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BY EVERYONE'S SMART UNIVERSITY

Strategic Management

Prepared by Dr. Amira Elfekky

Lecture 10

MGM414

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- **Chapter 2** Strategic Leadership: Managing the Strategy Process
- **Chapter 3** External Analysis: Industry Structure, Competitive Forces, and Strategic Groups
- **Chapter 4** Internal Analysis: Resources, Capabilities, and Core Competencies
- **Chapter 5** Competitive Advantage, Firm Performance, and Business Models

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- **Chapter 7** Business Strategy: Innovation, Entrepreneurship, and Platforms
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- **Chapter 10** Organizational Design: Structure, Culture, and Control

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Strategic Management

Strategic management involves developing and implementing plans to help an organization achieve its goals and objectives. This process can include formulating strategy, planning organizational structure and resource allocation, leading change initiatives, and controlling processes and resources.

Agenda Organizational Design: Structure, Culture, and Control

- **Organizational Design and Competitive Advantage**
  - Organizational Structure
  - Mechanistic vs. Organic Organizations
- **Strategy and Structure**
  - Simple Structure
  - Functional Structure
  - Multidivisional Structure
  - Matrix Structure

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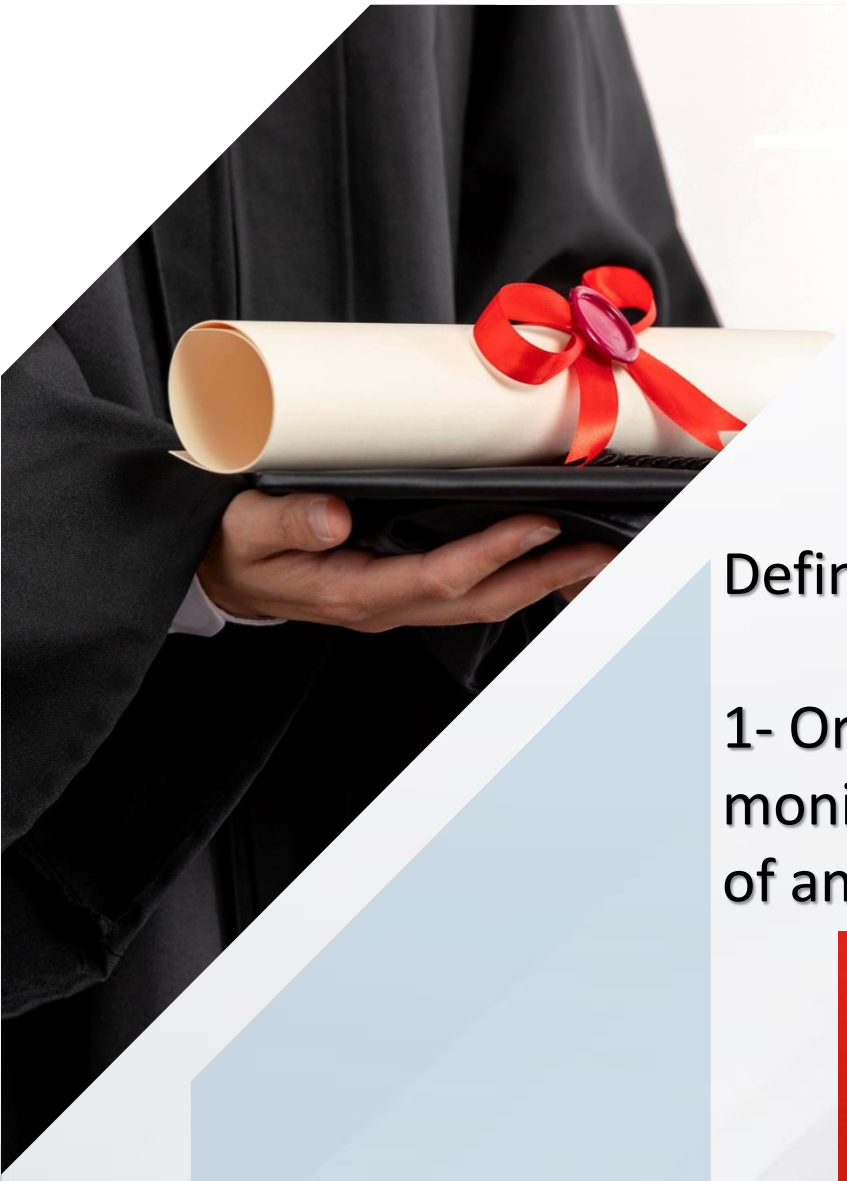

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Organizational Design

Define organizational design and list its three components;

1- Organizational design is the process of creating, implementing, monitoring, and modifying the structure, processes, and procedures of an organization.

Organizational Design

Define organizational design and list its three components;

2- The key components of organizational design are structure, culture, and control.

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Organizational Design

Define organizational design and list its three components;

3- The goal is to design an organization that allows managers to effectively translate their chosen strategy into a realized one.

