**Organizational Design Change and Transformation**
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**Module - 04**
**Lecture - 20**
**Organizational Design and Strategy in a changing Global environment**

[FL], we will be continuing with our discussion on Organizational Design and Strategy in the Global changing environment.

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This is module 4 and lecture 5 and today we will be concluding our discussion on this topic. In the previous lectures, we have spoken about strategic direction and organizational design; frameworks for selecting strategy and design; designing organizations for the international environment; building global capabilities and we have also discussed organizational design and strategy in the changing global environment.

And, and in fact, in the past two lectures we have been discussing that and today, we will be concluding this particular topic. So, if you remember we actually we are discussing the corporate level strategy and we were talking about a vertical integration, backward and forward and that is wherein we had stopped.

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So, to continue with that here we speak about related diversification and unrelated diversification.

When an organization enters into a domain which is linked in some way to its already existing domain, we call it a related diversification. And, generally organizations enter such domains when they realize that they can use their existing core competencies you know to either you know create a low cost or advantage or a differentiated advantage.

And, and assimilation between the corporate and the divisional managers as well as between divisional managers is huge. Unrelated diversification is said to occur when an organization enters into a completely new domain which is a no way related to the existing core domain and there is nothing to do with the core domain.

So, so we were discussing the corporate level strategy and we will move on to that and relate it to the structure.

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So, an appropriate organizational structure is essential to capitalize on the gains associated with vertical integration, related diversification and unrelated diversification and since such organizations operate in more than one domain multidivisional structures are always more suitable.

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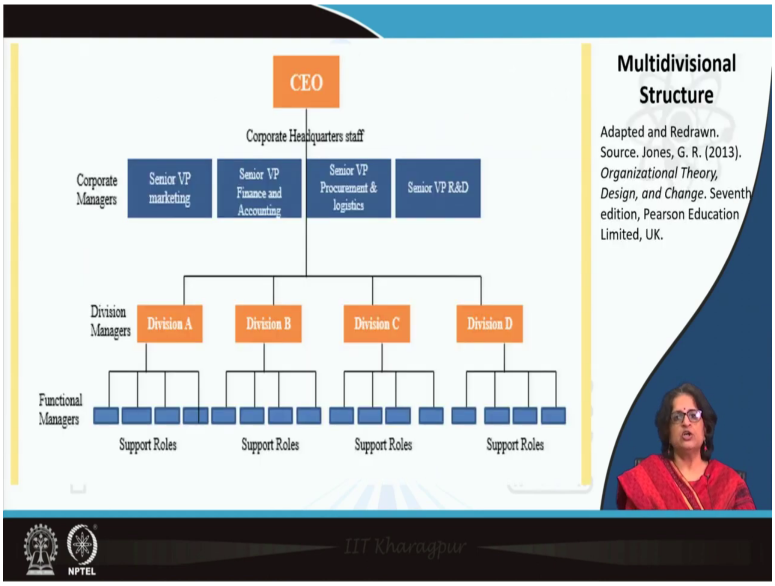


So, you see here in this figure where you have a multidivisional structure that is the CEO and then we have the corporate managers, the senior vice president marketing, senior vice president, finance and accounting, procurement and logistics, R&D and then we have the division level managers as division A, B, C, D and then we have the various functional managers performing the various support roles.

So, this is what we what we see here is a multidivisional structure.

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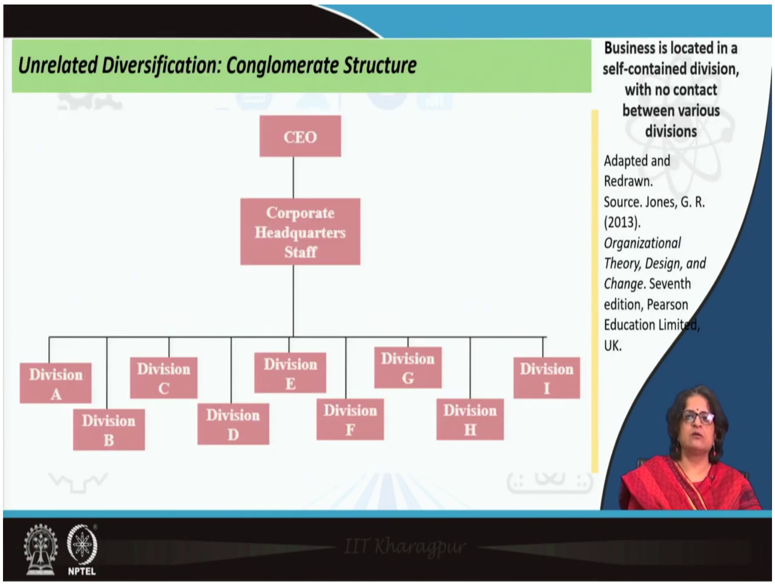


Here you see a you know conglomerate structure in the case of an unrelated diversification where there is the CEO and then there is the headquarter staff and then there are different businesses, business division A, division B, division C and so forth.

