Lecture 3: Strategy and Structure - Outcomes

- To understand the importance that a change in strategy can have on structure.
- To be able to explain the contemporary strategy-structure theories as they relate to modern organisations.

Determinants of Organisational Structure
- Strategy
- Organisation size
- Technology
- Environment
- Power-control

Applications:
- Managing the environment
- Managing organisational change
- Managing organisational culture
- Managing organisational evolution
- Managing gender

Organisational Structure
Organisational Effectiveness

Organisational Designs:
- Design options
  - Bureaucracy
  - Adhocracy

1 Strategy

- What is Strategy
- Dimensions of Strategy
- Chandler,
- Contemporary Strategy-Structure Theories
  - Miles & Snow,
  - Porter,
  - Miller
- Industry-Structure Relationship

What is strategy?

- Strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.
- Strategy is concerned with both means and ends.

Done already
Do it tonight
Do it tomorrow
Do it day after
The Strategy Imperative

- Strategy influences structure.
- Basic assumptions:
  - The organisation strives to satisfy goals
  - It moves towards its goals rationally
  - Organisations transform economic inputs into outputs
  - The environment within which the organisation operates is a given.

How Does Strategy Form?

- Is it premeditated?
  - Planning mode
- Does it just happen over time?
  - Evolutionary mode
- See Henry Mintzberg (MIT) and the idea of ‘creative strategy’

Levels of Strategy

- Corporate-level strategy
  - In what set of businesses should we be?
    - E.g. diversification (not at a product level)
- Business-level strategy
  - How should we compete in each business?
    - For organisations in many lines of business, each division will seek its own strategy for its products
- Current focus is on business-level strategy

Dimensions of Strategy I

- Innovation strategy
  - Does the organisation pride itself on developing new products or services?
    - Sony vs Reader’s Digest
- Marketing differentiation strategy
  - Does the organisation seek to create a favourable image for its product through advertising, market segmentation and prestige pricing?
    - Omega vs Swatch
Dimensions of Strategy II

- **Breadth strategy**
  - Refers to the scope of the market to which the business caters: the variety of customers, their geographical range and the number of products
  - Unilever vs Roses Only

- **Cost-control strategy**
  - Extent to which the organisation tightly controls costs, refrains from incurring unnecessary innovation or marketing expenses, and cuts prices in selling a basic product
  - Kmart vs Aldi Supermarkets

Chandler’s Strategy-Structure Thesis

- **Alfred Chandler (1960s)**
- Extensive case studies found that changes in corporate strategy preceded and led to changes in an organisation’s structure.
- “Unless structure follows strategy, inefficiency results.”

The Chandler Argument

- An organisation begins with a single line of business, or a single product.
- As the demand for that product grows, the organisation begins to grow in size and complexity.
- It introduces more products into its range in order to continue to grow and the organisation’s strategy becomes more ambitious and elaborate.
- Ultimately the structure of the organisation changes as a result of the strategy change.

Chandler’s Model

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<tr>
<th>Time</th>
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<tr>
<td>Product diversification strategy</td>
<td>Low</td>
<td>High</td>
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<tr>
<td>Structure</td>
<td>Simple</td>
<td>Functional</td>
<td>Divisional</td>
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- Was Chandler’s thesis correct?
- What assumptions did Chandler make?
Modern Strategy-Structure Theory

- Miles and Snow’s Four Strategic Types
- Porter’s Competitive Strategies
- Miller’s Integrative Framework
  - Miller borrows strategy dimensions from Miles and Snow & Porter to define an integrative framework

Miles and Snow, 4 Strategic Types

- Defenders
  - Seek stability and efficiency; Tight control;
  - extensive division of labour; centralised; formalised
- Analysers
  - Seek stability but can cope with change
  - Moderately centralised controls; tight controls for current activities, loose for new undertakings
- Prospectors
  - Seek flexibility and dynamism; Low degree of formalisation
  - Loose structure; low division of labour; decentralised
- Reactors
  - Organisations that buckle under pressure and poorly implement one of the above; no strategy defined, or wrong strategy is defined; or top management fail to make strategy clear

Porter’s Competitive Strategies

- Cost-leadership strategy
  - When an organisation sets out to be the low-cost producer
  - Must offer comparable products as that of rival or at least comparable to buyers
- Differentiation strategy
  - Firm that seeks to be unique in its industry
- Focus strategy
  - Exploit narrow segment of market, niche.
- Stuck in the middle
  - Those companies without a clear strategy as defined above
  - Difficult to achieve long-term success in this instance

Questioning the Strategy Imperative

- When can strategy influence organisation structure most?
- What if a change in strategy by management is NOT followed by a change in structure?
- Does structural change depend on the competitive pressures an organisation is facing?
- What if structure determines strategy?
- What is your opinion about these questions?
Industry-Structure Relationship

“Simply knowing the industry in which an organisation operates allows one to know something about product life-cycles, required capital investments, long-term prospects, types of production technologies, regulatory requirements, and so forth.”

