UNIT 13 STRATEGY IMPLEMENTATION:
STRUCTURAL AND BEHAVIOURAL ISSUES
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13.0 INTRODUCTION

It is not possible for firms to implement their strategies successfully unless they have proper organizational structures. Organizational structure here covers the processes and integrating mechanisms that are essential for ensuring the flexibility of boundaries between external parties such as partners, customers and suppliers and internal activities.

Organizational structure refers to the formalized patterns of interaction that link the tasks, technologies and people of a firm. Structures are designed to ensure that resources are used most effectively to accomplish an organization’s mission. Structure provides managers with a means of balancing two conflicting forces — a need for the division of tasks into meaningful groups and the need to integrate such groups in order to ensure organizational efficiency and effectiveness. Structure identifies the executive, managerial and administrative organization of a firm and indicates responsibilities and hierarchical relationships. It also influences the flow of information as well as the context and nature of human interactions. Most organizations begin very small and either die or remain small. Those few that survive and prosper, embark on strategies designed to increase the overall scope of operations and enable them to enter new product-market domains. Such growth places additional pressure
on executives to control and coordinate the firm’s increasing size and diversity. The most appropriate type of structure depends on the nature and magnitude of growth in a firm. In this unit, you will be introduced to the various types of structural forms, their advantages and disadvantages and their relationships with the strategies that organizations undertake. In addition, you will study about attaining behavioural aspects of strategy implementation.

### 13.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Get an idea of the growth patterns of large companies
- Understand the various types of organizational structures
- Appreciate the advantages and disadvantages of each of type of structure

### 13.2 PATTERNS OF GROWTH OF LARGE CORPORATIONS

There is a change in the structure of the organization as it grows and expands into new geographical locations and diversifies into new product markets.

A new firm with a simple structure typically increases its sales revenue and volume of output over time. It may also engage in some vertical integration to secure sources of supply (backward integration) as well as channels of distribution (forward integration). After a time, the simple-structure firm implements a functional structure to concentrate efforts on both increasing efficiency and enhancing its operations and products. This structure enables the firm to group its operations into either functions, departments or geographic areas. As its initial markets mature, a firm looks beyond its present products and markets for possible expansion. Such a policy of related diversification requires a need to reorganize around product lines or geographic markets. This leads to a divisional structure. As the business expands in terms of sales revenues, and domestic growth opportunities become somewhat limited, a firm may seek opportunities in international markets. At this time, a firm has a wide variety of structures to choose from including geographic area, global product division, international division, worldwide functional division and worldwide matrix. Deciding upon the most appropriate structure when a firm has international operations depends on three primary factors:

(i) Extent of international expansion  
(ii) Type of strategy (global, multidomestic, or transnational)  
(iii) Degree of product diversity

There are some other common growth patterns. For example, some firms may find it advantageous to diversify into several product lines rather than focus on strengthening distributor and supplier relationships through vertical integration. Thus, they would organize themselves according to product lines by implementing a divisional structure. Also, some firms may choose to move into unrelated product areas, typically by acquiring existing businesses. Frequently, their rationale is that acquiring assets and competencies is more economical or expedient than developing them internally. Such an unrelated or conglomerate strategy requires relatively little integration across
businesses and sharing of resources. Thus, a holding company structure becomes appropriate. As we would expect, there are many other growth patterns, but the most common types of organizational structures are:

(i) Simple
(ii) Functional
(iii) Divisional
(iv) Matrix

### 13.3 SIMPLE, FUNCTIONAL AND DIVISIONAL STRUCTURE

#### Simple Structure

A simple structure is the oldest and most common organizational form. After all, most organizations are very small and have a single or very narrow product line in which the owner-manager controls all activities, and the staff serves as an extension of the top executive’s personality.

A simple structure is characterized by a high degree of informality. Tasks are coordinated by direct supervision. Decision making is highly centralized and there is hardly any specialization of jobs. The performance evaluation and system of rewards is also informal. There are hardly any rules and regulations. Usually it is the owner who is actively involved in all the stages and departments of the business, at times a manager may be appointed to supervise operations on a daily basis.

