and it can be applied in different contexts because as we said some its difficult sometimes to categorize you know industries as static or as dynamic and as the also you know in cases where you know stable there are stable environments or organizations exist and operate in a declining industry with no chances of growth this can be appropriate.

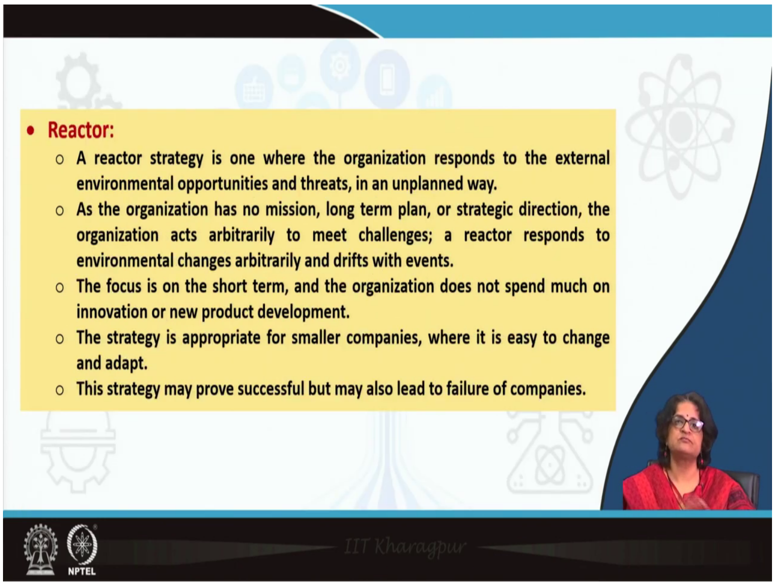
So, the focus is on maintaining stability for some products and innovating on others you know and it the you know the analyzer maintains the current markets with more moderate with a moderate emphasis on innovation. So, while some units are targeted towards stable environments.

The organization also adopts you know well some are you are some units are target towards stable environments the and the organization adopts a philosophy of efficiency and with retention customer retention is the major objective other units are directed towards newer growth, newer opportunities you know more dynamic environment.

And because they are operating in very dynamic environments and they are looking for growth and so, the organization adopts a philosophy of innovation. So, by adopting the analyzer strategy the company tries to maintain efficiency for some products and while creating and develop and developing newer product lines as well.

So, they are both efficient as well as creative they try to maintain efficiency for some products and creatively develop other products.

(Refer Slide Time: 10:53)

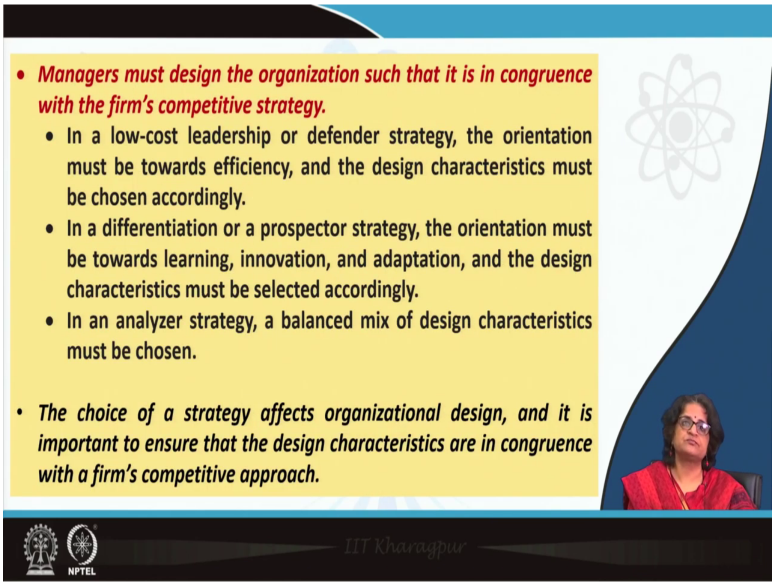


The fourth strategy is the reactor strategy and it is one where the organization reacts to the external environment opportunities and threats in an unplanned way. So, as the organization has no mission no long term plan no strategic direction it acts arbitrary to the very to meet the various challenges of the environment and it responds to the environmental change very arbitrarily and it drifts with events.

So, the focus is on a short term and the organization does not spend much on new product development or on innovation and this strategy is actually appropriate for small companies where it if where it is easy to change and adapt and it may prove and it may prove successful, but may also lead to failure of organization.

So, that is something which organizations have to keep in mind that this is approach of a short term you know and this approach of not spending much on new product development and innovation may maybe ok may be good may prove successful, but may, but it may also lead to failure of the; failure of the organizations.