2 variable analysis of industries

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<tr>
<th>Capital Requirements</th>
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<td>Examples:</td>
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<tr>
<td>- Aerospace</td>
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<td>- Large mainframe computer manufacturers</td>
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<td>Examples:</td>
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<td>- Computer software manufacturers</td>
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<td>- Magazine publishers</td>
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<th>Production-innovation Rates</th>
<th>High</th>
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<td>Examples:</td>
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<tr>
<td>- Metals and mining</td>
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<td>- Appliance manufacturers</td>
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<td>Examples:</td>
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<tr>
<td>- Retail building materials sales</td>
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<td>- Bicycle manufacturers</td>
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Industrial Networks

- When organisations form alliances to pool resources together to aid one another to achieve goals, inter-firm structures are influenced.
- Strategies of individual companies are both shaped and constrained by other companies with which they have commercial relationships.
- Consider networks, clusters and alliances.

Size & organisational structure

Outcomes

- To understand the size imperative as it relates to organisational structure.
- The ability to discuss why downsizing may take place in an organisation, and the benefits of that change.
- To explain why downsizing is happening in the technology sector today.
Outline

- Aspects of Organisational Size
- The Size Imperative
- The Problems of Large Organisations
- The Downsizing Phenomenon
  - Inefficiencies in Downsizing

Defining Organisational Size

- Most define size to be the “total number of employees” in a company.
- What are your thoughts on this definition?
  - Any others you can think of?

Aspects of Size

- Size is relative
- How do you measure size:
  - Full-time employees vs
  - Part-time employees vs
  - Seasonal employees?

- What about the notion of small, medium and large-size firms?
  - A large-size hairdressing salon of 50 employees vs a large-size computer manufacturer of 100,000 employees?
  - E.g. a large firm in Australia is a medium-size in US

- And what about the notion of efficiency?
Opposing Beliefs on Size

- Advocate of Size Imperative
  - Peter Blau concluded “size is the most important condition affecting the structure of organisations”

- Critic of Size Imperative
  - Chris Argyris analysed Blau’s data and argued that civil-service organisations are unique. Argyris agreed that size can be linked to structure but did not cause it.

Size and Dimensions of Structure

- Size and Complexity
  - Size is a predictor of the level of vertical differentiation
  - Larger the organisation, the more pronounced was the division of labour within it

- Size and Formalisation
  - Formalisation increases with size

- Size and Centralisation
  - Research is mixed on this point
  - As size increases a firm does not necessarily decentralise, it all depends

The Problem of Large Organisation Size

1. The growth of bureaucracy
2. The need to gather and process information and to turn it into knowledge
3. Extended timeframes for action
4. Knowing where the profits are being made and where the costs are being incurred
5. Difficulty in managing over a wide geographic spread

Coping with large organisations

1. Divide the organisation into manageable parts.
2. Outsource.
3. Finding a balance between what decisions should be centralised as opposed to decentralised.
4. Structuring to facilitate change.
5. Ensure that important tasks have someone responsible for them.
**IT and Small Business**

- Though only 1% of businesses in Australia are considered “large”, they employ about 25% of the workforce.
- Over 85% of businesses in Australia are considered “small”, but they employ only 25% of the workforce.
- Situation in Singapore?

In small business, the issues are different:
- The influence of the owner
- Size as a factor of structure is less important as the organisation structure is generally flat
- The small business faces control, accountability, efficiency and environmental issues instead.

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**The downsizing phenomenon**

- Why do companies downsize?
- What do they hope to gain by downsizing?
- Is downsizing a natural pattern within the lifecycle of a company?
- What are the effects of downsizing?
  - Are they always positive?

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**Reasons Leading to Downsizing & Benefits**

1. Increased competition
2. Computerisation and automation
3. Technological obsolescence
4. Changes in strategy
5. Limitation of size advantage
6. Rise of outsourcing
7. Lowered overheads
8. Less bureaucracy
9. Faster decision making
10. Smoother communications
11. Greater entrepreneurship
12. Increased productivity

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**Ineffective Downsizing Practices**

- The use of voluntary retirement practices
- Making across the board layoffs
- Eliminating training and development programs
- Cutting too deeply into the numbers of personnel
- Placing remaining employees into jobs for which they have insufficient skills
- Emphasising employee accountability over employee involvement
- Expect survivors to “row harder”
- Implement layoffs slowly in phases over time
- Promise high monetary rewards rather than careers
Investing in the Future

In times of downsizing it is tempting to cut:
- R&D (research & development) staff
- New graduate positions
- New product lines
- Maintenance engineers
- Expensive equipment needed to do work

But it is important to remember the long-term future of the company.