Such small firms with a simple and straightforward structure tend to encourage creativity. The lack of rigidity and rules also fosters individualism. However, such an informal environment may also create problems. Employees may not take their responsibilities seriously or may not understand them at all. This may result in unnecessary confusion and conflicts. The absence of strict rules may encourage employees to become selfish and act in their own interest. Such actions can erode motivation and satisfaction as well as lead to the possible misuse of organizational resources. Further, small organizations have flat structures (i.e., few vertical, hierarchical levels) that limit opportunities for upward mobility. Without the potential for future advancement, recruiting and retaining talent may become very difficult.

#### Functional Structure

When an organization is small with fifteen or less employees, it is not necessary to have a variety of formal arrangements and grouping of activities. But with the steady expansion of firms, it may prove to be too much for an owner manager to handle all the processes of the business, because the owner may not be skilled in all the areas or tasks. He may not have enough knowledge of marketing, production, accounting and engineering to run the business successfully on his own. Thus, he or she will need to hire specialists in the various functional areas. Such growth in the overall scope and complexity of the business necessitates a functional structure wherein the major functions of the firm are grouped internally and led by a specialist. The coordination and integration of the functional areas becomes one of the most important responsibilities of the chief executive of the firm.

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**Check Your Progress**

1. What is organizational structure?
2. What are the factors deciding upon the most appropriate structure when a firm has international operations depends on?

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**Self-Instructional Material**
Functional structures are most suitable for firms wherein there is just one product or a single product along with a closely-related service; volume of production is high and there is some vertical integration. At first, firms tend to expand the overall scope of their operations by penetrating existing markets, introducing similar products in additional markets, or increasing the level of vertical integration. Such expansion activities clearly increase the scope and complexity of the operations. The functional structure facilitates a high level of centralization that ensures integration and control over all the related activities in the value chain—primary and support. Companies such as Videocon Industries, Hindalco and Bajaj Auto follow such a functional organization structure.

**Divisional structure**

Also called the multidivisional structure, it refers to a structure that revolves around the markets, projects and products. Each division has departments with their respective functional specialists. This type of structure consists of relatively autonomous units centrally governed by a corporate office. The different divisions enjoy a fair degree of independence and deal with their respective products and services that are different from the other divisions.

In such an operational structure, there is too much responsibility on the top management with regard to decision making. Therefore, it may become essential for the top management to delegate their responsibilities and decision making powers to lower-level managers in order to be able to attend to issues concerning the organization in the long run. This makes divisional executives crucial. In conjunction with corporate-level executives, they help to determine the product market, and financial objectives for the division as well as their division’s contribution to overall corporate performance.

General Motors was among the first to adopt the divisional organizational structure. In the 1920’s the company formed five major product divisions (Cadillac, Buick, Oldsmobile, Pontiac and Chevrolet) as well as several industrial divisions. Since then, many firms have discovered that as they diversified into new product-market activities, functional structures—with their emphasis on single functional departments—were unable to manage the increased complexity of the entire business.

There are many advantages associated with the divisional structure. By creating separate divisions to manage individual product markets, there is a separation of strategic and operating control. That is, divisional managers can focus their efforts on improving operations in the product markets for which they are responsible, and corporate officers can devote their time to overall strategic issues for the entire corporation. The focus on a division’s products and markets by the divisional executives—provides the corporation with an enhanced ability to respond quickly to important changes in the external environment. Since there are functional departments within each division of the corporation, the problems associated with sharing resources across functional departments are minimized. Finally, because there are multiple levels of general managers (that is, executives responsible for integrating and coordinating all functional areas), the development of general management talent is enhanced.

A divisional structure also has potential disadvantages. First, it can be very expensive; i.e. there can be increased costs due to the duplication of personnel, operations and investment since each division must staff multiple functional departments. There can also be dysfunctional competition among divisions since each division tends to become concerned solely with its own operations. Furthermore,
divisional managers are often evaluated on common measures such as return on assets and sales growth. Therefore, if goals are conflicting, there can be a sense of a ‘zero-sum’ game that would discourage sharing of ideas and resources among the divisions for the common good of the corporation.

Another drawback could be that with so many divisions providing a variety of products and services, there are chances of differences arising in the quality and image of the products. There are two variations of the divisional form of organization structure:

(i) Strategic business unit (SBU)
(ii) Holding company structures

13.4 STRATEGIC BUSINESS UNIT (SBU) STRUCTURE

Corporations that are highly diversified may consist of dozens of different divisions, e.g. Unilever. Now, if Unilever were to use a purely divisional structure, it would be nearly impossible for the corporate office to plan and coordinate activities because the span of control would be too large. Instead of attaining synergies, Unilever has put its diverse businesses into few primary SBUs.