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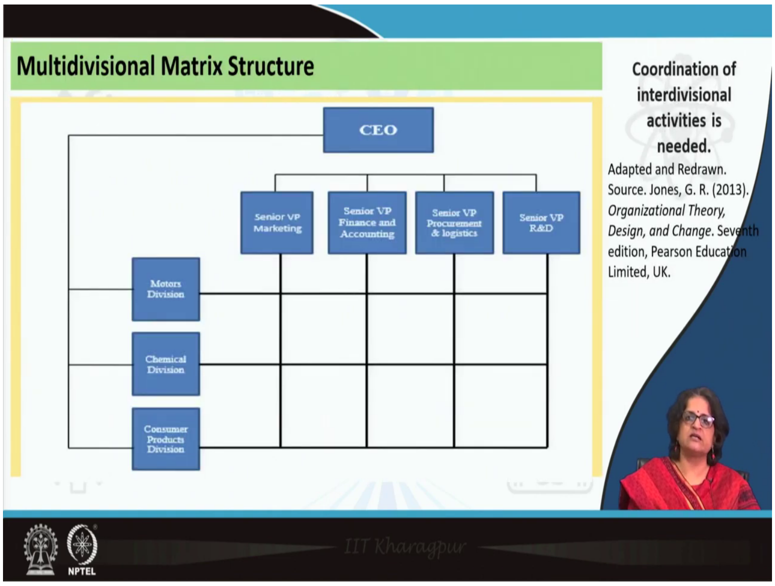


And, and then you have a multi-dimensional matrix structure. We have been speaking of matrix structures in our previous classes as well where you know you can see here that there is a CEO and then there are the functional heads, the VP marketing, VP finance and accounting, VP procurement, VP R and D.

And, then there are those different product divisions as a motor division or a chemical division or a consumer product division. So, coordination of interdivisional activities is hugely needed.

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Coming to the corporate level strategy and culture, so, cultural values and norms as well as goals and rules you know that reflect the cultural values, influence corporate strategy in a major way.

So, the values and norms as well as the goals and rules that reflect these values and norms influence the corporate strategy, companies pursuing integration, you know related and unrelated diversification espouse different values. You know like for example in unrelated diversification, you know related to values of economy.

The reduction of cost and efficiency and a shared corporate culture across divisions does not get created. On the other hand, in case of related diversification, it is related to values of cooperation, cohesiveness, teamwork, innovation and communication. The multi-divisional matrix enables the creation of a cohesive corporate culture across the organization.

So, in case of unrelated diversification, it is more about you know efficiency across different divisions and you know a lot of emphasis on economy, on reduction of cost you know and a shared corporate culture does across different units as different divisions does not get created in the case of unrelated diversification.

But, in the case of related diversification, it is about values of cooperation, cohesiveness, teamwork, innovation and multi-divisional matrix enables you know the creation of a cohesive corporate culture across the organization.

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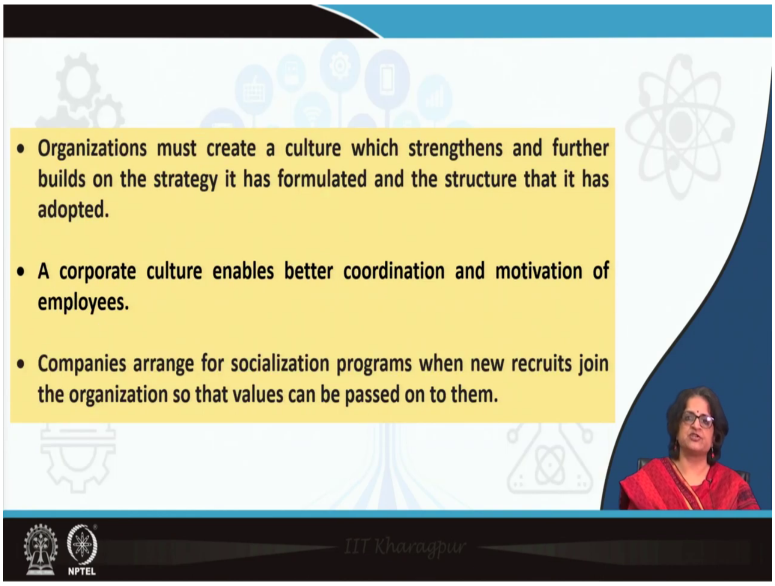

