Implementing strategy through organizational design

Organizational Design is the selecting of the combination of organizational structure and control system that lets the company create and sustain a competitive advantage

Organizational Structure...

- provides a vehicle through which managers can coordinate the company’s functions, divisions, and business units.
- Structure shapes the way people behave and determines how they will act in the organizational setting.
Building Blocks

- Organizational structure is made up of two parts:
  - Differentiation
    - Vertical
    - Horizontal
  - Integration

Differentiation

(in organizational design)

...is the way a company divides itself into parts. This process allocates people and resources to organizational tasks in order to create value

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 least number of levels of authority necessary to achieve its strategy
Vertical Differentiation Structures

- **Span of Control:**
  - The number of subordinates a manager directly manages
  - The number of hierarchical levels relative to the company size is predictable as the size increases
  - Companies with 1K employees usually have 4 levels
  - Companies with 3K employees usually have 8 levels
  - No matter how big, a company rarely has more than 9 or 10 levels

Vertical Differentiation Structures (cont’d)

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

Tall and Flat Structures
**Organizational Structures: Vertical Differentiation (Flat Structure)**

Chief Partner

Partners

Associates

A typical law firm promotes collegiality and contains few hierarchical levels

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**When changing the firm’s horizontal differentiation...**

...top managers decide how to best group organizational tasks and activities to meet the objectives of a company’s strategy.

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**Horizontal Differentiation Structures**

- 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
Integration is the extent to which an organization coordinates its value-creation activities and makes them interdependent.

Integration Complexity

- Since integration is the way in which a company’s parts are combined, the complexity depends on the differentiation.
- Complex differentiation → complex integration.
Forms of Integration Mechanisms

1. 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

2. Interdepartmental Liaison Role
   - Gives one manager in each division the responsibility for coordinating with the others

Forms of Integration Mechanisms (cont’d)

3. Temporary Task Forces
   - One member of each division is assigned to a task force to solve a problem
   - They then report back to her/his respective division

4. 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
Differentiation and Integration

- A company needs to operate the simplest structure consistent with implementing its strategy effectively (known as the Law of Requisite Variety)
- Both differentiation and integration are costly and complex

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

Strategic Control Systems

- This is the formal feedback system that allows strategic managers to evaluate the implementation and success of a strategy
- Systems should:
  - Be Flexible
  - Provide accurate information
  - Supply information in a timely manner
Steps in Designing an Effective Control System

- Establish standards and targets
- Create measuring and monitoring systems
- Compare actual performance against the established targets
- Evaluate results and make action for improvements