With an SBU structure, divisions with similar markets, and/or technologies are grouped into homogeneous groups in order to achieve some synergy. These include related diversification, such as leveraging core competencies, sharing infrastructures, and market power. Generally speaking, the more related the businesses are within a corporation, the fewer will be the SBUs required. Each of the SBUs in the corporation operates as a profit centre.

The main benefit of the SBU structure is that it simplifies the planning process and makes it easy for the corporate office to control and plan tasks. As it facilitates decentralization of authority, individual businesses can react more quickly to important changes in the environment than if all divisions had to report directly to the corporate office.

There are also some disadvantages to the SBU structure. Since the divisions are grouped into SBUs, it may become difficult to achieve synergies across SBUs. That is, if divisions that are included in different SBUs have potential sources of synergy, it may become difficult for them to be realized. The additional level of management increases the number of personnel and overhead expenses, while the additional hierarchical level removes the corporate office further from the individual divisions. Thus, the corporate office may become unaware of key developments that could have a major impact on the corporation.

13.5 HOLDING COMPANY STRUCTURE

Also called a conglomerate, the holding company structure is somewhat similar to the divisional structure. While the SBU structure is used when there are obvious similarities between the individual businesses units (or divisions), the holding company structure is appropriate when the businesses in a corporation’s portfolio do not have much in common. Thus, the potential for synergies is limited.

Holding company structures are most appropriate for firms that follow a strategy of unrelated diversification. Companies have relied on the holding company structure...
to implement their unrelated diversification strategies. Since there are few similarities in the businesses, the corporate offices in these companies provide a great deal of autonomy to operating divisions and rely on financial controls and incentive programs to obtain high levels of performance from the individual businesses. Corporate staffs at these firms tend to be small because their involvement in the overall operation of their various businesses is limited.

The most important benefit of the holding company structure is that it saves cost because of fewer personnel and lower overhead resulting from a small corporate office and fewer levels in the corporate hierarchy. Also, the autonomy motivates the heads of the divisions and encourages them to respond promptly to opportunities and threats.

The main drawback of this structure is that the corporate-level executives are not able to exercise any control on the division executives and are quite dependent on them. Major problems could arise if key divisional executives leave the firm, because the corporate office has very little ‘bench strength’- that is, additional managerial talent ready to fill key positions on short notice. If problems arise in a division, it may become difficult to turn around individual businesses because of limited staff support in the corporate office.

**13.6 MATRIX STRUCTURE**

Often, managers may find that it is difficult to find a suitable structure to fulfill all their requirements. If none of the approaches discussed so far work, the managers have the option of trying the matrix structure which makes up for the drawbacks of the other structures. It is actually a blend of the functional and divisional structures.

Here, the functional departments are called upon to work with product groups depending on the project that requires attention. If a product group wishes to develop an addition product, it could turn to the functional departments such as engineering, marketing or production for personnel.

These personnel will assist the product group as required by the manager of the group, till the project is completed. Such borrowed personnel are answerable to their own functional heads as well as the heads of the product group they are assisting. In some multinational companies, the matrix structure helps bring together product groups as well as geographical units. This is required when product managers are responsible for the global development, management and distribution of their product line; and the heads of geographical regions are responsible for the profits of their business units in their respective regions.

The matrix structure is successfully used in companies such as Disney, Caterpillar Inc. and ABB.

The benefit of a matrix structure is that it makes it possible to take advantage of specialized personnel, special equipment as well as facilities. Instead of duplicating functions, the resources are shared as required. Such sharing and collaboration of resources ensures efficient and effective utilization of resources. This also ensures prompt response to changes in the competitive environment.

Another benefit is that a matrix structure is flexible providing professionals with a wide range of responsibility, giving them more experience and the opportunity to develop their skills and competencies.
Matrix structures also have many drawbacks. Their dual reporting structure leads to uncertainty and conflict with regard to allocation of resources. This in turn causes complications relationships at the workplace. Therefore, there is increasing reliance on group processes and teamwork. Responsibilities are diffused which may lead to delays in decision making.

