

Strategic Management Essentials, 3/e

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Chapter 9

Strategy Implementation - 2

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Organizational Design

- Selecting the combination of organizational structure and control system that let the company *create and sustain a competitive advantage*

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## Organizational Structure

- Provides a vehicle through which managers can coordinate the company's functions, divisions, and business units
- Shapes the way people behave and determines how they will act in the organizational setting
- Organizational structure is made up of two parts:
  - Differentiation
    - Vertical
    - Horizontal
  - Integration

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## Differentiation

- The way a company divides itself into parts
- Allocates people and resources to organizational tasks in order to create value

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## Vertical Differentiation

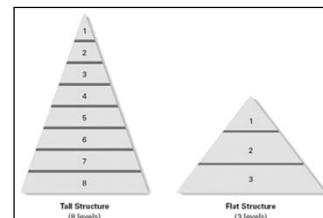
- Specifies the reporting relationships that link people, tasks, and functions at all levels of a company
- Minimal chain of command principle
  - an organization should choose a hierarchy with the minimum number of levels of authority necessary to achieve its strategy
- Span of Control:
  - The number of subordinates a manager directly manages
  - The number of hierarchical levels relative to the company size usually increases as size increases

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## Vertical Differentiation Structures (cont'd)

- Tall Structures:
  - Many levels of control; thus a relatively narrow span of control
  - Very complex structure that can lead to problems:
    - Information distortion
    - Coordination problems
    - Motivational problems
    - Too many middle managers
- Flat Structures:
  - Few hierarchical levels



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## Horizontal Differentiation

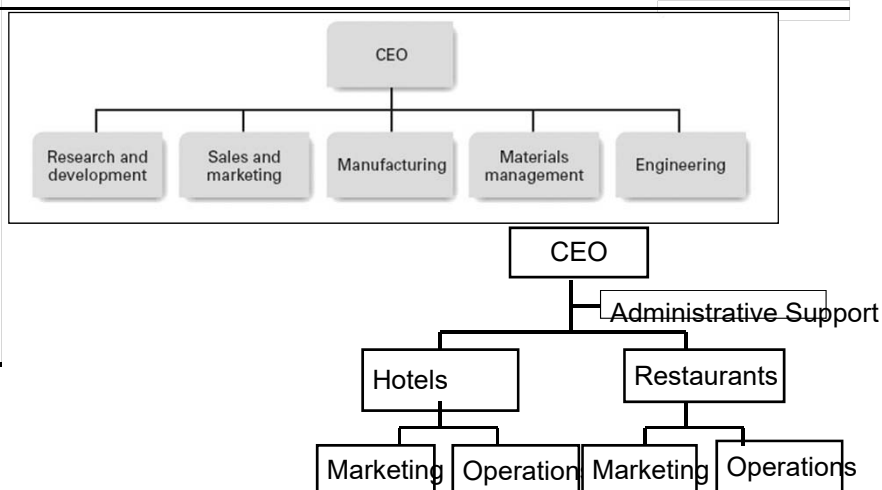
Decides how to best group organizational tasks and activities to meet the objectives of a company's strategy in the form of Organizational structure

- Functional Structures:
  - People are arranged on the basis of their common expertise or because they use the same resources
- Product Structures:
  - People are arranged based on their product lines
- Geographic Structures:
  - People are arranged by region
- Multidivisional Structures:
  - People are arranged according to distinct product lines or business units

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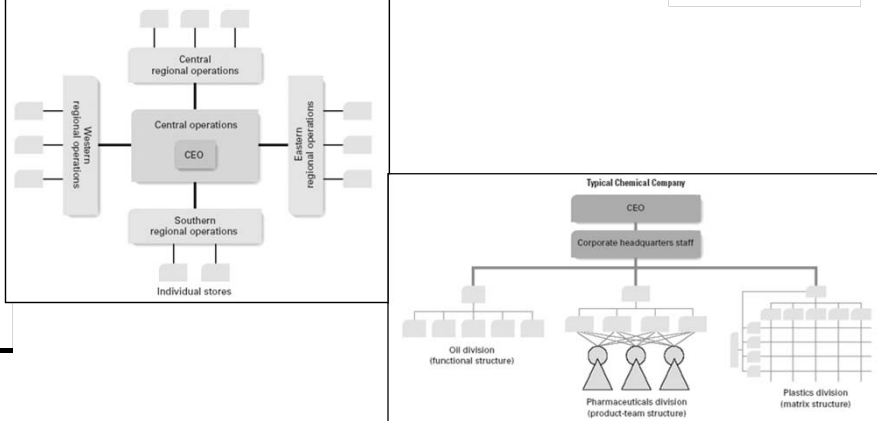
## Functional Structure & Product Structure



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## Geographic & Multidivisional Structure



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## Integration

The extent to which an organization coordinates its value creation activities and makes them interdependent

- Since integration is the way in which a company's parts are combined, the complexity depends on the differentiation
- Complex differentiation = complex integration

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## Forms of Integration Mechanisms

- Direct Contact
  - Occurs when a company sets up a context where managers can work together to solve problems
  - Prevents competition between managers from different divisions
- Interdepartmental Liaison Role
  - Gives one manager in each division the responsibility for coordinating with the others
- Temporary Task Forces
  - One member of each division is assigned to a task force to solve a problem
  - S/he then reports back to her/his respective division
- Permanent Teams
  - When issues addressed by a task force reoccur, it is sensible to form permanent teams for problems that have a great deal of integration between functions

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## Differentiation and Integration

- A company needs to operate the simplest structure consistent with implementing its strategy effectively
- Both differentiation and integration are costly and complex

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## Organizational Control

- The process by which managers monitor activities and members to decide whether or not the company is efficient and effective
- Organizational controls include:
  - Keeping an organization on track
  - Anticipating events that may occur
  - Responding swiftly to opportunities

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## Strategic Control Systems

- The formal feedback system by which managers monitor the activities of members to ensure actions are aligned with organizational objectives
- Allows managers to evaluate the implementation and success of a strategy
- Systems should:
  - Be Flexible
  - Provide accurate information
  - Supply information in a timely manner
- Control systems are developed for all levels of the organization – corporate, business, functional, and individual

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