(Refer Slide Time: 12:03)



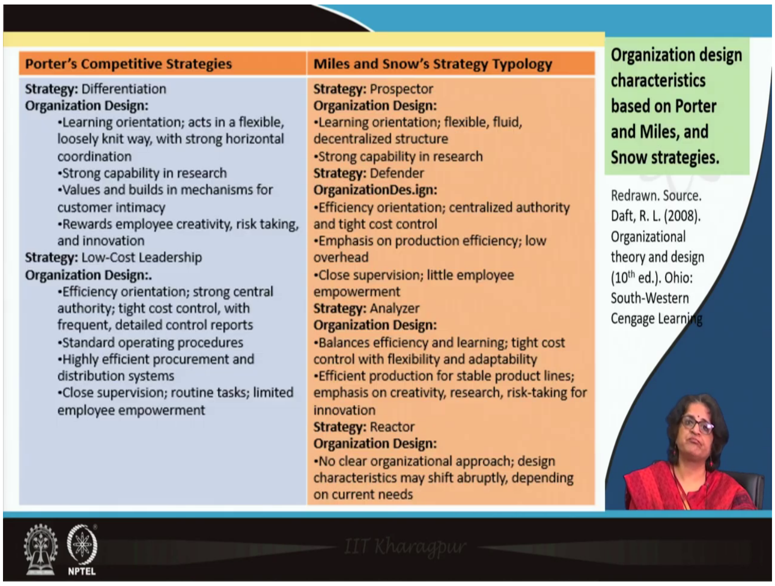
So, managers must design the organization. So, such that it is in congruence with the competitive strategy in a low cost leadership or a defender strategy the orientation must be towards efficiency and the design characteristics must be chosen accordingly. In a differentiation or a prospector strategy the orientation must be towards learning innovation and adaptation and the design characteristics must be selected accordingly.

And in an analyzer strategy a balanced mix of design characteristics needs to be chosen. So, the choice of the strategy it actually effects the organizational design and it is important that managers ensure that design characteristics are in congruence with the competitive approach of the organization.

So, if we try to see portal strategy and if you also try to see miles and source typology, we will be able to conclude that in a low cost leadership or in a defender strategy orientation must be towards efficiency in a differentiation or a prospector strategy.

The orientation has to be towards learning innovation, flexibility, adaptation and in an analyzer strategy, a balanced mix of design elements is needed and because we believe that the choice of the strategy effects organizational design its very important to ensure that the design characteristics are in congruence with the competitive approach that the organization adopts.

(Refer Slide Time: 13:29)



So, here you have the porters competitive strategies and you have Miles and Snows strategy typology ok where we see that organization design characteristics effect you know effect in the overall performance and should relate to the strategies.

So, these are organizational design characteristics based on Porter and Miles and snows strategies you have Porter's competitive strategy as differentiation where the organization design must be a learning orientation in a acting you know the organization must be flexible.

Loosely knit with strong horizontal coordination there is to be a strong capability in research the organization should believe in values you know and build in mechanisms for customer intimacy it should reward employee creativity risk taking and innovation should be encouraged.

But when the strategies the low cost leadership the organization design would be more of efficiency orientation strong central authority tight cost controls standardized operating procedures highly efficient procurement systems and distribution systems and close supervision limited employee empowerment and you know the organization would be into routine tasks.

On the if we try to you know see it see it this strategies and organizational design from what Miles and Snows type Miles and Snows said then we say that in the case of a prospector strategy the organization design has to be a learning orientation flexible fluid decentralized structure strong capability in research when it is a defender strategy.

The organizational design must be an efficiency orientation centralized authority and tight cost controls with emphasis on production efficiency low cost overhead close supervision and little employee empowerment and when the it is a when it is a analyzer strategy the organizational design must balance efficiency and learning tight cost control with flexibility and adaptability efficient production for stable product lines emphasis on creativity research risk taking and innovation.

And when the strategy is a reactor strategy the organizational design would be no clear organizational approach design characteristics must shift abruptly depending on the needs and wants of the environment needs depending upon the changing needs and depending upon what is currently required as per the environment. So, this is how you we can relate the different strategies to the organizational design.

(Refer Slide Time: 16:14)

Now, we come to how do organizations you know design themselves for international environments today the number of business organizations going global has is increasing day by day we see how technological advancements and how internet has blurred the national boundaries.

We have we operate in a highly competitive landscape and businesses today are no longer restricted to the domestic borders as businesses decide to cross the domestic borders, they face both opportunities and threats. The challenges faced are very different in nature and scope and dealing with such changes of the of international.

You know lands sorry of foreign lands and dealing with you know such change changes which are very distinct to changes to challenges faced in the domestic market requires a very different strategy and approach. So, the challenges faced in foreign markets challenge faced in foreign countries are very very different in scope as compared to the domestic land or the domestic market.

aAnd so, dealing with such changes also requires a difference in strategy and approach. So, to gain advantages from opportunities that exist in foreign markets or in foreign lands organization, design requires a rethinking and managers must design the organization for international environments that is very important. So, we will now go into a discussion of that.

(Refer Slide Time: 17:53)

Now, the first thing that organizations have to you know question themselves or address to themselves is why should they go global you know why is. So, we will have a discussion on that the why do organizations go global.

Now, there are large number of factors you know in you know which actually act as compelling drivers to organizations to go global social economic technological changes and competition all of these act as compelling forces daft has identified three primary motivators for organizations to expand globally economies of scale economies of scope and low cost production factors.