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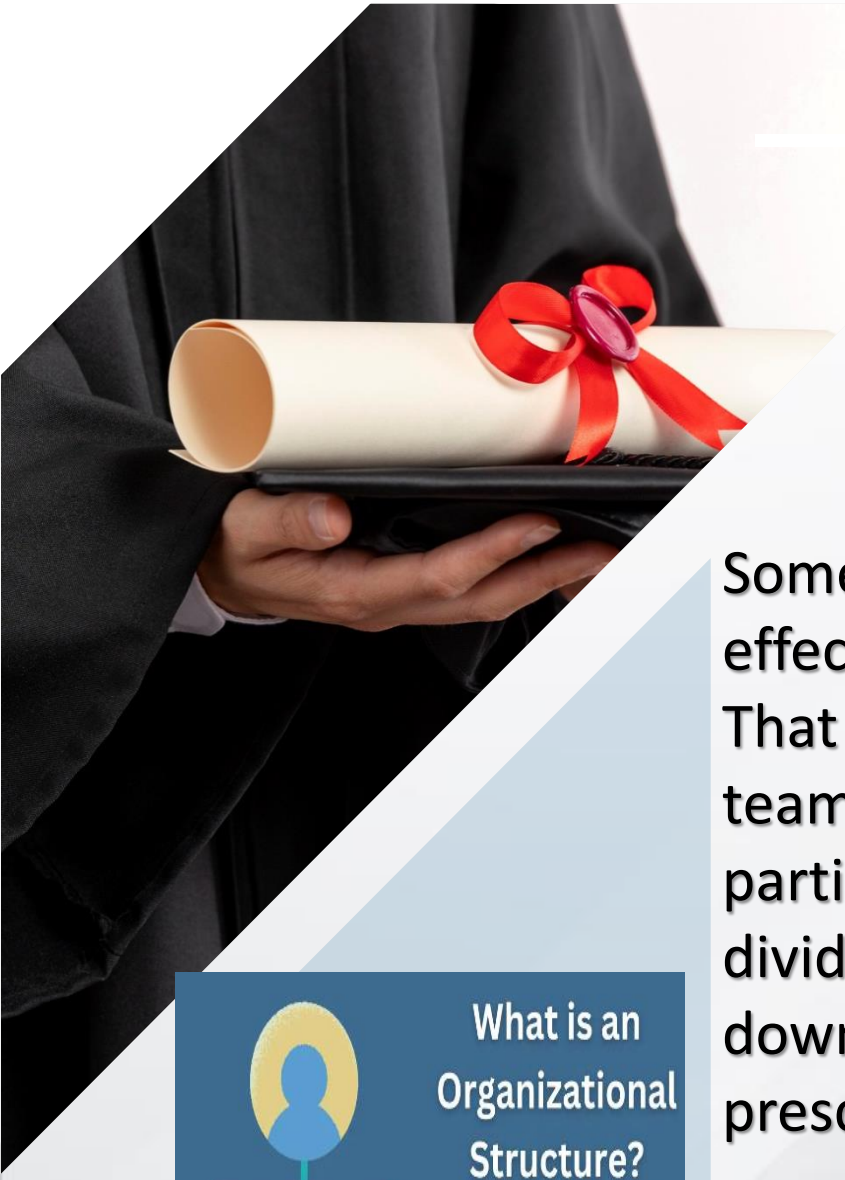
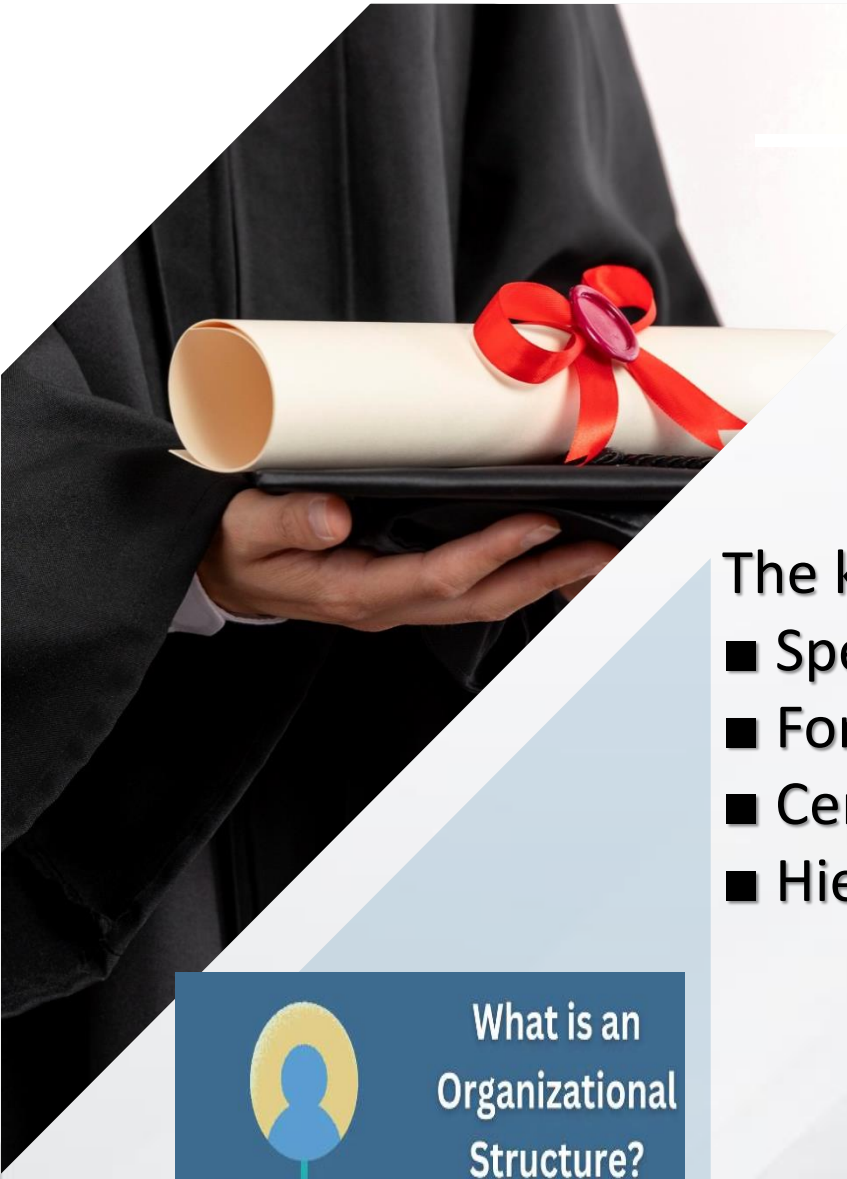
Organizational structure