13.7 ATTAINING BEHAVIOURAL CONTROL: BALANCING CULTURE, REWARDS AND BOUNDARIES

The competitive environment is getting increasingly complex and unpredictable, demanding both flexibility and quick response to its challenges. As firms simultaneously downsize and face the need for increased coordination across organizational boundaries, a control system based primarily on rigid strategies and rules and regulations is dysfunctional. Thus, the use of rewards and culture to align individual and organizational goals becomes increasingly important.

Second, the implicit long-term contract between the organization and its key employees has been eroded. Today’s younger managers have been conditioned to see themselves as ‘free agents’ and view their career as a series of opportunistic challenges. In today’s competitive work environment, the importance of culture and rewards in building organizational loyalty has found greater importance.

Building a strong and effective culture

Organizational culture is a system of shared values and beliefs that shape company’s people, organizational structures and control systems to produce behavioural norms. Over the years, numerous best-sellers have emphasized the powerful influence of culture on what goes on within organizations and how they perform.

Role of culture

Culture wears many different hats, each woven from the fabric of those values that sustain the organization’s primary source of competitive advantage. Culture sets implicit boundaries, that is, unwritten standards of acceptable behaviour: in dress, ethical matters, and the way an organization conducts its business. By creating a framework of shared values, culture encourages individual identification with the organization and its objectives.

Sustaining an effective culture

Powerful organizational cultures just don’t happen overnight, and they don’t remain in place without a strong commitment: both in terms of words and deeds: by leaders throughout the organization. A viable and productive organizational culture can be strengthened and sustained. However, it cannot be built or assembled. Instead, it must be cultivated, encouraged and fertilized.

Motivating with rewards and incentives

Reward and incentive systems represent a powerful means of influencing an organization’s culture, focussing efforts on high-priority tasks, and motivating individual and collective task performance. Just as culture deals with influencing beliefs, behaviours and attitudes of people within the organization, the reward system:
specifying who gets rewarded and why: is an effective motivator and a control mechanism.

**Potential disadvantage**

Generally speaking, people in organizations act rationally, each motivated by his or her personal interest. However, the collective sum of individual behaviours of an organization’s employees does not always necessarily result in what is best for the organization. In other words, individual rationality does not always guarantee organizational rationality.

As corporations grow and evolve, they often develop different business units with multiple reward systems. They may differ based on industry contexts, business situations, stage of product lifecycles, and so on. These subcultures within the organization may reflect differences among an organization’s functional areas, products, services and divisions. Reward systems reinforce such behavioural norms, attitudes, and belief systems; reduce organizational cohesiveness; important information is hoarded rather than shared and individuals begin working at cross-purposes losing sight of overarching goals and objectives.

Such conflicts are commonplace in many organizations. For example, sales and marketing personnel promise unrealistically quick delivery times in business, much to the dismay of operations and logistics. Overengineering by research and development creates headaches for manufacturing, and so on. Conflicts also arise across divisions when divisional profits become a key compensation criteria. As ill will and anger escalate, personal relationships and performance may suffer.

### Impact of culture on two different groups of organizations

<table>
<thead>
<tr>
<th>Dimensions of corporate culture</th>
<th>Multinational subsidiaries and professional managed companies</th>
<th>Family business and NRI’s companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of desired managerial skills and capabilities</td>
<td>Emphasis on professional qualifications and rank</td>
<td>Emphasis on demonstrated skills, depth and quality of knowledge</td>
</tr>
<tr>
<td>Actual performance or results achieved</td>
<td>Emphasis on seniority, conformity to organizational values, loyalty, and a relative fit between desired managerial behaviour and position in hierarchy</td>
<td>Emphasis on originality of action and thinking, innovation, and upgradation of knowledge and skills by personal efforts.</td>
</tr>
<tr>
<td>Managerial style of planning and decision-making</td>
<td>Emphasis on information gathering, bureaucratic mode of functioning, risk-aversion, and non-entrepreneurial decision-making</td>
<td>Emphasis on selective information usage, and intuitive and qualitative decision-making of an entrepreneurial nature</td>
</tr>
<tr>
<td>Management systems adopted</td>
<td>Emphasis on the use of elegant, sophisticated and rational systems which degenerate due to low usage</td>
<td>Emphasis on reliance on business sense and no-frills systems geared to quick action</td>
</tr>
<tr>
<td>Nature of management control</td>
<td>Emphasis on comprehensive, formal and written reporting and rationalization of failures rather than resolution of problems</td>
<td>Emphasis on primary use of verbal reporting and remedial action</td>
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13.8 STRATEGY-CULTURE RELATIONSHIP