So, organizations must always try to create a culture which strengthens and builds on a strategy that it has formulated and you know and the structure that it has adopted. So, they must work towards building a culture which reinforces and blends with the structure as well as with the strategy.

And, a corporate culture enables better cooperation between people, coordination between people, leads to higher motivation amongst people and companies often arrange for socialization programs when new recruits join them so that these values are actually you know shared with those the new recruits and can be passed on to them.

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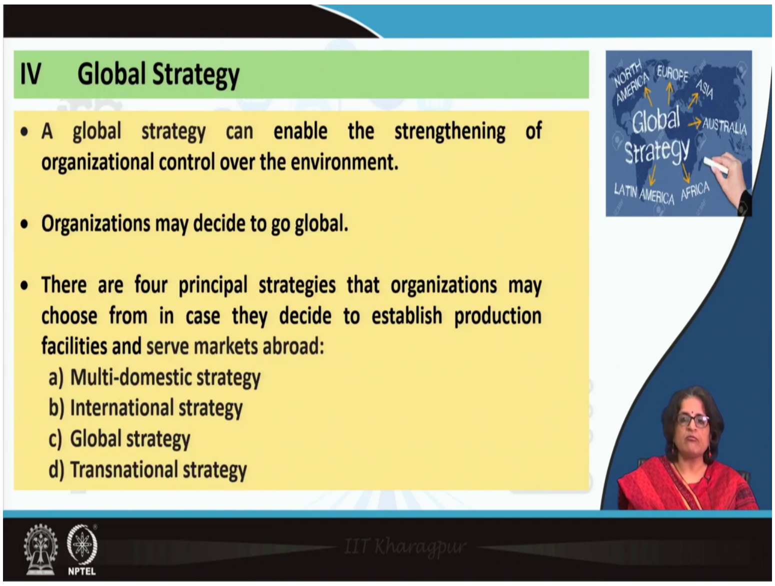


Finally, we come to the global strategy. Now, global strategy you know will enable the strengthening of organizational control over the environment. Why? Because you know it offers huge opportunity to the organizations and if they can manage their differentiation and integration well, they would be able to gain you know advantage of these opportunities and they would be able to fight the uncertainty in the environment.

So, organizations may decide to global. There are four principal strategies that organizations were choose from in case they decide to establish you know production facilities outside their domestic borders and in case they decide to serve the markets abroad. So, they have the multi-domestic strategy, the international strategy, the global strategy and the transnational strategy.

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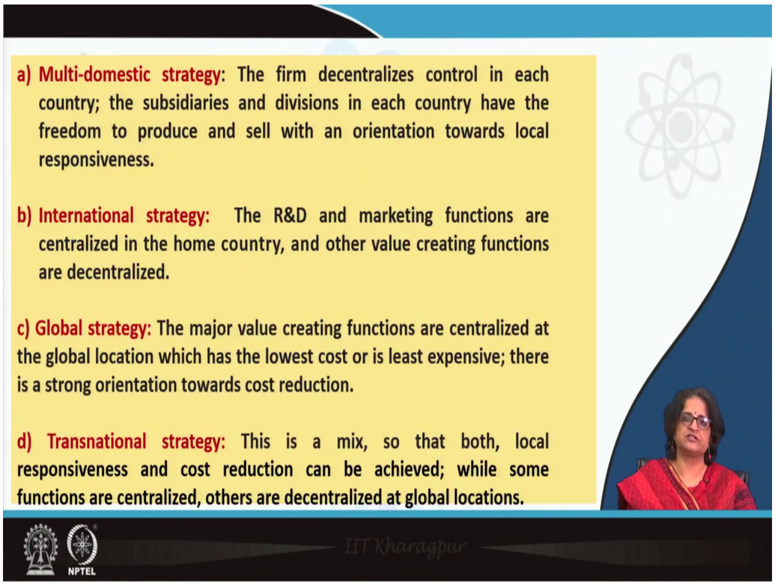


So, in a multi-domestic strategy the firm decentralizes control in each country; the subsidiaries and the various divisions in each country have the freedom to produce and sell you know their products with an orientation towards local needs and wants and with a huge emphasis on local responsiveness.

