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Implementing Strategy Control & Structure
Part 2

Chartered Accountancy
Strategic Level
Strategic Management & Leadership (SML)

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STRATEGIC MANAGEMENT

&

LEADERSHIP

CA - STRATEGIC LEVEL

Implementing Strategy Control & Structure (ii)

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Implementing Strategy Control & Structure – (10%)

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INTRODUCTION

This chapter covers strategy implementation or execution part and issues of putting strategy in to practice. Role of organizational structure in strategy implementation is focused on and modern developments of same would be looked at which fuels the strategy execution part.
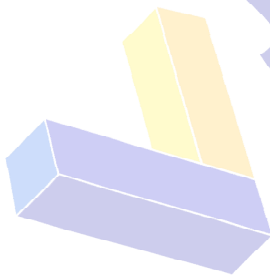
6.0   Modern Development in Organizational Structure

More recent types of structure have tended to use technology and encourage collaboration and co-operation. Many of these structures support the fast responses needed by organisations in turbulent, rapidly changing environments.

6.1   Boundary-less Organizational Structure

Boundary-less organisations are those which have structured their operations to allow for collaboration with external parties. Building relationships with suppliers, competitors and customers should increase the organisations flexibility to respond to change.

There are various forms of boundary-less organisation:

Hollow, modular, **virtual and network** organisation structures & **Strategic alliances** (**joint ventures, franchising** and **licensing**) could be considered boundary-less.

- Hollow Organizational Structure

    Outsourcing is central to the creation of the hollow organizational structure, as non-core processes such as human relations, payroll and logistics are outsourced to specialist providers.

    Outsourcing non-core processes enables an organisation to concentrate on its core value adding activities, being those areas that provide the organisation with a competitive advantage. Value adding activities often relate to R&D, marketing and manufacturing. The outsourcing of certain functions effectively makes the organisation a 'hollowed out' entity, allowing it reduce its workforce and cut costs.

- Modular Organization Structure

    A modular organisation shares some of the same features as the hollow organisation structure. A modular organisation structure involves an organisation outsourcing some parts of its production to specialist providers. The core company will then assemble the outsourced components in-house to produce a final product.

    The components manufactured by the outsource parties tend to be of stand-alone manufacture (product modules) to allow for easier assembly.

- Alliances

The cost advantages available from economies of scale are a major driver of expansion. Indeed, the minimum efficient scale for capital intensive industries such as motor vehicle manufacture is so high that operations on at least a continental scale are necessary to achieve it. Such a degree of expansion requires huge amounts of capital. Various forms of **complex organisation** result from the pressure to pool resources, including **partnerships**, **alliances**, **consortia** and the unintegrated structures resulting from **takeovers** and **mergers**.
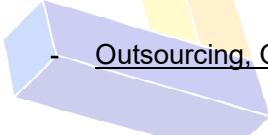
- Network Organizations

A **network structure** is applied both within and between organisations. Within the organisation, the term is used to describe the structure of informal relationships that exists in most organisations alongside the formal structure. Such a loose, fluid approach is often used to achieve innovative response to changing circumstances.

The network approach is also visible in the growing field of **outsourcing** as a strategic method. Complex relationships can be developed between firms, who may both buy from and sell to each other, as well as the simpler, more traditional practice of buying in services such as cleaning.

- The Virtual Organization

A **virtual organisation** is a geographically distributed network with little formal structure, held together by IT applications, partnerships and collaboration.

The idea of a **virtual organisation** or **cybernetic corporation** has attracted considerable attention as the usefulness of IT for communication and control has been exploited. The essence of the virtual organisation is the electronic linking of spatially dispersed components.

- Outsourcing, Offshoring & Shared Servicing
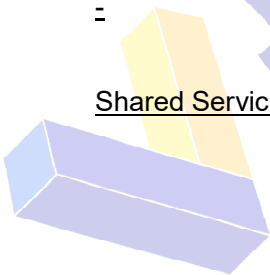
Outsourcing

Offshoring

Advantages

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-

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Disadvantages

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-

-

Shared Servicing

7.0   The Relationship between Strategy & Structure

There has been debate as to which of strategy and structure is the **independent variable** and which the **dependent**. Chandler (1962) concluded that structure was determined by strategy, but it has been suggested that once a large organisation has settled into a particular structural form, the hierarchical, communication and cultural practices associated with that form will predispose it towards a particular strategic stance.

Johnson et al (2005) expand on this suggestion with their description of **reinforcing cycles** and **configuration dilemmas**.

7.1 Reinforcing Cycles

Organisations experience **reinforcing cycles** of behaviour that tend to preserve the status quo. (Johnson et al, 2005). For example, an organisation which sells a standardised, well-established, cost effective product, will seek out stable environmental conditions in which to compete.

This can strengthen the organisation, but the danger is that it can lead to strategic drift if one of the elements involved is changed. The circle of reinforcement is broken and the organisation may decline until a new reinforcing cycle is developed.

7.2 Configuration Dilemmas

All organisation structures have both advantages and disadvantages.

A **hierarchical structure** may be necessary for direction and control, but is less good than a **network approach** for fostering learning and innovation.

Similarly, **empowerment** can promote the use of initiative, but is difficult to combine with overall control and may lead to chaotic activity.

8.0   Management in a Dynamic Business Environment the Threat of Strategic Drift

Dynamic business strategies help a business to respond quickly to environmental changes.

In a constantly changing business environment, the ability to modify and implement new strategies quickly is important. Economic pressures, industry changes, regulatory pressures and changes in consumer preference can all impact a business' ability to sell its products or services. Dynamic business strategies help to ensure

that a business can respond appropriately to changes that may represent both potential opportunities and new threats to its operations.

(a) **Watch Competitors**

(b) **Plan Flexibly**

(c) **Seek Information**
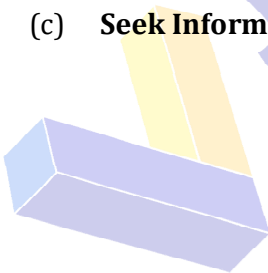
Flux

In extreme circumstances strategic drift may lead onto a state of flux as the company suddenly discovers it is in trouble. Flux is characterised by panic and confusion and where decisions are made piecemeal, without any attempt to take a longer-term view.

Transformational Change

Often the only way for an organisation to deal with being in a state of flux is to attempt transformational change in a belated attempt to catch up with its competitors. This is a very risky approach, involving change on several fronts at the same time, leading to managers being spread too thinly and not able to give sufficient attention to all those aspects of the business that need it.