Having discussed what constitutes corporate culture and how it affects corporate life, it is important to understand its relationship with strategy. Since each strategy creates its own set of managerial tasks, strategy implementation has to consider the behavioural aspects and ensure that these tasks are performed in an efficient and effective manner. Managerial behaviour arising out of corporate culture, can either facilitate or obstruct the smooth implementation of strategy. Therefore, the basic question before strategists is, how to create a strategy-supportive corporate culture. In other words, a major role of the leaders within an organization is to create an appropriate strategy-culture fit.

13.8.1 Approaches to Creation of Strategy-Supportive Culture

The strategists have four approaches to create a strategy-supportive culture.

1. **To ignore corporate culture**: This approach may be followed when it is nearly impossible to change culture. This is advisable because it is really difficult to change a nebulous phenomenon such as corporate culture. Besides, cultural changes, when enforced in a short duration, may be traumatic for members of an organization.

2. **To adapt strategy implementation to suit corporate culture**: It is easier to change implementation to suit the requirements of corporate culture. This is possible because the behavioural aspects of implementation offer a range of flexible alternatives to strategists in terms of structure, systems and processes. These variables could be adjusted to subserve the interests of corporate culture. However, each situation in the organization would call for an innovative solution and would test the capabilities of managers as strategists.

3. **To change the corporate culture to suit strategic requirements**: As stated earlier, it is extremely difficult to change corporate culture. But in some cases, it may be imperative.

4. **To change the strategy to fit the corporate culture**: Rather than changing culture to suit strategy, it is better and more economical to consider the cultural dimension while formulating strategy in the first place. If an impregnable cultural barrier is faced after strategy implementation, it may be better to abandon the strategy or use a combination of the above three approaches.

13.8.2 Corporate Politics and use of Power

All corporate cultures include a political component. Therefore, all organizations are political in nature. Strategists should understand that organizations are a microcosm of the society in which they exist. Organizational members bring with them their likes and dislikes, views and opinions, prejudices and inclinations when they enter organizations. Managerial behaviour cannot be purely rational. Therefore, an understanding of how how politics works and how power is to be used, is required.

13.8.3 Creating Effective Reward and Incentive Programmes

To be effective, incentive and reward systems need to reinforce basic core values and enhance cohesion and commitment to goals and objectives. They also must not be at odds with the organization’s overall mission and purpose.
Effective reward and incentive systems share a number of common characteristics as follows:

- Objectives are clear, well understood and broadly accepted
- Rewards are clearly linked to performance and desired behaviours
- Performance measures are clear and highly visible
- Feedback is prompt, clear and unambiguous
- The compensation ‘system’ is perceived as fair and equitable
- The structure is flexible; it can adapt to changing circumstances

The perception that a plan is ‘fair and equitable’ is critically important. Similarly, the firm must have the flexibility to respond to changing requirements as its direction and objectives change.

13.8.4 Setting Boundaries and Constraints

In an ideal world, a strong culture and effective rewards should be sufficient to ensure that all individuals and subunits work towards the common goals and objectives of the whole organization. In the real world, however, this is not usually the case. Counter-productive behaviour can arise because of motivated self-interest and lack of clear understanding of goals and objectives.

Boundaries and constraints, when used properly, can serve many useful purposes for organizations as follows:

- Focussing individual efforts on strategic priorities
- Providing short-term objectives and action plans to channel efforts
- Improving efficiency and effectiveness
- Minimizing improper and unethical conduct

Focusing efforts on strategic priorities

Boundaries and constraints play a valuable role in focussing a company’s strategic priorities. A well-known strategic boundary as set by GE’s Jack Welch was that any business in the corporate portfolio should be ranked first or second in its industry. The concentration of effort and resources provides the firm with greater strategic focus and the potential for stronger advantages in the remaining areas.

Boundaries also have a place in the non-profit sector. Boundaries clearly go beyond simply taking the moral high road. Rather, they are essential for maintaining legitimacy with existing and potential benefactors.