In the international strategy the R and D and the marketing functions are centralized in the home country or in the headquarter and other value creating activities are decentralized. In the case of a global strategy, the major value creating functions are centralized at the global location.

They are centralized at the global location which has the which is the lowest in terms of operating cost or is the least expensive and they actually in the case of global strategy there is a huge emphasis on cost reduction. So, a major value creating functions are centralized at the global location where which has the lowest cost or is least expensive.

And, in the finally, you know in the and finally, in the transnational strategy, this is a mix so that both local responsiveness and cost reduction can be achieved. So, while some functions are centralized other functions are decentralized at the global locations.

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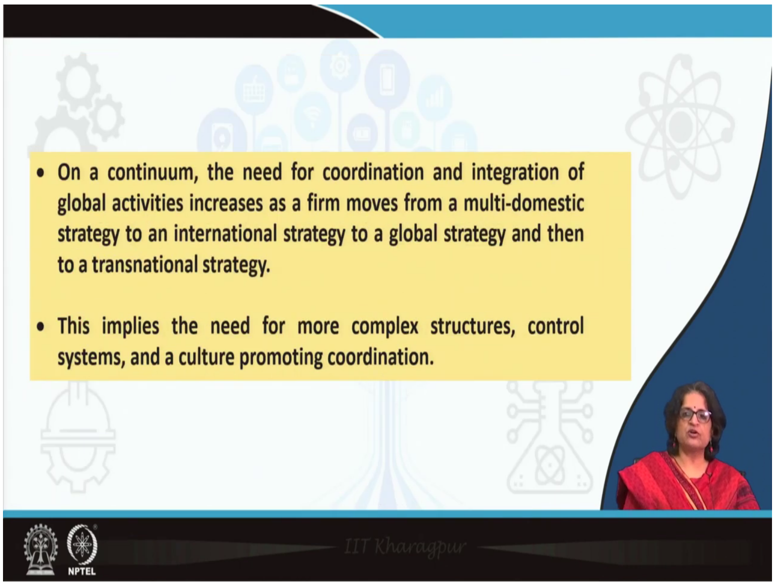


So, on a continuum, the need for coordination and integration of global activities increases as we move from a multi-domestic strategy to an international to a global and to a transnational.

So, the need for coordination and integration of activities will be highest in the case of a transnational strategy. We also discussed in the previous class the transnational model and we saw how huge emphasis upon is upon information sharing you know and learning and you know creativity and flexibility of course, keeping efficiency in mind.

So, if we put them on a continuum the need for coordination and integration of global activities increases as we move from the multi-domestic to the international to the global to the transnational strategy. This implies that the more that this implies the need for more complex structures, control systems and cultures which promote coordination.

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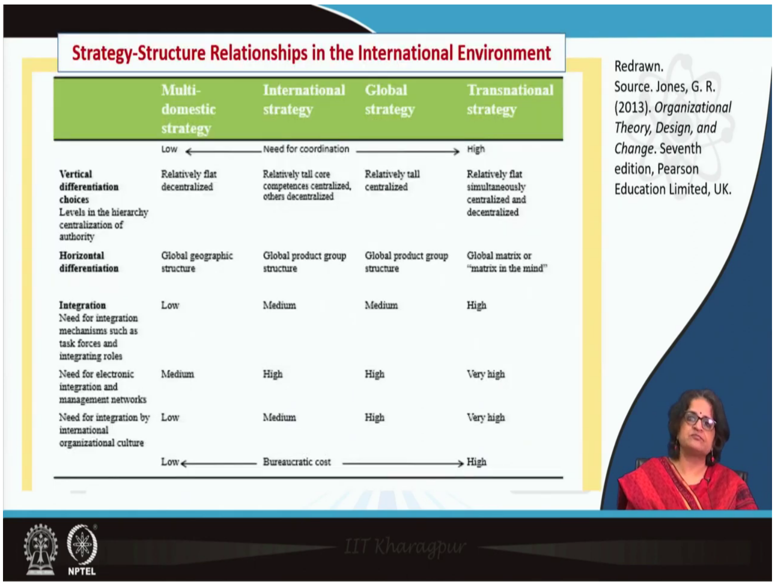


So, if you see here in this particular figure, you can see the multi-domestic strategy, the international strategy, the global strategy and the transnational strategy. And, the need for coordination is the highest you know in the case of transnational increases gradually from multi-domestic to international to global and is the highest in transnational.