Organizational structure A key to determining how the work efforts of individuals and teams are orchestrated and how resources are distributed.



Organizational structure

Some of the key decisions managers must make when designing effective organizations pertain to the firm’s organizational structure. That structure determines how the work efforts of individuals and teams are coordinated and how resources are distributed. In particular, an organizational structure defines how jobs and tasks are divided and integrated, Identifies the reporting relationships up and down the hierarchy, defines formal communication channels, and prescribes how individuals and teams coordinate their work efforts.



Organizational structure

The key building blocks of an organizational structure are:

- Specialization
- Formalization
- Centralization
- Hierarchy

Chapter
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Organizational structure

1- Specialization

Specialization An organizational element that describes the degree to which a task is divided into separate jobs (i.e., the division of labor).

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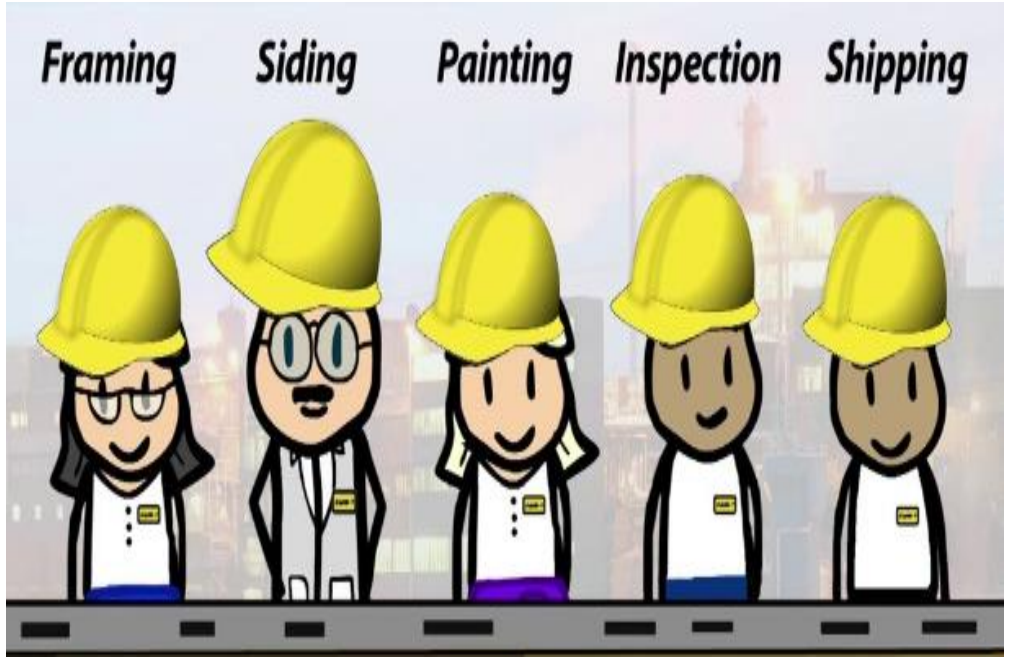
Organizational structure

1- Specialization

Specialization describes the degree to which a task is divided into separate jobs—that is, the division of labour. Larger firms, such as Fortune 100 companies, tend to have a high degree of specialization; smaller entrepreneurial ventures tend to have a low degree of specialization.



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Organizational structure

2- Formalization

Formalization An organizational element that captures the extent to which employee behavior is steered by explicit and codified rules and procedures.

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Organizational structure

2- Formalization

Formalization captures the extent to which employee behaviour is steered by explicit and codified rules and procedures. Formalized structures are characterized by detailed written rules and policies of what to do in specific situations. These are often codified in employee handbooks. McDonald's, for example, uses detailed standard operating procedures throughout the world to ensure consistent quality and service.

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Organizational structure

3- Centralization

Centralization An organizational element that refers to the degree to which decision-making is concentrated at the top of the organization.

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Organizational structure

3- Centralization

Centralization refers to the degree to which decision-making is concentrated at the top of the organization. Centralized decision-making often correlates with slow response time and reduced customer satisfaction. In decentralized organizations such as Zappos, decisions are made and problems solved by empowered lower-level employees who are closer to the source of issues.

