

Structure, Corporate Strategy and the Overall Effectiveness of the Organisation

Khawaja Imran Latif¹
Dr. Qadar Baksh Baloch²
Muhammad Naser Khan³

Abstract

The paper aims to evaluate how organizational structure is related to corporate strategy and the role of structure in the overall effectiveness of the organization. The study is conducted through extensive review of relevant literature. Discussion showed that relationship between structure and strategy is evolutionary and is affected by change in organisation over the years however designing structure that fits company needs is a major challenge. The study would help practitioners in evaluating different organization structure in relation to corporate strategy.

Key words: Organizational Structure, Strategy, Organizational Effectiveness

¹Khawaja Imran Latif, Pursuing MBA (1.5), University of Lahore

²Dr. Qadar Baksh Baloch, Director Research and Higher Studies, Islamia College University, Peshawar.

³Muhammad Naser Khan, MS Scholar, Abasyn University, Peshawar

Organisation is uniform, structured and co-ordinated effort for achievement of economic/financial objectives for profit seeking firms and social for non-profit Organisations. To Satisfy Objectives, organisation channel endeavours of its employees in unified direction and establish means of allocating resources/responsibilities and control under arrangements referred as structure. Buchanan and Huczynski (2004) defined structure as “A formal system of task and reporting relationships that controls, co-ordinates and motivates employees so that they work together to achieve Organisational goals”.

Thus structure is synonymous to a rope that employees hold and binds all employees towards unified direction and aids the identification of “Who is Who” and “What is What” of organisation. Mullins (2005) emphasized that structure affects both productivity and economic efficiency and also morale and job satisfaction. Important notion stemming from Mullins assertion is that good structure will not only have tangible effects i-e financial but in-tangible affects like motivation thus impacting organisation’s operational effectiveness as employees carry out operations/tasks of organisation.

Bloisi (2007) highlighted the importance of structure as a mean of getting people work towards common goals thus acting as facilitator in pursuit of organisational goals. Looking simple but organization will have to make sure that employees identify with organisational thoughts and willingly forgo personal interests. Thus putting greater burden while designing structure which accommodates employees and harnesses an environment where staff takes organisational goals as their own and share believe of being valued through their work, hence good structure should provide right blend of command and control plus employee independence without feeling of resentment that hinders organisation pursuit of its mission.

Superior structure promotes cultural values; cultivate integration and coordination as it seeks to strengthen relationship of individuals and tasks. Jones (2007) noted that from this relationship emerge norms and rules contributing to improved communications and common language that improves team performance. Contrary to Jones, Turner (2006) referred to structure as primary reason why organisation struggle with cultural change as these structure often box people in old styled formations which are not aligned to new business philosophies.

Why shall an organisation follow certain arrangements? Buchanan and Huczynski (2004) stated that “Strategy” is a reason.

They view strategy and Structure as “mutually interdependent”, and structure as vehicle for implementing strategy.

Needle (2004) noted that organisational environment influences strategy and structure. Strategy-structure relation owes a great deal to Alfred Chandler. He called strategy as determination of long-term goals and objectives and called it a means to administer structure. Changing organisation's strategy leads to administrative problems which require refashioned structure for successful implementation of new strategy. Thus if ideas of Needle and Chandler are linked, a 3-item relationship is established whereby at top its ‘Environment’ in which business operates, which affects ‘Strategy formulation’, followed by ‘Structure’ dealing with allocation of resources, responsibilities and authority. The 3-item relationship is cemented by study of Green and Inman (2006) whereby businesses recognising environment calling for strengthening operations/marketing interface with customers that resulted in adoption of JIT (Just-in-time) with customer’s strategy and necessitated change to more integrated, specialized, and decentralized structure.

Mintzberg (1979) identified 5 parts of organisation, one of them is Strategic Apex, For Mintzberg strategy is interpretation of environment and managers develop strategies to deal with environment but Mintzberg contrary to chandler views points that Manager’s in strategic apex

“Tailor strategy to its strengths and needs, trying to maintain pace of change that is responsive to environment without being disruptive to organisation”.