The vertical differentiation choices you know in the and the levels in the hierarchy centralization of authority. In the case of multi-domestic you know relatively flat structures decentralized you know decision making and as you move to the transnational relatively flat and continuously centralized and decentralized while some operations are centralized others are decentralized.

And, if you look at the horizontal differentiation in the multi-domestic strategy it is global geographic structure; in the case of international it is global product group structure. Global product structure also is suitable in a global strategy but in a transnational strategy it is a global matrix.

Need for integration is low in the case of multi-domestic which is medium for international global, but for transnational it is very very high. Need for electronic integration and management networks is very high in the case of transnational and need for integration by international organizational cultures is also very very high in the case of transnational strategy.

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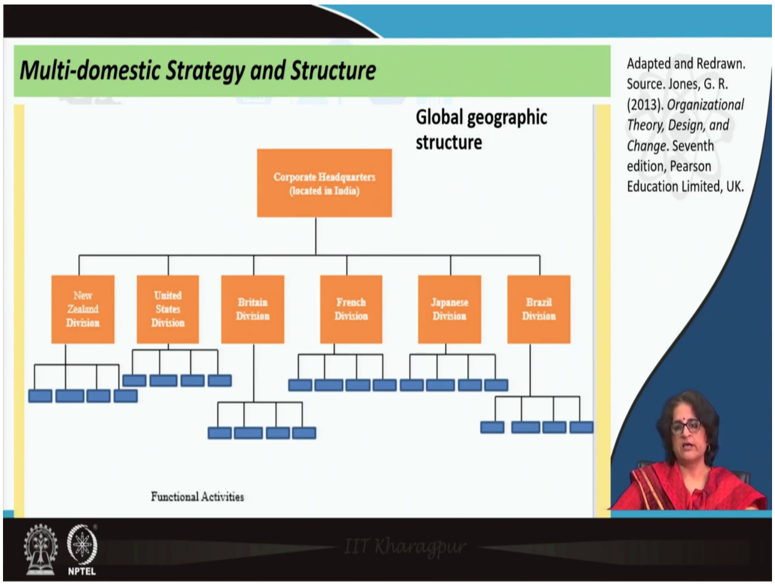


Now, we come to the multi-domestic strategy and structure where if you can see here most companies which actually decide to have a multi-domestic strategy go in for a global geographic structure.

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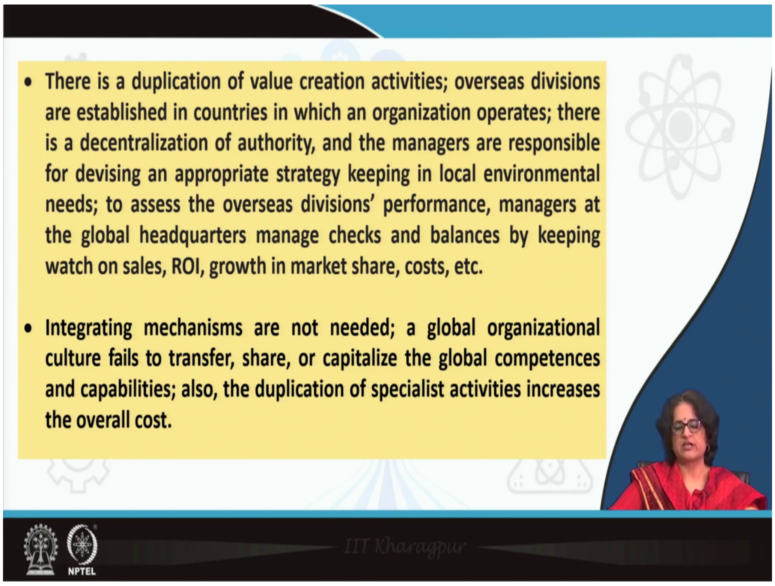


Now, there is a duplication of value it is a creation activities which is generally a practice and overseas divisions are established in countries in which the organization operates and there is decentralization of authority. Managers are responsible for devising or formulating a strategy keeping in mind the local needs to assess you know to keeping in mind local needs and to be locally responsive.

