

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

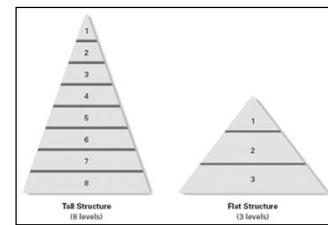
- Specifies the reporting relationships that link people, tasks, and functions at all levels of a company
- Minimal chain of command principle
 - an organization should choose a hierarchy with the minimum number of levels of authority necessary to achieve its strategy
- Span of Control:
 - The number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

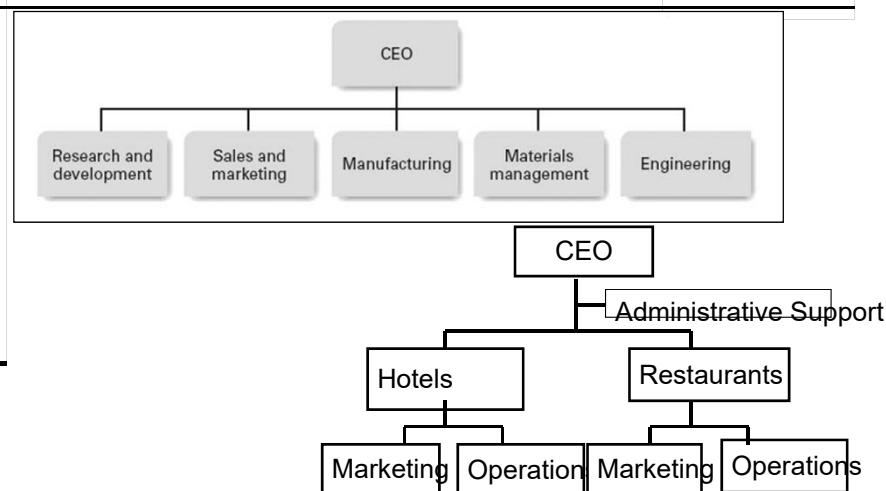
Decides how to best group organizational tasks and activities to meet the objectives of a company's strategy in the form of Organizational structure

- 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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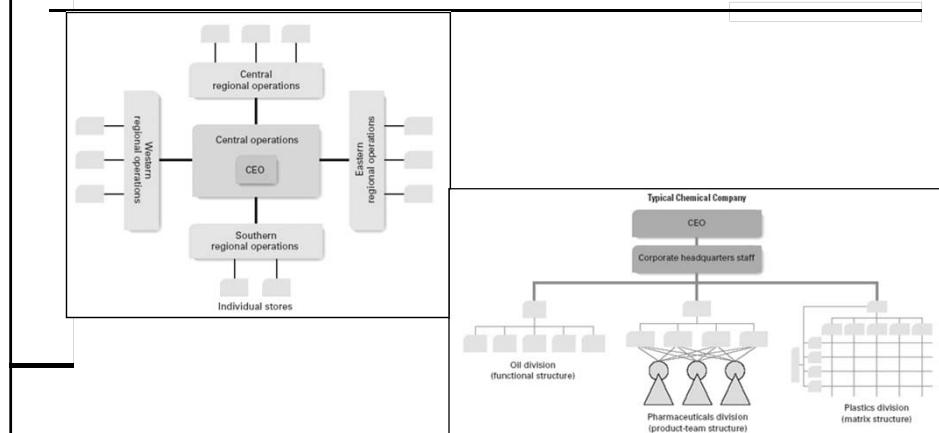
Functional Structure & Product Structure



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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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