Chandler and Mintzberg agree that Environment affects Strategy but Mintzberg contradicts chandler that structure is followed by strategy but points that organisation may shape its strategy without disrupting its arrangements. Daft (Huczynski and Buchanan, 2004) pointed to relationship of Environment, Strategy and Structure. CEO/Top Management considers both External and

Internal Environment for formulating strategies (Strategic Management) whereby first official Mission is identified followed by Operational Goals and Strategies. The next step is to design structure. It is important to note that daft refers to relationship between Structure and Strategy as Two-Way. Where Strategy affects Structure as identified by Chandler but daft also notes that Structure affects strategy thus strengthening Mintzberg ideology of structures' affecting strategy.

Daft proposes that structure might be affected by strategy and it may also affect strategy formulation. For instance the Case of Minnesota Mining and Manufacturing (3M) mentioned by Needle (2004) where new organisational structure was created in-order to provide the company with drive in strategy.

The extent of authority division in organisation is termed as centralisation and decentralisation. Mintzberg (1979) opinion is that when decision making power rests with single individual – its centralisation, but power dispersed among many individuals in the organisation – its decentralisation. Shall an Organisation centralize or decentralize? Bloisi (2007) answered that large organisation like Microsoft, Intel picks decentralisation and devolves authority to individuals at lower level, the term associated with employee freedom and autonomy to act is “Empowerment”. Empowerment for Bennett (1997) is achieved through encouraging innovation, decision making, flexible response, and trusting employees. Bennett does mention problems like increased care that has to be taken while hiring employees since employees might misuse power which directly impact customers and company's reputation but advantages reaped from empowerment outweigh its disadvantages.

Empowerment helps in quicker response to environment when decisions are made where and when need arises rather than waiting for head office approvals thus not only increasing organisational efficiency and effectiveness but power devolution has its implications on Human Resource (HR), referred in Hope

and Fraser (1999) 58% respondents from McKinsey survey identified one main reason why managers choose one firm over another is “freedom and autonomy”.

For Jones (2007) centralisation keeps organisation focused, and results in coordination of activities, adherence to rules and regulations without deviating from standards but centralised organisation vowing to empower its employees might have to re-structure its organisation.

An Important organisational concept referred as cry of the day is flexible working. Flexibility for employees is geographical mobility, carrying out different jobs and adapting variations in pay and attendance. Brooks (2006) identified organisational flexibility, in terms of structure and employment conditions. Flexible working benefits for HR are identified by Dempsey (2005) to whom devising and delivering flexible working could attract top-notch talent that might not otherwise have worked for the company thus engendering loyalty and employee engagement plus it also helps tackle absenteeism as shown in Research from “Working Families charity and employee benefits company Accor” (Personnel Today, Article: “Flexible Working is key to tackling absenteeism”).

Flexible working has its share of disputes; Millar (2005) reported Chartered Institute of Personnel and Development (CIPD) disputing with Confederation of British Industry (CBI). CBI says that employers are reporting negative impact from family-friendly employment laws. CBI Report shows rise from 11% to 26% of employers reporting flexibility has negatively affected businesses. But Rebecca Clake, organisation and resourcing adviser at CIPD, said that three-quarters of employers say flexibility has positive effect on staff retention, and 70% say they improve motivation.

Types of Flexibility defined by Atkinson (Cited in Needle, 2004) are **Numerical**, affecting employee’s hours of work through overtime/homeworking/shift work. According to Brooks (2006) its

need arises to meet with increased customer demands. **Functional** achieved when employees are able to perform a range of jobs and move jobs as on needed basis. Whereas **Financial** involves creation of different pay rates for full and part time workers, and most importantly it significantly help in linking incentives to develop multi-skilled labour.