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Organizational structure

4- Hierarchy

Hierarchy An organizational element that determines the formal, position-based reporting lines and thus stipulates who reports to whom.

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Organizational structure

4- Hierarchy

Hierarchy determines the formal, position-based reporting lines and thus stipulates who reports to whom. Let’s assume two firms of roughly equal size: Firm A and Firm B. If many levels of hierarchy exist between the frontline employee and the CEO in Firm A, it has a tall structure. In contrast, if there are few levels of hierarchy in Firm B, it has a flat structure.

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MECHANISTIC VS. ORGANIC ORGANIZATIONS

Several of the building blocks of organizational structure frequently appear together, creating distinct organizational forms—mechanistic or organic organizations.

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Mechanistic organizations

Mechanistic organizations are characterized by a high degree of specialization and formalization and by a tall hierarchy that relies on centralized decision-making. The fast food chain McDonald's fits this description quite well. Each step of every job such as deep-frying fries is documented in minute detail (e.g., what kind of vat, the quantity of oil, how many fries, what temperature, how long, and so on).

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Organic organizations

Organic organizations have a low degree of specialization and formalization, a flat organizational structure, and decentralized decision-making.

Organic structures tend to be correlated with the following: a fluid and flexible information flow among employees in both horizontal and vertical directions; faster decision-making; and higher employee motivation, retention, satisfaction, and creativity. Organic organizations also typically exhibit a higher rate of entrepreneurial behaviours and innovation.

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Organizational structure

Specialization

Mechanistic Organizations

- High degree of specialization
- Rigid division of labor
- Employees focus on narrowly defined tasks

Chapter
10

Organizational structure

Specialization

Organic Organizations

- Low degree of specialization
- Flexible division of labor
- Employees focus on “bigger picture”

Chapter 10

Organizational structure

Formalization

Mechanistic Organizations

- Intimate familiarity with rules, policies, and processes necessary
- Deep expertise in narrowly defined domain required
- Task-specific knowledge valued

Chapter 10

Organizational structure

Formalization

Organic Organizations

- Clear understanding of organization's core competencies and strategic intent
- Domain expertise in different areas
- Generalized knowledge of how to accomplish strategic goals valued

Chapter
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Organizational structure

Centralization

Mechanistic Organizations

- Decision power centralized at top
- Vertical (top-down) communication

Chapter
10

Organizational structure

Centralization

Organic Organizations

- Distributed decision making
- Vertical (top-down and bottom-up) as well as horizontal communication

Chapter
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Organizational structure

Hierarchy

Mechanistic Organizations

- Tall structures
- Low span of control
- Clear lines of authority
- Command and control

Chapter
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Organizational structure

Hierarchy

Organic Organizations

- Flat structures
- High span of control
- Horizontal as well as two-way vertical communication
- Mutual adjustment

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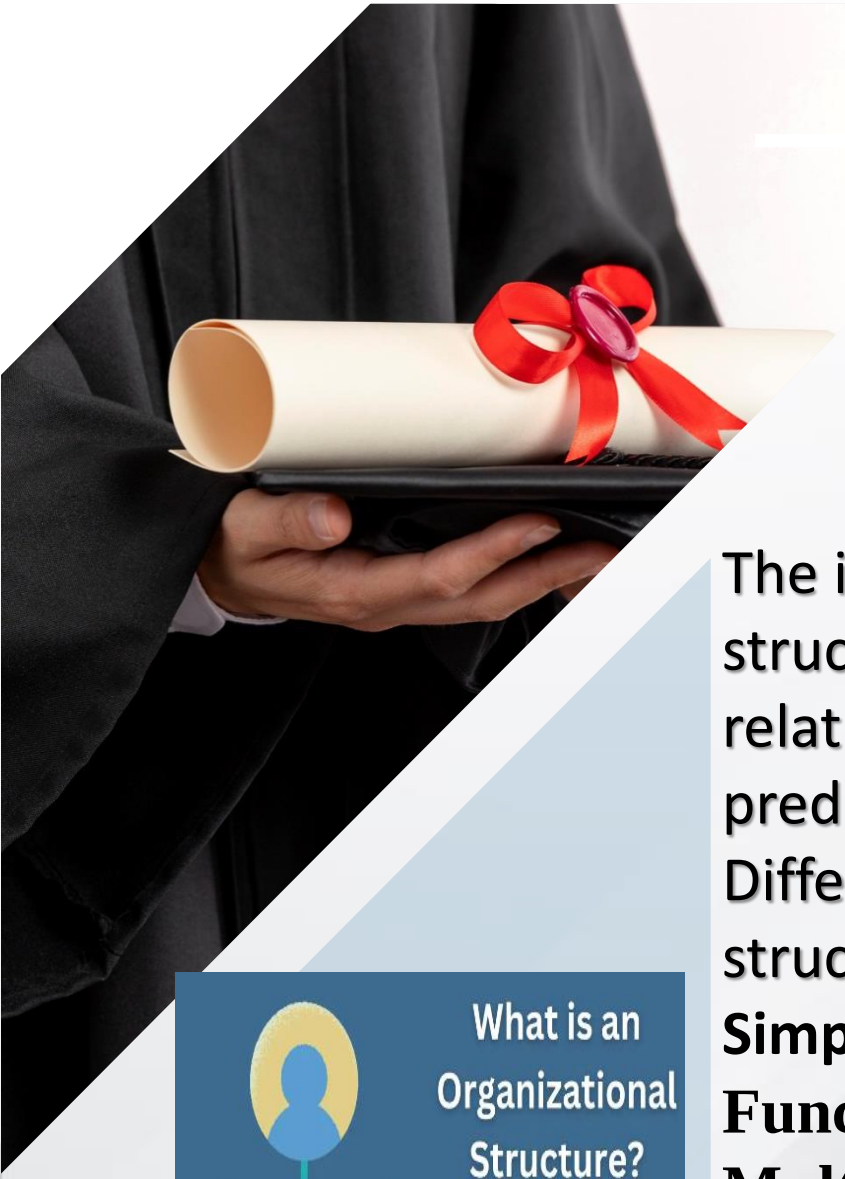