Now, to assess the overseas divisions performance the managers at the global headquarters, they maintain very strict you know protocols regarding you know the checks and balances by keeping a watch on the sales, on the return on investment on the on the growth in market share etcetera.

Integrating mechanisms are not needed and a global culture or a global organizational culture fails to transfer share or capital or you know capitalize the global capabilities and the competencies. So, the also the duplication of specialist activities increases the overall cost of the organization.

So, these are some disadvantages of you know a multi-domestic you know strategy and the kind of structure that comes along with it where we see that certain activities and tasks are duplicated, value creation activities are duplicated. This leads to an increase in the costs and managers have and the corporate headquarters has to maintain very strict control measures to ensure that the various overseas divisions are working as per performance standards.

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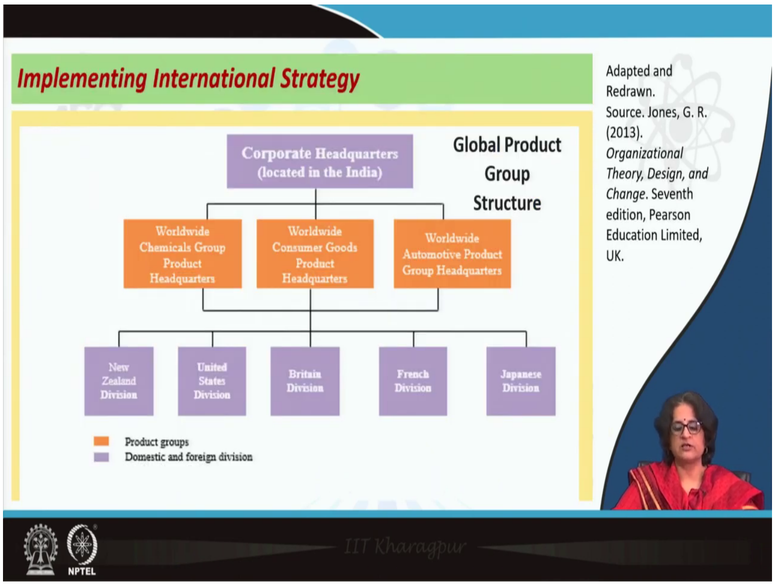


Then we have the international strategy how and structure. So, when you implement the international strategy and structure most companies going for a global product group structure, if you see here the corporate headquarters located in India with the different with various product divisions could be chemicals, could be consumer goods and you know automatives.

And, they are all headquartered in India, but they have their as product groups and then they have their domestic and foreign divisions in different countries like New Zealand, United States, Britain, France and Japan.

Now, in such a case if you see again what we see is a global product group structure and an organization that adopts an international strategy, it if it offers different product offerings or if it has a different businesses, you know it find itself hugely challenged with the problem of coordination and the flow of a coordination of the flow of different products a product offerings across a different countries.

And a global product structure however, would be suitable in a scenario in such scenarios where you have different products and you have different you know business divisions across the globe.

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So, an organization that adopts the international strategy, particularly if it offers you know different product offerings or it has different businesses, it finds itself challenged with the problem of coordination and when that happens product group structure is suitable as we see here where product group headquarters are created to coordinate within each product group at the home and the international divisions.

So, however, control has to be very carefully monitored as there is always a risk of control as there is always a risk of loss of control by the headquarters.

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Next, we come to the global strategy. So, the global strategy the company locates its value chain activities and it actually you know tries to locate such value chain value chain activities at the global location because that helps them increase the efficiency. So, so, company locates its value chain activities whether production or R and D or operations at a global location and coordination and integration of activities is required.

So, this would mean that the structure requires immense control centralized control. However, a global structure is product group structure is found suitable when the product groups coordinate between the home office and overseas operations and also decide where the value chain activities must be, so that in efficiency can be increased to that most.

However, there is a problem with the global product group structure you know, the responsiveness to customers' needs is lose and weak as the company or the organization is focuses more on the control from the headquarters or from the centralized control. Also, knowledge sharing between different product groups becomes very very difficult.