Future worker needs enough flexibility to continually work across time zones, languages and cultures thus fading geographical boundaries emerges “Virtual Organisation”. Referring to structure of Virtual organisation and its vulnerability Brooks (2006) asserted that it can be intentionally short lived and because of its loose structure, withdrawing from a side can occur without protracted legal proceedings and requires high level trust to establish long relations and continued existence. Hence lacking people’s physical presence can harm development of shared values and norms plus also the process of knowledge sharing and learning may not be that effective in case of virtual organisation. McKenna (2006) identified virtuality as efficient coordination of activities across boundaries of time and space, reduction in costs, flexible in combination of activities and simplification of management.

Structure can be divided into various types. First **Functional Structure**, according to Jones (2007) it groups people together on basis of their common expertise and experience or because they use same resources thus expertise and use of same resources can result in high quality products at competitive prices. Plus it offers employees a chance to learn from each other and become more specialised and productive thus helping organisation spend less on training and endorse development of norms, values, and group cohesiveness that promote high performance which helps in building loyalty and commitment thus contributing to organisational efficiency.

Baxter (2007) pointed to practical contribution functional structure can make in successfully diminishing risk, through looking at fundamental issues about how business runs profitably,

assessing who does what and ensuring they are skilled or experienced for the job. Doing this, business will get most appropriate people who undertake activities for which they have skills, improving skills where needed, and empowering staff to understand responsibilities attached to each role.

According to Campbell et al (2005) Functional structures are employed by organisations based on single site, disadvantages arise when organisation grows in size and complexity resulting in co-ordinating and control problems between different functions meaning that different functions might develop their own targets and fail to integrate individual and corporate goals.

An obstacle to organisational effectiveness identified by Jones (2007) is measurement problems associated with functional structures, since it's difficult to associate "Functional costs" with individual products, or contribution of each function to overall product profitability making it difficult to reward on positive recognition.

Moving to divisional structure, According to Jones (2007) it can solve control and co-ordination problems associated with production of different kinds of products at different locations for different types of customers. Stemming from failure of functional structure to coordinate business activities, divisional structure takes onto solve problems through opting for particular structure relating to problems faced by the organisation. For Jones control problems if associated with the product, can be solved if division is based on product structure but Mullins (2005) contradicted Jones and asserts the danger that divisions might become too autonomous, again presenting management with co-ordination and control problems.

Brooks (2006) spotted senior management responsibility that advantages of divisions are not eroded by duplication and diseconomies of scale, to solve this problem Needle (2004) asserted that R&D and purchasing are often centralised so to benefit from economies of scale. Divisions are advantageous in

focusing on specific kind of goods/service or customer, thus creating high-quality products resulting in improved customer service. Division based on similarities add advantage in form of improved communication, since it results in single focus and can reduce conflicts that might arise due to diversified focus thus helping in improved decision making and performance.

Problems associated with location are solved by division based on geography; Bloisi (2007) declared that it can help in local adaption and/or supplier condition. Thus resulting in organisation being well positioned to respond to local situations such as needs of regional customers, fluctuations in resources and find solutions to region-specific problems through use of available resources. Divisions due to their autonomy can contribute to employee's motivation, reduce upward dependency and result in increased commitment, loyalty, and job satisfaction which is important to organisational effectiveness. On the downside Headquarters might face dilemma of maintaining image consistency plus decision on amount of freedom to allow managers in contrast to control. Since each division has its own set of sales managers, manufacturing managers, and so on which can result in high operating and managing costs plus divisions if not co-ordinated can result in competition for resources and may start to pursue divisional goals and objectives at the expense of organizational ones thus hindering quality of work and organisational life.