Strategy and Structure

The important and interdependent relationship between strategy and structure directly impacts a firm's performance. Moreover, the relationship is dynamic—changing over time in a somewhat predictable pattern as firms grow in size and complexity.

Different stages in a firm's growth require different organizational structures;

Simple structure

Functional structure

Multidivisional Structure

Matrix Structure

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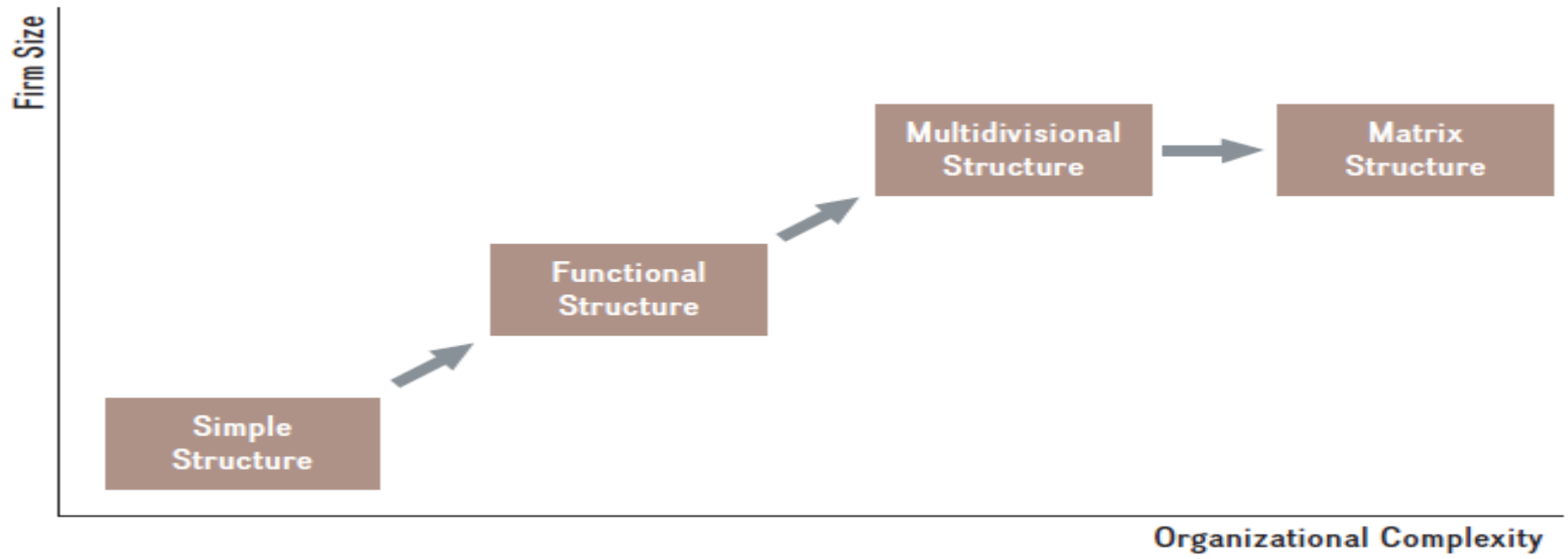
Strategy and Structure



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Strategy and Structure

Simple structure

Organizational structure in which the founders tend to make all the important strategic decisions as well as run the day-to-day operations.

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10

Strategy and Structure

Simple structure

Advantages

- Fast decision-making
- Intelligent and responsive organization
- Integration of expertise across areas
- Organizations with simple

structures are easily pushed into “crisis mode,” requiring “all hands on deck” (i.e., everyone working long hours until project is completed)

Strategy and Structure

Simple structure

Disadvantages

- CEO overload
- Lack of domain expertise in distinct business functions (e.g., accounting, finance, marketing, etc.)
- Unable to accommodate growth
- No separation of strategic and day-to-day decision making