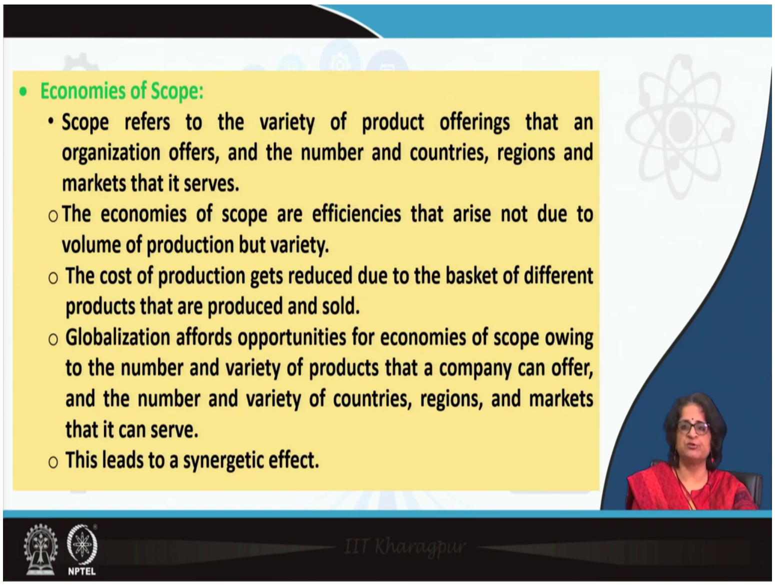
(Refer Slide Time: 18:30)

So, economies of scale we have been discussing this in previous lectures as well that you know through large scale production companies are able to lower their cost per unit of production and today globalization offers huge demand and to exploit this opportunity companies must expand their operations to achieve economies of scale.

Now, economies of scale may lead to effective utilization of resources and you know whether their resources are manpower or machine and ultimately lead to higher efficiency it could also lead to volume discounts from the vendors from the suppliers thus lowering the overall cost of production.

So, operations confined to the domestic market may not always provide to the organization the advantage of economies of scale due to either lesser demand or due to stable demand or due to over saturation, but international markets may offer this opportunity and this acts as a big driver to organizations to go global.

(Refer Slide Time: 19:28)



The second is economies of scope. Now, scope refers to the variety of product offerings that the organization offers and the number and countries and the number of countries regions and markets that it serves. So, you know we have spoken about economies of scope as well in our previous lecture.

And these are efficiencies that arise not due to the volume, but due to the variety. So, you know the cost of product production gets reduced due to the due to the basket of different products that are so, produced and sold and due to the markets that different that different markets that are served.

So, the economies of scope are the efficiencies which arise because of the variety of the products that are offered because of the; because of the markets that different markets that the organization serves. So, both the different products as well as different market that it serves, gives to the organization economies of scope.

And globalization affords, opportunities for economies of scope owing to the number and variety of products that the company can offer and the number of countries, nations, you know regions and markets that it can serve. So, this actually leads to a very synergetic effect.

(Refer Slide Time: 20:48)

The third is low cost production factors. Organizations are driven towards global expansion to obtain low cost raw materials, labour, you know capital, cheap energy and other resources. So, such resources may also be unavailable or may be scarce in their own country and so, you know and.

So, that is the reason while organizations decide to move across their borders and they try they want to operate globally to be able to lower down their cost of production either because of you know the opportunity to gain cheaper resources or to gain scarce resources and so forth. So, these are different reasons why organizations can go global.

(Refer Slide Time: 21:34)

Now, we come to the stages of international evolution. So, companies have a variety of options to choose from when they decide to enter foreign markets and they shift from domestic from the shift from domestic to global happens across different stages of development and we have these different stages as domestic, international, multinational and global.

So, I will move to a table where I will explain the stages to you and of course, once I am done after you know then I will go back the slides and I will just show the slides to you as well.

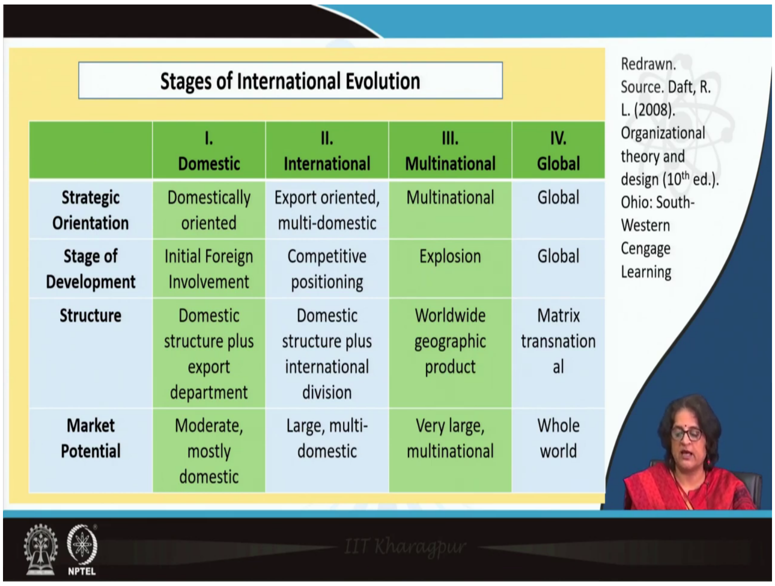
(Refer Slide Time: 22:11)