Another organisational form is holding company that according to Needle (2004) is associated with growth of firms by acquisition and through product diversification. Campbell et al (2005) indicated several reasons why an organisation opts for holding company and points to several reasons, business having interests in more than one product and market sector, holding company can have *broader business portfolio*, Holding companies subsidiaries are kept as separate by the parent and can easily dispose or acquire companies thus making the control easier as each subsidiary have autonomous status. Needle (2004) pointed

out its disadvantages; one is cooperation, as subsidiaries work as separate entities. The other is independence, as parent has to decide on how much independence parent can give to child with regard to use of resources, decision making, structuring.

Organisations can opt for Project Teams, Buchanan and Huczynski (2004) identified it as a mean for tackling core activities of organisation, teams exist for series of projects and work autonomously under lines drawn by senior management. Needle (2004) referred to Project teams as mean to cope with diverse problems that are made possible through individual expertise, as project team involves people having diverse viewpoint, individual experience and knowledge and might involve members coming from various divisions which can help in creation of mutual trust, cooperation and understanding between employees.

Project teams can be costly and might leave members shelter less as where do members go after the project ends, if they don't have any functional home thus might result in grievances among individuals resulting in disputes.

Next form of structure is Matrix, which for Mullins (2005) is combination of functional departments providing a stable base for specialised activities and permanent location for members of staff and units that integrate various activities of different functional departments on project, programme, geographical or system basis. Some of the advantages pointed by Buchanan and Huczynski (2004) are that it helps avoid duplication of costs as employees can contribute to different project or programmes which cements Needle (2004) assertion that it can also help in employees ability to transfer expertise where its wanted plus organisation having matrix can transfer resources between project.

Matrix Structure Involves employees reporting to more than one boss; Reality of the drawback comes from Millar (2004) who quoted McDougall, HR Assistant Chief Executive at Hackneys Council who identifies major disadvantage of Matrix

Structure. "There had been a matrix structure that meant it was difficult to see who was accountable and where responsibilities lay. It was even difficult for the public to work out where they needed to go for their services." thus Reporting to more than one bosses results in divided loyalties, co-ordination problems. i-e likely to result in neglecting responsibilities/duties thus giving rise to blame culture as employees might find it reasonable to blame the other line of authority if they fail to satisfy the job. A badly designed structure has its consequences; some identified by Furnham (2005) are

"Illogical" structures that suit people's aim rather than organisation, resulting in people getting more powerful than the position and organisation, thus resulting in power struggle and organisational politics,

"Stress Inducing", as failure to provide clear definition of what is required from employees results in stress/tension, employee fail to perform his/her duties effectively and efficiently and they get blamed for poor results,

"Wasteful" as jobs fitted to members rather than members fitted to jobs will require new members to be trained in a way so to replace special personal experience thus resulting in fear of failure of person not being able to perform the job and also time consuming in finding replacements.

"In-Efficient" as organisation get based on personalities not on principles, thus if a person leave he/she leaves a gap hard to fill.

According to Mullins (2005) deficient structure results in "Low Motivation and morale", as employee might not have clarity of job and autonomy to work, which results in failure to get attached with the job. "Late and inappropriate decisions" resultant of lack of relevant information, coordination and reflection on decisions thus also hindering learning of organisation as learning

isn't complete without reflection. "*Conflict and Lack of Coordination*" results due to irregular arrangement of jobs where people are stronger than jobs itself and finally the "*Poor response to new opportunities and rising costs*" attributed to failure to respond to environmental/market changes and proposing solutions to problems plus a long hierarchy with high number of senior positions will certainly have its effect on productivity as it will make decision making process slow.

Mullins (2005) criticized structure not being able to describe what really happens in organisation. Individuals differs and they bring their own believes and values to jobs. Thus the way structure is designed affects the way people behave within organization. Once an organization decides how it wants members to behave, the attitudes it wants to encourage, and what it wants its members to accomplish, it can structure and encourage development of cultural values and norms to obtain these desired attitudes, behaviours, and goals.