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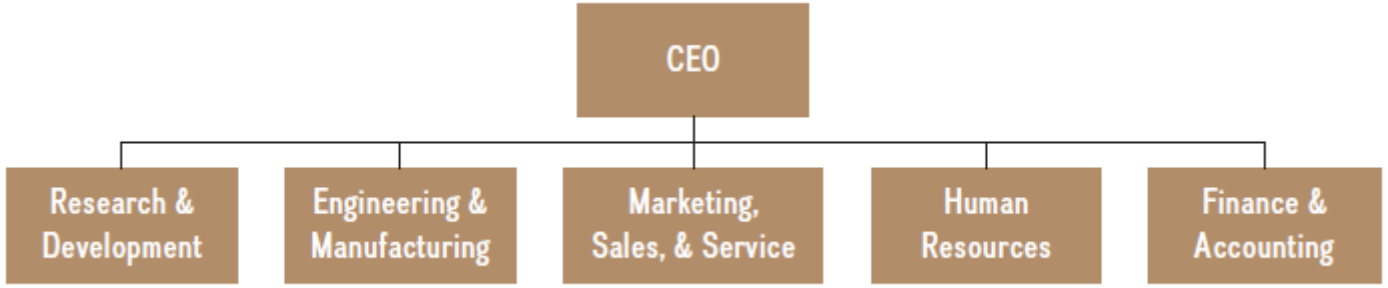
Strategy and Structure

Functional structure

Organizational structure that groups employees into functional areas based on domain expertise.



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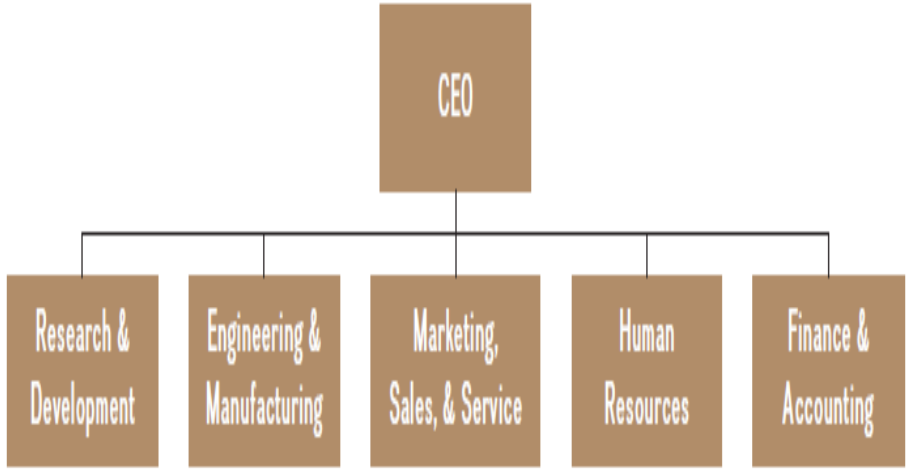
Strategy and Structure

Functional structure

Advantages

- Clear, top-down lines of authority and decision making
- Deeper domain expertise
- Higher productivity due to specialization and division of labor
- Responsive organization



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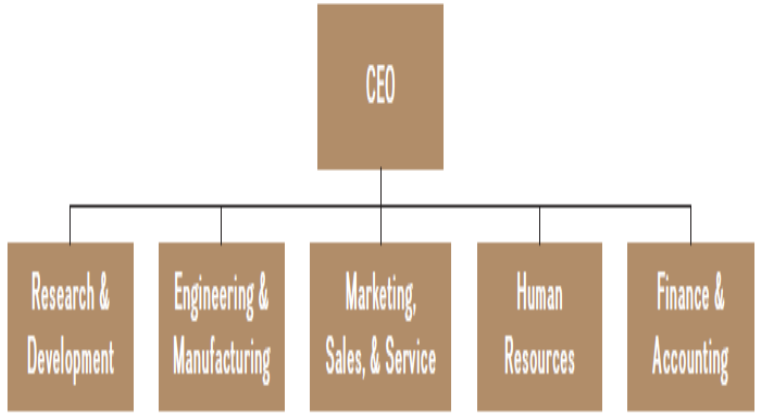
Strategy and Structure

Functional structure

Disadvantages

- No effective communication across different departments.
- Growth is limited
- Employee isolation, especially in startups

that move from simple structure to functional one



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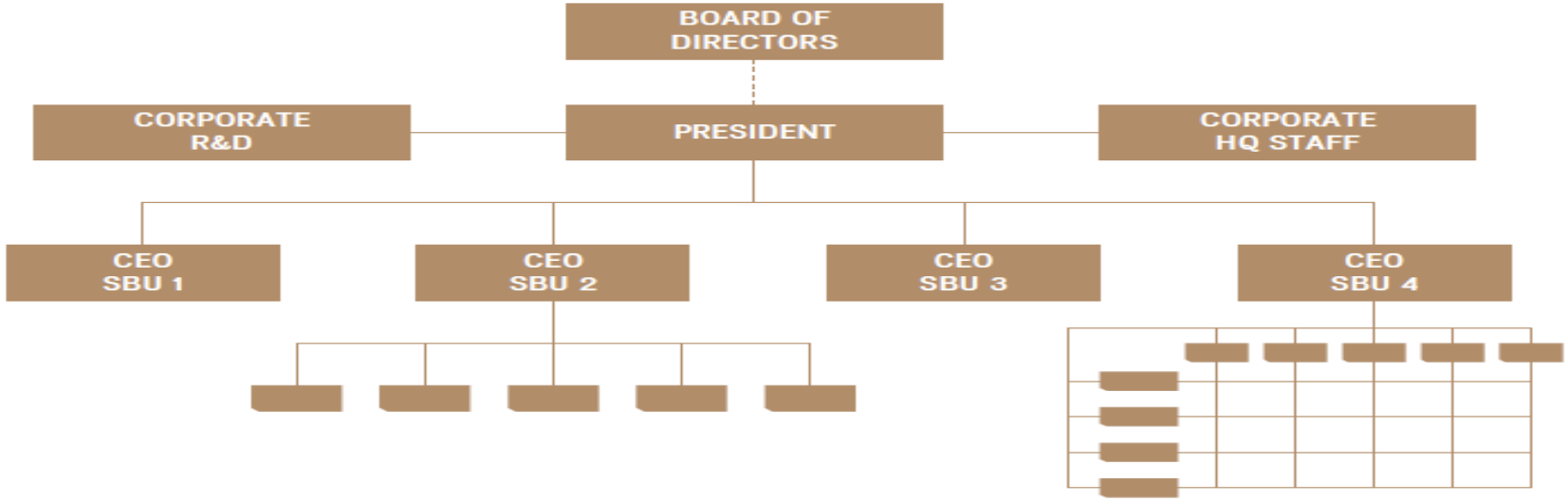
Strategy and Structure