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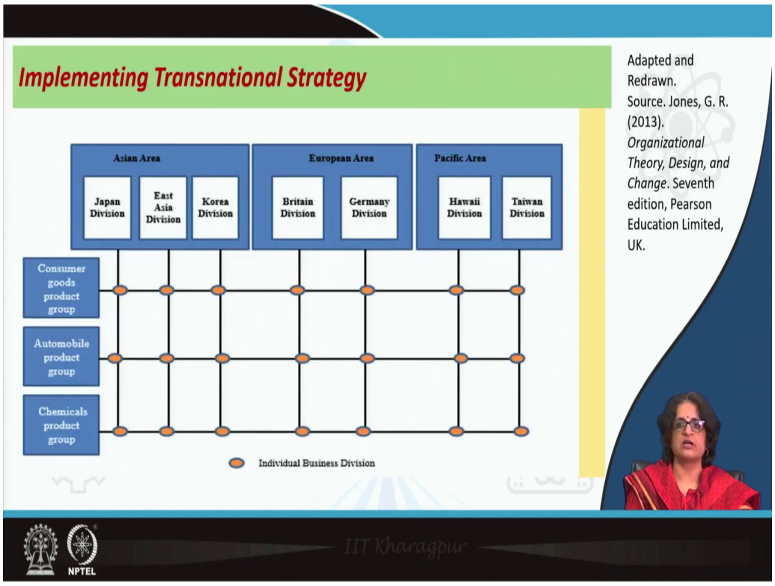


And, so, so, here we see the matrix structure where you know it is possible you know to have this kind of a structure in a transnational strategy ok. So, in a transnational strategy what we see is that the problem of coordination and control becomes slightly lesser.

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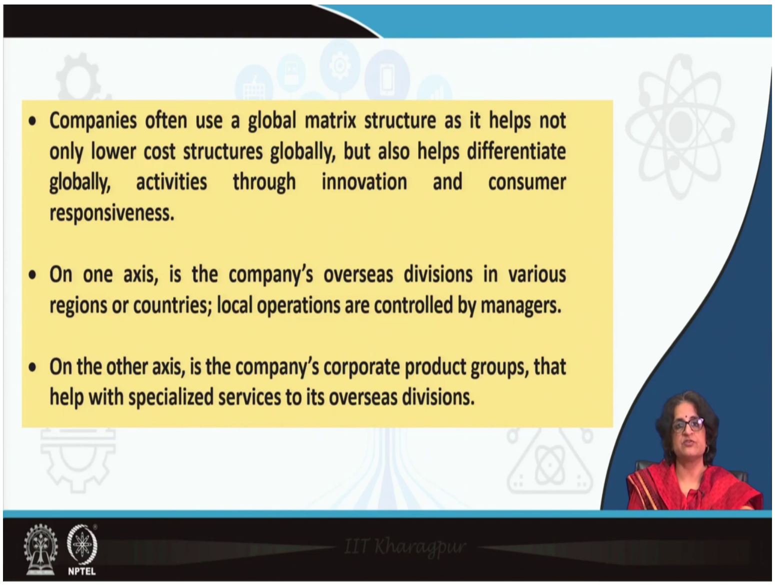


And, we have come you know companies which use the global matrix have you know not only being able to lower the cost structures globally, but also being able to differentiate themselves. So, companies often use a global matrix structure as it helps them not only lower down the cost, but it also helps them to differentiate their products globally through innovation through consumer through being responsive to local needs and through consumer responsiveness.

So, on one axis you find the overseas divisions in various regions or countries and on the other axis you find the company's corporate product groups. So, the companies overseas divisions in the various regions, you know you have the local operations are being controlled by the managers and on the other hand, with respect to product groups specialized you know attention can be given and the companies corporate product groups you know which help with specialized services to the overseas divisions.