(Refer Slide Time: 22:11)

(Refer Slide Time: 22:12)

(Refer Slide Time: 22:12)

(Refer Slide Time: 22:13)



	I. Domestic	II. International	III. Multinational	IV. Global
Strategic Orientation	Domestically oriented	Export oriented, multi-domestic	Multinational	Global
Stage of Development	Initial Foreign Involvement	Competitive positioning	Explosion	Global
Structure	Domestic structure plus export department	Domestic structure plus international division	Worldwide geographic product	Matrix transnation al
Market Potential	Moderate, mostly domestic	Large, multi-domestic	Very large, multinational	Whole world

So, we have this table here where in the case of a domestic in the case of a domestic stage, the strategic orientation is domestically oriented, the stage of development is initial for an involvement, the structure is domestic structure, plus export department which means that the organization is it is primarily domestic and if at all it exports it is that is through an export department and the market potential is moderate mostly domestic.

In the IInd stage you know which is international stage, the strategic orientation is export oriented and multi domestic, the you know we the stage of development is competitive positioning, the structure is domestic plus international division and the market potential is large multi domestic.

In the IIIrd stage which is the multinational stage, the strategic orientation is multinational stage of development is explosion, structure is worldwide geographic product and the market potential is very large multinational and in the IVth stage the which is global, the strategic orientation is global, the stage of development is global, the structure is matrix transnational and the market potential is the whole world.

So, I will explain each of these stages to you now. In the first stage the organization practices a domestic orientation, the top management is aware of the global environment and the opportunities that the global market offers, the foreign very an initial foreign involvement is a preferred mode and the organizational structure is oriented to domestic needs.

Mostly functional and divisional and the responsibility or functional or divisional and the responsibility of external non domestic sales is only restricted with to the export department, it lies with export department, market potential is limited and is mostly domestic that is your home country.

In the second stage which is the international stage the organization which has been exporting in stage I begins to develop a multi domestic orientation as each country has a distinct competitive environment. And the organization treats each of these countries individually and international competitive positioning is adopted, the organization develops its own international division and there are specialists who handle sales after sales and logistics.

And the several countries are identified as potential markets and the orientation is towards multi domestic and so the market potential is large and is multi domestic. In the IIIrd stage you have the multinational stage, multinational approach. So, the organization has earned huge experience in several countries in the second stage which is in the international stage.

So, the organization has heard actually earned huge experience in several countries in several international markets and it has also created facilities pertaining to manufacturing and operations or R and D and sales and marketing in several countries. A large proportion of revenues are earned from the non domestic markets, growth is explosive and as the international operations are extensive with business units across the world and with a force of suppliers, you know manufacturers and distributors.

So, you have a huge you know if you have a large number of employees and you know you have a huge force of suppliers, manufacturers and distributors and market potential is very large and multinational. And in the IVth stage the organization operates globally and the whole world is a market there is huge amount of interlinkage between units in different countries and competitive positioning one country affects it affect activities in the other.

And we have examples like Nestle and Unilever and market potential is the whole world. So, the organization structure is complex and is an international matrix or a transnational model. So, these are the four different stages I will go to the previous slides one by one and with for us quick you know quickly show them to you this is stage I, stage II I am sorry stage III and stage IV.

(Refer Slide Time: 26:48)

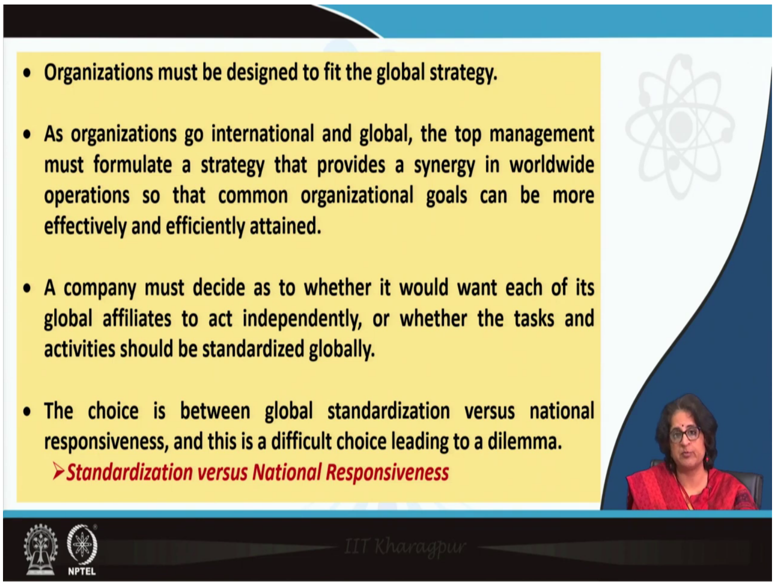
Now, we come to international strategic alliances in the previous session if you remember we spoke about strategic alliances as a part of you know inter organizational linkages. And we spoke about how strategic alliances help in competitive and in managing competitive and symbiotic interdependencies.