Providing short-term objectives and action plans

To be effective, short-term objectives must have several attributes. They should:

- Be specific and measurable
- Include a specific time horizon for their attainment
- Be achievable, yet challenging enough to motivate managers who must strive to accomplish them.

Research has found that performance is enhanced when individuals are encouraged to attain specific, difficult, yet achievable, goals.
Short-term objectives must provide direction and at the same time provide enough flexibility for the firm to keep pace with and anticipate changes in the external environment.

**Improving operational efficiency and effectiveness**

Rule-based controls are most appropriate in organizations with the following characteristics:

- Stable and predictable environments
- Largely unskilled and interchangeable employees
- Consistency in product and service

Take the example of McDonald’s Corp. It has extensive rules and regulations that regulate the operation of its franchises. Guidelines can also be effective in setting spending limits and the range of discretion for employees and managers.

**Minimizing improper and unethical conduct**

Guidelines can be useful in specifying proper relationships with a company’s customers and suppliers. For example, many companies have explicit rules regarding commercial practices, including the prohibition of any form of payment, bribe, or kickback.

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**13.9 BEHAVIOURAL CONTROL IN ORGANIZATIONS: SITUATIONAL FACTORS**

The focus here is on ensuring that the behaviour of individuals at all levels of an organization is directed towards achieving organizational goals and objectives. The three fundamental types of control are culture, rewards and incentives as well as boundaries and constraints. An organization may pursue one or a combination of them on the basis of a variety of internal and external factors.

Not all organizations place the same emphasis on each type of control. For example, in professional organizations such as high-technology firms engaged in basic research, members may work under high levels of autonomy. Here, an individual’s performance is generally quite difficult to measure accurately because of the long lead times involved in research and development activities. Thus, internalized norms and values become very important.

In organizations where the measurement of an individual’s output or performance is quite straightforward, control depends primarily on granting or withholding rewards.

Control in bureaucratic organizations has long been recognized as dependent on members following a highly formalized set of rules and regulations. In such situations, most activities are routine and the desired behaviour can be specified in a detailed manner because there is generally little need for innovative or creative activity. In business organizations, for example, managing an assembly plant requires strict adherence to many rules as well as exacting sequences of assembly operations.

**13.9.1 Evolving from Boundaries to Rewards and Culture**

Most environments should strive to provide a system of rewards and incentives, coupled with a culture strong enough for boundaries to become internalized. This reduces the need for external controls such as rules and regulations.
Approach | Some Situational Factors
---|---
Culture: A system of unwritten rules that forms an internalized influence over behavior | Often found in professional organizations
Associated with high autonomy
Norms are the basis for behavior

Rules: Written and explicit guidelines that provide eternal constraints | Associated with standardized output
Tasks are generally repetitive and routine
Little need for innovation or creative activity

Most appropriate in organizations pursuing unrelated diversification strategies.
Rewards may be used to reinforce other means of control.

13.10 SUMMARY

In this unit, you have learned that it is important for organizations to ensure that they adopt an appropriate organizational structure. It is also essential to ensure flexibility of their internal and external boundaries. The unit attempted to explain the various types of organization structures, that is, simple, functional and matrix. Their relative merits and demerits were also stated. You learnt that organization structures have to be changed to suit the changing needs of growing organizations.

This unit concentrated on achieving behavioural control in organizations by balancing culture, rewards and boundaries. Culture has a powerful influence on the performance of organizations. It also drove home the fact that powerful cultures and organizations cannot be built or assembled. They need to be cultivated and encouraged over time. Implementation of strategy should take into consideration the behavioural aspects of the employees. You got to know that there are four approaches to creating a strategy-supportive culture: ignoring corporate culture, adapting strategy implementation to suit corporate culture, changing the corporate culture to suit strategic requirements and changing the strategy to fit the corporate culture. The unit also emphasized that in order to be effective, incentive and reward systems need to reinforce basic core values and enhance cohesion and commitment to goals and objectives.

13.11 KEY TERMS

- **Organizational structure**: The formalized patterns of interaction that link the tasks, technologies and people of a firm or organization.
- **Simple structure**: An informal organizational structure characterized by direct supervision, centralized decision making and absence of specialization.
• **Functional structure**: A relatively formal organizational structure, used in firms producing a single product along with a closely-related service, that facilitates a high level of centralization, integration and control.