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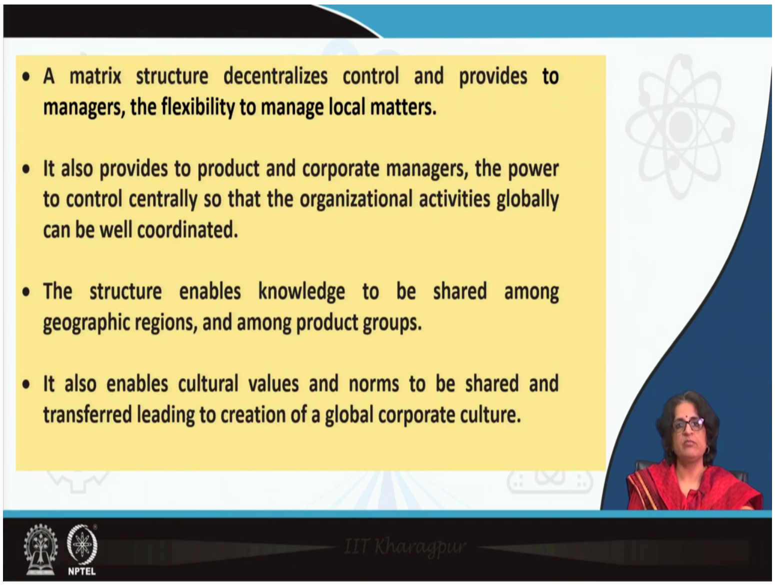


So, a matrix structure decentralizes control and provides managers with greater flexibility. People are able to coordinate well it all it you know it also provides to the product managers, the power to control centrally so that organizational activities can be well coordinated.

It enables knowledge sharing amongst geographic regions, product groups and you know among you know the various countries. It also enables cultural values and norms to be shared leading to a creation of a global culture of a global corporate culture. So, in this way it is highly beneficial.

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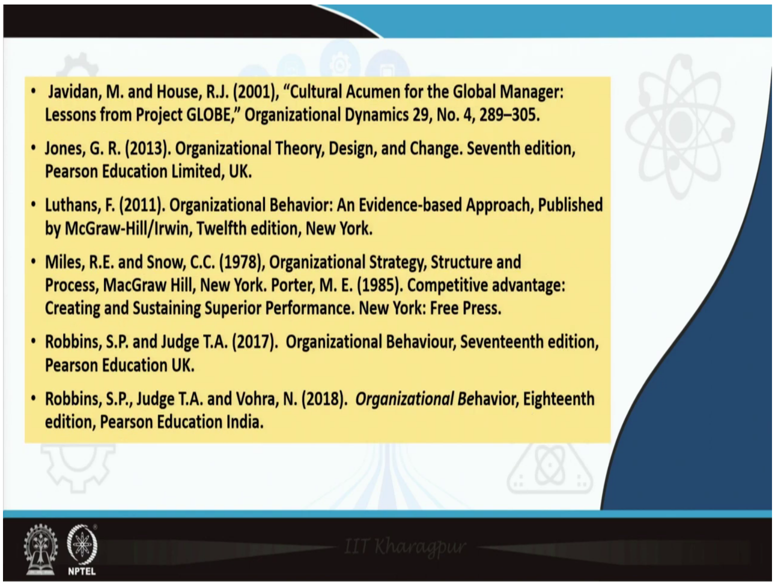

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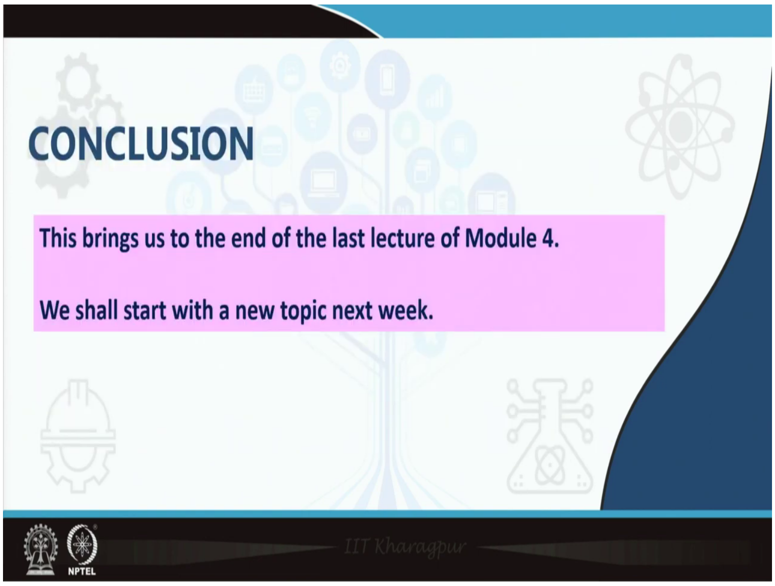


This brings us to the end of the last lecture of Module 4, and we shall start with a new topic next week.

Thank you.