So, companies can expand globally through international strategic alliances and you know these could be in the form of licensing or joint ventures and consortia we spoke about the keiretsu in Japan similarly we have the chaebol in Korea. So, what we are trying to say is that you know just as you have strategic alliances.

You know which companies enter into to manage their the symbiotic and their competitive interdependencies you know in the domestic front similarly you could also have these alliances at the global front and companies can expand globally through international strategic alliances which could be in the form of licensing joint ventures and consortia. And what is a consortia?

Consortia is you know a group of independent companies, including vendors and suppliers, customers and even competitors grouping to share their resources and their costs and gain access to each other's markets. So, independent companies including vendors and suppliers customers and even competitors grouping together to share both resources and costs and gain access to each other’s markets constitute a consortia.

(Refer Slide Time: 28:31)



So, organizations must be designed to fit the global strategy as organizations go international as they go global top management must formulate a strategy that provides the synergy in worldwide operations.

So, that you know the goals can be more effectively and efficiently attained you know a company must decide as to whether it would want each of its global affiliates to act independently or whether it would want you know whether it would you know whether it would want or desire that the you know with that the tasks and activities should be standardized globally.

So, a company must decide as to whether it would want each of its global affiliates to act independently or whether the tasks and activities should be standardized globally and the choice is between global standardization versus national responsiveness and this is a difficult choice often leading to a dilemma. So, the choice is between you know global standardization versus national responsiveness a standardization versus responsiveness.

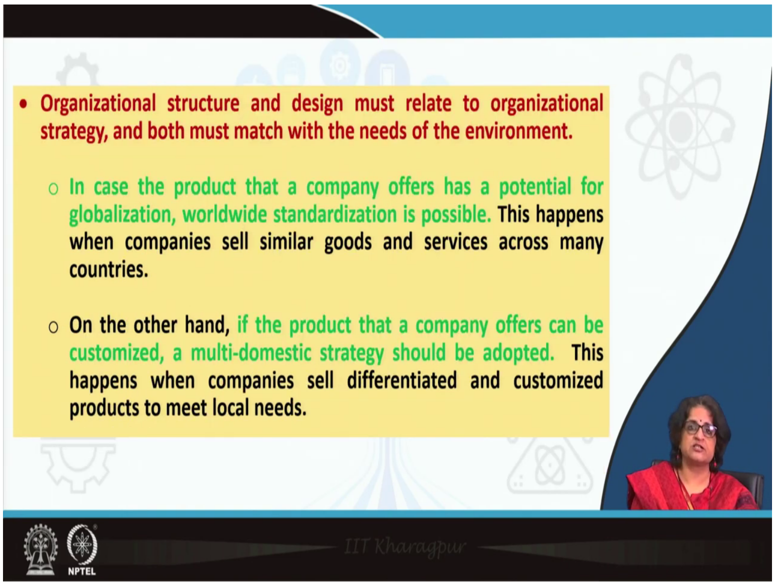
(Refer Slide Time: 29:33)

Now, this choice here between globalization versus a multi domestic global strategy can be discussed further a globalization strategy is one where activities are standardized the design manufacture and marketing are you know functions are standardized across the world and this helps organizations reap the benefits of economies of scale.

But when we talk of a multi domestic strategy each global affiliate acts autonomously you know such a strategy provides to people with a local feel as the goods and services are customized to local needs and interests the design, manufacture and marketing functions are customized to specific needs and interests of the people of the country competition in each of the countries you know of how is handled independently.

So, organizations must choose between this high poling a standardized you know approach you know or you know global standardization or they must they choose with a you know national responsiveness approach which is a multi domestic strategy. So, choices between standardization versus national responsiveness or between globalization strategy versus a multi domestic strategy.

(Refer Slide Time: 30:46)



So, organizational structure and design must relate to the strategy and must match and both must match with the environmental needs in case the product that the company offers has a potential for globalization you know worldwide standardization is possible.

So, this will happen when companies sell similar products across many countries on the other hand if the product that the company offers can be customized you know a multi-domestic strategy should be adopted this will happen when companies sell differentiated products and customized products to meet the local needs of the people in the various countries.

(Refer Slide Time: 31:23)

So, there can be various scenarios the forces for global integration are low and forces for national responsiveness are low I repeat forces for global integration are low and forces for national responsiveness are also low. So, the strategy that the company must follow is exporting and the structure must be domestic you know must be domestic structure with an international division for exports.

When the forces for global integration are high and the forces for national responsiveness are low. I repeat forces for global integration are high forces for national responsiveness are low the strategy that the company must follow is globalization and the structure must be a global product structure.