• **Divisional structure**: A multidivisional structure that revolves around the markets, projects and products.

• **SBU structure**: The strategic business unit structure where similar markets and/or technologies are grouped together, thereby simplifying the planning and controlling process.

### 13.12 ANSWERS TO ‘CHECK YOUR PROGRESS’

1. Organizational structure refers to the formalized patterns of interaction that link the tasks, technologies and people of a firm.

2. Deciding upon the most appropriate structure when a firm has international operations depends on three primary factors:
   - (i) Extent of international expansion
   - (ii) Type of strategy (global, multidomestic, or transnational)
   - (iii) Degree of product diversity

3. Functional structures are most suitable for firms wherein there is just one product or a single product along with a closely-related service; volume of production is high and there is some vertical integration.

4. The main benefit of the small business unit (SBU) structure is that it simplifies the planning process and makes it easy for the corporate office to control and plan tasks.

5. Culture encourages individual identification with the organization and its objectives by creating a framework of shared values.

6. Boundaries and constraints, when used properly, can serve many useful purposes for organizations as follows:
   - Focussing individual efforts on strategic priorities
   - Providing short-term objectives and action plans to channel efforts
   - Improving efficiency and effectiveness
   - Minimizing improper and unethical conduct

7. A system of rewards and incentives, coupled with a culture strong enough for boundaries to become internalized, reduces the need for external controls such as rules and regulations.

### 13.13 QUESTIONS AND EXERCISES

**Short-Answer Questions**

1. What are the basic characteristics of organizational design?

2. Mention the different types of structures and the differences between them.

3. What is the difference between an SBU and a holding company structure?

4. List the characteristics of a simple structure.
5. How is the functional structure related to the growth of the firm?
6. Why does too much responsibility fall on the top-level managers in a divisional structure?
7. When should a company go for a matrix structure?
8. Why is it important to understand how politics works and how power is to be used?
9. Suggest ways to create an effective incentive and reward system.
10. How can boundaries and constraints be used effectively to avoid counter-productive behaviour?
11. How can the need for external controls such as rules and regulations be eliminated?
12. What is the impact of culture on different groups of organizations?
13. What is the relationship between strategy and culture?
14. How can situational factors affect behavioural control in organizations?
15. How can operational efficiency and effectiveness be improved by using behavioural methods?

Long-Answer Questions

1. Discuss the benefits of a matrix structure.
2. What is organizational structure? Compare the simple and the functional structures.
3. Discuss the disadvantages of a divisional structure.
4. Discuss the two variations in the divisional form of organization.
5. Discuss the relationship between corporate culture and strategy.
6. Explain the four approaches to creating a strategy-supportive culture.
7. Discuss the attributes of effective short-term objectives.
8. Write a note on effective behavioural control in organizations.

13.14 FURTHER READING

Transformation of an Organization through Effective Leadership

Carlos Ghosn, CEO of Nissan Motors who was proclaimed the Automotive News’ Industry Leader of the year 2003, by *Fortune*, was the man behind one of the most astonishing corporate turnarounds in the world. Ghosn had set new trends of leadership style by turning around three different companies with his dynamic strategies and convincing negotiations. He was also named Asia’s businessman of the Year.

Before Ghosn joined Nissan Motor Company Limited, the Company had experienced losses for eight successive years. In the fiscal year 2000, Nissan posted an annual loss of $5.5 bn. The company had a debt of approximately $22 bn. Before joining Nissan, Ghosn took a pledge that if he were not able to turnaround the company within three years of his joining, he would resign. Ghosn being a non-Japanese, the task was seemingly very tough for him. His dynamic leadership and well-planned strategy for revival brought about a miraculous turnaround in the company, much before the stipulated deadline. He brought about a cultural shift in the business practices at Nissan. He took it upon himself to break the old, traditional and obsolete practices of the company. He believed that motivation of the employees was the greatest tool that led to the Nissan turnaround. Doing away with the tradition of promoting the employees on the basis of age and experience, he gave priority to talent and expertise. He believed that an organization could only be effective if the followers believed that what the leaders thought, said, and did were all the same. Ghosn laid emphasis on transparency across the organization and consensus among the management in decision-making. He believed that execution was 95 per cent of the job whereas strategy was only 5 per cent. He linked organizational prosperity directly to improving quality, costs, and customer satisfaction. His leadership provided a vision to the management and employees of Nissan. As a result of his turnaround strategy called the ‘Nissan Revival Plan’ or NRP, the Company posted a profit of $2.7 bn in the year 2000.