Multidivisional Structure (M-form)

An organizational structure that consists of several distinct strategic business units (SBUs), each with its own profit-and-loss (P&L) responsibility.



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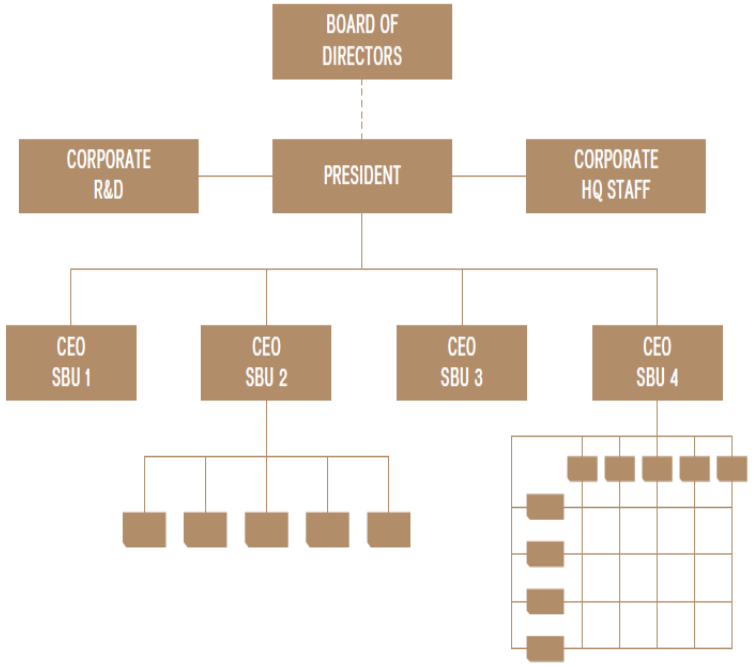
Strategy and Structure

Multidivisional Structure (M-form)

Advantages

- Accommodates growth (horizontal, vertical, and geographic)
- Clear profit & loss responsibilities at SBU level, run by CEO or equivalent
- Efficient processing of information
- Allows for different competitive strategies at SBU-level, while integration takes place at corporate level



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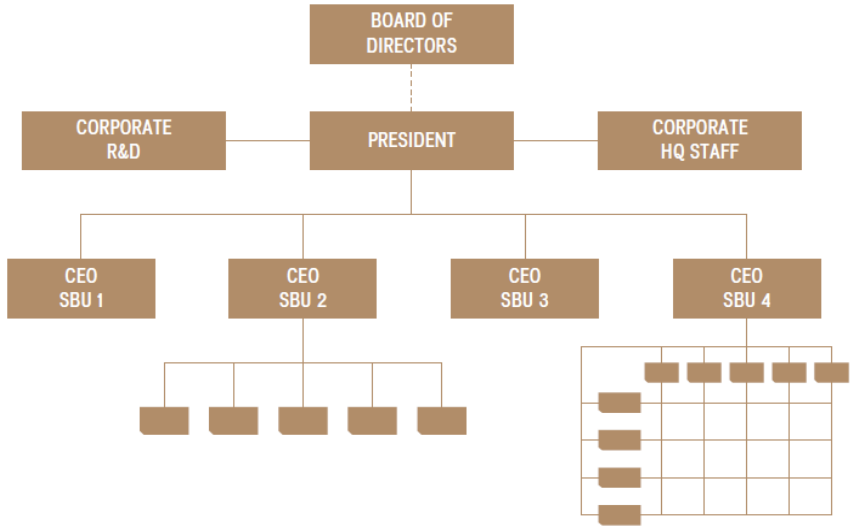
Strategy and Structure

Multidivisional Structure (M-form)

Disadvantages

- Additional layer of corporate hierarchy
- SBUs stand in competition to one another
- Political infighting