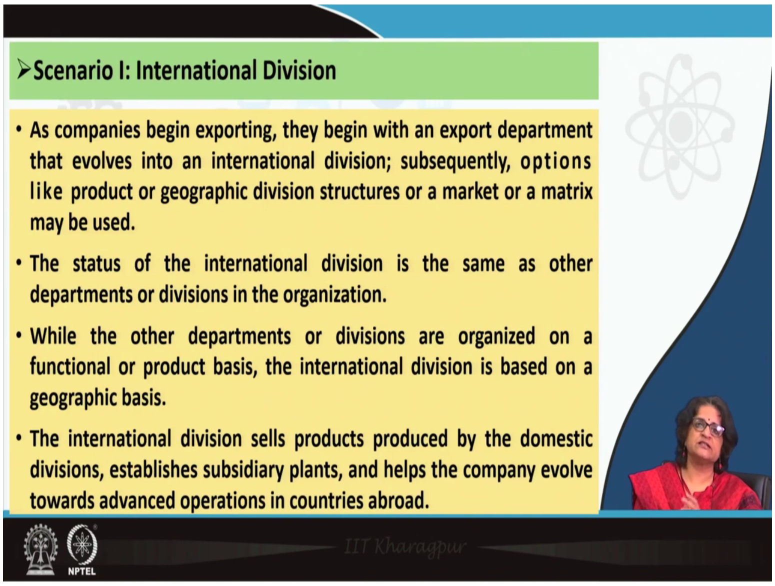
(Refer Slide Time: 32:06)

In the 3rd case forces for global integration are low and forces for national responsiveness are high forces for global integration are low and forces for national responsiveness are high the strategy that the company must follow is multi-domestic and the structure must be a global geographic structure.

And the fourth scenario is when forces for global integration are high and the forces for national responsiveness are also high global integration are high and national responsiveness are also high. The strategy that the company must follow is globalization and multi domestic and the structure must be a global matrix structure.

So, if the companies want to take advantage of both global and local opportunities simultaneously a global matrix is a suitable one to adopt and companies need to standardize globally some parts of the product line and customize some.

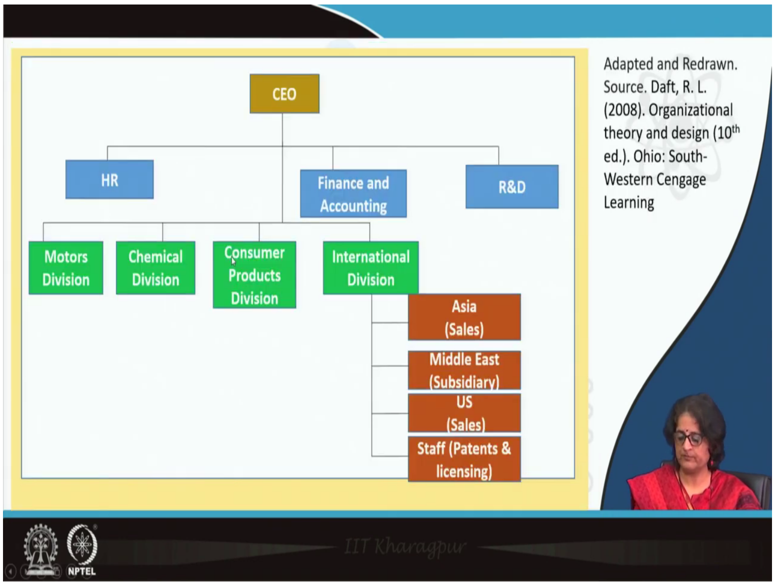
(Refer Slide Time: 32:56)



So, in the scenario I international division where the company is begin exporting they begin with an export department which gradually evolves into international division. So, you know initially we start with export with an export department gradually you know options would be product or geographic division structures or a market or a matrix structure.

And then is the you know the status of the international division is the same as the other departments and divisions in the organization I can show we can see this here in this figure ok.

(Refer Slide Time: 33:31)

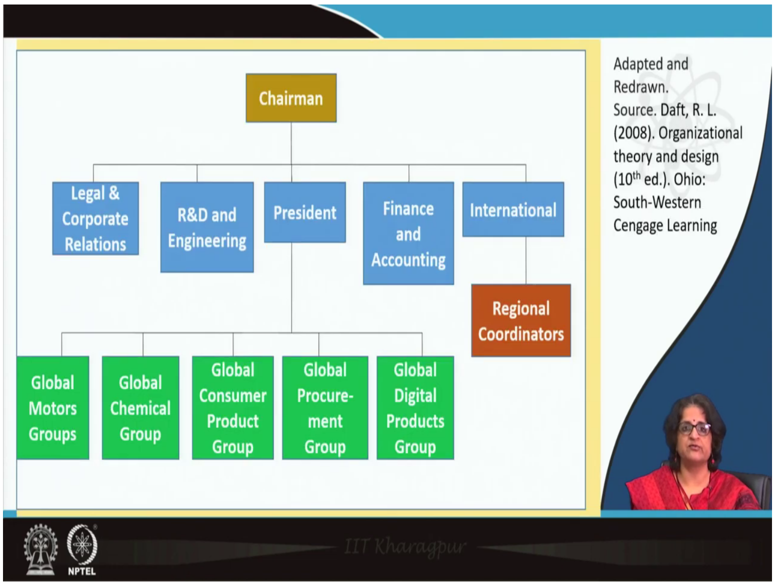


So, here we see that while the other departments or divisions are organized on a functional or product basis the international division is based on a geographic basis. And the international division sells some products produced by the domestic division establishes a subsidiary plants and helps the company evolve towards advanced operations in countries abroad ok.