Ghosn was good at understanding the problems of cross-cultural mix in an organization, which helped him tackle acquisition-related problems for the companies he worked with. His other assets that helped him succeed were his negotiating and lobbying skills.

As his first step towards Nissan’s revival, he sorted out the strengths and weaknesses of Nissan. He could feel clearly that the employees and the management at Nissan had lost confidence in the Company’s performance. Kieretsu is a business understanding in Japan, according to which, various companies will have cross share holding of various companies. It was formed in Japan after World War II. Ghosn first targeted understanding the culture and the people of Japan and Nissan. He had the specialty of adapting to any new culture quickly; Nissan’s was not an exception. He realized the important of adapting without which he believed a person would lose his identity. The employees could feel his sense of urgency towards the company’s situation and his liking for the culture of the country that made him an acceptable leader across the organization. He did not have to tell them that he liked the country, they could see it.

Ghosn could infer that the internal communication mechanism at Nissan was poor and it did not have proper infrastructure for communication. He created a well-established communication system across the organization.

Despite being an outsider at Nissan and unfamiliar with Japan, he Ghosn had to act meticulously, as he was an outsider at Nissan and was not familiar with Japan he ensured that his instructions to the management and employees did not sound like dictations. He came up with the idea of establishing cross-functional teams. The CFT concept had already proved to be successful.
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during his turnaround at the Michelin Group. The CFT groups included mostly the middle-level managers who were in continuous touch with Ghosn with their observations, concerns and suggestions. Ghosn emphasized on the empowerment of the managers and the workers which helped in reducing bottlenecks at the departmental level. He allowed the members to think freely and challenged the employees to find ways to solve the crisis at Nissan.

Teams were allowed to operate with authority and the executive committee decided that the idea of CFTs was recommendable. The concept of CFT allowed a free flow of ideas and out of the box thinking. Earlier, the people of one department had a tendency of shying away from the people of another department. CFT encouraged inter-disciplinary thinking and a better understanding of various problems across the organization. Various departments that participated in CFTs were business development, purchasing, manufacturing, logistics, research and development and the sales and marketing departments.

The organization witnessed a gradual transformation in the style and pace of functioning of the managers and the staff. After three months of formation, all the CFTs together had come up with as many as 2000 ideas, which were presented to the executive committee. The executive committee, in turn, presented the final recommendations to Ghosn. As a result of a thorough study of all the ideas and his own analysis, Ghosn came up with the tough Nissan Revival Plan (NRP).

Carlos Ghosn's leadership style

The following are the important points associated with his leadership style:

- Retirement by natural attrition
- Early retirement by offering
- Seniority was eliminated as a means of company advancement
- Senior executive positions found to be redundant were incentives
- Transfer of the remaining to other healthy plants.
- Revamping compensation schemes to reflect higher pay, based on strong performance.
- Bonus pay was tied to NRP’s success for all employees
- Frivolous expense accounts were eliminated

With this, the productivity of Nissan went up by around 20 per cent. Nineteen months after the announcement of the Nissan Revival Plan, Nissan produced the best results in its history. At the financial year-end 2000, the sales of Nissan grew by 4 per cent. The same year witnessed the launch of 22 new models of Nissan. In addition to Nissan, Ghosn was also responsible for several other turnarounds in the US and South America (Brazil). He affected the turnaround of a company of the Michelin Group. He was placed at both the South American and North American operations of Michelin, and he brought about major changes at both places. Besides, he was also responsible for improving conditions at Renault Group. These major turnarounds made him famous as a ‘turnaround specialist’ among the corporate parliaments.

His action plan focused on transparency. He always assured his employees that he did not enter the Company with any preconceived plans and expected them to be as transparent as he himself was. He emphasized on working fast, avoiding assumptions of any sort and earning trust and respect.

Questions for Discussion

1. What were the critical leadership traits of Carlos Ghosn? Did a good understanding of culture help Ghosn in his task? Explain.
2. Enumerate the process by which Carlos Ghosn transformed Nissan.