Conclusion

Structure forms an integral part of organisation, it serves as basis for orchestrating organisational activities. Organisations shall understand importance of structure in carrying out business activities and its relation to strategy. Above discussion shows that relationship between the two is evolutionary and is affected by change in organisation over the years, as Chandler believed strategy affected structure and carried his study in 1960, Mintzberg in late 70's said structure can have its affect on strategy. Designing structure that fits company needs is a major challenge. Each structure has its advantages and disadvantages on how it contributes to its effectiveness, and organisation has to mull over the decision on what structures it follows, plus the autonomy organisations provide to its employees for purpose of decision making. Organisation can choose from variety of structure like, functional, divisional, project teams, holding companies and matrix

structure. Failure to choose an effective structure has its consequences on organisation as it will not only affect health of the organisation it will also affect employees loyalty, motivation at work and job satisfaction, thus organisation when deciding for designing structure needs to take care of all aspects that relates to people and working of organisation.

References

- Barnes, M., Fogg, H., Stephen, N., & Titman, G. (1970). *Company organization: Theory and practice* (1st ed.). London: George Allen and Urwin LTD.
- Baxter, M. (2007). Managing Risk and Responsibility. *Personnel Today*. [online] Available from: <<http://www.personneltoday.com/articles/2007/05/01/40358/managing-risk-and-responsibility.html>> [Accessed 7th Dec 2012]
- Bennett, R., (1997). *Organisational behaviour* (3rd ed.). London: Pitman Publishing.
- Bloisi, W., (2005). *Management and organisational behaviour* (2nd ed.). London: McGraw-hill Companies.
- Brooks, I., (2006). *Organisational behaviour: Individual, groups and organisation* (3rd ed.). Essex: Prentice Hall.
- Buchanan, D., & Huczynski, A. (2004). *Organizational behaviour: An introductory text* (5th ed.). Essex: Prentice Hall.
- Campbell, D., & Craig, T. (2005). *Organisations and the business environment* (2nd ed.). London: Elsevier.
- Dempsey, K., (2005). Flexible Firms win loyalty and talent. *Personnel Today*. [online] Available from: <<http://www.personneltoday.com/articles/2005/05/04/29512/flexible-firms-win-loyalty-and-talent.html>> [Accessed 12th Nov 2012].
- Furnham, A. (2005). *The psychology of behaviour at work* (2nd ed.). Sussex: Psychology Press.
- Green, W., & Inman, R. (2006). Does implementation of a JIT-with-customers strategy change an organization's structure? *Industrial Management and Data*, 106(8), 1077 – 1094.

- Hope, J., & Fraser, R. (1999). Beyond budgeting: Building a new management model for the information age. *Management Accounting*, 16-21.
- Jones, R. (2007). *Organisational theory, design, and change* (5th ed.). New Jersey: Pearson Prentice Hall.
- McKenna, E. (2006). *Business psychology and organisational behaviour* (4th ed.). Sussex: Psychology Press.
- Millar, M. (2004). Hackney HR leads the way. *Personnel Today*. [online] Available from: <
<http://www.personneltoday.com/articles/2004/08/24/25239/hackney-hr-leads-the-way.html>> [Accessed 13th Nov 2012].
- Millar, M. (2005). CIPD disputes CBI claim that flexible working harms business. *Personnel Today*. [online] Available from: <
<http://www.personneltoday.com/articles/2005/09/12/31573/cipd-disputes-cbi-claim-that-flexible-working-harms.html>> [Accessed 7th Dec 2012].
- Mintzberg, H. (1979). *The structuring of organizations* (1st ed.). New York: Prentice-Hall.
- Mullins, J. (2005). *Management and organisational behaviour* (7th ed.). Essex: Prentice Hall.
- Needle, D. (2004). *Business in context. An introduction to business and its environment* (4th ed.). London: Thomson Learning.
- Turner, P. (2006). Why HR should be running the business. *Personnel Today*. [online] Available from: <
<http://www.personneltoday.com/articles/2006/09/05/37043/why-hr-should-be-running-the-business.html>> [Accessed 1th Nov 2012].