Band-aid solutions are short-term and only have short-term effects (on the problem but not org’n.).

One approach to IT governance

Some organisations, like the Gartner Group, have been studying the problem of managing the IT function in an organisation

They have access to over 15000 CIOs

They have developed a useful approach to IT governance (management).

Acknowledgement to Marianne Broadbent

What decisions need to be made?

Clarify five major IT decision domains

| IT principles | High level statements about how IT is used in the business |
| IT infrastructure strategies | Strategies for the base foundation of budgeted-for IT capability (both technical and human), shared throughout the firm as reliable services, and centrally coordinated (e.g., network, help desk, shared data) |
| IT architecture | An integrated set of technical choices to guide the organization in satisfying business needs. The architecture is a set of policies and rules that govern the use of IT and plot a migration path to the way business will be done (includes data, technology, and applications) |
| Business application needs | Business applications to be acquired or built |
| IT investment and prioritization | Decisions about how much and where to invest in IT including project approvals and justification techniques |

IT Architectures (ITA)

A comprehensive set of “policies” for an organisation’s IT covering:
- VALUES
- DATA
- HARDWARE
- NETWORK
- APPLICATION
- MANAGEMENT
Values – for a fictional org: KGB

1.1 KGB encourage the involvement of all levels of staff in the use of IT.

1.2 KGB will be a follower of developments in IT once they are shown to be stable and beneficial to the business activities of the Group.

1.3 Customers and customer service will be our highest priority. Wherever IT can feasibly be used to improve customer service, it will be.

Data

2.1 Data will be regarded as a corporate resource and all reasonable attempts will be made to allow the sharing of data, within the constraints of effective data management and customer and employee privacy.

2.2 Policies for access control, data security, data integrity and audit procedures will be developed, communicated to all relevant staff and rigorously enforced.

2.3 Procedures for data backups for all sites at which data is stored will be developed and published in a set of Standard Operating Procedures. Staff are expected to comply with both the formal data backup procedures and with good personal data backups as outlined in the SOPs.

Data 2

2.4 A distributed DBMS will be put in place and will contain all of the customer transaction data, personnel data and financial data for KGB. Location of particular sections of the data will be transparent to users and will be decided on the optimal response time for the majority of users.

2.5 Managers of departments, and subsidiaries will be data stewards and as such will responsible for the correctness of the data that is generated by their staff.

2.6 During the migration phase in which any subsidiary is moving from their current data representation to the new corporate data representation, additional staffing will be provided to carry out the data transfer. Funding for this will be provided by KGB, directly.

Hardware

3.1 IS staff will develop two sets of Standard Operating Procedures for acquiring hardware. These Standards will deal with Corporate Computing Resources and Local Computing Resources.

3.2 While selection of new or additional Local Computing Resources will be at the discretion of subsidiary and dept managers, the selections must be made in accordance with the appropriate SOP. If a manager is unsure of the suitability of hardware, he or she must consult with the ISD at KGB.

3.3 The cost of acquiring Local Computing resources will be borne by the department, subsidiary or branch that requires it. However, provisions will be included in the SOPs to allow for the provision of additional funding to branches or subsidiaries who may otherwise be disadvantaged.
Hardware 2

3.4 Corporate Computing Resources will comprise those items used by more than one department or subsidiary. This will include the current mainframe at KGB head office and all network facilities.
3.5 Maintenance of Corporate Computing Resources will be treated as a corporate overhead.
3.6 Appropriate hardware will be made available to all staff who require it. Wherever possible, existing hardware will be utilised until it can no longer carry out its function or be refurbished cost effectively.
3.7 We will adopt a policy of moving towards a standard operating system but only as hardware systems are removed due to aging/inadequacy etc.

Network

4.1 Set up an integrated WAN across the whole of the organisation. Standard protocols across the WAN to be selected and to apply to all future extensions to the WAN (depending on developments in technology etc.)
4.2 Standard Operating Procedures will be developed to ensure that access to the WAN is transparent to users. At the same time, measures will be implemented to ensure complete security of data on the network.