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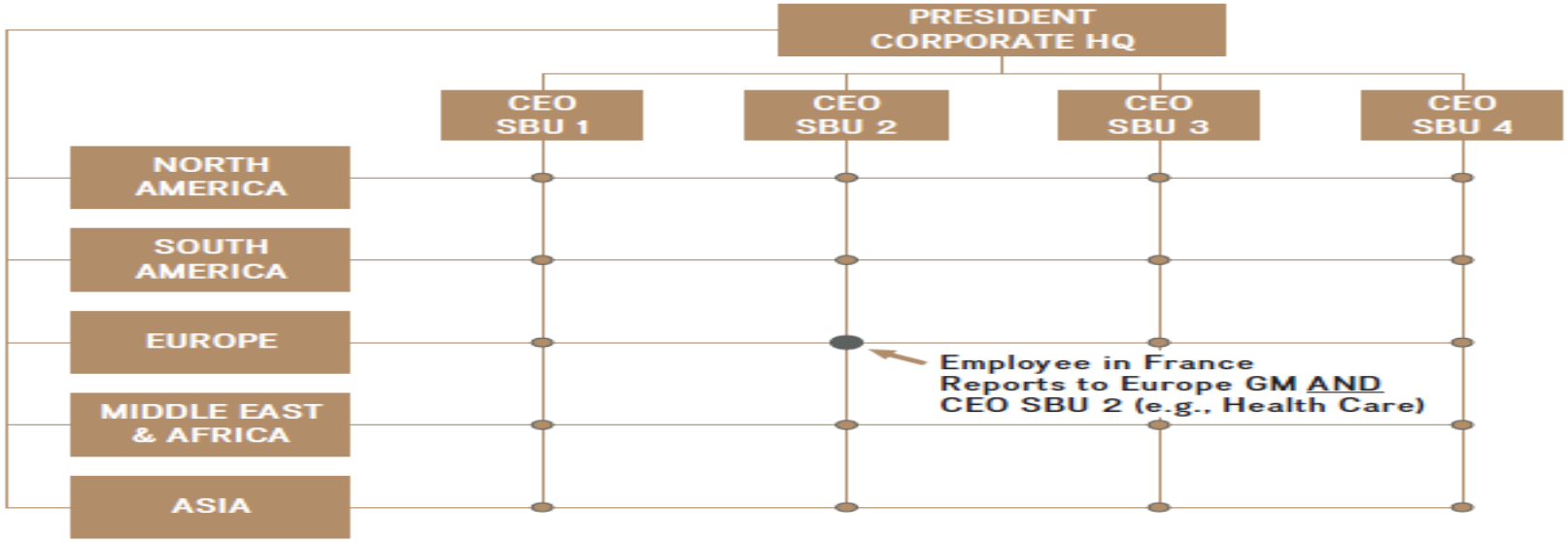
Strategy and Structure

Matrix Structure

Organizational structure that combines the functional structure with the M-form.



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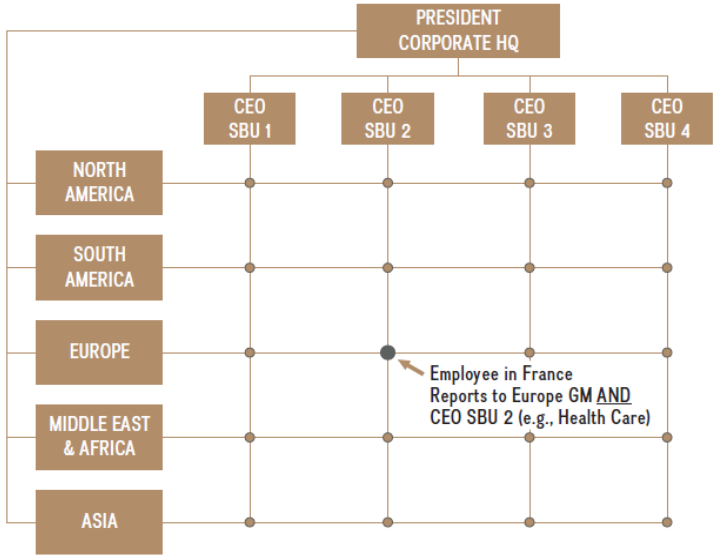
Strategy and Structure

Matrix Structure

Advantages

- Accommodates growth (horizontal, vertical, and geographic)
- Combines advantages of functional structure with M-Form



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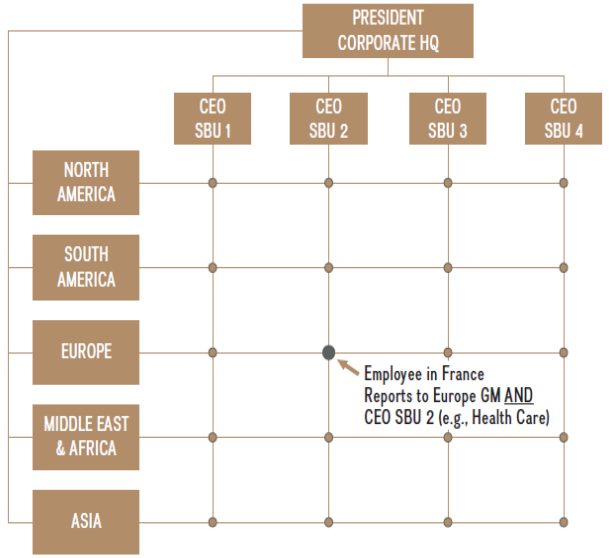
Strategy and Structure

Matrix Structure
Disadvantages

- Two layers of organizational structure create multiple principal–agent relationships
- Slow in decision making
- Potentially inaccurate performance appraisals
- Quite difficult to implement



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Thank You