(Refer Slide Time: 34:00)

In the IInd scenario global product division structure the global operations in a particular area are taken care of by the product divisions very commonly used structure as the firm or the company can manage several businesses and products globally if you see here ok.

(Refer Slide Time: 34:13)



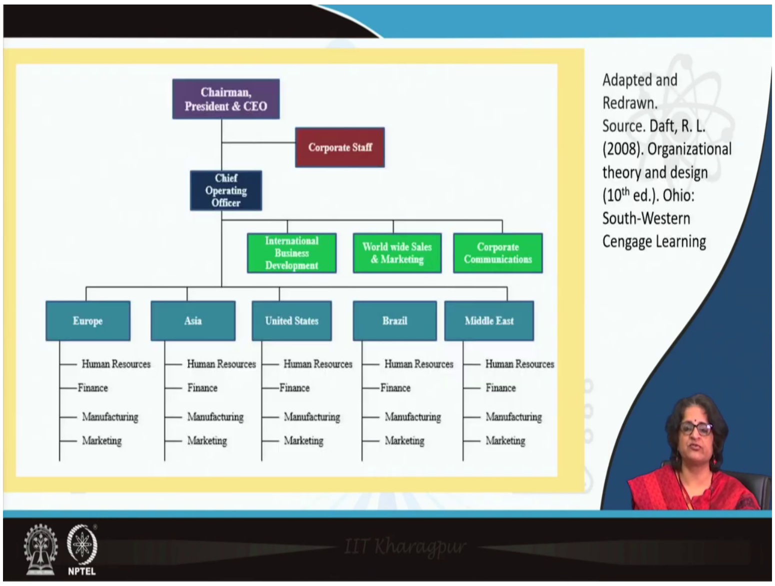
Product managers can emphasize upon organizing for international operations by assessing the opportunities and threats from the product divisions perspective and examining competitive pressures and responding appropriately and promptly to them. So, the responsibility for managing the production and distribution of products for any market across the world lies with the division manager.

And the structure is appropriate when the company you know has the opportunity for manufacturing and sale of standard products across markets leading to leading to standardization leading to economies of scale. So, the structure helps on competitive you know advantages for the organization through a global strategy or through a global integration.

(Refer Slide Time: 35:03)

The IIIrd scenario is a global geographic division structure which is appropriate for organizations which desire adaptation to meet the needs of the local market or the regional market and they desire to follow a multi domestic strategy.

(Refer Slide Time: 35:20)



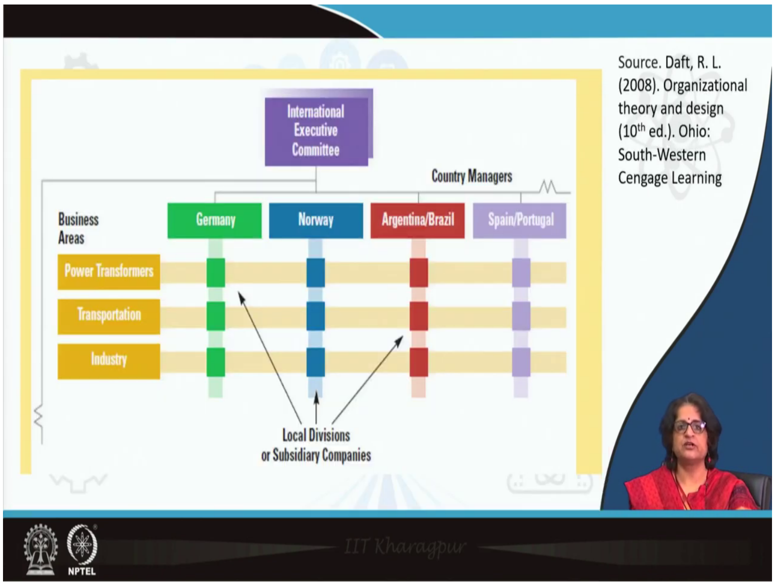
So, the world here is partitioned into geographic regions each of which reports to the CEO and such organizations have very mature product lines and they function with you know with stable technologies. So, each division manager you know controls the functional activities like lie within geographic area.

So, the structure helps organizations seek advantages through national responsiveness and through a multi domestic strategy.

(Refer Slide Time: 35:52)

And finally, we have the matrix structure. So, while some global matrix structure. So, while some companies use a global product division structure others use a global geographic division structure and some combine the two to form the matrix and the matrix structure as we discussed in the pre last week as well helps achieve coordination both vertically and horizontally simultaneously along the two dimensions.