Network 2

4.3 Departments and head offices of Subsidiaries will be encouraged to set up LANs that will provide access to WAN and access to corporate data. The operating parameters of these LANs will be defined in the SOPs and managers will be required to ensure that any LAN implementation in their jurisdiction conforms to SOPs
4.4 Allow branches to set up LANs as above.
4.5 Regardless of whether or not a branch chooses to use LANs, sufficient access from each branch to the WAN for transaction processing, personnel handling etc. will be provided by the WAN manager at KGB

Applications (Systems)

5.1 The ISD will set up Standard Operating Procedures for the acquisition and maintenance of software/applications. These SOPs will govern the maintenance and acquisition of both corporate and local applications.
5.2 The SOPs will provide guidelines to ensure the compatibility of all software systems with the hardware, database and network sections of the architecture.
5.3 The SOPs will define a mechanism by which a request for maintenance or acquisition of each application will be prioritised. Staffing and funding will be provided on the basis of the priority given to an application. The SOPs will also provide a mechanism for grievance settling.
5.4 Software/application acquisition can be either by purchase or development, depending on the circumstances. Departmental or subsidiary managers requiring the maintenance or acquisition of software/applications must conform to the SOPs.

5.5 Branch managers will not be directly involved in the acquisition or maintenance of software. Branch managers who have identified a need for acquisition or maintenance of software should place a request with their subsidiary manager. In exceptional circumstances, as outlined in the SOPs, request can be made to the ISD.

5.6 High Priority will be given to the acquisition of a uniform customer transaction processing system and to integration of Personnel/payroll.

5.7 Medium priority will be given to acquisition of EIS, DSS etc.

5.8 A single, standard set of office automation applications will be purchased and used throughout the company. They will be microcomputer based and provided either as stand alone or via LANs. Training and support for these applications will be provided by vendors and augmented by ISD at KGB.

5.9 While ongoing support will be provided for existing systems at all times, this support will only be given a high priority. However, the level of support will depend on the availability of staff which will in turn depend on the stage of development.

6.1 A central Information Systems Department will be set up for the whole of KGB. The ISD will fit into the organisational hierarchy at the same level as the existing department.

6.2 The officer responsible for the ISD will be the Chief Information Officer (CIO).

6.3 The ISD will be divided into four units responsible for “Data Management”, “Network Services”, “Technical Services” and “Applications and Training”. Each unit will have its own manager.

6.4 An IS policy committee will be set up consisting of the four unit managers as well as representatives of each department and each subsidiary.

6.5 While the IS function will be located at KGB head office, IS staff will also be located at each of the head offices of the subsidiaries. These IS staff will report directly to the unit from which they have been allocated.
Possible components/functions of IT unit

Reports to CEO

IS Director
   \[ IS \text{ Director} \]
   \[ IS \text{ Administration} \]
   \[ IS \text{ System Development \\& Maintenance} \]
   \[ IS \text{ Operations} \]
   \[ IS \text{ Analysis} \]
   \[ IS \text{ Programming} \]
   \[ IS \text{ Systems Programming} \]
   \[ IS \text{ Data Centre \\& Network} \]
   \[ IS \text{ Data Entry} \]

Classical IT organisation

Reports to CEO

CIO
   \[ CIO \text{ Administration} \]
   \[ CIO \text{ System Development \\& Maintenance} \]
   \[ CIO \text{ Data Centre Operations} \]
   \[ CIO \text{ Planning \\& Tech services} \]
   \[ CIO \text{ Data Admin} \]
   \[ CIO \text{ Telecommunications} \]
   \[ CIO \text{ R & D} \]
   \[ CIO \text{ Information centre} \]

Alternative IT organisation

Reports to Corporate VP

CIO
   \[ CIO \text{ Administration} \]
   \[ CIO \text{ System Development} \]
   \[ CIO \text{ R & D} \]
   \[ CIO \text{ Data & Systems Planning} \]
   \[ CIO \text{ Information Centre} \]
   \[ CIO \text{ Operations \\& Network} \]
   \[ CIO \text{ Tools, methods \\& procedures} \]
   \[ CIO \text{ Consulting} \]
   \[ CIO \text{ Division I Info Centre} \]
   \[ CIO \text{ Division n Info Centre} \]
   \[ CIO \text{ Division I Development} \]
   \[ CIO \text{ \ldots Division n Development} \]
   \[ CIO \text{ Division I Data Centre} \]
   \[ CIO \text{ Division n Data Centre} \]

Alternative IT organisation
ITA fits the structure & culture of the company

VALUES 1.1.
KGB encourage the involvement of all levels of staff in the use of IT.

DATA 1.2
Policies for access control, data security, data integrity and audit procedures will be developed, communicated to all relevant staff and rigorously enforced.

APPLICATIONS 5.3
The SOPs will define a mechanism by which a request for maintenance or acquisition of each application will be prioritised.