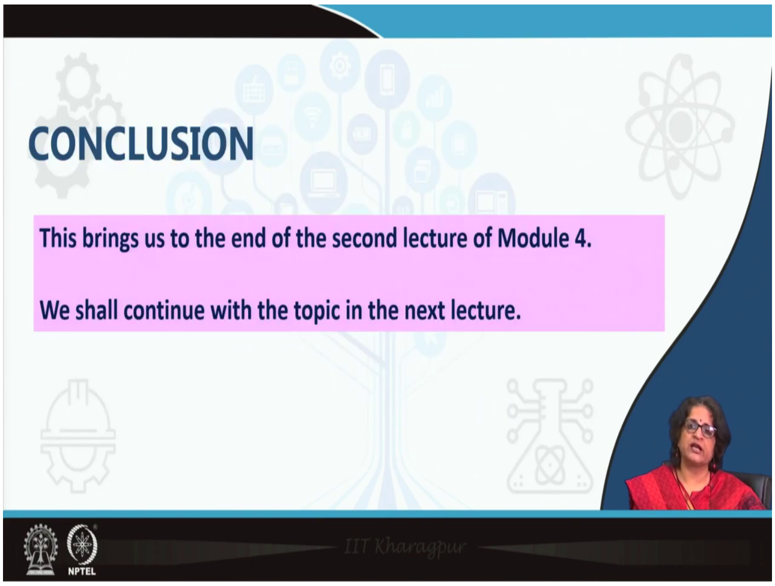
(Refer Slide Time: 36:20)



So, you can have this here you can see this in the figure ok where you can see that a matrix structure its you know you have product standardization as well as geographic localization a very attractive and feasible structure and resource sharing and coordination is important. And many companies that operate globally apply a global hybrid or a mixed structure where two different structures are used.

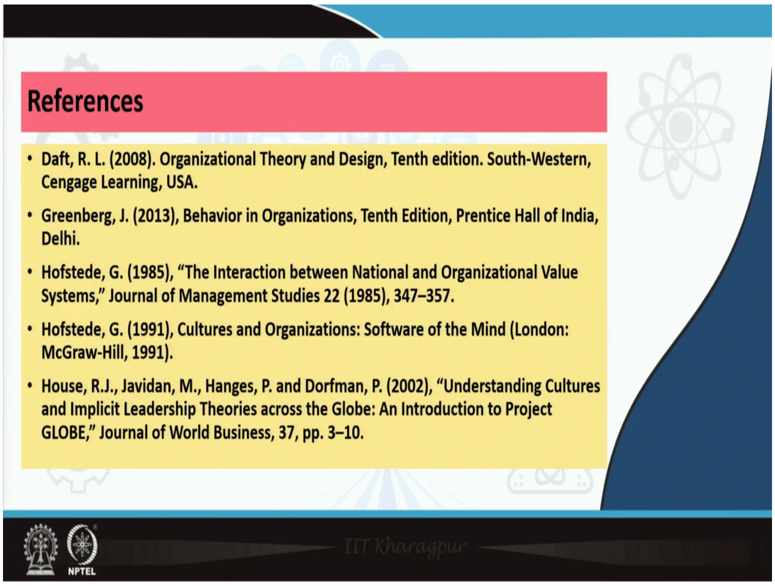
So, companies that operate in many countries and in uncertain and complex environment often use elements of geographic structure and product divisions to dynamically changing environments environmental conditions.

(Refer Slide Time: 37:02)

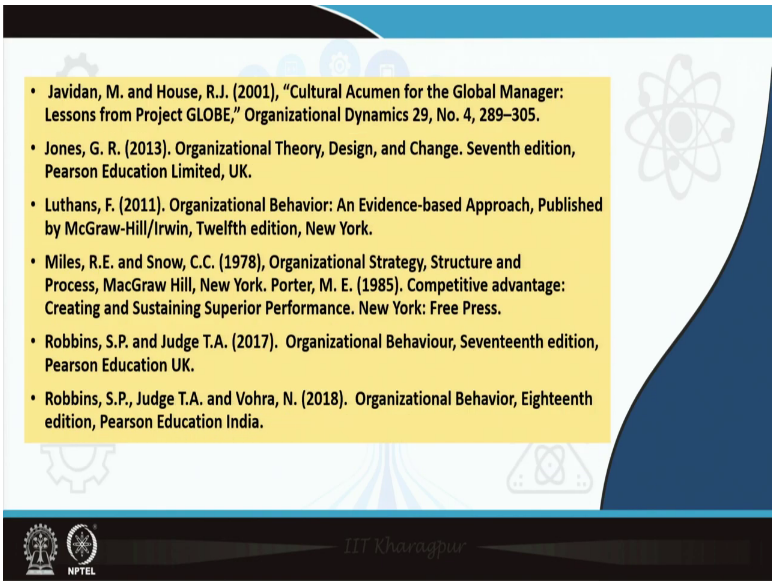


So, with this I come to an end of this lecture.

(Refer Slide Time: 37:08)



(Refer Slide Time: 37:12)



And these are the references.

Thank you.